



## OUTERKNOWN

## ASSESSMENT FOR ACCREDITATION

OCTOBER 2017

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Outerknown Headquarters  
Photo Courtesy of Outerknown

## INTRODUCTION

This report provides an assessment of the labor compliance program of Outerknown and concludes with a recommendation to the FLA Board of

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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 assesses the implementation of all Principles to ensure the implementation of a social compliance program that accommodates for possible supply chain expansion. This assessment involves testing a selection of data points or information sources to verify actions by the company. Sources of information may include:

- 1) Affiliate Headquarter Assessment: FLA staff conduct assessments at headquarters and field offices to interview company staff involved in compliance and in other functions, and to review documentation, processes, and database capabilities. In some cases, FLA staff visit the offices of agents 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 accompany 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 and company-wide staff in the course of each year's program. Exchanges with civil society organizations and other stakeholders interacting with the affiliate provide additional perspective.

## SECTION 1: OUTERKNOWN COMPANY AFFILIATE OVERVIEW

|   |   |  |                       |
|---|---|--|-----------------------|
| <b>Name of Company</b>                              | Outerknown  | <b>Category</b>                                | Participating Company |
| <b>Location</b><br>Los Angeles, CA, USA             |   | <b>Product/s</b>                               | Apparel               |
|   |   | <b>Current Number of Applicable Facilities</b> | 10                    |
| <b>FLA Affiliation Month/Year</b>                   | June 2015   | <b>End of Implementation Period</b>            | June 2018             |
| <b>FLA Accreditation Lead/Support</b>               | Lead: Indrani de Silva (Senior Business Accountability Associate); Support(s): Patsorn Udomritthiruj (Accountability Associate); Francisco Chicas (Independent Consultant); Jen Caruso (former Associate Director, Business Accountability)   |  |                       |
| <b>Unique Company Characteristics</b>               | <ol style="list-style-type: none"> <li>1) Affiliated in June 2015 prior to the production of its first collection in July 2015.</li> <li>2) A sustainable lifestyle menswear brand co-founded in 2015 by Kelly Slater, an 11-time championship surfer; and John Moore, Co-Founder and Chief Creative Officer.</li> <li>3) Outerknown's sustainability strategy aims to protect natural resources, empower the people in the supply chain, and inspire positive change within the industry. To further underscore Outerknown's sustainability strategy, the company has developed key partnerships with Bluesign, ECONYL, and Fair Trade USA.</li> </ol>   |  |                       |
| <b>Summary of Key Strengths</b>                     | <ol style="list-style-type: none"> <li>1) The company's sustainability framework and sourcing strategy is woven into the daily business operations;</li> <li>2) The company makes a public commitment to uphold workplace standards and adopt FLA Benchmarks, including additions such as environmental protection, supply chain transparency, community, and animal welfare;</li> <li>3) The Chief Sustainability and Supply Chain Officer's position is critically placed within the senior leadership team, driving ethical behavior and embedding core values of improving workers' rights at the center of the organization;</li> <li>4) The company strategically and selectively chooses suppliers against its high standards, which is reflective of their small supply chain; and</li> <li>5) The company shows industry leadership and proactively collaborates with industry partners such as the Sustainable Apparel Coalition (SAC), Social and Labor Convergence Project (SLCP), Fair Trade USA, and other brands.</li> </ol> |  |                       |
| <b>Summary of Key Suggestions for Strengthening</b> | <ol style="list-style-type: none"> <li>1) Further develop and implement plans to engage with local civil society organizations (CSOs) to strengthen and better inform Outerknown's social compliance program from a worker rights' perspective;</li> <li>2) Further implement a mechanism to better assess the effectiveness of relevant trainings provided to Outerknown staff, assessors, suppliers, and workers;</li> <li>3) Further implement an integrated approach to factory performance evaluation that results in a comprehensive scorecard;</li> <li>4) Further improve the company's monitoring protocol and guidance for assessors to ensure consistency and quality across all third-party</li> </ol>  |  |                       |

|  |   |
|--|---|
|  | <p>assessments; and</p> <p>5) Further develop policies and procedures that integrate social compliance accountability into human resource functions at the headquarter level.</p> |
|--|---|

**Draft Board Resolution:**

The FLA Board of Directors is asked to approve the following resolution:

**Outerknown is hereby granted FLA accreditation of its labor compliance program.**

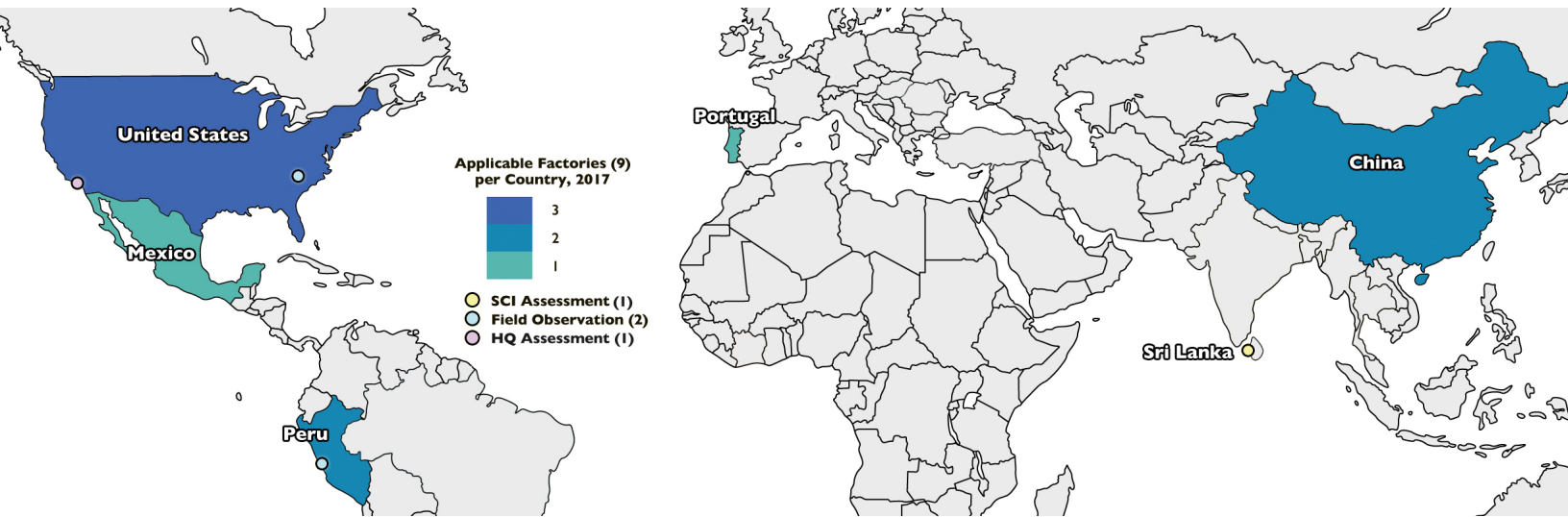
Outerknown is a privately held business located in Culver City, California. The sustainable lifestyle menswear brand was co-founded in 2015 by Kelly Slater, 11-time championship surfer; and John Moore, Co-Founder and Chief Creative Officer. Kering, a Paris-based global luxury group, is a minority investor in Outerknown. Outerknown joined the FLA as a Participating Company (PC) in June 2015, selecting three-year implementation period; however, the company pursued an accreditation timeline of less than three years. Outerknown has 22 employees, which consist of headquarters staff.

Outerknown adopted the FLA Workplace Code of Conduct in 2014. In November 2014, the company hired a Chief Sustainability and Supply Chain Officer, who reports directly to the Chief Executive Officer. The Chief Sustainability Officer is responsible for the implementation of Outerknown's compliance program and stakeholder engagement. In addition to Outerknown's internal compliance team, the company works with two agents based in the Americas. The Chief Sustainability and Supply Chain Officer is an experienced sustainability professional with 20 years of experience in supply chain management specializing in social and environmental responsibility. Additionally, Outerknown's Chief Sustainability and Supply Chain Officer works with a part-time consultant, who is a social compliance expert and plays an instrumental role in supporting Outerknown's internal monitoring program. Outerknown's sustainability strategy aims to protect natural resources, empower the people in the supply chain, and inspire positive change within the industry. To further underscore Outerknown's sustainability strategy, the company has developed key partnerships with Bluesign, ECONYL, and Fair Trade USA. Bluesign helps Outerknown monitor chemical, energy, and water use in its supply chain and manufacturing process. ECONYL is a regeneration system that recycles fishing nets and other nylon waste, which Outerknown uses to create product offerings such as trunks and jackets, in an effort to reduce its environmental footprint. In support of Outerknown's commitment to sustainability and fair labor, the company committed to paying a premium on goods produced at its Fair Trade certified contract factory in Mexico.

On an industry level, Outerknown works to improve working conditions by participating in the Communications Committee of the Social & Labor Convergence Project (SLCP). Outerknown's preferred fiber strategy focuses on organic, reclaimed, and recycled cotton. On average, 85 percent of Outerknown's collection is made using sustainable materials. Outerknown aspires to reach 100 percent sustainable materials in the future. In support of the company's preferred fiber strategy, Outerknown participated in the 2015 and 2016 Textile Exchange Preferred Fiber and Materials (PF&M) Benchmark Program Survey, which measures how a company systematically integrates a preferred fiber and materials strategy into mainstream business operations, and was awarded a grant from the Levi Strauss & Co.'s Collaboratory Fellowship to work on legislation that aims to reduce tariffs on fibers such as organic cotton.



## SECTION 2: OUTERKNOWN SUPPLY CHAIN & FLA DUE DILIGENCE ACTIVITIES FROM 2015-2017



The above map shows Outerknown's sourcing countries and the range of factories in each highlighted country. Outerknown sources from China, Mexico, Portugal, Vietnam, and the United States and has a total of nine contract suppliers within the scope of FLA applicable facilities. From 2016 to 2017, Outerknown received one SCI assessment in Sri Lanka, and has one planned SCI in China. Outerknown exited the facility that received the 2016 SCI<sup>1</sup> assessment in 2017, due to strategic sourcing efforts to consolidate production in one facility of an accredited Participating Supplier. In 2017, the FLA conducted Outerknown's Headquarter Assessment for Accreditation in Los Angeles, California.

<sup>1</sup> The 2016 SCI was a shared assessment with Patagonia. Since Outerknown has exited this facility, Patagonia will continue with the implementation of the corrective action plan to ensure remediation of SCI noncompliance findings.

## SECTION 3: ANALYSIS OF OUTERKNOWN LABOR COMPLIANCE PROGRAM FOR ACCREDITATION

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

- 1) An assessment at Outerknown's headquarters conducted by FLA staff in June 2017;
- 2) Information gathered in person, via phone interviews, and through email correspondence with Outerknown staff;
- 3) Documentation review of supporting evidence submitted by Outerknown;
- 4) Field observations of two Outerknown factory-level assessments in the USA and Peru;
- 5) Completion of FLA Independent External Assessments at Outerknown-applicable facilities conducted by FLA assessors and accredited service providers; and
- 6) Communication with stakeholders.

### PRINCIPLE 1: WORKPLACE STANDARDS<sup>2</sup>

#### **Workplace Standards & Top Management Commitment**

Outerknown adopted the FLA Workplace Code of Conduct in 2014. In addition, Outerknown has adopted FLA's Compliance Benchmarks as the basis for the operationalization of the company's internal monitoring and assessment tool. The company's Supplemental Expectations document, which serves as the basis for the Supplier Code of Conduct, includes benchmarks that exceed FLA's standards in the following areas: environmental protection; community stewardship; supply chain transparency; remediation and continuous improvement; animal welfare; traceability and materials sourcing; and subcontracting. Outerknown's Supplier Code of Conduct and Supplemental Expectations, along with the list of its suppliers published on the company [website](#), are part of a broader sustainability framework that was developed in June 2015 and spearheaded by the CEO, Chairman of the Outerknown Board, and the Chief Sustainability and Supply Chain Officer.

The Outerknown leadership team is fully committed to integrating workplace standards into its business operations. The company's original CEO tasked the Chief Sustainability and Supply Chain Officer with implementing a compliance program dedicated to upholding Outerknown workplace standards; a new CEO joined the company in May 2017. The company is currently drafting a new CEO commitment statement that will further cement Outerknown's dedication to ensuring fair working conditions in the supply chain, as well as highlight the company's commitment to protecting the environment. Additionally, the Chief Sustainability and Supply Chain Officer generates an Executive Factory Dashboard, which ensures each factory's compliance performance is reviewed on a quarterly basis with the CEO.

Outerknown joined the FLA prior to producing its first collection in Spring 2015. The FLA Principles of Fair Labor and Responsible Sourcing contributed to the framing of the company's initial three-year sustainability strategy. Kelly Slater, the co-founder of Outerknown, publicly states on the company's website that the company wants to challenge the apparel industry's conventional supply chain model when he says, "We created Outerknown to smash the formula, to lift the lid on the traditional supply chain and prove you can actually produce great looking menswear in a sustainable way."

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<sup>2</sup> Principle 1: Company affiliate establishes and commits to clear standards.

## PRINCIPLE 2: RESPONSIBILITY & HEAD OFFICE TRAINING<sup>3</sup>

### **Staff Responsibility for Implementing the Social Compliance Program**

The Chief Sustainability and Supply Chain Officer is responsible for developing and implementing Outerknown's Fair Labor Program, which is part of the company's overall Social and Environmental Accountability (S.E.A.) program. The Chief Sustainability and Supply Chain Officer is part of a four-person leadership team, including the Vice President of Finance and Strategy, the Chief Creative Officer, and the Chief Executive Officer. The Chief Sustainability and Supply Chain Officer works closely with a part-time, independent consultant, who is responsible for the coordination and execution of Outerknown's internal monitoring program.

In addition to its agreements directly with supplier factories, Outerknown maintains relationships with two agents, each managing one facility. The agents are responsible for understanding Outerknown's S.E.A. program and communicating the standards to the factory. The agents—along with Outerknown contract facilities—are required to sign Outerknown's Supplier Code of Conduct and Supplemental Expectations, discussed further in the section on Principle 3.

FLA staff reviewed an internal draft of Outerknown's organizational chart to evaluate the reporting channel for the Chief Sustainability and Supply Chain Officer. The FLA also reviewed the job description for the Chief Sustainability and Supply Chain Officer and verified that the responsibilities of the Chief Sustainability and Supply Chain Officer include implementing Outerknown's S.E.A. Program; auditing suppliers and remediating against findings; building and managing vendor relationships in compliance with company sustainability standards; and providing subject-matter expertise on sustainability, transparency, and social responsibility implications on business matters.

### **Training Corporate Responsibility Staff & Assessors**

The Chief Sustainability and Supply Chain Officer has over a decade of experience in the sustainability and sourcing field. She has an understanding of social compliance through her professional experience, participation in webinar trainings, FLA meetings, and ethical sourcing conferences. The Chief Sustainability and Supply Chain Officer received training on FLA guidelines and on the FLA Code of Conduct and Compliance Benchmarks; responsible purchasing and planning; effective worker-management communication channels; wages and hours of work; and CSO engagement. She participates on industry panels and is on the project management team for the SLCP.



Aquafil Tier 4 Supplier - Slovenia  
Photo Courtesy of Outerknown

Outerknown's Chief Sustainability and Supply Chain Officer, along with the independent consultant, works directly with third-party assessors to train them on the implementation of Outerknown's Social and Environmental Accountability (S.E.A.) program. Prior to assessments, the company provides personal trainings via phone to all third-party assessors to review Outerknown's Supplier Code of Conduct and Supplemental Expectations. Additional assessor trainings have been completed, which focus on internal

<sup>3</sup> Principle 2: Company affiliate identifies and trains specific staff responsible for implementing workplace standards and provides training to all head office and regional staff.



monitoring procedures and protocol. In 2018, Outerknown plans to complete the development of a factory compliance manual that outlines its fair labor program and supplier requirements.

### **Training All Outerknown Staff**

Outerknown conducts a social and environmental accountability orientation process for new hires that includes reviewing the Code of Conduct. The Chief Sustainability and Supply Chain Officer has developed a training that covers Outerknown's Supplier Code of Conduct, Supplemental Expectations, and Zero Tolerance Policy pertaining to non-compliance in factory assessments. Additionally, the company has implemented a company-wide speaker series, on topics like the company's Supplier Code of Conduct, fair trade initiatives, ocean health, and chemical management. This speaker series is open to all employees and helps to inform and educate teams on industry trends and innovations. The company plans to continue to hold annual trainings on workplace standards, and will work with its human resources department to develop a formal onboarding training plan to ensure the social and accountability program continues to grow. Additionally, the Chief Sustainability and Supply Chain Officer developed a training on responsible planning and purchasing practices that will be discussed further under the Principle 8 section of this report.

The FLA verified through staff surveys and headquarter interviews that relevant staff members have received training on the company's social compliance policies. The FLA recommends Outerknown continue to implement initial and refresher training on its Code of Conduct and Workplace Standards within the broader organization. The FLA also recommends that Outerknown revise its Employee Handbook to include the Supplier Code of Conduct to further embed the company's S.E.A. program in Outerknown's human resource practices. Lastly, FLA recommends that Outerknown revise its survey tool to collect feedback that can help to provide better insight into training effectiveness and knowledge gained.

## **PRINCIPLE 3: SUPPLIER TRAINING<sup>4</sup>**

### **Supplier Commitment**

Outerknown requires all suppliers to sign its Letter of Acknowledgement, which outlines all terms and conditions for producing Outerknown's products. Along with Outerknown's Supplier Code of Conduct and Supplemental Expectations, the company developed a Zero Tolerance Policy, which specifically outlines expectations related to specific non-compliance findings such as bribery and forced labor that have an immediate and detrimental impact on the rights and safety of workers.

The Letter of Acknowledgement includes Outerknown's Supplier Code of Conduct, Supplemental Expectations, compliance with applicable laws, zero tolerance issues, employment practices and labor standards, and immediate action issues. The Letter of Acknowledgement also includes Outerknown's policies on assessments and remediation; other assessments suppliers may be subject to, such as FLA assessments; and additional policies, such as prohibition of unauthorized subcontracting, legal compliance requirements, and obligations of FLA affiliation. Outerknown has a specific code element requiring continuous improvement and remediation, which is also featured prominently in the company's preamble for both its Code of Conduct and Supplemental Expectations.

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<sup>4</sup> Principle 3: Company affiliate obtains commitment and trains relevant supplier management on workplace standards and tracks effectiveness of supplier workforce training.

### **Conditioning Future Business on Suppliers' Improvement of Working Conditions**

Outerknown's Letter of Acknowledgement outlines the company's policy with regard to factory assessment results on a supplier's eligibility for future orders. Factories are rated based on audit and assessment findings, zero tolerance issues, and remediation efforts. Outerknown, as a company practice, covers the cost of supplier audits and product testing.

Outerknown implements a factory risk assessment process prior to engaging a new supplier. The approach evaluates factories based on the following criteria: the country's legal status with regards to international and US trade law, the country's human and labor rights profile, the supplier's compliance capacity and history, third-party assessment results, and an on-site visit by Outerknown staff. Once the production is approved initially, each factory is assessed on its compliance every year thereafter using the Supplier Performance Dashboard. The dashboard is reviewed with the leadership, production, design, and merchandising teams on a quarterly basis to ensure compliance and remediation are incorporated into the company's business decisions.

The Supplier Performance Dashboard utilizes a grading system that is based on country risk. Once the country risk is determined, a color gradient system is applied to each factory. All existing factories will be assessed, at a minimum, by a professional third-party monitoring firm based on the below frequency guidelines.

| Grade          | Follow-up   |
|----------------|---|
| Green          | <ul style="list-style-type: none"> <li>✓ Annual/Full assessment within 24 months for medium and low risk countries</li> <li>✓ Annual/Full assessment within 12 months for high risk countries</li> </ul>  |
| Yellow         | <ul style="list-style-type: none"> <li>✓ Detailed CAP follow-up for all</li> <li>✓ Onsite follow-up assessment required within-6 months depending on issues for medium and high risk countries</li> <li>✓ Annual/Full assessment within 24 months of last assessment for low risk countries</li> <li>✓ Annual/Full assessment within 12 months of last assessment for all factories in all medium or high risk countries</li> </ul> |
| Orange         | <ul style="list-style-type: none"> <li>✓ Detailed CAP follow-up</li> <li>✓ Onsite follow-up assessment required within 3 months depending on issues</li> <li>Annual/Fullly assessment within 12 months of last assessment for all factories in all countries</li> </ul>   |
| Zero Tolerance | <ul style="list-style-type: none"> <li>✓ Production ceased until ZT issue resolved</li> <li>✓ Detailed CAP follow-up</li> <li>✓ Active factories that receive an "ZT" rating may be terminated depending on the circumstances</li> </ul>  |

### **Workplace Standards Training & Accessibility for Workers**

Outerknown has translated its Supplier Code of Conduct into five languages, Spanish, Chinese, Malay, Tamil, and Portuguese, for its global supply chain. The FLA verified through field observations that Outerknown had supplied posters of its Supplier Code of Conduct in local languages, so that standards are clear and understandable to workers. Outerknown uses the company's factory database to track which factories have received and posted the Code. The Chief Sustainability and Supply Chain Officer, along with Outerknown's independent consultant, have conducted in person trainings at each factory. Specific trainings on Code of Conduct and Supplemental Expectations have been the centerpiece of Outerknown's supplier on-boarding training process.

Outerknown confirms that workers are receiving Code of Conduct training by carrying out internal monitoring visits and evaluating knowledge gained through audit tools such as ELEVATE's field assessment tools and the FLA's Monitoring and Best Practices in Compliance guidance document. The FLA noted from document review and conversations with the Chief Sustainability and Supply Chain Officer that Outerknown does not test the effectiveness of its supplier training for managers, supervisors, and workers, though the company has future plans to do so.

The FLA recommends that Outerknown implement an accountability mechanism that standardizes verification of training and establishes a continuous feedback loop to capture results of supplier training. As the company continues to grow, FLA recommends that Outerknown develop further supplier training opportunities for management, workers, and direct supervisors. Lastly, FLA recommends Outerknown work with and train factory management to obtain training feedback from workers and provide such results to Outerknown.

#### **PRINCIPLE 4: FUNCTIONING GRIEVANCE MECHANISMS<sup>5</sup>**

##### **Assessing for Functioning Grievance Mechanisms**

Outerknown has a policy statement on grievance mechanisms within its Fair Labor Program Standard Operating Procedures (SOP) document. The company's Supplemental Expectations document also clearly define the benchmarks on grievance mechanisms. To support the SOP, Outerknown has an additional document titled "Detailed Guidance for Implementing an Effective Grievance Mechanism," which is distributed as an appendix to the Fair Labor Program SOP. The detailed guide includes information on creating confidential and retaliation-free communication channels, as well as a detailed section addressing reprisal.

During the 2017 audit field observation in Peru, FLA staff observed that the auditor asked questions on grievance mechanisms during the manager, supervisor, and worker interviews. During the audit, the FLA observer noted a lack of functioning grievance mechanisms and saw that in the company's final audit report, the assessor included this as a finding to be remediated. This shows strength in Outerknown's standards and its choice of auditors. During the Outerknown headquarter assessment, FLA and Outerknown staff discussed including an audit summary of violations related to functioning grievance mechanisms in the internal monitoring report to further strengthen consistency in assessing for the presence and usefulness of these mechanisms.

The FLA recommends that Outerknown continue to assess for functionality of grievance mechanisms to ensure that workers have access to multiple channels to raise their concerns and that those concerns will be addressed by factory management.

##### **Confidential Reporting Channel to Outerknown's Headquarters**

Outerknown's Code of Conduct includes an email address that allows workers to directly contact the Chief Sustainability and Supply Chain Officer. Outerknown's Code is translated into all applicable languages and displayed in all Outerknown supplier facilities, making information about the confidential channel accessible to all workers. During the US facility audit field observation in 2016, it was noted that the assessor did not inform workers about additional confidential channels during worker interviews; however, in the second field observation conducted in 2017, Outerknown had provided contact information cards to be distributed by the assessor to workers during worker interviews. This process is now part of Outerknown's compliance program.

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<sup>5</sup> Principle 4: Company affiliate ensures workers have access to functioning grievance mechanisms, which include multiple reporting channels of which at least one is confidential.

The FLA recommends that Outerknown ensure that the confidential reporting channel be provided during the audit process to interviewed workers. FLA has discussed with Outerknown ways to ensure contact information cards are distributed amongst the workers. This includes asking the assessor how many cards they gave to workers after an assessment was conducted.

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

Outerknown's audit procedures include worker interview questions that focus on training for grievance mechanisms. During the first Field Observation, the assessors did not ask workers about grievance mechanism training. The FLA saw improvement in the second audit field observation in Peru where the assessor asked questions on training pertaining to grievance mechanisms.

Outerknown provides training on grievance mechanisms for factory management. At the headquarter assessment, FLA staff discussed implementing procedures to ensure that workers receive training from factory management on grievance mechanisms. This discrepancy in audit quality was also discussed during the headquarter visit. The FLA recommends that Outerknown continue to work with service providers to ensure that grievance mechanism training is assessed and to work with suppliers on developing a mechanism to assess if training for workers is effective.

## **PRINCIPLE 5: MONITORING<sup>6</sup>**

### **Pre-Sourcing Factory Assessments**

Prior to sourcing, Outerknown conducts a factory risk assessment that evaluates each factory by the following criteria: its home country's status with regard to international and US trade law; the country's human and labor rights country profile; factory profile; business metrics; recent labor assessment reports; Outerknown's third-party assessment; and an on-site visit by Outerknown staff. The company conducts a full audit for its pre-sourcing assessment. Outerknown conducts announced, semi-unannounced, and fully unannounced assessments, and conducts its worker interviews off-site. Factory follow-up is dependent on a color grading system (previously referenced on page 11) that determines when the next assessment will take place for each factory. This grading system is based on a country risk analysis as well as the audit results. Outerknown produces a Zero Tolerance report that outlines findings that would result in an immediate failed assessment. If a zero-tolerance violation occurs in a factory Outerknown is currently sourcing from, the company would stop production and work with the supplier to remediate the violation as quickly as possible. Outerknown would only exit the supplier if it was unable or unwilling to remediate the zero-tolerance violation.

During the headquarter assessment, the FLA verified an example of Outerknown's work to conduct regional risk-analysis before choosing to source from a factory. Internal communication is further explored in Principle 8.

Outerknown accepts audits from Fair Trade USA and Sedex in lieu of its own assessments. Outerknown only accepts third-party audits if they are to Outerknown's standards; this is determined through a set of criteria and by the Chief Sustainability and Supply Chain Officer. Outerknown sources from one factory that is certified by Fair Trade USA, and it is currently initiating sourcing from a Better Work factory.

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<sup>6</sup> Principle 5: Company affiliate conducts workplace standards compliance monitoring.

### **Assessing Factory Conditions**

At a minimum, Outerknown's suppliers are audited once a year except for the factories designated as green in low and medium risk countries, which receive a factory audit once every two years. Factories with egregious findings, could have a follow-up assessment within three months. The timeline for assessments is clearly defined in the SOPs, depending on the rating of the factory.

Outerknown uses pre-approved third-party monitors. According to the SOPs, its primary service provider is ELEVATE, with Bureau Veritas (BV) as a secondary service. Outerknown also uses independent assessors that are selected based on their reputation and quality. Outerknown provides assessors with the Fair Labor Standard Operating Procedure (SOP) and the FLA's Monitoring Guidance & Compliance Benchmarks document, which outlines how to conduct the audit. The SOP includes the number of interviews to be conducted, depending on the number of workers at the factory. Both documents cover audits to include worker interviews, management interviews, documentation review, visual inspection, and occupational safety and health review.

In addition to providing documented procedures, Outerknown currently trains assessors via a phone call prior to the assessments to review Outerknown's expectations. Outerknown has developed specific training materials for assessors with a focus on internal monitoring and evaluation policies and procedures. From the two audit field observations, the FLA noted an inconsistency in the preparation Outerknown gave to assessors. The auditor in the second field observation did not receive the same preparation prior to the assessment as the first field observation. In the second field observation, the assessor did not receive any of the documented procedures but had a conversation with Outerknown the night prior to the assessment. The FLA recommends that Outerknown provide the necessary documents on a consistent basis to third-party service providers and assessors.

The second audit field observation showed an improvement in assessment from the first audit field observation. This improvement included clearly defined criteria used for worker selection for interviews, as well as for conducting the interviews with workers. Both assessments were conducted by former ELEVATE assessors; they were selected due to their former training and experience with ELEVATE.

Outerknown sources from only one factory with a worker representative structure, and sources from no factories with existing unions established, as disclosed in Outerknown's Factory Tracking Chart. If Outerknown were to source from a unionized factory in the future, its Fair Labor SOP requires unions and worker representatives to be part of the audit and remediation process. Outerknown's factory audit template also requires third-party auditors to review any applicable collective bargaining agreements.

## **PRINCIPLE 6: COLLECTION & MANAGEMENT OF COMPLIANCE INFORMATION<sup>7</sup>**

### **Outerknown's Data Management and Platform**

Outerknown provides the FLA with an accurate factory list and has not had any cases of cancelled FLA assessments due to factory list inaccuracies. Outerknown supplies the FLA with a factory list that describes all relevant business divisions within each facility. Outerknown has worked to develop offline tools using Microsoft Excel for its factory assessments and remediation action data analysis. Its Factory Tracking and Prioritization system houses all factory profile information, audit

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<sup>7</sup> Principle 6: Company affiliate collects, manages, and analyzes workplace standards compliance information.



data, root cause analysis, corrective action plans (CAPs), remediation status, training status and reports, and union information.

To analyze the company's compliance data, the Chief Sustainability and Supply Chain Officer reviews both the Factory Tracking and Prioritization and the Executive Supplier Dashboard. The Executive Supplier Dashboard outlines each factory's top audit issues, such as violations of hours of work standards, health and safety concerns, employment relationship violations, harassment, and supply chain transparency. Each factory is assessed on total open non-compliance findings, percentage of open findings with a CAP, and average length of time since the audit where open findings have not been remediated. Outerknown's supplier compliance scores are calculated through its factory performance assessment process and are regularly provided to the purchasing and production team to inform sourcing decisions and contribute to the Executive Supplier Dashboard for key department heads.

Outerknown uses its internal compliance data assessment tools to review non-compliance findings by country and factory throughout the year. The information is used to inform the internal monitoring process for the company. In addition, the company uses the internal compliance database to examine critical issues and track remediation over time. During the headquarter assessment, FLA staff observed the Chief Sustainability and Supply Chain Officer referencing the internal compliance tools to follow select factories' remediation efforts. Lastly, Outerknown's third-party service provider, ELEVATE, supplies Outerknown with country risk research and analysis that enables the company to compare its factories' performance relative to the overall country performance. Outerknown plans to benchmark its own non-compliance data against industry peers.

Outerknown is in the process of establishing a Ratings and Tolerance Guidance tracking chart for each factory audit. This chart includes the benchmarks in the Supplemental Expectations, which auditors are to score against. Each benchmark is weighed differently, depending on the finding. To ensure consistency across all facilities, Outerknown compliance staff will review each of these tracking charts once the assessor has completed it. This tracking chart includes details on the severity of the finding, the tolerance action plan rated by amount of time, and if an on-site review is required. This data is directly linked to the grading system Outerknown uses to rate its factories by violations. Outerknown is in the process of moving to a Fair Factories Clearinghouse (FFC) database to be able to hold and analyze its growing data.

The FLA recommends that Outerknown continue to examine and develop non-compliance and remediation trends analysis on audit data. Additionally, FLA recommends that Outerknown share country and NGO research with contracted facilities to help guide remediation.



Smart Shirts Kat 4 – Sri Lanka  
Photo Courtesy of Outerknown

**PRINCIPLE 7: TIMELY & PREVENTATIVE REMEDIATION<sup>8</sup>****Tracking Remediation at the Factory-Level**

The Fair Labor SOP specifically states a remediation and follow-up policy that requires the contract facility to develop a comprehensive company action plan (CAP) in conjunction with Outerknown's compliance staff. The Chief Sustainability and Supply Chain Officer collaborates with the factory management to develop the CAPs, review updates, and meet deadlines either through on-site visits or the third-party service provider. Once the CAP has been agreed upon, all issues and plans are added to the Factory Tracking Chart. The remediation updates vary depending on the number of violations and how the factory is rated. Additionally, the Supplemental Expectations document includes a section on "Remediation & Continuous Improvement" that states Outerknown's expectations for suppliers to remediate non-compliances and strive for continuous improvement.

At the time of the headquarter assessment, the FLA recommended that Outerknown include a process to ensure union and worker representatives are included in the remediation process, where appropriate. In 2017, Outerknown included this language in its Fair Labor SOP, which will be provided to assessors in the upcoming cycle. FLA recommends that Outerknown continue to include worker representation in remediation efforts, including formalizing a process for worker representative participation in facilities that lack union representation.

Outerknown worked with Patagonia on a shared SCI Assessment in Sri Lanka and on the subsequent development of a Corrective Action Plan. The companies focused on addressing overtime violations and timely severance payments to terminated workers, per local law. Outerknown exited this facility due to strategic sourcing efforts to consolidate production in one facility of an accredited Participating Supplier where they will also be able to collaborate with other FLA Participating Companies. Nonetheless, Outerknown worked with Patagonia on the remediation efforts throughout 2017.

In another factory in the US, Outerknown discovered that its overtime policy did not include language mandating that overtime be voluntary. Outerknown worked with the facility to ensure the adoption of the FLA's Code on hours of work, which is now being implemented at the factory. Outerknown is also working with this facility to revise its employee handbook, including the adoption of standards on Freedom of Association and FLA's standards on hours of work. In FLA's review of a CAP from a factory in Portugal, Outerknown offered refresher training on fire safety, first aid, firefighting, and safe evacuation.

**Root Cause Analysis**

Root cause analysis is included in the Fair Labor SOPs. Outerknown provides the assessor a CAP Development Guidance document that explains how to conduct root cause analysis. Outerknown assessors are required to provide perceived root cause analysis within the audit process. Outerknown's compliance staff then reviews the root cause that is provided by the assessor.

During the headquarter assessment, FLA staff discussed the challenges with relying on service providers to provide root cause analysis and with the term "perceived" root causes. Outerknown agreed that to be more effective, a more thorough review of root causes would be necessary. The FLA encouraged Outerknown to work closely with suppliers to identify and address root causes. Due to its small quantity of production at each sourcing factory, Outerknown faces the challenge of a lack of leverage in changing factory practices. The FLA encourages Outerknown to continue to explore brand collaboration to remediate systemic non-compliances.

<sup>8</sup> Principle 7: Company affiliate works with suppliers to remediate in a timely and preventative manner.

### **Effective Remediation**

Outerknown tracks all remediation progress until completion. Outerknown's new tracking chart will make it easier for Outerknown to track remediation updates. The Chief Sustainability and Supply Chain Officer regularly follows up with contract facilities, and the follow-up process is outlined in the Fair Labor Program SOP.

For specific critical findings, Outerknown has been able to delve deeper into the violation. In 2016, Outerknown found that a factory in Malaysia was hiring migrant workers, and factory management was holding the workers' personal documents. Outerknown initiated a special audit from ELEVATE to investigate this case on migrant workers further and continued work with the factory until the passports were returned to the workers. Outerknown had less than one percent of production in the facility, yet the company was successful in remediating this critical issue.

Outerknown is currently working on a remediation project in collaboration with Mountain Equipment Co-Op (MEC), Patagonia, a non-FLA affiliated brand, and Verité. This project is focused on remediating violations related to the practices of labor brokers who provide migrant workers for a Tier 2 supplier that the brands share in Taiwan. As Outerknown constitutes a small percent of production at factories, which can result in a lack of leverage, both FLA and Outerknown agree that it is important for Outerknown to collaborate with other companies and projects like this on remediation efforts.

## **PRINCIPLE 8: RESPONSIBLE PURCHASING PRACTICES<sup>9</sup>**

### **Outerknown's Responsible Sourcing and Purchasing Procedures**

Outerknown's Responsible Sourcing and Purchasing practices reflect the commitment to achieve high standards in its social compliance program through collaboration with senior management, and the company's design, sourcing, purchasing, and sales divisions. Outerknown's practices reflect the company's dedication to establishing and executing responsible purchasing practices that result in sustainable, safe, and fair working conditions. The company's policy specifically addresses business processes as they relate to price structure, lead times, and capacity planning. While the Responsible Sourcing and Purchasing Practices policy is currently internal, the company plans to incorporate the responsible purchasing and planning policies and procedures into its Supplier Compliance Manual in the upcoming year.

Outerknown's comprehensive Responsible Sourcing and Purchasing business practices address the complexities of its supply chain, while acknowledging the challenges of being a young and small company in a niche market. As a company with a relatively small supplier base, Outerknown faces inherent challenges, which include limited purchasing power, low minimum orders, and seasonal peaks in production.

Outerknown builds in comprehensive lead-times when planning purchases. Lead times are used to determine when purchase orders are issued and are calculated seasonally for each style based on the following criteria: 1) longest lead time for raw material and dyeing; 2) raw material transit time; 3) finished good supplier production lead time; and 4) transit lead time. In the design and development stages, Outerknown works closely with fabric mills to order the required materials be sent to supply the cut and sew factories within Outerknown's supplier base. Based on Outerknown's sustainability sourcing strategy and framework, Outerknown's production manager

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<sup>9</sup> Principle 8: Company affiliate aligns planning and purchasing practices with commitment to workplace standards.

only authorizes the use of pre-approved mills. As a small company, Outerknown works collaboratively with its suppliers to manually prepare and build the internal production calendar each season.

For capacity planning, Outerknown's production team publishes a seasonal calendar outlining key development dates and milestones and shares this calendar with its suppliers. A source plan is issued that provides the details of the number of styles and units projected for both sample production and bulk production. The plan is adjusted based on supplier feedback to ensure timelines and forecasted volume meet each partner's requirements. Prior to each seasonal buy, the Outerknown production team will review the plan. If there are significant changes in the scheduling, the production team will communicate with the factory to determine if the changes can be accommodated without causing labor impacts, as outlined in the company's Supplier's Code of Conduct.

For balanced planning, buyers and planners work together to provide suppliers with adequate lead times to absorb any delays that may occur. Since the presence of Outerknown's production volume is small within each facility, there often can be an issue with meeting minimum quantity requirements from the supplier side.

FLA interviewed relevant staff on the development of the policy to uphold supplier collaboration and maintain strong relationships. Staff discussed the design complexities of the products due to the need to use preferred raw materials. Often, the production team must change design strategies and production mix, if they are not able to secure a supplier who has expertise in developing the product with preferred fibers; this presents design challenges early in the production development process. As Outerknown grows and potentially expands its product offerings, design and development practices will evolve to meet market demand. The FLA recommends that the design and production teams implement a periodic review process to help mitigate potential impacts on worker conditions through evolving design and development practices.

#### **Training Relevant Business Staff on Responsible Purchasing Practices**

The Chief Sustainability and Supply Chain Officer, along with the company's independent consultant, provides training to the product development, purchasing, and merchandising teams on the FLA's responsible purchasing and planning principle. Throughout 2016 and 2017, all product development, production, merchandising and purchasing staff, and sales staff participated in Outerknown's trainings on responsible purchasing practices conducted by the Chief Sustainability and Supply Chain Officer and an independent consultant. These trainings include a component specific to responsible sourcing practices, and additional in-person trainings conducted by the Chief Sustainability and Supply Chain Officer, as well as the company's independent consultant.

Outerknown's initial training agenda identified the importance of responsible purchasing practices, shared challenges, understanding and exploring specific actions that undermine factories, and a review of the company's existing accomplishments and practices. Outerknown's second training reviewed previous learnings from the first training, unique challenges the company faces, as well as strategies that can be adopted to mitigate negative impacts on the workers. Outerknown plans to partner with ELEVATE to provide the staff with an interactive web training on responsible purchasing practices at a future date



FLA verified relevant business staff received in-person training focused on responsible purchasing practices. During the headquarter assessment, a production team member expressed how their understanding of Outerknown's commitment to responsible purchasing practices has directly



Outerknown's SoCal – Los Angeles  
Photo Courtesy of Outerknown

affected their production work in a positive manner. The production, design, and merchandising teams work closely together to understand how their team's decision-making can have an impact on workers' lives. The trainings are conducted as workshops, where the teams can interact and ask questions to test their knowledge and understand, more deeply, the impact of responsible purchasing practices within their individual roles. Outerknown's refresher trainings include topic-specific content that provides further guidance on how purchasing practices affect workplace conditions. Outerknown also collected participant feedback from the trainings to improve future trainings.

Although Outerknown has developed a survey to collect feedback from participants who attended the trainings, the FLA recommends that Outerknown further develop and implement a mechanism to measure effectiveness and knowledge gained from future trainings. The FLA also recommends extending training opportunities to the company's agents, who support the company in ensuring alignment and adherence to Outerknown's social compliance goals. Lastly, the FLA recommends that as Outerknown continues to expand in size and production volume, the company consider including a provision in the company's internal employee handbook that states a policy that new and existing employees will receive initial and refresher training on responsible planning and purchasing practices.

#### **Holding the Relevant Business Staff Accountable to Purchase Responsibly**

The company's sourcing procedures and processes adhere to an internal production calendar that holds each department accountable for delivering deadlines with respect to adequate lead time, balanced planning, accurate forecasting, and internal accountability. Outerknown's internal strategy drives awareness for responsible planning and purchasing practices by engaging relevant business staff (at all levels) in responsible planning and purchasing discussions. Outerknown employs a set of internal production calendars (Go-to-Market calendar and work-in-progress reports) to hold each business division accountable to the company's responsible sourcing and purchasing policy and practices. The calendar identifies all action items, responsible departments, and deadlines per season. The production calendar is the internal accountability tool for all departments relevant to production and purchasing.

FLA staff reviewed the set of internal production calendars and interviewed staff during the headquarter assessment, discussing how the relevant business staff work together to address challenges so that negative impacts can be avoided. The FLA recommends that Outerknown hold relevant staff accountable for responsible purchasing practices through updating job descriptions with the human resource department, which Outerknown will implement in 2108. The FLA also recommends that the company develop an internal accountability process for holding its agents accountable for ensuring the implementation of Outerknown's responsible planning and purchasing practices.



### **Dialogue with Relevant Business Staff to Implement Responsible Purchasing Practices**

The Chief Sustainability and Supply Chain Officer meets with relevant business staff accountable for implementing responsible purchasing practices, on a weekly basis, to discuss individual factory performance when considering order allocation. As colleagues at a small company with a tightly knit working community, team members from key departments share concerns and suggestions on an ongoing basis with Outerknown's Chief Sustainability and Supply Chain Officer.

Additionally, Outerknown holds quarterly compliance meetings with the company's senior leadership to ensure that the Executive Factory Dashboard results are integrated into sourcing decisions. During the meetings, senior leadership examines the Executive Factory Dashboard document that identifies each new and current factory, tier designation, product category, country of origin, and compliance activity updates, which include total findings, zero tolerance findings, and an outstanding findings summary. The focus of the meetings is to discuss the compliance status of Outerknown's supply chain, and senior management provides support to ensure Outerknown's purchasing practices do not lead to negative impacts on factory working conditions. Concurrently, key departmental staff maintain daily communication with suppliers and meet regularly to review weekly summary reports with the purchasing and finance department. Through continuous communication between Outerknown's production team and the factory, suppliers notify and communicate their concerns about on-site production and possible delays via daily email communication.

Through weekly summary reports, the company reviews potential design changes and compares estimated available capacity to allocated purchase orders to ensure that Outerknown does not overload its suppliers with orders. In the event of a production delay, Outerknown consults with the factory, the raw material supplier, and the production, planning, and merchandising teams to make appropriate schedule adjustments. Outerknown related to FLA staff an example of this collaboration involving a fabric delivery delay from a mill to a Tier 1 facility. In this case, Outerknown worked with the Tier 1 facility on a new delivery date and covered all late costs associated with this shipment. Additionally, the Chief Sustainability and Supply Chain Officer and key department teams meet regularly to discuss the importance of continuous improvement with suppliers. Furthermore, the Chief Sustainability and Supply Chain Officer utilizes weekly meetings with the design, production, and merchandising teams to inform them of industry trends and current affairs related to social compliance.

As Outerknown expands and accommodates for growth, the FLA recommends that the company consider formalizing a process to facilitate dialogue between agents, suppliers, and Outerknown to support greater awareness of the company's responsible purchasing and planning practices. Additionally, the continued facilitation of the process could provide Outerknown with future key insights from suppliers regarding possible improvements to suppliers' purchasing practices.

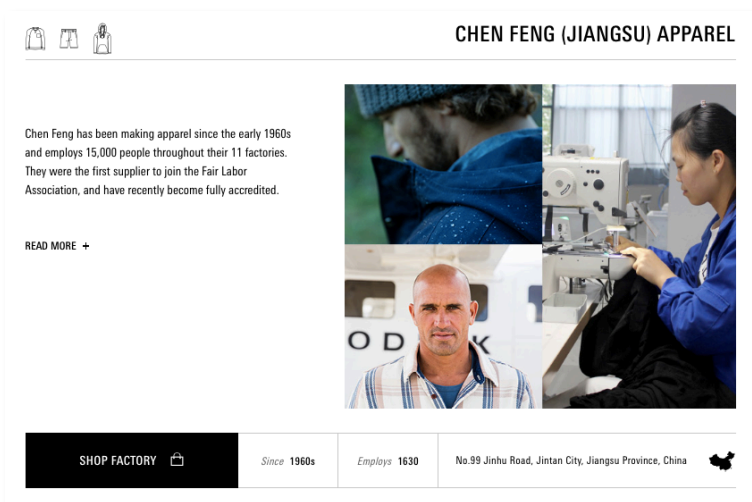
### **Incentivizing Suppliers to Improve Conditions for Workers**

Through Outerknown's Executive Factory Dashboard, all factories are evaluated and reviewed for social compliance performance. The Executive Factory Dashboard considers critical zero tolerance issues, as well as other outstanding findings. Outerknown utilizes the Executive Factory Dashboard to determine compliance incentives in the form of frequency of audit exemptions. As discussed in the section on Principle 3, if progress toward improving working conditions is not achieved or committed to, Outerknown will end the business relationship. The Executive Factory Dashboard is based on a color-coded assessment scoring methodology (see table below) that identifies the number of non-compliances found in each of the following severity categories: Minor, Moderate, Major, and Zero Tolerance.

| (AND/OR)      | Minor  | Moderate | Major | ZT  | Approval Status  |
|---------------|--------|----------|-------|-----|--|
| <b>Green</b>  | 0 – 5  | 3        | 0     | 0   | Authorized for Production<br><br>Note, all remediation efforts are focused on moving all factories into this category. |
| <b>Yellow</b> | 6 – 9  | 4 - 7    | 0     | 0   | Authorized for Production.   |
| <b>Orange</b> | 10 -25 | 8 - 20   | 1 - 9 | 0   | Conditionally authorized until follow-up assessment and rescues to reach yellow  |
| <b>Red</b>    | 26+    | 21+      | 10 +  | 1 + | Not authorized for production.<br>Characterized as having zero tolerance Issues  |

In reviewing the Executive Factory Dashboard, most of Outerknown's suppliers received an overall yellow score. The Chief Sustainability and Supply Chain Officer and independent consultant are continuously reviewing the methodology of the factory dashboard to make sure scores accurately represent the supplier.

Despite Outerknown's small quantity of units, Outerknown does strive to provide increased business to suppliers that uphold workplace standards. However, the more applicable incentive is the commitment to continue to publish the company's supplier list on its [website](#). Consumers are encouraged to shop directly from each factory through their ecommerce business. Additionally, a robust and growing digital sales model has allowed Outerknown to continue to highlight its partnership with Fair Trade USA to certify one of its facilities in Mexico. Outerknown also features supplier excellence on their website. For example, they have cited the status of their supplier [Chenfeng](#) as an FLA-accredited Participating Supplier in their factory list.



Outerknown's website that features Chenfeng, an FLA Accredited Participating Supplier, and a link to shop the products manufactured by Chenfeng.

At the time of the headquarter assessment, the scoring methodology was being developed and had yet to be communicated to suppliers. Outerknown is currently updating its scoring methodology and plans to develop an integrated supplier scorecard for future evaluations of supplier performance. The FLA recommends that Outerknown develop an integrated approach to factory performance evaluation that results in a comprehensive scorecard that also includes other sourcing metrics like quality, on-time delivery, and cost. The FLA recommends that the company explore other incentives to provide recognition to suppliers that

uphold the commitment to improving working conditions, such as capacity building in conjunction with workers and well-being projects. The FLA supports Outerknown's efforts to continually seek

new and creative processes and initiatives to incentivize suppliers to uphold Outerknown's commitment to responsible purchasing and planning across its supply chain.

## **PRINCIPLE 9: CONSULTING WITH CIVIL SOCIETY<sup>10</sup>**

### **Civil Society Engagement Strategy & Mapping**

Outerknown has developed a comprehensive civil society organization (CSO) outreach and engagement strategy on both a regional and corporate level to inform, promote dialogue, educate, and inspire continued program improvements. At the regional level, Outerknown's CSO outreach and engagement strategy are focused on understanding regional challenges, informing assessment methodology, and identifying strategies and resources that assist the company in continuous improvement through training and capacity-building opportunities. The regional CSO strategy includes an analysis of country risks and trends, assessment history and factory performance, and the intensity of the business relationship. At the corporate level, Outerknown's engagement includes involvement with multi-stakeholder organizations<sup>11</sup>, such as FLA, and engagement with Solidaridad and the Internal Labor Organization, through the Social & Labor Convergence Project. Within Outerknown's strategy, the Chief Sustainability and Supply Chain Officer has conducted a CSO mapping for organizations in China, Mexico, Taiwan, Vietnam and USA. Outerknown has plans to engage with these organizations in the future on specific issues such as falsification of records in China and issues of freedom of association in Mexico.

The FLA recommends that Outerknown further develop and implement plans to engage with local CSOs to strengthen and better inform the company's social compliance program from a worker rights' perspective. Additionally, the FLA recommends that the company advance further in implementing its CSO strategy to align with its advanced environmental sustainability strategy.

The FLA also acknowledges that Outerknown has been strategic in placing its engagement efforts in areas where it is considered most impactful to its business, the surrounding communities, and the industry, in general. These partnerships have proven to be mutually beneficial and impactful in strategically strengthening Outerknown's social compliance program, and the FLA recommends that Outerknown continue to maintain links to local civil society, both in high-risk sourcing countries and with strategic partners, to gain a deeper understanding of local labor issues. Additionally, FLA recommends that the company continue to target strategic issues and country-specific areas that are relevant to develop plans to engage with local CSOs to strengthen and better inform their social compliance program from a worker rights' perspective.

### **Engagement with Worker Representative Structures**

While Outerknown only has one supplier with an established worker representative structure, Outerknown has integrated engagement with union and worker representatives within its policies

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<sup>10</sup> Principle 9: Company affiliate identifies, researches and engages with relevant labor non-governmental organizations, trade unions and other civil society institutions

<sup>11</sup> In February 2007, the FLA Board of Directors established a Working Group to analyze and make recommendations regarding the accreditation of small or low-revenue PC (low-revenue PCs were defined as those with consolidated revenue under \$300 million). The rationale for the establishment of the Working Group was that small or low-revenue PC faced challenges in meeting all the FLA company obligations in the same manner that a larger PC could do. In October 2007, the Board of Directors approved a series of proposals developed by the Working Group, including maintaining the same company obligations for all participants but recognizing that a low-revenue PC could meet some of the company obligations primarily through collaborative activities organized by the FLA rather than through individual activities; and taking into account this latter consideration in the evaluation of compliance programs for accreditation purposes. This assessment for accreditation of Outerknown's labor compliance program follows the guidelines for low-revenue PC approved by the Board in June 2015.

and procedures. The policies and procedures require interviews to be undertaken to gain a detailed understanding of industrial relationships that exist between management and workers. Outerknown's Fair Labor Program SOPs stipulates that worker representatives participate in closing meetings and interviews. Outerknown partners with Fair Trade USA in Mexico, where a worker representative committee has been established to address matters of how to use the fair-trade premium.

The FLA recommends that Outerknown continue to work with worker representatives and potential unions (where possible) to deepen the company's commitment to understanding of industrial relationships. The FLA also recommends that Outerknown collaborate with other brand buyers within its supply chain to advocate that more worker representative structures be established.

#### **PRINCIPLE 10: VERIFICATION REQUIREMENTS<sup>12</sup>**

The Chief Sustainability and Supply Chain Officer has been active in FLA Board Meetings. Since 2015, the Chief Sustainability and Supply Chain Officer has been a business caucus member. Additionally, the Chief Sustainability and Supply Chain Officer provided feedback on the FLA's Supply Chain Transparency Guidance document. In the future, the Chief Sustainability and Supply Chain Officer has voiced her interest in participating in the China CSO discussion group.

Outerknown's commitment to the FLA and fulfillment of FLA obligations is integrated throughout its S.E.A. program and specifically discussed in the Fair Labor Program Policy and Procedures. The FLA confirms Outerknown has completed all administrative requirements including payment of annual dues, submission of its annual self-assessment, and meeting its FLA Assessment obligations.

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<sup>12</sup> Principle 10: Company affiliate meets FLA verification and program requirements.

## SECTION 4: CONCLUSION AND RECOMMENDATION TO THE BOARD OF DIRECTORS

This review of Outerknown'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, Outerknown 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 Outerknown's labor compliance program.

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

Strengths of Outerknown's labor compliance program include:

- (1) The company's sustainability framework and sourcing strategy is woven into the daily business operations;
- (2) The company makes a public commitment to uphold workplace standards and adopt FLA Benchmarks, including additions such as environment protection, supply chain transparency, community, and animal welfare;
- (3) The Chief Sustainability and Supply Chain Officer's position is critically placed within the senior leadership team, driving ethical behavior and embedding core values of improving workers' rights at the center of the organization;
- (4) The company strategically and selectively chooses suppliers in accordance with their high standards which is reflective of Outerknown's small supply base; and
- (5) The company shows industry leadership and proactively collaborates with industry partners such as the Sustainable Apparel Coalition (SAC), Social and Labor Convergence Project (SLCP), Fair Trade USA, and other brands.

Suggestions for strengthening Outerknown's labor compliance program include:

- (1) Further develop and implement plans to engage with local civil society organizations (CSOs) to strengthen and better inform Outerknown's social compliance program from a worker rights' perspective;
- (2) Further implement a mechanism to better assess the effectiveness of relevant trainings provided to Outerknown staff, assessors, suppliers, and workers;
- (3) Further implement an integrated approach to factory performance evaluation that results in a comprehensive scorecard;
- (4) Further improve the monitoring protocol and guidance for assessors to ensure consistency and quality across all third-party assessments; and
- (5) Further develop policies and procedures that integrate social compliance accountability into human resource functions at the headquarter level.

### **Draft Board Resolution:**

The FLA Board of Directors is asked to approve the following resolution:

**Outerknown is hereby granted FLA accreditation of its labor compliance program.**



## APPENDIX A: OUTERKNOWN'S CODE OF CONDUCT

### OUTERKNOWN

Supplier Code of Conduct

#### WHAT ARE WE WEARING AND WHERE IS IT COMING FROM?

At Outerknown, we understand that every garment we make has an impact. We are committed to doing everything we can to minimize, control and reduce these impacts on the environment and in the communities where we live and work.

Our success is based on our relationships with our suppliers, customers and peers in a dynamic global landscape with an ever evolving supply chain. The Outerknown Code of Conduct ("Code") outlines the high expectations we have of ourselves and our partners.

Every Outerknown supplier must meet or exceed these guidelines as laid out in our Code and permit regular and independent monitoring. Our goal is to fairly and consistently evaluate performance in our supply chain and to actively support continuous improvement. If we determine a supplier is out of compliance with any of these guidelines, we require immediate collaborative corrective action.

While we recognize there are different legal and cultural environments in which our suppliers operate, we are committed to applying our Code across all aspects of our operations, including raw material suppliers and subcontractors. Our Code and the Supplemental Guidelines were developed to provide a framework to evaluate supplier performance and determine who we partner with.

Outerknown aspires to engage with civil society, governments, the private sector, and peers to affect systemic change of labor and environmental challenges in countries where we live and work. We intend to do business with suppliers that are already committed to these principles and are themselves in relentless pursuit of continuous improvement. We believe that partnerships based on transparency and collaboration will promote responsible and sustainable practices.

#### **Code Compliance**

The supplier shall implement this Code and applicable laws into its business practices and submit to verification and monitoring along with an applicable Code training program. The implementation of this Code is required for all Outerknown manufacturing partners including, agents, vendors, manufacturers, factories and subcontractors.

All suppliers are required to post the Outerknown Code in the local language in a conspicuous public area and communicate the Code to all supplier employees.

When differences or conflicts in standards arise, suppliers are expected to comply with the highest standard that is, when applicable, the most in favor of the employees.

**Employment Relationship**

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

**Nondiscrimination**

Outerknown suppliers may not discriminate against its employees during any stage of the employment relationship on the basis of race, religion, gender, sexual orientation, color, national origin, age, physical or mental disability, medical condition, political opinion, union affiliation, social group, marital status, pregnancy or any other classification protected by local, national, and international law.

All employment relationships should include effective mechanisms to protect migrant, temporary or seasonal workers from any form of discrimination.

**Harassment or Abuse**

Suppliers are required to treat all employees with respect and dignity. No employee shall be subject to physical, sexual, psychological or verbal harassment or abuse or to monetary fines as a disciplinary practice.

**Forced Labor**

Outerknown suppliers must not use involuntary or forced labor, whether indentured, bonded, prison or labor obtained through slavery or human trafficking. Suppliers are required to monitor any third party assisting in recruitment or hiring employees to ensure no individual is compelled to work through force, deception, intimidation, coercion or as punishment for personally held views.

Workers must not be required to lodge deposits or identity papers upon commencing employment with the supplier.

**Child Labor**

Suppliers will not employ anyone under the age of 15 or under the age for completion of compulsory education, whichever is higher.

Young workers, under the age of 18, must not be exposed to hazardous, unsafe or unhealthy working conditions or materials. Adequate protection against such hazards must be provided to all young workers.

**Freedom of Association and Collective Bargaining**

All suppliers' employees must be free to join organizations of their own choosing. This includes the right to form and join trade unions and other worker organizations and participate in collective bargaining without fear of harassment, interference, or retaliation.

Suppliers must develop effective, respectful, and transparent grievance mechanisms to resolve disputes, complaints and ensure effective communication between employees, employee representatives and management.

### **Health & Safety**

Outerknown's suppliers must provide their employees with a safe, healthy and clean workplace, designed to prevent accidents and injuries arising from, or occurring during, the course of work.

Suppliers must comply with all applicable laws of the countries in which they operate regarding work environment, sanitation and safety.

Suppliers providing employee housing must ensure clean, safe and adequate sleeping quarters, bathing and toilet facilities.

### **Hours of Work**

Suppliers shall not require employees 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 or the maximum allowed by the law of the country of manufacture, whichever is less. Employees shall be allowed at least 24 consecutive hours of rest in every seven-day period. All overtime work shall be consensual and free from reprisal if declined. Employers shall not request overtime on a regular basis and shall compensate all overtime work at a premium rate. The sum of regular and overtime hours in a week shall not exceed 60 hours or the maximum allowed by the law of the country of manufacture, whichever is less.

### **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 benefits required by law or contract. Where compensation does not meet workers' basic needs and provide some discretionary income, each employer shall work to take appropriate actions that seek to progressively realize a level of compensation that does.

### **Environment**

We do business with suppliers who share our urgency for and commitment to preserving the environment. We ask all suppliers to commit to excellence in innovative technologies that reduce the impacts their manufacturing has on the environment, and favor those who invest in renewable energy and report their environmental impacts publically.

Suppliers must have policies and procedures in place to manage and minimize their environmental impacts. This includes resource consumption, as well as water and air emissions. Additionally, suppliers must meet all requirements related to chemical restrictions, safely labeling, handling, and storage of approved substances while preventing or mitigating the release of chemicals and hazardous materials. All employees who handle chemicals must be adequately trained to do so.

Suppliers must comply with all applicable environmental laws and regulations where they do business and undertake initiatives to promote greater environmental responsibility.

### **Community**

Outerknown encourages and aligns with suppliers who are engaged in their communities. By investing in infrastructure and creating education opportunities we take a leadership position alongside our suppliers in promoting social development in the communities where we work and live.

**Transparency**

Suppliers must be fully transparent when submitting to onsite inspections as well as maintain all accurate documentation necessary for demonstrating compliance with the Code. This includes full access to production facilities, employee records and employees for confidential interviews.

**Remediation & Continuous Improvement**

All suppliers are expected to take necessary corrective actions to promptly remediate any noncompliance and strive for continuous improvement. Outerknown reserves the right to terminate business relationships with any supplier who is unwilling or unable to comply with the Code.

**Animal Welfare**

Suppliers must respect and commit to promoting ethical animal welfare practices with a focus on the five freedoms. This includes capture, maintaining, breeding, raising, transportation, handling and slaughter. We believe that all such animals, while taking into account their species' needs, should benefit from freedom from thirst, discomfort, pain, injury or disease, fear and distress and have the freedom to behave naturally. Our expectations are above national and international animal welfare, social and environmental laws and regulations, as well as internationally accepted human and labor rights standards.

**Traceability and Material Sourcing**

Suppliers must use only designated suppliers for raw materials and components to maintain supply chain transparency. Prior written approval must be obtained before any portion of the product is vendor-sourced or substituted. Outerknown is committed to sourcing recycled and organic content where ever possible and choosing partners who demonstrate leadership in protecting biodiversity, land and water use, low emissions, and chemical management.

**Unauthorized Subcontracting**

Outerknown suppliers must not engage any subcontractor to perform any work for Outerknown products or components without prior written approval, and only after the subcontractor has agreed to comply with this Code.