



KATHMANDU HOLDINGS LIMITED
ASSESSMENT FOR ACCREDITATION

JUNE 2018

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Entrance to Kathmandu’s Headquarter Office, Christchurch, New Zealand

INTRODUCTION

This report provides an assessment of the labor compliance program of Kathmandu Holdings Limited (Kathmandu) and concludes with a recommendation to the FLA Board of Directors regarding the accreditation of the company's program. When joining the FLA, Participating Companies and Participating Suppliers commit to implementing the [FLA Workplace Code of Conduct](#), which ensures "respectful and ethical treatment of workers" and "promotes sustainable conditions through which workers earn fair wages in safe and healthy workplaces." The [Principles of Fair Labor and Responsible Sourcing / Production](#) ("Principles") serve as the bedrock upon which Participating Companies and Participating Suppliers are assessed towards an accreditation of their labor compliance program. Participating Companies and Participating Suppliers with accredited compliance programs have demonstrated that they have the systems and procedures in place needed to successfully uphold fair labor standards throughout their supply chains.



The FLA accreditation process involves staff conducting due diligence on the performance of a Participating Company or Participating Supplier during the implementation period. The FLA will assess the implementation of all Principles to ensure a social compliance program has been implemented to accommodate the supply chain expansion. This assessment involved testing a selection of data points or information sources in order to verify actions by the company. Sources of information may include:

- 1) Affiliate Headquarter Assessment: Assessments at headquarters and field offices to interview staff involved in compliance and in other functions, and to review documentation, processes, and database capabilities. In some cases, the offices of agents are visited as well. In countries where the FLA is not able to conduct in-person assessments, interviews are conducted by phone with company staff involved in compliance and in other functions.
- 2) FLA Factory-Level Assessments: Independent External Monitoring (IEM), Independent External Verification (IEV), and Sustainable Compliance Initiative (SCI) assessments are all sources of information on compliance issues and remediation efforts.
- 3) Annual Reports: Affiliate reports for each year of implementation provide data on the evolution of an affiliate's compliance program in line with FLA Principles.
- 4) FLA Third-Party Complaints: Where relevant, an affiliate's involvement in, and responsiveness to, FLA Third-Party Complaints provide additional insight into compliance programs and remediation strategies.
- 5) FLA Strategic Projects: Where relevant, an affiliate's participation in FLA Strategic Projects provides opportunities to learn about the affiliate's compliance strategies for detecting and remediating complex issues.
- 6) Observation: Wherever possible, FLA staff accompanied affiliate compliance staff on internal audits, training sessions or remediation visits.
- 7) Routine Interactions: Information on the affiliate's compliance program has also been collected through discussions and interactions with affiliate compliance staff during each year's program. Exchanges with civil society organizations and other stakeholders interacting with the affiliate provide additional perspective.

SECTION 1: KATHMANDU COMPANY AFFILIATE OVERVIEW

Name of Company	Kathmandu Holdings Limited	Category	Participating Company
Location	Christchurch, New Zealand	Product/s	Apparel, Footwear, Accessories
Total Annual Revenue	\$325M USD	Current Number of Applicable Facilities	96
FLA Affiliation Month/Year	June 2014	End of Implementation Period	June 2017
FLA Accreditation Lead/Support	Leads: Patsorn Udomritthiruj (Accountability Associate), Jingwen Peng (former Senior Business Accountability Associate) Support: Tiffany Rogers (Program Manager, Business Accountability)		
Unique Company Characteristics	<ol style="list-style-type: none"> 1) Kathmandu, a well-recognized Australasia brand, has exhibited significant commitment to social and environmental sustainability through public reporting and presenting and representing the company at industry events. 2) The company shows industry leadership and proactively collaborates with industry partners in the outdoor industry. 3) Following the 2015 earthquake in Kathmandu, Nepal, the company partnered with cooperatives in Nepal to produce products, including beanies, to support women to be financially independent, in addition to supporting educational development in that region. 		
Summary of Key Strengths	<ol style="list-style-type: none"> 1) Strong top management commitment to public transparency, including publishing factory lists; 2) Utilization of a segmentation approach to rank suppliers and to develop targeted tools and trainings that facilitate supplier improvement; 3) Strategic partnership with its service provider for implementing the social compliance program through human resources, data collection and management support that informs monitoring and remediation efforts; 4) Collaboration with other brands and civil society to improve factory conditions for workers; 4) Demonstration of leadership through its proactive collaboration with civil society organizations in Vietnam and China. 		
Summary of Key Suggestions for Strengthening	<ol style="list-style-type: none"> 1) Further develop social compliance expertise and exposure for Kathmandu's CSR staff, specifically on union and worker representative structures and collective bargaining; 2) Fully implement an accountability mechanisms to ensure workers are receiving effective training on workplace standards; 3) Continue to benchmark improvement through data analysis by more fully using the data from the revised audit tool and industry trends data; 4) Ensure effective collaboration on root cause analysis and continue to ensure remediation at all contract facilities; and 5) Continuously review and improve the implementation of responsible purchasing practices and implement the planned incentives program for suppliers and factories. 		

Kathmandu Holdings Limited (Kathmandu), headquartered in Christchurch, New Zealand, was founded by John Pawson and Jan Cameron in 1987. Kathmandu is a retailer with 163 stores in New Zealand, Australia, and the United Kingdom, offering travel and outdoor apparel and equipment. Kathmandu is listed on the Australia and New Zealand stock exchange. Kathmandu's brand is sold in Kathmandu stores and through its online channels. Kathmandu affiliated with the FLA in June 2014 and aligned its code of conduct in 2015. In March 2018, Kathmandu acquired Oboz, a U.S.-based footwear brand; Oboz is not included in this accreditation scope; however, Kathmandu will bring Oboz into its FLA affiliation following the transition of the acquisition.

Kathmandu publishes an annual [Sustainability Report](#) on its website. In 2017, the company [publicly](#) disclosed its Tier 1 factories producing apparel, footwear, bags, sleeping bags, and tents. Kathmandu publicly committed to publicly disclosing factories manufacturing equipment and other accessories in 2018. Kathmandu publicly inform consumers where on the FLA website they can access Kathmandu's SCI Assessment Reports. Kathmandu's Corporate Social Responsibility (CSR) Manager is responsible for the implementation of the workplace standards in Kathmandu's Tier 1 supply chain. The CSR Manager is supported by a specialist, who is contracted through Kathmandu's partnership with ELEVATE, a third-party service provider. The CSR Specialist manages the relationship between Kathmandu and ELEVATE as they implement the Rizepoint audit data collection and analysis platform. FLA verified through interviews during the HQ Assessment that the CSR Specialist is fully integrated into Kathmandu's CSR program, as well as, supported by other relevant business departments.

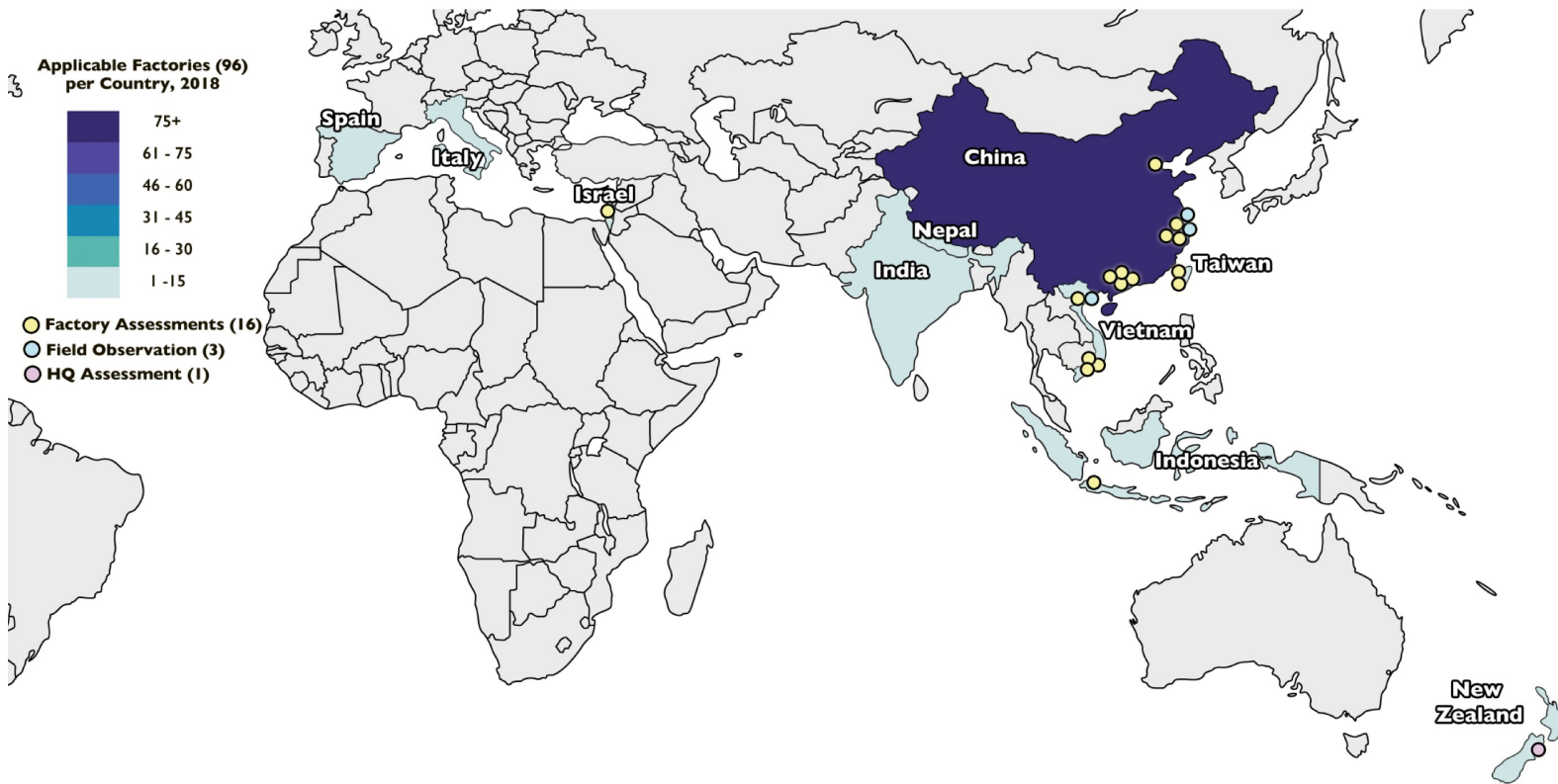
Kathmandu categorizes its suppliers as strategic, core, and transactional. Strategic and core suppliers make up approximately 80% of the company's production. In the last year, Kathmandu has consolidated transactional (de minimis) suppliers to determine relevancy of the business relationships. Kathmandu is in constant communication with their suppliers regarding the company's purchasing practices, including sharing calendars and asking for Work-in-Progress (WIP) reports from the suppliers. Kathmandu has established a regular schedule of internal and inter-departmental meetings to ensure agreement among teams regarding sourcing and production decisions.

Kathmandu has made improvements in its internal monitoring program since affiliation. Reflecting on feedback from FLA audit field observations, Kathmandu identified the need for a stronger auditing process as well as the need for a strategic partner able to execute audits up to its standards. Kathmandu revised its audit tool to more closely align with the FLA Compliance Benchmarks and identified ELEVATE as their primary external service provider. After these two steps, FLA conducted a third field observation in 2017 and verified notable improvement in the company's monitoring program.

The CSR Manager has years of experience working with civil society organizations. The company has identified key partners in implementing Kathmandu's civil society engagement strategy. Most notably, Kathmandu signed a memorandum of understanding (MOU) with Alliance Anti Traffic (AAT) in Vietnam, in which Kathmandu committed to identify risks of human trafficking in its supply chain and work with AAT to address these risks and violations. Kathmandu also engaged with the China-based Center for Child Rights and Corporate Social Responsibility (CCR-CSR) on a case concerning a juvenile worker in one of its factories in China.

Throughout this report are examples of effective remediation Kathmandu has implemented, in collaboration with other brands and civil society to improve working conditions. While noncompliances still occur, Kathmandu continues to implement its program to remedy violations.

SECTION 2: KATHMANDU SUPPLY CHAIN & FLA DUE DILIGENCE ACTIVITIES FROM 2014-2018



The above map shows Kathmandu's sourcing countries at the time of the report and the range of factories in each highlighted country. Kathmandu sources from 76 factories in China, eight in Vietnam, three in Taiwan, two in New Zealand, and one factory each in India, Indonesia, Italy, Israel, Nepal, and Spain.

Kathmandu received 16 SCI Assessments from 2015 to 2017 in China, Vietnam, Taiwan, Indonesia, and Israel. Kathmandu received three Audit Field Observations, two in 2016 conducted in China and one in 2017 conducted in Vietnam. FLA conducted the Headquarter (HQ) Assessment in 2018 in Christchurch, New Zealand.

SECTION 3: ANALYSIS OF KATHMANDU'S LABOR COMPLIANCE PROGRAM FOR ACCREDITATION

Information used in this assessment originates from reports submitted by Kathmandu and verified by the FLA through:

- 1) An assessment at Kathmandu headquarters conducted by FLA staff in March 2018;
- 2) Information gathered in person, via phone interviews, and through email correspondence with Kathmandu staff;
- 3) Documentation review of supporting evidence submitted by Kathmandu;
- 4) Field observations of three factory-level assessments in China and Vietnam;
- 5) Results of FLA Independent External Assessments at Kathmandu applicable facilities conducted by FLA assessors and accredited service providers; and
- 6) Communication with stakeholders.

PRINCIPLE 1: WORKPLACE STANDARDS¹

Workplace Standards & Top Management Commitment

Kathmandu aligned its Code of Conduct with the FLA's Workplace Code of Conduct in 2015. The company's code exceeds the FLA's code by having additional standards on Supply Chain Transparency. In addition, Kathmandu used the FLA's Compliance Benchmarks as the basis for operationalization of the company's compliance benchmarks and revisions of its audit tool.

Kathmandu publishes an annual [Sustainability Report](#) that emphasizes its commitment to uphold workplace standards, while also highlighting its partnerships with the FLA as well as with industry associations such as the Outdoor Association and the Sustainable Apparel Coalition. Kathmandu publishes its Tier 1 Suppliers [factory list](#); the list includes factories for 100% of Kathmandu apparel, footwear, packs and bags, sleeping bags and tents, which makes up 90% of Kathmandu's total spend. The list of factories that produce equipment and accessories will be [published](#) in 2018.

Kathmandu has exhibited significant leadership in corporate responsibility by supporting regional industry peers in the development of their social compliance programs. The company continues to champion sustainability through its community investment strategy, which aims to improve people's lives by focusing on empowering customers, supporting projects that have positive impacts on local communities, and contributing to measurable social improvements in Nepal, a region that inspired the brand. Kathmandu's community engagements include educational opportunities to speak at schools about the importance of social responsibility, as well as, involvement in other leadership opportunities, such as speaking at the ELEVATE Leadership Series focusing on the Australian Modern Slavery Act and the role of businesses in combatting human trafficking in March 2018.

PRINCIPLE 2: RESPONSIBILITY & HEAD OFFICE TRAINING²

Staff Responsibility for Implementing the Corporate Social Responsibility Program

The Corporate Social Responsibility (CSR) Department is responsible for developing and implementing Kathmandu's compliance program. The department consists of the CSR Manager, who is supported by a CSR Specialist based in China. The CSR Manager reports directly to the General Manager of Product and the Manager of Group Product Operations. In turn, the General Manager of Product

¹ Principle 1: Company affiliate establishes and commits to clear standards.

² Principle 2: Company affiliate identifies and trains specific staff responsible for implementing workplace standards and provides training to all head office and regional staff.

directly reports to the CEO of Kathmandu. The CSR Specialist, who reports to the CSR Manager, is contracted as an external support from ELEVATE, a third-party service provider, and is managed directly by the CSR Manager. The CSR Specialist supports daily operations at the headquarter-level, as well as, supporting assessments and remediation efforts against Kathmandu's standards at contract facilities. The CSR Specialist is responsible for overseeing social compliance due diligence at the factory level, including providing auditors with the necessary guidance and training to ensure that company assessments meet or exceed the Kathmandu standards.

FLA verified that the CSR Department is responsible for implementing the Kathmandu's compliance program throughout its supply chain through review of job descriptions and interviewing the CSR Manager and the CSR Specialist. In reviewing job descriptions for the CSR Department, FLA verified that the responsibilities of the CSR Manager include leading Kathmandu's social compliance efforts; developing and managing internal stakeholders to address responsible sourcing and purchasing issues and initiatives; continuously improving internal social audit documentation and reporting methodology; and analyzing assessment results and providing guidance on appropriate actions to effectively manage continuous improvement.

Training the Corporate Social Responsibility Team

The CSR Manager has many years of experience in the human rights field, having previously worked for nonprofit organizations. Kathmandu supports opportunities for the CSR Manager to attend industry conferences and share his expertise on the development of Kathmandu's social compliance program. Kathmandu's CSR Manager received training through ELEVATE's E-Learning Modules, which cover topics such as Hours of Work, Compensation, Employment Relationship, and Remediation.

FLA verified that the training schedule for the CSR Specialist included Kathmandu's Code of Conduct and sourcing and purchasing business practices. Additionally, the CSR Specialist provided training to the CSR Manager and relevant product team staff on the application of the Rizepoint system. The Rizepoint platform used by the CSR team to store information on audits and remediation also has the ability to provide data analysis on factory noncompliances.



Kathmandu's Headquarter Office,
Christchurch, New Zealand

During the HQ Assessment, FLA learned that Kathmandu's CSR staff have not received training on industrial relations and collective bargaining. FLA recommends Kathmandu develop the CSR staff's knowledge base of working with unions and collective bargaining agreements through compliance-focused trainings. Since the HQ Assessment, the CSR Specialist has participated in training on union engagement and collective bargaining. FLA recommends the CSR staff to continue to seek out training on union engagement and collective bargaining, with the goal of enhancing the effectiveness and implementation of Kathmandu's CSR program.

Training Third-Party Auditors

Kathmandu uses ELEVATE as its primary audit service provider. The CSR Specialist is responsible for training the auditors that conduct Kathmandu audits to ensure that assessments are conducted against Kathmandu's standards. The CSR Specialist has provided training to all auditors on Kathmandu's standards. FLA recognizes the role of the CSR Specialist as a strength of the company's internal monitoring program. The CSR Specialist is responsible for reviewing standards are met, and in

the event they are not met, the CSR Specialist follows procedures to bring the audits into alignment with Kathmandu's standards. The CSR Specialist is responsible for providing auditors with refresher trainings when needed.

Training All Kathmandu Staff

Kathmandu's Human Resources (HR) Department developed compulsory online social compliance training modules for all staff, including headquarter and retail staff. The compliance trainings include Kathmandu's Workplace Code of Conduct, FLA's Code of Conduct, Principles of Fair Labor and Responsible Sourcing, and Responsible Purchasing Practices. Each training session results in a scored assessment of knowledge gained and each training session needs to be completed successfully in order to be completed. Kathmandu tracks the percentage of completion by each staff. During the HQ assessment, FLA recommended that Kathmandu include a participant feedback form with the training. As a result, Kathmandu implemented a feedback form for subsequent trainings. Positive feedback was provided by the participants regarding Kathmandu's commitment to social compliance at the factory-level and on the video component of the training.

PRINCIPLE 3: SUPPLIER TRAINING³

Supplier Commitment

Kathmandu requires all suppliers to sign the company's Terms of Trade Agreement; the agreement includes a commitment to uphold Kathmandu's Code of Conduct to remediate noncompliances, as well as the right of inspection from third parties. The agreement covers terms on the use of agents, subcontracting, and terms of termination if the agreement is broken. Signed copies of the agreement are maintained by the CSR team.

Conditioning Future Business on Suppliers' Improvement of Working Conditions

Kathmandu evaluates its suppliers based on a risk and influence matrix, which it calls the segmentation process. This is applied across all suppliers, including strategic, core and transactional. Influence is based on the following criteria: total spend each year for the last three years; net change in spend year to year; length of relationship; relative importance of the factory to category; and percentage of total production. Risk is based on the following criteria: transparency; country; sector; factory maturity and size; ownership of compliance program; compliance results; and factory business performance. Based on the influence criteria, suppliers are ranked as core, strategic, or transactional; based on the risk criteria suppliers are ranked as low, medium, or high.

The segmentation exercise determines the activities the company will carry out with suppliers and is used internally to determine future relationships. For example, strategic suppliers might receive additional support such as trainings on specific workplace standards. It is also used to determine situations such as if suppliers should shift categories or if there are suppliers who should enter the decline stage towards termination. The segmentation process will be directly linked to the scorecard system which is shared with suppliers. The scorecard is explained further in Principle 8.

As all staff have a role in upholding the Kathmandu Code of Conduct, non-CSR Team staff are responsible for work with suppliers on remediation efforts. One example FLA reviewed during the HQ Assessment was from a senior merchandiser, with the support of other business staff, who worked with a supplier for two years to improve factory conditions. Unfortunately, this interaction did not

³ Principle 3: Company affiliate obtains commitment and trains relevant supplier management on workplace standards and tracks effectiveness of supplier workforce training.

improve working conditions and resulted in terminating the supplier relationship as it was not committed to Kathmandu's core values.

Kathmandu currently has an informal process in place before exiting a factory or supplier due to failure to remediate noncompliances. FLA verified examples of the communication between Kathmandu and the supplier around exiting a factory and verified the length and detail of communication to explore all avenues before exiting the supplier. Kathmandu is developing a formal exiting policy.

Supplier Training

Kathmandu conducts informal trainings of Kathmandu standards to suppliers through onsite visits with new suppliers, as well as visits throughout the supplier relationship. In 2017, Kathmandu provided some suppliers with training through online learning modules. The online trainings covered FLA Workplace Standards, FLA Principles, and effective worker and employer communication through the use of grievance mechanisms. Kathmandu is in the process of providing these E-Learning courses to all suppliers. Kathmandu tracks E-Learning participation and monitors completion rates. At the time of the Accreditation report, five suppliers had received and completed E-Learning modules on health and safety and hours of work and had provided feedback to Kathmandu. Kathmandu plans to roll out these trainings to all Core and Strategic suppliers. Using data analysis on noncompliance trends, Kathmandu can focus training on specific need of factories. For example, the company developed Health and Safety training modules for factories and suppliers that scored low on Health and Safety in Kathmandu audits.



Workers at a Kathmandu contract factory in China

Kathmandu will be conducting its first Vendor Summit in 2018 in China. FLA reviewed the proposed agenda, which includes the supplier scorecard and management process, Supplier Quality Excellence Program, CSR Program, Terms of Trade Agreement, Supplier Handbook and Supplier Excellence Awards. The FLA recommends that Kathmandu continue to review audit findings and address areas of priority through open dialogue and targeted training with its suppliers.

Workplace Standards Training & Accessibility for Workers

FLA verified Kathmandu has translated its Code of Conduct into 10 languages for its global supply chain. These languages are: English, Traditional Chinese, Simplified Chinese, Vietnamese, Hebrew, Hindi, Italian, Indonesian, Nepalese, and Spanish. Kathmandu has sent copies of the translated code to suppliers and requested the Kathmandu Code of Conduct to be posted in the factory workshop. As part of the audit, auditors are required to take a photo of the posted Code of Conduct in the languages accessible to workers. During the third Audit Field Observation, FLA found that the factory did not have Kathmandu's Code of Conduct posted at the factory. The company's remediation plans ensure that the Code of Conduct is posted at every factory.

Kathmandu's assessors use an audit tool that includes a question to assess the appropriate training for managers and workers on Kathmandu's Code of Conduct. This question also appears in Kathmandu's Worker Interview Sheet, which is used as a guidance document by auditors. In the 2017 Audit Field Observation, FLA verified that the auditor captured information during the audit that the factory provided workers with training on workplace standards. However, Kathmandu's Worker Interview Sheet only ensures training effectiveness on grievance mechanism training and lacks assurance of training effectiveness on other workplace standards. The FLA suggests the company continue to review audits and train auditors to discuss experiences with worker training. The FLA

further recommends that Kathmandu implement an accountability mechanism that ensures workers receive effective training on workplace standards.

PRINCIPLE 4: FUNCTIONING GRIEVANCE MECHANISMS⁴

Assessing for Functioning Grievance Mechanisms

Kathmandu assesses functioning grievance mechanisms in its factory assessment process via its audit tool. The company's audit tool includes verification of workers' access to multiple grievance mechanisms; workers' awareness of grievance mechanism options; workers' comfort level with using the provided channels; grievance trainings and worker feedback; grievance records; policy on nonretaliation; and ensuring there is at least one confidential channel. Kathmandu's audit tool requires auditors to review factory documentation on grievance mechanisms during the audit. In the third field observation in Vietnam, FLA verified that the auditors assess for functioning grievances following the above criteria. FLA verified that Kathmandu follows up with factories that do not have functioning grievance mechanisms. In an SCI Assessment in 2017 at a factory in China, FLA assessors found that the factory had suggestion boxes located next to the security room. Additionally, this grievance channel did not provide anonymity for workers submitting complaints or suggestions. From worker interviews, workers expressed that they did not feel comfortable using this grievance channel. Kathmandu is working with the factory to find a more appropriate place to place the suggestion box, as well as to revise the Grievance Policy to include clear guidelines on where suggestion boxes should be placed and that this channel assures anonymity and protection for workers.

In partnership with ELEVATE, the company deploys the Integrated Assessment and Worker Survey, a worker survey that includes questions on effectiveness of grievance mechanisms, during the audit process. The survey is currently conducted in China through mobile phones via WeChat. FLA recommends that Kathmandu analyze the results from these surveys to inform improvements to grievance mechanisms and Kathmandu's social compliance program.

Kathmandu provides suppliers guidance on functioning grievance mechanisms through documentation on how to develop grievance policies and procedures and information on Kathmandu's confidential reporting email channel, as well as, alternate channels through the FLA, ELEVATE, and local civil society groups. As part of the onboarding package and process for new suppliers, Kathmandu provides suppliers with its Grievance Systems Toolkit. This toolkit details an effective grievance system and allows suppliers to benchmark their existing grievance system against a checklist of good practices.

Confidential Reporting Channel to Kathmandu Headquarters

Kathmandu has a confidential reporting channel in the form of an email address (workersrights@KMD.co.nz) listed at the bottom of the company's Code of Conduct document; grievances submitted go directly to Kathmandu CSR staff and generates an automatic response that includes information on confidentiality, assurance of non-retaliation, and commitment to investigate every complaint or grievance in a timely manner. FLA verified this automatic response is available in four languages: English, Chinese, Indonesian, and Vietnamese.

Kathmandu is currently collaborating with accredited FLA member Mountain Equipment Co-Op (MEC), an FLA Category B Licensee, and a non-FLA affiliated brand on grievances that have been submitted through each of the brands' unique confidential channels from a shared facility on unauthorized

⁴ Principle 4: Company affiliate ensures workers have access to functioning grievance mechanisms, which include multiple reporting channels of which at least one is confidential.

subcontracting and overtime hours. This case illustrates the collaborative process between these companies, as well as, the level of trust the workers have in utilizing the confidential channels in this factory. FLA reviewed the current remediation plan to address this grievance, which includes scheduling a follow up audit. Kathmandu will deploy an anonymous worker survey at the factory if the follow up audit does not show violations to be effectively resolved. Kathmandu will continue to implement this strategy to enhance the impact of its assessment program in the future.

Auditors distribute informational contact cards during worker interviews, and train workers on how to use the tools. For China facilities, the contact cards include a WeChat Quick Response Code (QR Code) that links directly back to Kathmandu. Kathmandu's China based Tier 1 supply chain accounts for 85% of the company's total factory worker base, with a large majority of those workers using WeChat daily. Additionally, workers in China have access to ELEVATE's anonymous channel through Laborlink technology using WeChat, which is then reported to Kathmandu.

Kathmandu has received numerous complaints through the company's WeChat channel. For example, in 2018, a worker claimed that her machine was not repaired in a timely manner and therefore, she was not able to complete her work and was concerned with the impact on her pay. Kathmandu addressed the worker's concern directly with the plan to engage her in conversation through a group interview to maintain anonymity at the next audit. Additionally, Kathmandu will review the workers' payment documents to support remediation efforts towards resolution. FLA recognizes Kathmandu's responsiveness to grievances submitted through its confidential reporting channel as a strength of its social compliance program; however, FLA recommends Kathmandu work with its suppliers to improve the functionality of their own grievance mechanisms.

Ensuring Training for Workers & Providing Support on Grievance Mechanisms for Suppliers

Kathmandu's audit tool includes verification of worker training effectiveness on grievance mechanisms and workers' awareness of grievance channels. The audit tool includes documentation review of training logs with a specific focus on grievance mechanisms. Kathmandu plans to roll out an E-Learning module titled Worker Engagement to strategic and core suppliers by the end of 2018. This training includes a section on effective worker grievance mechanisms.

In the third field observation in Vietnam, some workers were not aware of the grievance mechanisms at the factory. An element of the remediation plan is to provide training to factories that need improvement of worker awareness on grievance mechanisms. FLA recommends that Kathmandu continue to work on ensuring workers receive effective training on grievance mechanisms.

PRINCIPLE 5: MONITORING⁵

Pre-Sourcing Factory Assessments

Kathmandu has a comprehensive on-boarding procedure for new contract suppliers. The supplier will receive the Supplier's Introduction Package, which includes information on the on-boarding process, the code of conduct, a self-assessment, and a supplier evaluation questionnaire. Kathmandu's pre-sourcing procedures also introduces the concept of a supplier scorecard, which is completed three times a year for approved suppliers to assess their performance. The Kathmandu Supplier Introduction covers the commitment for suppliers to be aligned with Kathmandu's goal of being leaders in sustainability. As Kathmandu nominates most of its raw materials from international

⁵ Principle 5: Company affiliate conducts workplace standards compliance monitoring.

suppliers, the agreement also includes the expectation for suppliers to work with these nominated suppliers.

Once new suppliers and factories have been selected, Kathmandu initiates the on-boarding process. Firstly, the Sourcing Team conducts an onsite supplier evaluation and introduces Kathmandu's business values, along with the Supplier Introduction Package. After the approval of this process, both the Quality Team and the CSR Team each conduct a full audit of the factory. The factory needs to achieve a score of 50% or more to be approved for purchase orders. If the new contract factory scores between 50%-70% on the pre-sourcing audits, Kathmandu has an internal discussion among different departments based on the relationship and alignment of values between Kathmandu and the factory. Factories that score above 70% are approved and are automatically enrolled in the scorecard process and become part of Kathmandu's Product Lifecycle Management system.

Assessing Factory Conditions

Kathmandu's audit tool covers worker interviews, consultation with unions or worker representatives, management interviews, documentation review, visual inspection, and occupational safety and health review. To ensure consistency in how Kathmandu standards are assessed, Kathmandu developed formal field instructions for its monitoring program that are shared with all auditors. The field instructions provide guidance on numerous issues, among them including participation of union and worker representatives in the opening and closing meetings during the audit. Specific guidance focuses on the company's audit tool including direction on worker interviews, management interviews, documentation review, visual inspection, and occupational safety and health review. As mentioned in Principle 2, all auditors are provided training by the CSR Specialist. Where the CSR Specialist identifies inconsistencies among auditors assessing to Kathmandu's standards, the CSR Specialist documents the case and provides feedback to the auditor or provides further training.

All factories are audited at least once every two years. Factories scoring between 90%-100% are assessed every two years; factories scoring 70%-89% are assessed within 12 months of the last audit; and factories scoring between 50%-69% are assessed within six months of the last audit. The audit score is included in the risk score used in the segmentation process, the segmentation process captures the current status of the factory and is described in Principle 3. This scoring system is used internally to determine future relationships, including the type of support each factory should receive. Kathmandu also has in place an external scorecard system that is shared with suppliers; this external scorecard is shared with suppliers every six months.

For transactional suppliers, Kathmandu implemented a shortened audit tool in 2018. Prior to 2018, Kathmandu would review copies of audit results and CAPs from other buyers, due to the low production capacity. The shortened audit is a one-person day audit that focuses on Kathmandu's minimum code of conduct standards, including questions on policies and procedures, hours of work, compensation, freedom of association, grievance mechanisms, Kathmandu's code of conduct, and health, safety and environment. FLA verified that this shortened audit also includes worker interviews, union engagement, management interviews, document review, and a factory walkthrough. The FLA recommends that Kathmandu continuously evaluate results of the Minimum Standard Audit to ensure that it meets Kathmandu's quality standards.

Kathmandu has a Mandatory Reporting of Child and Forced Labor Policy, which is applied should child or forced labor be found within the supply chain. The policy explains the detailed process for reporting child labor and forced labor violations, along with clear definitions of what constitutes child labor and forced labor. Recently, Kathmandu applied this policy, when it identified a 16-year-old juvenile worker at a factory in China. Kathmandu addressed the violation through reaching out to CCR-CSR for support. The collaboration is described under Principle 7 and Principle 9.

FLA Observations of Kathmandu Audits & Recommendations

Kathmandu received three FLA Audit Field Observations from 2014 to 2018. The first two were conducted in China in 2016, and the third in Vietnam in 2017. After reflecting on feedback from the first two field observations, Kathmandu recognized the need for a new strategic partner that could conduct audits to Kathmandu's standards. It identified ELEVATE as a primary service provider who was able to use its revised audit tool and audit to Kathmandu's standards. Some notable areas of improvement between the second and third field observations include techniques in conducting the opening meeting, implementing the standard on inviting union and worker representatives to the opening and closing meetings, and the increase quality of worker interviews.

The FLA recognizes Kathmandu's improvement in identifying qualified audit service providers to ensure critical information is collected during the audit process through worker and management interviews.

Union Engagement

The CSR Specialist trains all auditors to review collective bargaining agreements (CBA) and assess against both Kathmandu's workplace standards and with respect to CBA contents during audits. While Kathmandu is aware of the difficulties of union formation and operation in China and Vietnam, the company collects information on union activities to better understand the local labor laws. The FLA has verified the company's efforts to collect information on union engagement in Vietnam and Indonesian facilities.

Kathmandu has recently added additional questions on union engagement, worker representation, and the review of CBAs to their audit tool. The company provides guidance in the audit field instructions on collecting additional information on union and worker representatives. The FLA verified the addition of the questions through a review of Kathmandu's revised audit tool and report.

PRINCIPLE 6: COLLECTION & MANAGEMENT OF COMPLIANCE INFORMATION⁶

Kathmandu's Data Management

Kathmandu collects the following information from their suppliers during the onboarding process: the complete factory name; factory address; factory contact; number of workers and categorization; production capacity; date of last audit; who conducted the most recent audit; and sustainability initiatives at the factory. Information on each supplier is stored on a Product Lifecycle Management (PLM) system, which is managed electronically and updated regularly. The CSR system is managed by ELEVATE's platform, Rizepoint. Rizepoint allows Kathmandu to measure improvements against historic data, identify possible root causes, and identify data that may support the direction of the social compliance program.

At the time of the accreditation report, not all facilities had been audited against the revised audit tool. The revised audit tool includes additional questions on incidents, accidents and unions and worker representatives. The FLA recommends that the company ensures that data on incidents, accidents, and unions and worker representatives are included in data collection through audits, and that this data is tracked in Rizepoint.

⁶ Principle 6: Company affiliate collects, manages, and analyzes workplace standards compliance information.

Analyzing Social Compliance & Supporting Data

Rizepoint is used by the CSR Team for monitoring, data analysis purposes, and remediation. Before implementing Rizepoint in 2017, Kathmandu conducted data trends analysis by supplier and code element through Excel. Currently, social compliance data analysis is conducted on many levels, including by product, product categories, and geographical regions. Kathmandu’s data analysis strategy is twofold: initially conducting data analysis at a macro level, then segmenting the data further to examine it at a granular level to inform the company’s social compliance program.

Through Rizepoint, Kathmandu has access to ELEVATE’s industry trends data to compare its factories’ social compliance performance to industry trends. In comparing industry patterns to the performance of its own supply chain, Kathmandu has identified trends in lack of transparency in their supply chain from audit results. Kathmandu’s 38% transparency rate globally is lower than the industry average; improving transparency with its suppliers is now a focus for Kathmandu. Another trend that Kathmandu has recognized is the excessive overtime working hours in China, which the company has also identified as an issue to improve with its suppliers.



A worker at a Kathmandu contract factory in China

FLA recognizes Kathmandu’s use of data analysis to improve its social compliance program, as shown through the Health and Safety and Hours of Work trainings provided to suppliers discussed under Principle 3. These training modules are targeted to each supplier depending on the noncompliances found during the audit. As not all audit data has been populated in the Rizepoint system, the FLA recommends that Kathmandu continue to compare its supply chain results against industry trends.

PRINCIPLE 7: TIMELY & PREVENTATIVE REMEDIATION⁷

Tracking Remediation at the Factory-Level

Kathmandu includes the process to remediate findings from factory assessments in its Corrective Action Management system. Once an audit is completed, the auditor submits the final report within five working days and Kathmandu raises issues or approves the report within three working days. Once the report is approved, the Corrective Action Plan (CAP) is generated in Rizepoint and a CAP initiation email is sent to the facility contacts. The CAP creation process is a collaborative process between the facility, the auditor, and Kathmandu. The collaborative process of CAP creation is an expectation that is shared with the suppliers during the onboarding and audit process.

All facilities are required to submit an initial CAP within 14 calendar days after receiving the CAP initiation email. Each finding is categorized into critical, major, moderate, or minor severity. These ratings are pre-populated into Rizepoint and are automatically triggered when auditors report the findings. Kathmandu assigns the following timelines for CAP submission by type of finding:

- a) Critical – Immediate action, within 24 hours after the audit;
- b) Major – 1 month;
- c) Moderate – 3 months; and
- d) Minor – 6 months.

⁷ Principle 7: Company affiliate works with suppliers to remediate in a timely and preventative manner.

Prior to using Rizepoint, Kathmandu used an audit matrix to track audit results and CAP completion to determine the factories' audit cycle. With Rizepoint, Kathmandu is able to view open and closed CAPs for all facilities in one system and sort data quickly. Each CAP receives a final review by Kathmandu CSR staff to determine alignment with Kathmandu's standards. Kathmandu has yet to engage with union or worker representatives on feedback during the CAP or remediation process. The FLA recommends that Kathmandu ensure that facilities engage with union and/or worker representatives in remediation plans that may impact or affect workers, as appropriate.

Root Cause Analysis

The Rizepoint system includes a new collaborative process for root cause analysis for noncompliances. Root cause analysis is required for every critical issue found in a Kathmandu audit. Conducting root cause analysis is the responsibility of the factory, with the CAP then reviewed by the CSR team. When needed, the auditors work with the CSR Specialist to provide guidance documents on root cause analysis as part of their "improvement services" for suppliers.

FLA reviewed an example of root cause analysis involving an audit finding that identified a 16-year-old juvenile worker in a factory in China. The worker was working more hours than legally permitted for juvenile workers; was working on a high-risk task; and did not have a signed contract with the factory. In this case, Kathmandu worked collaboratively with the Center for Child Rights and Corporate Social Responsibility (CCR-CSR) and the FLA on further investigation and remediation. CCR-CSR conducted a family visit to determine the situation and concluded that the juvenile worker was working at the factory to be close to his sister and uncle, who are able to provide him with a better life than if he remained in his home town. The collaboration between Kathmandu and CCR-CSR concluded that it could be more damaging to dismiss the juvenile worker than to work together with the factory to ensure appropriate protection. The remediation plan included the factory to provide the worker with the right compensation, the right hours of work, and a signed contract.

The FLA recommends that Kathmandu continue to train the CSR team and auditors on reviewing effective root cause analysis, in addition to training suppliers on conducting effective root cause analysis. As the collaboration process on root cause analysis is relatively new and has not been fully integrated into the audit process across all facilities, it is strongly suggested that Kathmandu ensure that root cause analysis is effective and measured against Kathmandu standards.

Effective Remediation

As mentioned earlier, the Rizepoint system ensures that all of the parties contribute to the CAP process until completion. Effectiveness of remediation plans can be evaluated through desktop review for all factories and onsite verification based on various criteria. The China-based CSR Specialist provides onsite support on a frequent basis.

FLA verified through Kathmandu's self-reported remediation updates for SCI assessments, that Kathmandu continues to ensure remediation is implemented. Examples of remediation for SCI assessments include the following:

- 2015 SCI Assessment in China: FLA assessors found that the factory did not sign open-ended employment contracts with workers, instead signing two consecutive short-term employment contracts, which is against local law. Kathmandu worked with the factory to provide education to workers on their employment contracts, legal requirements, and any changes or benefits, in addition to signing open-ended contracts with all relevant workers.
- 2016 SCI Assessment in Indonesia: FLA assessors found that the factory was making higher deductions from wages of workers who were part of a cooperative store than set by law. Kathmandu worked with the factory to set a plan and timeline to make repayments to

the workers and store and to improve communication to workers involved in the process. Kathmandu also worked with the factory on sustainable action plans, such as creating a system to monitor the maximum amount of deductions for all workers.

As another example of remediation, Kathmandu partners with an all women cooperative in Kathmandu, Nepal to produce its Khusi Beanies. Kathmandu has prioritized working with this women cooperative to support them in a geographical area that is difficult for women to have an independent income. Women knit beanies that are then taken to factories to be packaged and sent to Kathmandu for sale through its supply chain. After establishing this relationship, Kathmandu conducted an audit at this factory that exported the knitted products and found a minimum wage violation. They have worked with the factory and the cooperative to ensure all workers are earning at least the minimum wage.

PRINCIPLE 8: RESPONSIBLE PURCHASING PRACTICES⁸

Kathmandu's Responsible Sourcing Procedures

Kathmandu updated its Responsible Purchasing Policy at the end of 2017. The policy includes information on the company's supply chain characteristics, its production and planning critical path schedule, and its identification of the importance of the suppliers' understanding of Kathmandu's Code of Conduct and core values to the business relationship, an aspect of Kathmandu that is shared with suppliers from the on-boarding process. Having a positive relationship with suppliers is highlighted throughout, for example, it includes giving suppliers a voice and an ability to delay or decline orders to avoid overtime. Kathmandu uses a purchase order and freight management system that requires suppliers to either confirm, request changes or decline production units and timeline requests. Before a purchase order can be confirmed, both supplier and Kathmandu must indicate agreement in the system. The policy addresses the following:

- **Balanced Planning:** Kathmandu has a seasonal supply chain model based upon three seasons: two summers and one winter. This allows the planning team to place purchase orders earlier if they need to allow extra manufacturing time without impacting delivery dates.
- **Adequate Lead Time:** Kathmandu issues a pre-warning of future product requirements, specifically for core styles and high-volume styles. For these styles, the company issues product requirements 12 months ahead of the current buying season. Kathmandu provides these suppliers with year around work by communicating 12 months ahead, which allows factories to better manage peak demand and avoid the ebbs and flows of orders.
- **Incurring Costs:** Kathmandu incurs the additional costs if the delay is due to Kathmandu not being able to reach critical path deadlines. If design changes are made after the deadline has passed, Kathmandu will incur the costs of any changes of freight methods to allow for a longer production time. If the delay is the fault of the supplier, the supplier will pay the additional air freight costs.

Additionally, the procedure details the Product Lifecycle Management process, which consolidates information related to line plans, design concepts, supplier information, fabric, and managing critical path activities, through centralizing the data. This process ensures that all finished products have materials written by the Marketing Team and decisions are agreed by the Product Team before passing on to the next business process. The policy further explains training on responsible purchasing practices, the persons responsible for responsible purchasing practices, and the scorecard process and incentives. These are explained further in the following sections.

⁸ Principle 8: Company affiliate aligns planning and purchasing practices with commitment to workplace standards.

Training Relevant Business Staff on Responsible Purchasing Practices

All relevant business staff have received two trainings in 2017 on Responsible Purchasing Practices, conducted by the CSR Manager and through ELEVATE's training module. The trainings included the review of FLA Principle 8 Benchmarks and Key Performance Indicators (KPI's), as well as, group activities that identified best practices. These trainings included a formal feedback mechanism and results were reviewed by the CSR Team.

In addition to training relevant business staff, Kathmandu's Human Resources department has developed compulsory training for all staff on Responsible Purchasing Practices. As the policy is frequently updated, the FLA recommends that Kathmandu ensures consistent refresher training for relevant business staff, and all company staff.

Holding the Relevant Business Staff Accountable to Purchase Responsibly

All relevant business staff are held accountable for carrying out responsible planning and purchasing practices through their job descriptions. Every job position description has CSR as an area of accountability. The performance standards in the area of accountability is broken down to "key accountabilities" and "performance measures." Key accountabilities include the responsibility to act without delay when a serious human rights or labor rights violation affects Kathmandu employees, customers, or workers in factories within Kathmandu's global supply chain. All key staff responsible for implementing the Responsible Purchasing Practices are listed within the policy. FLA recognizes the strength of listing staff from all departments to be accountable and responsible for implementing the Responsible Purchasing Practices.

Dialogues with Relevant Business Staff & Suppliers to Implement Responsible Purchasing Practices

Kathmandu clearly states in its Responsible Purchasing Policy the importance of internal and external dialogue. Internally, there are multiple meetings involved in Kathmandu's sourcing processes. These meetings include a management team meeting every two weeks, an operational team meeting on a monthly basis, and a weekly critical path meeting. In addition to these meetings, Kathmandu conducts pre-allocation meetings where the production team meets with the sourcing team, design team, and product development team to discuss new products. Kathmandu staff responsible for planning and



Kathmandu's Apparel Product Manager with a worker in Nepal

purchasing decisions are required to engage with the Supplier Management team as part of the regularly scheduled stage gate meeting process, especially when problems arise so that the appropriate support can be provided at the factory level.

Kathmandu is currently consolidating its supply chain through phasing out of transactional suppliers. Kathmandu recognizes the risk of sourcing from transactional suppliers, as its orders account for a small amount of production and the company lacks leverage to make sustainable change. Kathmandu is aiming to have stronger relationships with its suppliers and hopes to focus on strategic and core suppliers going forward. Since affiliation, Kathmandu has notably consolidated its supply chain.

Kathmandu is in constant communication with its suppliers, including discussions about lead and delivery times, sharing stage gate calendars with suppliers, collaborating with suppliers on their Work-in-Progress (WIP) reports and coming up with joint solutions to prevent delays in production or delivery. FLA verified examples of these communications, including a situation in which a material with

which a supplier had started to work failed a fabric test. The supplier and Kathmandu negotiated a new production schedule which resulted in Kathmandu covering airfreight for delivery.

Kathmandu has also increased dialogue with Tier 2 suppliers, such as fabric mills. For example, the company works directly with mills to negotiate lead times with examples of the company providing fabric mills with visibility to order for the whole calendar year. FLA verified that impact on workers is integrated in all areas of Kathmandu's business. For example, the Materials Team reports on a Bulk Fabric Debrief which includes information on the impacts on workers, such as analyzing specific production processes that might be forcing workers to work overtime. FLA recognizes the level of communication between the internal teams and between Kathmandu and suppliers as a strength.

Incentivizing Suppliers to Improve Conditions for Workers

Through Kathmandu's biannual scorecard system, all Kathmandu suppliers are evaluated and reviewed for social compliance performance. The scorecard considers five areas with equal weighting: CSR, Quality, Delivery, Service, and Total Cost of Ownership. The scorecard generates the status of the suppliers which can be "on-boarding, grow, maintain, and decline." The "on-boarding" status is for suppliers who have been recently approved; "grow" status is for suppliers the company hopes to increase production and/or move to a core or strategic supplier; "maintain" status is for suppliers that are in a stable position, and "decline" status is for suppliers that are not performing to Kathmandu's standards and potentially working towards exiting Kathmandu's supply chain. This scorecard is shared with suppliers and is used to determine continued business, or what corrective actions and trainings that specific supplier needs.

At the time of this report, the incentive system has yet to be implemented. Kathmandu plans to use this risk-based evaluation to reward suppliers. Suppliers in the "grow" status would receive incentives which include increasing the number of product orders, more leverage in the business relationship, and reduction in frequency of audits. Suppliers in the "decline" status failing to improve social compliance performance would have eight months to improve before Kathmandu exits. Internally, suppliers are categorized as Strategic, Core, or Transactional:

- Strategic Supplier
 - Kathmandu spend exceeds NZ\$1 Million;
 - Solid and stable relationship with long history (typically 5 to 10 years or more);
 - Very significant supplier in a specific product category; and
 - High percentage of supplier production.
- Core Supplier
 - Kathmandu spend is between NZ\$100,000 and \$1 Million;
 - Good relationship with some history (typically 2 – 5 years or more);
 - Important supplier in a specific product category; and
 - Moderate level of supplier production.
- Transactional Supplier
 - Kathmandu spend is below NZ\$100,000;
 - Intermittent and transactional relationship with little or infrequent history;
 - Not significant supplier in key product categories; and
 - Very low level of supplier production.

Kathmandu plans to link the segmentation process to the scorecard directly; this process will provide updated information on suppliers to determine business decisions.

Kathmandu's business model strategy is to source from 20% of supplier's production capabilities, with a maximum of 30% for high performing suppliers. The sourcing model gives the suppliers a

diversified portfolio which is important to Kathmandu for its suppliers to maintain a healthy business. FLA recommends that Kathmandu consider offering alternative business incentives to suppliers for when increase in production volume is not possible.

PRINCIPLE 9: CONSULTING WITH CIVIL SOCIETY⁹

Civil Society Engagement Strategy

Kathmandu's CSO Policy and Strategy includes an analysis of the challenges and risks of civil society engagement; descriptions of current supply chain complexities with highlights of noncompliances; outlines its goals for civil society engagement; and lists of steps for union engagement. The CSR Manager updates the strategy when needed to reflect progress in their current civil society engagement or changes in strategy. Kathmandu has mapped civil society organizations (CSOs) in its high-production volume (China) and high-risk (Vietnam) countries and has documented potential global CSOs for future partnering opportunities. Kathmandu has actively reached out to CSOs on various issues, including CCR-CSR and Alliance Anti-Traffic (AAT), as discussed below. FLA recommends Kathmandu expand its strategy and engagement to its other sourcing countries.

Engaging Civil Society on Local Labor Issues

Kathmandu has proactively engaged with CSOs in China and Vietnam. In 2017, Kathmandu consulted and worked closely with CCR-CSR on a case involving a 16-year-old juvenile worker discovered during an audit in China. The worker was working more than the legally permitted hours, was working on high-risk tasks, and had not signed a contract with the factory. CCR-CSR visited the factory and worked directly with the juvenile worker and his family including interviewing the worker and discussing options directly with him and his family members. CCR-CSR provided Kathmandu with knowledge on local law and on techniques to communicate with supplier and factory management. CCR-CSR also provided recommendations to Kathmandu on remediation and follow up which Kathmandu has implemented in cooperation with the factory.

In Vietnam, Kathmandu has signed an MOU with Alliance Anti Traffic (AAT) Vietnam, a nongovernmental organization that works to identify and help trafficked persons by implementing programs that support trafficked victims' reintroduction, and assimilation, into daily life. The MOU between AAT and Kathmandu is in place in the event workers are victims of exploitation or abuse in their supply chain. Kathmandu will work with AAT to provide legal assistance, advice, protection, placement and aftercare of the victim, as well as, support prosecution of the trafficker. As previously mentioned, Kathmandu has a Mandatory Reporting of Child and Forced Labor Policy, which is shared with all Kathmandu staff, focusing on partnership with peers, brands, NGOs, governments, intergovernmental organizations and multi stakeholder initiatives. This policy acknowledges the role of collaboration in proactively addressing modern slavery. Kathmandu supports the introduction of the Australia Modern Slavery Act, and has played a role in urging other companies to create their own policy and processes. Kathmandu understands the importance of sharing learnings and best practices with the industry and collaborating with industry peers. FLA recognizes Kathmandu's engagement with civil society and recommends that it continue to deepen its engagement with civil society in both China and Vietnam, and seek out opportunities in other countries from which they source.

Engaging Civil Society on the Design & Implementation of Workplace Standards Strategies

In 2015, Kathmandu participated in the Materiality Report Project initiated by the Australian Centre for Corporate Social Responsibility (ACCSR). This project included 18 of Kathmandu's external

⁹ Principle 9: Company affiliate identifies, researches and engages with relevant labor non-governmental organizations, trade unions and other civil society institutions

stakeholders, including CSOs, brands and 17 internal stakeholders, including suppliers. Its results showed that Kathmandu's stakeholders had a high level of recognition regarding human rights as an important material issue. The recommendation from the project was for the company to target its efforts to provide greater visibility of its supply chain with regard to human rights, packaging, materials traceability, and environmental impacts. The company's focus on human rights is apparent throughout its program.

Unions & Worker Representative Structures

In its CSO Policy and Strategy, Kathmandu states that the company engages with the union worker representatives in the following ways:

- Inviting the worker representatives to the opening and closing meetings of audits;
- Interviewing worker representatives as part of the worker interviews during audits;
- Gathering union information, which is incorporated into the CSO strategy and remediation;
- Documenting union/worker representative structures;
- Studying and researching unions;
- Communicating with unions to better understand the latest local labor conditions;
- Exploring CSR staff training on union communication

Kathmandu is aware of the difficulties of Freedom of Association in China and Vietnam and is working towards collecting information to better inform its business practices.

PRINCIPLE 10: VERIFICATION REQUIREMENTS¹⁰

Kathmandu's commitment to the FLA and fulfillment of FLA obligations is integrated throughout the CSR program. The company maintains an up to date Standard Operating Procedures for FLA Accreditation. The FLA confirms that Kathmandu has completed all administrative requirements including payment of annual dues, submission of its annual self-assessment, and submission of remediation updates for SCI assessments.



Kathmandu and FLA staff at Kathmandu's Headquarter Assessment

¹⁰ Principle 10: Company affiliate meets FLA verification and program requirements.

SECTION 4: CONCLUSION AND RECOMMENDATION TO THE BOARD OF DIRECTORS

This review of Kathmandu's labor compliance program is intended to help inform the decision of the FLA Board of Directors on whether to accredit the company's program.

The FLA staff conclusion is that since affiliation as a PC, Kathmandu has increasingly developed a labor compliance program that, on balance, aligns with FLA standards, benchmarks, and protocols. Accreditation is a measure of the capacity of a company's labor compliance program to ensure respectful and ethical treatment of workers. The FLA recognizes that no labor compliance program is perfect; the notion of continuous improvement means that there will be instances when a specific principle or benchmark is not met, yet such occurrence does not call into question the integrity of an affiliate's entire program. FLA will continue to provide programmatic recommendations to further an affiliate's labor compliance efforts in support of FLA's mission to protect workers' rights and ensure decent working conditions. FLA staff recommends to the FLA Board of Directors the accreditation of Kathmandu's labor compliance program.

The assessment identified certain areas in which Kathmandu's labor compliance program has been strong and also areas with respect to which improvements are possible.

Strengths of Kathmandu's labor compliance program include:

- 1) Strong top management commitment to public transparency, including publishing factory lists;
- 2) Utilization of a segmentation approach to rank suppliers and to develop targeted tools and trainings that facilitate supplier improvement;
- 3) Strategic partnership with its service provider for implementing the social compliance program through human resources, data collection and management support that informs monitoring and remediation efforts;
- 4) Collaboration with other brands and civil society to improve factory conditions for workers; Demonstration of leadership through its proactive collaboration with civil society organizations in Vietnam and China.

Suggestions for strengthening Kathmandu's labor compliance program include:

- 1) Further develop social compliance expertise and exposure for Kathmandu's CSR staff, specifically on union and worker representative structures and collective bargaining;
- 2) Fully implement an accountability mechanisms to ensure workers are receiving effective training on workplace standards;
- 3) Continue to benchmark improvement through data analysis by more fully using the data from the revised audit tool and industry trends data;
- 4) Ensure effective collaboration on root cause analysis and continue to ensure remediation at all contract facilities; and
- 5) Continuously review and improve the implementation of responsible purchasing practices and implement the planned incentives program for suppliers and factories.

APPENDIX A: THE KATHMANDU CODE OF CONDUCT

WORKPLACE CODE OF CONDUCT

This code defines labour standards that aim to achieve decent and humane working conditions. The Code's standards are based on International Labour Organization standards and internationally accepted good labour practices. As an organization that promotes continuous improvement, Kathmandu strives to establish best practices for respectful and ethical treatment of workers, and in promoting sustainable conditions through which workers earn fair wages in safe and healthy workplaces.

TRANSPARENCY

In order to do business with Kathmandu, Suppliers must commit to full transparency in their Supply Chain. The Supplier must seek Kathmandu approval for all primary and/or subcontracted facilities prior to production. In addition, Kathmandu may seek to extend transparency further down the Supply Chain.

COMPLIANCE WITH THE LAW

In order to do business with Kathmandu, a Supplier is expected to comply with all relevant and applicable laws and regulations of the country in which workers are employed and to implement the Workplace Code in their applicable facilities. When differences or conflicts in standards arise, Suppliers are expected to apply the highest standard.

EMPLOYMENT RELATIONSHIP

Employers shall adopt and adhere to rules and conditions of employment that respect workers and, at a minimum, safeguard their rights under national and international labor and social security laws and regulations.

NONDISCRIMINATION

No person shall be subject to any discrimination in employment, including hiring, compensation, advancement, discipline, termination or retirement, on the basis of gender, race, religion, age, disability, sexual orientation, nationality, political opinion, social group or ethnic origin.

HARASSMENT OR ABUSE

Every employee shall be treated with respect and dignity. No employee shall be subject to any physical, sexual, psychological or verbal harassment or abuse.

FORCED LABOR

There shall be no use of forced labor, including prison labor, indentured labor, bonded labor or other forms of forced labor. Workers are not required to lodge deposits or their identity papers with their employer and are free to leave their employer after reasonable notice.

CHILD LABOR

No person shall be employed under the age of 16 or under the age for completion of compulsory education, whichever is higher.

FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING

Employers shall recognize and respect the right of employees to freedom of association and collective bargaining.

HEALTH, SAFETY, AND WORKPLACE ENVIRONMENT

Employers shall provide a safe and healthy workplace setting to prevent accidents and injury to health arising out of, linked with, or occurring in the course of work or as a result of the operation of employers' facilities. Employers shall adopt responsible measures to mitigate negative impacts that the workplace has on the environment.

HOURS OF WORK

Employers shall not require workers to work more than the regular and overtime hours allowed by the law of the country where the workers are employed. The regular work week shall not exceed 48 hours. Employers shall allow workers at least 24 consecutive hours of rest in every seven-day period. All overtime work shall be voluntary and consensual. Employers shall not request overtime on a regular basis and shall compensate all overtime work at a premium rate. Other than in exceptional circumstances, the sum of regular and overtime hours in a week shall not exceed 60 hours.

COMPENSATION

Every worker has a right to compensation for a regular work week that is sufficient to meet the workers' basic needs and provide some discretionary income. Employers shall pay at least the minimum wage or the appropriate prevailing wage, whichever is higher, comply with all legal requirements on wages, and provide any fringe benefits required by law or contract. Where compensation does not meet workers' basic needs and provide some discretionary income, each employer shall work with Kathmandu to take appropriate actions that seek to progressively realize a level of compensation that does.

CONTACT: If you believe your rights or our standards have been violated, please contact Kathmandu at:

Email: workers.rights@kathmandu.co.nz

WeChat: [Worker Voice](#)



All communications will be confidential.