



FAIR LABOR  
ASSOCIATION®

*Improving Workers' Lives Worldwide*



**NEW ERA CAP COMPANY**  

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**ASSESSMENT FOR ACCREDITATION**

June 2007

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## INTRODUCTION

FLA-accredited Participating Companies have demonstrated that they have the systems and procedures in place to successfully uphold fair labor standards throughout their supply chains. The complexity and ever-evolving nature of global supply chains make it impossible to guarantee that a product is made in conditions free of labor rights violations. For this reason, FLA does not certify brands. Instead, FLA evaluates companies at the headquarter level – in addition to standard factory-level due diligence activities that are conducted annually – to determine whether they have social compliance systems in place to proactively identify and address risks or instances of noncompliance. Accreditation is the highest level of recognition for FLA-affiliated companies, and is reevaluated every three years.

The FLA Board of Directors voted to approve the accreditation of New Era Cap's compliance program on June 12, 2007, based on proven adherence to FLA's Workplace Code of Conduct and the Obligations of Companies. Details on FLA's accreditation methodology can be found at [www.fairlabor.org/accreditation](http://www.fairlabor.org/accreditation).



## NEW ERA CAP'S LABOR COMPLIANCE PROGRAM

New Era Cap Company (NEC) is the largest sports-licensed headwear company in the United States and the world. NEC produces and markets headwear under license to U.S. professional sports leagues such as Major League Baseball (MLB), the National Basketball Association (NBA), and the National Hockey League (NHL), as well as to colleges and universities. The company started in the 1920s and is headed by the 4th generation of the Koch family. NEC is headquartered in Buffalo, New York, and has sales offices in the United States, Canada, Japan, England, France, and Germany. Headwear sold by NEC is manufactured in contract factories and also in three company-owned manufacturing facilities in the United States.



*New Era's Headquarters in Buffalo, New York.*

NEC's Code of Conduct and Social Compliance Program was developed in 2003 with the objective of ensuring that the labor and environmental standards adopted by the company are observed worldwide in the manufacture of NEC products. The head of the program is the Vice-President of Global Human Resources, who reports directly to the company's President.

During the implementation period, NEC did not have full-time dedicated compliance staff. Rather the compliance efforts were integrated into other departments and outsourced to a third-party monitoring organization responsible for development and implementation of the program.

- As mentioned above, the Vice President of Global Human Resources is the head of NEC's Social Compliance Program. In addition to defining HR policies and procedures, the VP is responsible for managing labor and union relations and setting global policies and procedures related to Code compliance.
- An independent social monitoring entity was engaged by NEC in 2003 to assist in the development and implementation of its Social Compliance Program. [Monitoring organization's] responsibilities regarding NEC's labor compliance program include: (1) development of compliance tools, policies and procedures; (2) training of headquarter personnel and suppliers (both owned and contract factories) on NEC's Code of Conduct; and (3) conduct of audits and remediation of noncompliances at NEC's owned and contract facilities.
- NEC has a full-time Health and Safety Manager who works with Health and Safety Coordinators in each owned facility as well as providing support to other domestic facilities. The manager has over 17 years of experience in health and safety and is responsible for ensuring compliance with OSHA standards, training on chemical safety, ergonomics, first aid response, and other health and safety activities.
- NEC's VP of Global Operations and Director of Global Sourcing engage factory managers and owners in discussions of social compliance commitment and remediation issues.
- The Director of Global Sourcing is responsible for identifying new factories for NEC production and in evaluating their capacity to meet NEC standards, including adherence to local labor law and NEC's Code of Conduct.
- The Director of Quality and the Asian Quality Manager convey compliance expectations, as well as those of quality, to supplier management. The Asian Quality Manager is based in Hong Kong and participates in the evaluation of new suppliers, monitoring visits, Code awareness training, and remediation at NEC facilities overseas.
- Factory Plant Managers and Plant Human Resource Managers of NEC-owned factories are responsible for overseeing compliance within their facilities. They are also responsible for engaging with local civil society organizations and maintaining employee relations.
- In March 2007, NEC hired a Manager for the Social Compliance Program on a part-time basis; the position will become a full-time post by the end of the year.

NEC joined the FLA in 2002 as a Category B Licensee and became a Participating Company (Category A Licensee) in October 2003. NEC is among the first Participating Companies to be brought forward for accreditation that is also a manufacturer.

Throughout the time it has been affiliated with the FLA, NEC has been very active in FLA activities. The Vice President of Global Human Resources and the head of the Social Compliance Program, has been a member of the FLA Board of Directors. Prior to this, he served on the FLA

Communications Committee and as a licensee representative at University Advisory Council meetings and in the University and Licensee Working Group.

At about the time of its initial discussions regarding affiliation with the FLA, NEC was involved in a very bitter strike at [factory]. The labor-management relationship colored NEC's early participation in the FLA. Since the strike was settled, NEC has built a strong relationships with both the local and parent union. This was evident in interviews conducted by FLA staff with the leadership of the branch union in May 2007.

The table below describes NEC's supply chain over the period 2003-2006, as reported to the FLA. NEC sourced from 13 applicable facilities in 2003, 16 in 2004, 17 in 2005 and 14 in 2006. During this period, NEC factories were subject to a total of 4 unannounced Independent External Monitoring (IEMs) visits conducted by FLA-accredited independent external monitors. Information on the results of the IEMs, and the remediation undertaken by NEC in response to IEM findings, are provided in FLA tracking charts and discussed, as appropriate, in the next section.

NEW ERA CAP APPLICABLE FACILITIES AND IEMS, 2003-2006								
COUNTRY	2003 APPLICABLE FACILITIES	2003 IEM	2004 APPLICABLE FACILITIES	2004 IEM	2005 APPLICABLE FACILITIES	2005 IEM	2006 APPLICABLE FACILITIES	2006 IEM
China	4	1	4	0	7	1	7	1
Hong Kong	1	0	1	0	0	0	0	0
Korea	1	0	1	1	1	0	0	0
Taiwan	0	0	0	0	1	0	1	0
United States	7	0	10	0	8	0	6	0
<b>Total</b>	<b>13</b>	<b>1</b>	<b>16</b>	<b>1</b>	<b>17</b>	<b>1</b>	<b>14</b>	<b>1</b>

# ANALYSIS OF NEC'S LABOR COMPLIANCE PROGRAM USING THE FLA OBLIGATIONS OF COMPANIES AND EVALUATION WORKING GROUP BENCHMARKS

NEC's initial monitoring plan foresaw a three-year initial implementation period, ending in December 2006, for its headwear production.

Information used in this assessment originates from annual reports submitted by NEC to the FLA verified through: (1) interactions with NEC at the FLA headquarters in 2002 and 2003 and a visit to NEC's headquarters by FLA staff in April 2007; (2) visits to factories by FLA staff; (3) information gathered via in-person, and/or phone interviews, and/or email correspondence with NEC monitors and other key stakeholders; and (4) results of IEMs and ensuing remediation.

## 1. ADOPTS AND COMMUNICATES A CODE

### 1.1 Formally adopts a code that meets or exceeds FLA standards

#### **Actions Taken:**

NEC adopted the FLA Workplace Code of Conduct in 2002. The following year, NEC created its own Code of Conduct. The Code is available in English and has also been translated into Mandarin.

#### **Verification by FLA:**

The FLA reviewed the NEC Code of Conduct (2003) and found that it did not meet the FLA standard in all areas. However, it is clear from NEC training documents, supplier communication and audits that NEC has adopted and been operating under the FLA Code. NEC should no longer refer to the NEC Code until such time as it meets or exceeds the FLA standards.

### 1.2 Informs all suppliers in writing

#### **Actions Taken:**

NEC communicates to supplier factories the conditions related to the Code of Conduct through formal letters. These letters, generally signed by the NEC President, also explain the mission of the FLA and urge suppliers to adopt and comply with the standards in the Code of Conduct in the totality of their operations.

#### **Verification by FLA:**

The FLA reviewed copies of signed letters during a visit to NEC Headquarters. A sample of a signed letter sent to contract factories is on file at the FLA offices.

### 1.3 Posts the code in a prominent place in supplier facilities in the local languages of workers and managers

#### **Actions Taken:**

NEC provides the Code of Conduct to all owned and contract facilities and ensures that it is posted in prominent places. In 2006, Code posters were updated for China suppliers to reflect a change in local contact for reporting of noncompliances.

#### **Verification by FLA:**

The FLA reviewed copies of the Code of Conduct in English and in Chinese (the latter with the changed contact information) during a headquarter review. The FLA also saw copies of the Code of Conduct posted in English in a U.S. facility during the observation of an audit. Although the majority of the workforce does not speak English, the Code is posted in only one language. When training on the Code occurs, however, each non-English speaker

is seated next to a worker who is bilingual so that the training can be translated into local language. The union leader confirmed that this system functioned effectively in the factory. The FLA recommends that NEC evaluate the language appropriateness of the posted Codes in its non-unionized and contract facilities to assess whether translation into other key languages is necessary. In three out of three IEMs, no noncompliance related to Code posting was identified.

**1.4 Ensures that workers are informed orally and educated at regular intervals (to take account of labor turnover)**

**Actions Taken:**

An initial awareness training on the Code of Conduct was provided to workers at New Era Cap facilities in 2004. Monthly training on a different Code element is provided to build awareness. The Asian Quality Manager is also responsible for Code of Conduct awareness training at contract facilities. NEC seeks to train 10% of its workforce in small training batches of 20 workers at a time.

**Verification by FLA:**

The FLA reviewed the NEC Code of Conduct training calendar, which includes monthly trainings on different Code elements for its owned facilities. The FLA also reviewed corresponding signature sheets from the training and interviewed union members at the branch union office within a factory who confirmed trainings on the Code took place regularly. The FLA encourages NEC to undertake similar Code awareness training at contract facilities and maintain similar documentation of the schedules and trainings. The FLA recommends that NEC look into how more workers can be reached through its training programs, possibly using a training of trainer methodology to reach more workers.

**1.5 Obtain written agreement of suppliers to submit to periodic inspections/audits, including by accredited external monitors, to remediate instances of noncompliance with FLA Workplace Standards that arise, and to inform employees about those standards**

**Actions Taken:**

In the letter sent by NEC, suppliers are asked to: (1) acknowledge receipt of the letter; (2) prepare written certification that the company is meeting the FLA standards; (3) agree to submit to periodic internal monitoring and independent external monitoring; (4) agree to reply to periodic requests and questionnaires; (5) agree to provide workers with the ability to report noncompliance; and (6) establish a means for remediation to settle findings of noncompliance. Contract suppliers also agree to inform workers about the Code during induction and as part of ongoing training.

Contract suppliers are asked to sign a Memorandum of Understanding (MOU), which includes an agreement on the part of the supplier to submit to unannounced third-party monitoring and to adhere to local labor laws and the NEC Code. All provisions of the agreement must be adhered to in order to continue business.

**Verification by FLA:**

The FLA reviewed samples of the letter to suppliers during a headquarters visit. FLA staff also reviewed several letters signed by suppliers as well as copies of signed MOU including the requirement to submit to third-party monitoring and to adhere to the NEC Code of Conduct. Copies of the letters and MOU are on file at the FLA offices.

## **2. TRAINS INTERNAL COMPLIANCE STAFF**

**2.1 Identifies the staff or service provider responsible for implementing their compliance program**

**Actions Taken:**

Since the inception of the compliance program (2003), NEC has contracted with [monitoring organization], an independent social compliance monitoring company, to provide advisory and monitoring services.

**Verification by FLA:**

The FLA confirms that since 2003, [monitoring organization] has been engaged by NEC to provide both advisory and monitoring services. As of early 2007, NEC has also recruited a part-time Social Compliance Manager; this position will grow into a full-time position by the end of 2007.

**2.2 Ensures that they had training in all the areas under their responsibility, including, as appropriate, international and national labor standards, local languages, occupational and production risk factors, and techniques for monitoring, interviewing and remediating**

**Actions Taken:**

[Monitoring organization] relies upon local legal experts in various countries where they operate to provide advice on interpretation of laws and regulations and has access to various legal databases of countries where they operate.

[Monitoring organization] monitors attend specialized training by industry experts and company compliance staff including the FLA, [monitoring organization], the U.S. Department of Labor's Occupational Safety and Health Administration (OSHA), and [brand].

**Verification by FLA:**

The FLA confirmed that [monitoring organization] partners with local organizations with local legal expertise for interpretation of laws and maintains access to databases of labor laws in the countries where it operates. The FLA reviewed documentation of [monitoring organization] monitor trainings and, through interactions with [monitoring organization] monitors and some organizations providing trainings, verified that [monitoring organization] monitors have attended a variety of training courses offered by experts and compliance staff.

**2.3 Updates that training at regular intervals**

**Actions Taken:**

[Monitoring organization] monitors attend training sessions, including those that cover company codes of conduct and certification programs in social compliance, on a regular basis.

**Verification by FLA:**

The FLA confirms that [monitoring organization] and its partner organizations overseas have attended FLA trainings. Through interactions with [monitoring organization] staff and other training organizations, the FLA can confirm that [monitoring organization] staff has attended trainings on social compliance.

**3. PROVIDES EMPLOYEES WITH CONFIDENTIAL REPORTING CHANNELS**

**3.1 Encourages the establishment of grievance procedures at supplier facilities**

**Actions Taken:**

In its letter to suppliers, NEC states that suppliers must agree to provide employees with the ability to report noncompliance with workplace standards through a secure communication channel. NEC has explained this requirement to all owned factories and to all contract suppliers.

**Verification by FLA:**

In [factory] organized by [union], workers are able to raise grievances via the union. For the non-unionized factories, FLA staff reviewed sample communications sent to NEC-owned facilities which encourage an open door policy and outline the steps for an employee to file complaints. According to 3 IEMs conducted in contract factories, there was no grievance channel per se but workers were able to raise grievance through their supervisor or a suggestion box, which in 2 of 3 cases was not in use. The FLA recommends that NEC uses its strong Human Resources department to develop a grievance procedure for any workplace issues that can be applied to all facilities (owned or contract). Material from FLA 3.0 can be used as guidance for its development.



### **3.2 Provides channels for Company employees and workers at those facilities to contact the Company directly and confidentially if warranted**

#### **Actions Taken:**

In the unionized facility, workers are able to file complaints confidentially through the union representative who brings the issues up to management. In the non-unionized facilities owned by NEC, the company has engaged a third-party administrator to receive confidential information from workers wishing to report noncompliance through a hotline number. Contact information is posted in all non-unionized U.S. facilities.

Workers of contract suppliers are provided with a poster that explains the method for contacting a NEC representative in their location.

#### **Verification by FLA:**

FLA staff spoke with union members at the [factory] and were present when a union member approached the union representative to discuss some personal issues. The conversations were held in the union office, away from management. The FLA also saw postings with the hotline number and can confirm that this system is in place.

According to the IEMs, in 2 of 3 audits conducted in contract factories, workers were aware of their ability to contact NEC.

### **3.3 Ensures the channel is secure, so workers are not punished or prejudiced for using it.**

#### **Actions Taken:**

NEC has conditioned business on the ability of workers to report noncompliances without fear of retaliation or retribution.

At the unionized facility, NEC is able to ensure a secure channel for workers to communicate noncompliances without fear of reprisal because all issues are taken up with the union representatives present.

NEC's third-party service provider provides a toll-free telephone number for workers to call and report concerns. The organization handling calls provides information to NEC without revealing the employees contact information.

Overseas workers are provided with the mobile phone number (China number) of local NEC representative so that workers may contact him.

#### **Verification by FLA:**

The FLA reviewed the non-retaliation language on the NEC complaint form.

The FLA interviewed union members who confirmed that the factory has a secure and confidential means for workers to raise issues to management.

The FLA reviewed sample reports from the hotline service which did not reveal the identify of the caller, protecting them from any retaliation.

## **4. CONDUCTS INTERNAL MONITORING**

### **4.1 Internally monitors an appropriate sampling of suppliers to assess compliance, which includes worker interviews, records review, occupational safety and health review, practices of suppliers in relation to the FLA Workplace Standards**

#### **Actions Taken:**

NEC monitors 100% of its sewing contractors annually, exceeding the expectation of the FLA requirement for supplier monitoring. All embroidery and de minimis suppliers are audited within a three-year period.

All NEC internal audits are unannounced. All audits begin with an opening meeting and end with a discussion of findings during a closing meeting. All audits follow standard audit protocol including: records review, gathering information from workers, inspection of facility for health and safety concerns and capacity analysis.

The FLA Workplace Code of Conduct and FLA benchmarks and monitoring guidelines are used as guidance for the internal monitoring. As of 2006, NEC has used the FLA audit instrument.

**Verification by FLA:**

FLA staff reviewed records of NEC internal audits during the implementation period and found that NEC had audited an appropriate sample of factories on an annual basis.

The FLA observed a NEC audit at a U.S. facility and confirms that proper methodology was followed. The monitor was very clear in communicating the audit process during the opening meeting and in discussing the findings. The union was invited to participate throughout the audit process.

The FLA reviewed the audit instruments and confirms that in 2006, the FLA audit instrument was used for NEC audits.

**4.2 Collects, verifies and quantifies compliance with workplace standards**

**Actions Taken:**

NEC collects information about its suppliers via various audit instruments, most recently using the FLA audit instrument. NEC also collects information about potential new suppliers through a Compliance Questionnaire.

[Monitoring organization] provides NEC with copies of all audit reports and tracking charts. Currently, all audit information is collected and indexed by factory; each factory has its own folder with copies of the reports. During the implementation period, NEC met monthly with [monitoring organization] to discuss findings.

**Verification by FLA:**

While different audit instruments were used for audits in different years, as of 2007, NEC has adopted the FLA audit instrument for its internal audits to maintain consistency and to have a stronger auditing tool. The FLA reviewed NEC's audit instruments and the Compliance Questionnaire. Copies of both are on file at the FLA offices.

The FLA reviewed files of the factories and confirms that most audits and tracking charts are maintained on file. The FLA recommends some improvements in the management of audit records.

**4.3 Analyzes the monitoring results and implements remediation plans to address noncompliance issues**

**Actions Taken:**

NEC meets monthly to review the audit findings and determine if there are recurring noncompliances. Action plans to contact factories and remediate problems are developed. Issues found during remediation that indicate a trend or that have the propensity to recur in other suppliers (e.g., falsification of payroll records) are noted and special attention is focused on such issues at other monitoring visits.

**Verification by FLA:**

The FLA can confirm from NEC reports that an analysis of noncompliances is being conducted. Since audit instruments and tracking tools used by NEC over the implementation period have varied, it has been challenging for NEC to do systematic and in-depth longitudinal analysis of noncompliance. This is likely to change henceforth since a single audit and remediation format are being used. The FLA encourages further analysis over time of audit findings at a country level, per code element, and per individual factories, to examine recurrence of noncompliances and identify critical issues and root- causes.

**4.4 Tracks the progress of remediation**

**Actions Taken:**

NEC utilizes the FLA Tracking Chart as the basis for documentation and tracking of noncompliance and remediation efforts. In order to track the progress of remediation, NEC staff, as much as possible, will visit facilities to follow up on pending remediation. The local NEC representative in Asia will regularly visit factories to follow up and provide updates to the headquarters.

**Verification by FLA:**

NEC's current method of managing compliance information through hardcopies made it somewhat difficult to review the tracking of remediation of the internal audits over time. The reports are also stored on the computer network and are kept more up-to-date there. The FLA encourages NEC to develop a method for tracking progress of remediation (the adoption of a single tool will help in this process) to allow pending, closed, new, and recurring issues to be tracked. The FLA also encourages NEC to provide updates about on-going remediation at facilities that have received an IEM, via the FLA tracking chart.

Since NEC's labor compliance staff is relatively small and frequent visits to the factories are not always possible, the FLA recommends that NEC adopt additional measures to track remediation, including proof through photographs and documentation as well as through an online tracking of open and closed issues following each visit (using an Excel format or through a database).

## 5. REMEDIATES IN A TIMELY MANNER

### 5.1 Upon receiving the internal and independent external monitoring reports, contacts the supplier concerned (within a reasonable timeframe) to agree to a remediation plan that addresses all compliance issues identified by the monitor

**Actions Taken:**

After each IEM, NEC reviews the report and findings against the code and FLA benchmarks. Compliance personnel raise any issues with unclear or vague findings for clarification with the FLA and the FLA-accredited monitor. Once the issues are validated and understood, a "notice" is issued to the factory which explains the findings and sets out clear expectations for correction. Factories are expected to reply to the notice in a very short period of time with a plan to correct the instances of noncompliance. NEC grants extensions for issues requiring longer remediation timeframes (e.g., building repair, issues regarding payroll, human resources policies, procurement).

For NEC internal audits, findings are discussed during the factory closing meeting and clarifications are taken up. Direct contact is made with factory owners, in most cases, and with top level managers requesting their immediate attention to remediation plans. Suggestions are made to the factory by NEC to encourage desirable remediation to the noncompliances identified. Responses from the factory owner/manager are reviewed to determine suitability to the noncompliance and acceptability by NEC.

**Verification by FLA:**

The FLA reviewed Notices sent to factories outlining the findings and action required.

The FLA observed NEC conducting an internal audit and can confirm that the monitor discussed findings, responded to clarifications sought by management, and discussed appropriate remediation during the closing meeting.

### 5.2 Implements a remediation plan regarding the noncompliances and the actions taken to prevent the recurrence of such noncompliances

**Actions Taken:**

Lessons learned through NEC's monitoring experience are communicated to the factory; it is expected that the factory will implement the lessons learned to prevent or limit recurrence of the same problem in the future.

**Verification by FLA:**

NEC has strong human resource systems in place in its owned facilities and is able to implement lessons learned very quickly. The FLA encourages greater analysis of internal audit and IEM findings and more emphasis placed on preventative systems in contract factories.

**5.3 Within sixty (60) days, supplies the FLA with the remediation plan citing all progress made and a timeline for outstanding items**

**Actions Taken:**

NEC provides remediation plans to the FLA on a timely basis.

**Verification by FLA:**

The FLA confirms receipt of NEC remediation plans on a timely basis or as requested. The FLA has not received a corrective action plan for the 2006 IEM, however the delay is on the part of the monitors who have not responded to NEC's request for a clarification on findings.

**5.4 Confirms the completion of remediation**

**Actions Taken:**

NEC mainly confirms the completion of remediation through factory visits as much as possible. In China, NEC is able to send the Asian Quality Manager to verify completion.

**Verification by FLA:**

The FLA reviewed some correspondence between the factory and the Asian Quality Manager in which the manager was tracking the remediation process. The FLA encourages NEC to track completed remediation in its tracking process.

**5.5 Conditions future business with contractors and suppliers upon compliance standards**

**Actions Taken:**

Currently, NEC has in place a MOU that covers the terms of agreement and expectations placed on suppliers, including their commitment to comply with the Code of Conduct and to submit to onsite inspections. The letters are being revised in 2007.

NEC issues a notice to suppliers that indicates the findings from an assessment and provides clear expectations for correction. If most issues are not remediated within 30 days, a second notification is issued which states that failure to comply may result in a cancellation of orders.

**Verification by FLA:**

The FLA reviewed copies of the signed MOUs but found the language about compliance being used to condition future business not to be very explicit. NEC is in the process of updating the MOU to make this language more explicit; new contracts will be introduced in 2007. Interviews with NEC sourcing staff indicate that suppliers at times have not been approved for sourcing due to compliance issues and relations with 2 embroidery factories were recently terminated due to recurring noncompliance.

The FLA reviewed some sample notices sent to factories. Notices appear to be issued inconsistently so the FLA encourages NEC to apply a consistent process.

**6. TAKES ALL STEPS NECESSARY TO PREVENT PERSISTENT FORMS OF NONCOMPLIANCE**

**6.1 Analyzes compliance information to identify persistent and/or serious forms of noncompliance**

**Actions Taken:**

NEC summarizes the results of internal monitoring, by Code element and by region. The findings are presented to factories for remedial action and are followed up with the factory by way of re-visits to verify compliance.

**Verification by FLA:**

The FLA has reviewed samples of NEC's analysis of noncompliance in the company reports. Samples of the results of NEC's analysis are on file at the FLA offices.

## 6.2 Establishes and implements programs designed to prevent the major forms of such noncompliance

### Actions Taken:

NEC's supplier base is relatively small and lends itself to discrete handling of findings. NEC relies on its relationships with factories and discussions held at frequent factory visits to assure compliance and mitigate the chance of recurrence.

### Verification by FLA:

The FLA has found this obligation to be challenging for most small companies. The FLA encourages NEC to work directly with contract suppliers, perhaps by way of factory trainings, to raise awareness among management on recurring issues and how to develop preventative systems. Since NEC is also a manufacturer, it has an opportunity and level of credibility to assist factories overseas to set up similar systems.

## 6.3 Takes steps to prevent recurrence in other Applicable Facilities where such noncompliance may occur

### Actions Taken:

Analysis and understanding of monitoring results (findings) generally indicate the challenges present within specific factories or regions. Armed with this knowledge, NEC monitors tend to focus on assessment of those systems or practices that are causes for noncompliance and apply it to other factories.

NEC has learned from some critical experiences with their factories and has applied the learning to other facilities, particularly its owned factories. NEC and its union successfully resolved an eleven-month strike in 2002. Labor relations went from extremely poor to very strong with NEC and [union] receiving the Cornell Champions at Work Award in 2005 as a result of a nomination by the union. Although no other owned facility is unionized, NEC has placed significant emphasis on strengthening employee relations through the NEC 'Yes' program, effective communication channels, employee celebration days, and regular communication with management.

### Verification by FLA:

Given that NEC has recently hired a very experienced compliance manager, we encourage more efforts to be placed on this issue. NEC is enthusiastic to be involved in FLA 3.0 to address noncompliances at the root-cause level in a more collaborative manner.

The FLA spoke with the local union chair at the [factory] and other members who showed photos from the days of the strike and walked us through the history of the relationship, from their perspective. The union members confirmed the strong relationship that now exists between management and workers. The employees expressed their desire to see the factory and the industry in the United States survive and requested that the FLA communicate to university members that factories such as theirs should be rewarded with business for their compliance efforts. The FLA also heard from employees about the various Human Resources activities and incentive programs that the company has applied in other facilities to improve employee relations. Most employees interviewed at the facility had been with NEC for more than 10 years and some for more than 20 years, an indication of the stability of the factory and of strong labor-management relations.

## 7. SUBMITS TO INDEPENDENT EXTERNAL MONITORING

### 7.1 Provides the FLA with an accurate, up-to-date factory list, factory profile, access letters, etc.

#### Actions Taken:

Updated factory lists, access letters and other documents have been provided to the FLA as required and updated information has been provided as requested.

#### Verification by FLA:

NEC has provided factory lists, access letters and other documentation necessary for the conduct of IEMs on a timely basis throughout their implementation period.

## 7.2 Ensures that the suppliers selected for IEMs cooperate with the FLA monitors

### **Actions Taken:**

All NEC suppliers are informed of FLA requirements through written and verbal communication to ensure that factories cooperate with the FLA during the IEM process.

### **Verification by FLA:**

The FLA confirms the cooperation of NEC suppliers during IEM visits.

## 7.3 Cooperates with FLA requests for information, clarification and follow-up in the IEM process

### **Actions Taken:**

Requests for information are promptly answered and followed up.

### **Verification by FLA:**

The FLA confirms that NEC responds promptly to all FLA requests regarding the IEM process. NEC has approached the FLA or independent monitors for clarification about findings and remediation steps on a prompt and regular basis.

## 8. COLLECTS AND MANAGES COMPLIANCE INFORMATION

### 8.1 Maintains a database

#### **Actions Taken:**

NEC has a very small factory base. As a result, information is currently maintained in hard copy in factory files. Files include: completed questionnaires, audit instruments, tracking charts, notices and general compliance correspondence. Records are permanently kept and show chronological trail of events (audits, requests for information, emails, etc.).

#### **Verification by FLA:**

The FLA randomly selected factory folders for review and found that most files were complete, but in some instances the files did not include copies of the audit reports for each year and some only included an audit report but no tracking charts or reports of findings. Electronic copies of the audit instruments are also maintained on the NEC network which NEC finds easier to update. The FLA recommends that NEC strengthen the information management system to ensure any filing systems are kept up to date.

### 8.2 Generates up-to-date lists of its suppliers when required

#### **Actions Taken:**

NEC maintains an up-to-date factory list with the FLA, reflecting terminated or new factories as appropriate.

#### **Verification by FLA:**

The FLA confirms that NEC has provided factory lists as required and provided updates upon request.

### 8.3 Analyzes compliance findings

#### **Actions Taken:**

NEC manually summarizes internal audit reports and reports on the incidence of noncompliances by Code elements and by region to determine common issues.

#### **Verification by FLA:**

Now that NEC has recruited a social compliance manager, the FLA recommends that the company strengthen its analysis of findings to track frequency and recurrence of noncompliance and assess causes so that preventative steps can be taken at the factory level.

#### 8.4 Reports to the FLA on those activities

##### **Actions Taken:**

NEC has prepared and filed timely Annual Reports to the FLA since 2004.

##### **Verification by FLA:**

The FLA confirms that NEC has provided regular annual reports to the FLA. The reports contain all required elements and reflect NEC's analysis of audit results.

### 9. CONSULTS WITH CIVIL SOCIETY

#### 9.1 Maintains links to organizations of civil society involved in labor rights and utilizes, where companies deem necessary, such local institutions to facilitate communication with Company employees and employees of contractors and suppliers in the reporting of noncompliance with the workplace standards

##### **Actions Taken:**

NEC maintains relationships with various local groups familiar with workers' communities, particularly around the U.S. facilities, including unions and religious groups. In Alabama, for example, local religious organizations are the basis for community activities and where most of the workers spend their time away from the factory. NEC works with three separate religious ministries in Alabama.

##### **Verification by FLA:**

The FLA reviewed documentation and minutes of meetings with local organizations related to the U.S. facilities. The FLA also saw documentation supporting interactions with the parent union of the [factory] local union, particularly after the strike.

The FLA recommends that NEC engage with local civil societies in the communities around the contract factories. As with many small companies, NEC has requested assistance in forming these relationships.

#### 9.2 Consults knowledgeable local sources as part of its monitoring activities

##### **Actions Taken:**

Local religious groups are invited into factories and provided with opportunities to observe conditions of work and meet with workers. NEC participates in meeting held by the [CSO] and participates in its working groups to gain perspective into compliance issues. NEC also participates in FLA Monitoring Committee meetings and trainings for enhanced knowledge of monitoring practices and challenges present in sourcing countries.

##### **Verification by FLA:**

The FLA reviewed documentation of meetings with local groups. The FLA can confirm that NEC has participated in [CSO] meetings. The FLA confirms that NEC participates in FLA Monitoring Committee meetings as well as attended the FLA 3.0 training in Shenzhen, China in August, 2006.

#### 9.3 Consults periodically with the legally constituted unions representing employees at the worksite regarding the monitoring process and utilize the input of such unions where appropriate

##### **Actions Taken:**

NEC meets regularly with its established union at the [factory].

The NEC audit instrument and compliance questionnaire ask contract suppliers about the existence of unions and collective bargaining agreements.

**Verification by FLA:**

The FLA spoke with both management and union representatives at the [factory] and confirmed that there is fluid communications between management and union at the [factory]. Union representatives report that issues discussed with management are at a higher level than many other typical union-management discussions.

The FLA has copies of the NEC compliance questionnaire and audit instrument and confirms that questions related to the union and collective bargaining agreements are included.

**9.4 Assures the implementation of monitoring is consistent with applicable collective bargaining agreements**

**Actions Taken:**

NEC ensures compliance with the collective bargaining agreement signed with employees at the [factory].

**Verification by FLA:**

The branch union chair confirmed that the collective bargaining agreement is adhered to by NEC management.

**10. PAYS DUES AND MEETS ITS OTHER PROCEDURAL REQUIREMENTS**

**10.1 Pays annual dues**

**Actions Taken:**

NEC has paid its annual dues to the FLA.

**Verification by FLA:**

NEC is up-to-date on its annual dues. Documentation is available at the FLA offices.

**10.2 Pays IEM administrative and monitoring fees**

**Actions Taken:**

NEC has paid all relevant fees to the FLA.

**Verification by FLA:**

NEC is up-to-date on all relevant fees to the FLA.

Documentation is available at the FLA offices.

**10.3 Signs and honors required FLA contracts**

**Actions Taken:**

NEC signs and honors required FLA contracts.

**Verification by FLA:**

NEC has signed and honored required FLA contracts.

Documentation is available at the FLA offices.

**10.4 Submits factory lists, a standardized annual report and other information in complete form and on time**

**Actions Taken:**

NEC submits factory lists, annual report and all requested information in a complete and timely manner.

**Verification by FLA:**

NEC has submitted factory lists and annual reports, in complete form, and on time.



## CONCLUSION

Accreditation of New Era Cap's compliance program should not be interpreted as a guarantee against issues and risks in the supply chain. Rather, accreditation indicates that the company has the systems in place to proactively identify and remediate those risks. Accreditation is not granted automatically, and is only renewed every three years following a satisfactory FLA evaluation of labor compliance systems and activities during the timeframe. FLA will continue to conduct standard due diligence activities on New Era Cap. To check an affiliate's accreditation status, visit [www.fairlabor.org/accreditation](http://www.fairlabor.org/accreditation).