



POU CHEN GROUP

ASSESSMENT FOR ACCREDITATION

FLA BOARD OF DIRECTORS MEETING
JUNE 2018

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One of PCG's compounds in Indonesia.

INTRODUCTION

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



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

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

Name of Company	Pou Chen Corporation (PCG)	Category	Participating Supplier (PS)
Location	Taichung, Taiwan	Product/s	Footwear
Total Annual Revenue	5.476 Billion USD	Current Number of Applicable Facilities	38 (24 Compounds)
FLA Affiliation Month/Year	June 2011	End of Implementation Period	June 2014
FLA Accreditation Lead/Support	Lead: Tiffany Rogers (Program Manager, Business Accountability) Supports: Renee Bowers (Director, Accountability); Jessica Vasquez (CSO Engagement Manager, Latin America); Wanjing Lu (Assessor)		
Unique Company Characteristics	<ol style="list-style-type: none"> 1) PCG is the largest footwear supplier globally, producing shoes for FLA Participating Companies, such as adidas, New Balance, Nike, PUMA, and Under Armour. 2) PCG's business scope includes industry, service, and charity. PCG's footwear production resides under its industry scope and is the only PCG production within FLA scope. 3) PCG's CEO, Patty Tsai Pei-Chun, was the youngest women named on Fortune's Most Powerful Women International List in 2016 at 36 years old. She has been recognized for her involvement in resolving worker strikes in China and Vietnam. 		
Summary of Key Strengths	<ol style="list-style-type: none"> 1) Top management commitment to globally implement the workplace standards evident by allocation of human and financial resources; 2) Innovative, comprehensive, and on-going training of workplace standards to ensure understanding and implementation from the production-level to the headquarter-level; 3) Multiple grievance channels for workers to raise grievances at the production site or to the headquarters; 4) A comprehensive internal audit program and scoring methodology to inform top management of production site performance; 5) The integration of compliance data to inform top management decisions, communications, and improvements at the production and headquarter-level; 6) A comprehensive system to evaluate and incentivize production sites and material suppliers to improve working conditions; and 7) On-going engagement and dialogue with union and worker representatives to uphold workers' rights to freedom of association, address worker grievances, and improve working conditions. 		
Summary of Key Suggestions for Strengthening	<ol style="list-style-type: none"> 1) Ensure consistent application of learnings from manager and supervisor trainings at all production sites; 2) Continue to improve collaboration amongst production sites and business units to share best practices and build efficiencies in business practices to uphold the PCG workplace standards; 3) Establish a formal responsible production practices training program for all applicable staff; 4) Continue to remedy labor violations identified through internal monitoring, buyer audits, FLA assessments, and other stakeholder grievances; 5) Continue to engage with civil society and establish civil society relationships, especially in Cambodia, Mexico, and Myanmar; 6) Establish worker-management dialogue committees at production sites in Cambodia, Mexico, and Myanmar. 		

Pou Chen Group (PCG) was founded in 1969 in Taiwan. Founded by Mr. Tsai Chi-Jui, PCG first produced sandals for the local market but soon expanded to athletic footwear. PCG established its first overseas production in south China in 1988. PCG went public on the Taiwan Stock Exchange in 1990 and expanded production into Indonesia and Vietnam. PCG's business scope is split amongst industry, service, and charity. Under industry, PCG produces footwear (about 70% of its business), apparel (through joint-ventures), materials, machinery, and chemicals. When PCG affiliated with FLA in June 2011, the scope of affiliation only applied to PCG's footwear production business, which is the current scope for accreditation. In 2012, Mr. Tsai's daughter, Patty Tsai Pei-Chun took over as CEO for PCG, after many years working at PCG's Yue Yuen subsidiary for its manufacturing and retail operations in China.

PCG produces footwear for many customers, including FLA brands adidas, New Balance, Nike, PUMA, and Under Armour, and other non-FLA affiliated footwear brands. PCG produces over 300 million pairs of shoes annually and accounts for about 20% of the combined wholesale value of the global athletic and casual footwear market¹. PCG has four main business units: PCN, PCaG, PGT, and PCMS; each business unit is responsible for a portfolio of customers, which is discussed throughout this report and specifically under Principle 8. A facility within a PCG compound will only produce for one business unit. In China, Indonesia, and Vietnam, PCG has administrative centers that oversee the local operations for all compounds within the country. The business units and administrative centers work with PCG's Sustainable Development and Human Resources Teams to implement the PCG Code of Conduct, legal standards, HR practices, training programs, and remediation actions, discussed specifically under Principle 2 and throughout this report.

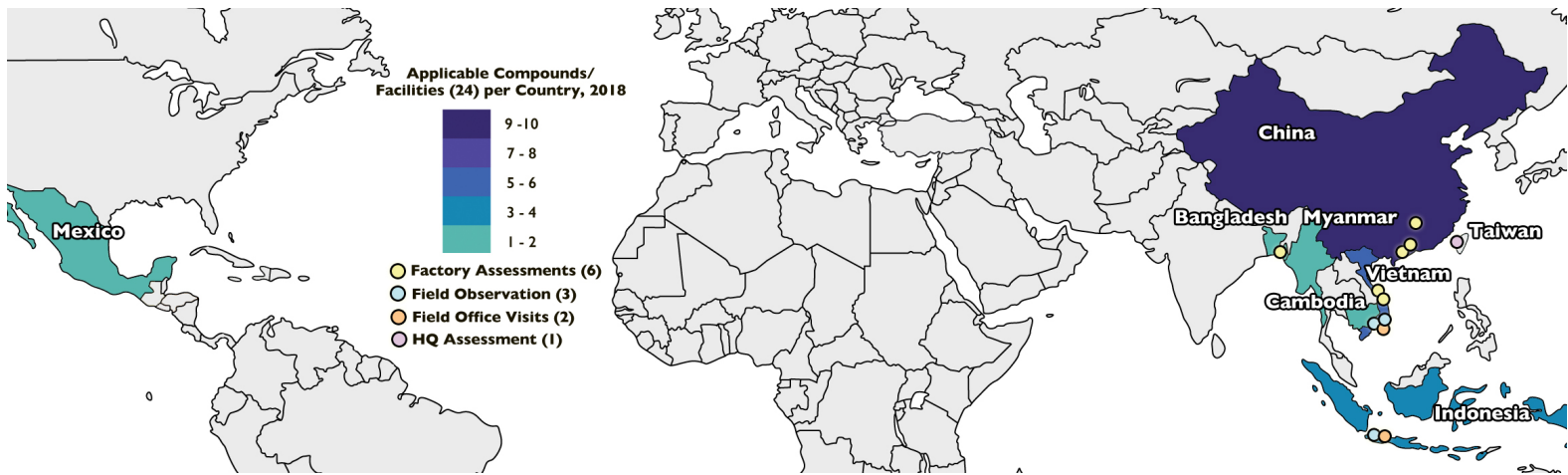
FLA conducted field office visits and observations at a facility in Vietnam in 2016 and in Indonesia in 2017. FLA observed notable improvements in PCG's audit methodology and noted clear procedures in place to manage production practices between its business units and production facilities. In Indonesia, FLA also conducted interviews with the union (SPN), which verified a productive relationship with factory management to address worker concerns. During the HQ Assessment, PCG showed top management commitment to invest in the social compliance program, training, and remediation. PCG's Sustainable Development Team displayed creative and innovative practices to implement training programs on workplace standards, establish a data platform, visualize data analysis, and incentivize facilities and raw material suppliers to improve working conditions.

In 2014, PCG workers at the Gaobu Compound in China went on strike, protesting that PCG was not making the legally required contributions for social insurance and housing benefits. To address the workers' demands, PCG agreed to pay the legally required contributions, offered workers to opt into back payments, and implemented training and HR programs to improve communication between the workers and factory management. PCG also committed to implement the legal requirements and back payments for social insurance and housing benefits at the other China compounds, and increased workers' wages so that they could afford worker contributions. FLA conducted a [Safeguards](#) Investigation in 2015, verifying that the PCG had upheld its commitment.

This report is an assessment of PCG's social compliance program for FLA accreditation. Throughout PCG's affiliation, when labor violations have been identified internally, by the FLA, customers, or other stakeholders; PCG has remedied labor violations and implement a social compliance program to improve workers' lives.

¹ <http://www.pouchen.com/index.php/en/business/footwear-business>

SECTION 2: POU CHEN GROUP PRODUCTION COUNTRIES & FLA DUE DILIGENCE ACTIVITIES FROM (2012 – 2017²)



The above map shows PCG's footwear production countries in 2018. PCG has footwear production compounds in Bangladesh (1), China (10), Cambodia (1), Indonesia (4), Mexico (1), Myanmar (1), and Vietnam (6) with a total of 38 FLA-applicable production facilities within a compound. FLA has conducted 6 Independent External Assessments (IEAs) at PCG facilities: China (3), Vietnam (2), Bangladesh (1). All but one of the IEAs were SCI Assessments; in 2017, FLA conducted an SCI Verification (SCIV) at a PCG compound in Vietnam.

For accreditation, FLA conducted training and audit field observations at another PCG compound in Vietnam in 2016, and a second audit field observation at a PCG compound in Indonesia in 2017. FLA also conducted two field office visits in coordination with the field observation conducted in Vietnam and Indonesia to verify the implementation of the social compliance program at the administrative centers in these countries. In November 2017, FLA conducted the HQ Assessment in Taichung, Taiwan, which reviewed the implementation of the social compliance program at the HQ and within the business units.

² PCG's 2018 FLA independent external assessment has yet to be conducted at the time of this report.

SECTION 3: ANALYSIS OF POU CHEN GROUP LABOR COMPLIANCE PROGRAM FOR ACCREDITATION

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

- 1) An assessment at PCG's headquarters conducted by FLA staff in November 2017;
- 2) Information gathered in person, via phone interviews, and through email correspondence with PCG staff;
- 3) Documentation review of supporting evidence submitted by PCG;
- 4) Field observations of two factory-level assessments in Vietnam and Indonesia;
- 5) Field observation of one training in Vietnam;
- 6) Field office visits to assess the social compliance programs in Vietnam and Indonesia;
- 7) Results of FLA Independent External Assessments at PCG applicable facilities conducted by FLA assessors and accredited service providers; and
- 8) Communication with stakeholders.

PRINCIPLE 1: WORKPLACE STANDARDS³

Workplace Standards & Top Management Commitment

Prior to PCG's affiliation with the FLA in 2011, PCG had a code of conduct in place. In 2015, PCG revised its code to [align](#) with the FLA Workplace Code of Conduct in Employment Relationship, Nondiscrimination, Child Labor, Health, Safety, and Environment, Hours of Work, and Wages and Benefits. PCG's Code of Conduct goes beyond the FLA's Code by including a code provision on community outreach. PCG has also adopted the FLA's Compliance Benchmarks in their audit methodology, which the FLA verified through a review of PCG's audit tool review and field observations of PCG's audits.

As a company, PCG has established core values: Professionalism, Dedication, Innovation, and Service. Social Responsibility and PCG's Code of Conduct reside under the Service Core Value. These core values are included in regular communication to HQ-level and production site-level employees. In 2015, PCG published their first annual [CSR Report](#). A third party verifies these reports. The 2016 CSR Report includes an overall review of the PCG's industry business, under which the footwear business (and FLA scope) resides. PCG's materiality matrix, prioritizing labor/management relations, worker demographics and turnover, community outreach, employee training programs, links to FLA's assessments of Pou Chen facilities, and PCG's commitment to the Code of Conduct are all included in the report.

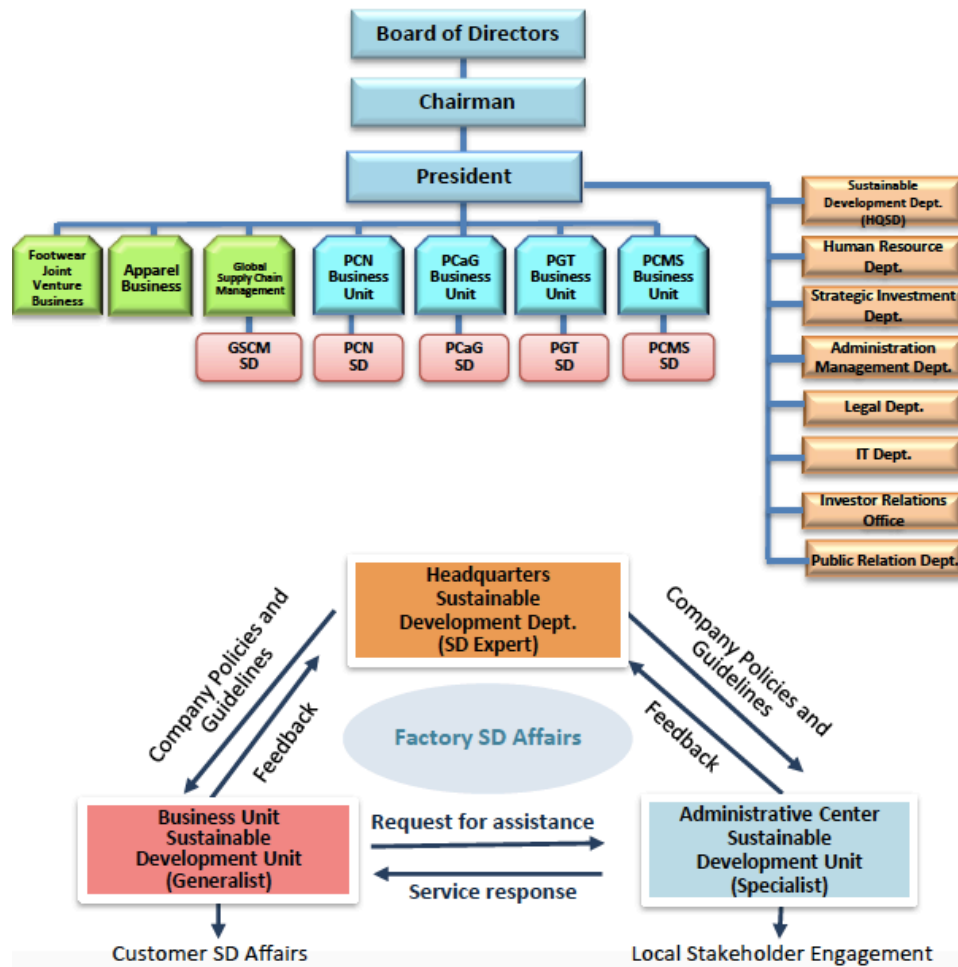
PCG's CEO communicates the company's commitment to workplace standards. More significantly, PCG's CEO and top management have demonstrated this commitment through investment to strengthen the Sustainable Development (SD), Human Resources (HR), and the Global Supply Chain Management Programs. Additionally, PCG's top management has made significant financial decisions to uphold the legal, PCG, and FLA standards in production countries and to remediate noncompliances. Also, the CEO regularly reviews production facility performance and communicates directly with the compounds' general managers to ensure improvement of working conditions. FLA identified the top management commitment to uphold the workplace standards and to remediate noncompliances as a strength of PCG's social compliance program.

³ Principle 1: Company affiliate establishes and commits to clear standards.

PRINCIPLE 2: RESPONSIBILITY & HEAD OFFICE TRAINING⁴

Pou Chen Group's (PCG) Business Structure

PCG is a large organization with a complex business structure, which is best understood by the below organizational structure, as disclosed in the [PCG 2016 CSR Report](#). PCG's business units (PCN, PCaG, PGT, and PCMS), highlighted in cyan⁵, are responsible for working with footwear brands (customers) to develop shoes and fill purchase orders at the facility-level. Each business unit manages a portfolio of customers, with the PCN and PCaG business units managing only Nike and adidas business, respectively; further description of the business units can be found under Principle 8. The business units are also responsible for the implementation of all customer requirements, including those on workplace standards, audits, and remediation for brand audits. The Sustainable Development (SD) Department is responsible for the global implementation of PCG's social compliance



Organizational Chart from PCG's 2016 CSR Report.

program, including the implementation of the PCG Code of Conduct, workplace standards, and the implementation of the FLA Production Principles. At the headquarters (HQ), the SD Department works with the HR Department in implementing global HR and training policies and guidelines for programs related to PCG's Code of Conduct and FLA requirements. The HR department also supports the SD department in identifying training programs to improve staff skills and capacities related to social compliance.

⁴ Principle 2: Company affiliate identifies and trains specific staff responsible for implementing workplace standards and provides training to all head office.

⁵ The departments highlighted in green (Footwear Joint Venture, Apparel, and Global Supply Chain Management) are not within the scope of PCG's FLA affiliation for FLA factory-level assessments. Footwear Joint Venture includes production facilities that manufacture shoe lasts, moldings, and other materials specific for the manufacturing of shoes and are not considered Tier 1 facilities. PCG's apparel business is also through joint ventures, in which PCG is not the majority investor, and includes retail locations in China. The Global Supply Chain Management Department is discussed under Principle 8; this program assesses conditions of material suppliers utilized by PCG, but not nominated by customers.

Below the organizational chart is a diagram that shows how SD works with the relevant business units and the administrative centers; PCG's production compounds in China, Vietnam, and Indonesia have administrative centers that are responsible for the local SD and HR operations at the compound. The Vietnam administrative center oversees the production sites in Bangladesh, Cambodia, Mexico, and Myanmar; additionally, there are designated local business unit SD and HR staff at these sites to ensure implementation of the workplace standards. The local SD and HR staff work with the HQ SD and HR staff to implement global programs at the local level, customizing the program to adjust for cultural necessities, while maintaining alignment with PCG's global policies and guidelines and customer requirements, as necessary. Each business unit also has local staff at their relevant production facilities within the compound. The business units and administrative centers work together at the local level to implement HR and SD programs, along with any customer audit requirements, workplace standards, and remediation actions. Due to the size of PCG's operations, FLA observed that communication between the SD, HR, and business units at the HQ and local levels can be challenging at times; however, PCG has shown that having responsible and committed staff at the HQ and facility levels facilitates and communicates improvements of working conditions and remediation. PCG continues to improve its business operations and communications to streamline communication, training, knowledge, and expertise to uphold workplace standards.

The Sustainable Development (SD) Team

The SD Department at the HQ develops and implements PCG's social compliance program to uphold the FLA's Production Principles. The department's responsibilities include coordination with HR, the business units, and administrative centers to implement and improve training programs for managers, supervisors, and production-line employees (workers); completion of annual audits at all production compounds; working with the production facilities in the development and implementation of corrective action plans (CAP); social compliance data analysis, development of responsible production guidelines; and civil society engagement. As shown in the table, within each business unit and production facility, PCG has SD staff responsible for the implementation of the SD program. In China, Indonesia, and Vietnam (PCG's largest production countries), there is an administrative center that includes the SD staff responsible for implementing the program. The administrative center SD staff collaborate with the business unit and HQ SD staff to ensure aligned implementation of PCG's workplace standards. Additionally, the business unit SD staff are responsible for ensuring that customer requirements on social compliance and workplace standards are implemented and communicated to the local and HQ SD staff.

In 2015, PCG formalized two teams within the SD Department, administrative centers, and business units: the Employment Relations & Compliance Team and the Environment, Safety, and Health (ESH) Team. SD Staff within the Employment Relations & Compliance Team focus on labor relations and management, training programs on the code of conduct, social dialogue, and civil society engagement. The ESH Team focuses on the implementation of the Health, Safety, and Environment standards and has implemented a focused ESH School training program for PCG auditors and local SD staff to improve the identification and the remediation of ESH issues. When conducting internal audits, SD staff from the Employment Relations & Compliance and the ESH teams conduct the audits jointly with the local SD and HR Administration Center staff. This dynamic will be further discussed under Principle 5. The SD and HR Departments are overseen by the Executive Director, HR & SD, who reports to the CEO of PCG.

At PCG HQ, the SD department consists of 31 staff members; there are 144 additional SD staff members at the administrative centers in China, Vietnam, and Indonesia. In the business units and production facilities, there are 527 SD staff, for a combined total of 702 for all SD staff at HQ, administrative center, business unit, and production facilities. FLA has reviewed internal

organizational charts and a sample of job descriptions and conducted extensive interviews with a sample of staff during the HQ Assessment and Field Observations to verify the structure and responsibilities of the SD and HR departments, administrative center, business unit, and production facility staff.

Training Headquarter and Local Sustainable Development (SD) Staff

FLA has verified through interviews at the HQ Assessment, a Training Field Observation, and interviews at PCG's production compounds in Vietnam and Indonesia that the SD Team members at the headquarters and local administrative centers receive regular and on-going training specific to social compliance. Through this verification, FLA notes the following processes that are in place to ensure the SD staff receive regular and effective training specific to social compliance and the implementation of PCG's workplace standards:

- **Training Needs Analysis:** All SD Staff submit an annual self-assessment and review this assessment with their supervisor to identify areas for performance improvement. The supervisor will then work with HR and the SD staff member to identify training opportunities.
- **Staff Development Road Map:** In coordination with HR, the SD Department has developed a roadmap that articulates increasing levels of skills training. The training topics range from important social skills like team building, problem solving, and communication, to skills related to social compliance such as conducting interviews, understanding local labor laws, analyzing grievance cases, and conducting root cause analysis.
- **Train-the-trainer:** Part of the SD Department's responsibilities is to provide training to local administrative center and business staff at the factory compounds on the PCG Code of Conduct, workplace standards, and FLA requirements. The HR department has a train-the-trainer program to certify PCG staff to lead trainings. To ensure internal PCG trainers are providing an effective training, trainers are evaluated through surveys of participants who took the training. The trainer receives an average rating on a five-point scale.

FLA has reviewed various training materials from these programs. In 2016, FLA observed a training at one of PCG's Vietnam compounds for the SD and HR staff of the administrative center. FLA provided recommendations on how to improve the training, such as establishing ground rules and engaging

PCG Department	Employee Relations & Compliance	Environment, Safety, and Health
Headquarter SD Staff		
Taiwan	8	23
Administrative Center SD Staff		
China	10	15
Indonesia	33	43
Vietnam	20	23
Total	63	81
Business Unit SD Staff		
PCN	3	4
PCaG	2	2
PGT	1	3
PCMS	4	2
GSCM	3	9
Total	13	20
Production Facility SD Staff		
China	62	57
Indonesia	44	121
Vietnam	72	116
Cambodia	1	2
Bangladesh	4	3
Myanmar	4	6
Mexico	1	1
Total	188	306
Combined Total of SD Staff at PCG	272	430

with participants throughout the training, which were incorporated into improving PCG's training program.

PCG also devoted resources to providing further training to SD staff who conduct the annual audits at PCG facilities, which will be further discussed under Principle 5. FLA noted the need for PCG to invest resources to have comprehensive training programs for SD and HR staff at the HQ and administrative centers and recognizes this investment as a strength of PCG's social compliance program. FLA recommends PCG continue to implement these training programs and to ensure that they are effective in improving the social compliance program and working conditions at the production facilities.

Training All Pou Chen Group Industry Staff

PCG HR's Team has developed a "Power Camp" training program for all new HQ, BU, and AC-level staff. The training camp curriculum includes PCG's Core Values, Code of Conduct, and the shoe manufacturing processes. It also includes a training feedback survey to evaluate and provide feedback on the training. The HR Department maintains a training road map for all levels of management that ensures all staff receive refresher training on the PCG Core Values. FLA verified materials from the Power Camp, training road map, and observed part of the Power Camp during the HQ assessment. Through interviews with PCG from all FLA activities, FLA verified that there is a base-level of knowledge on the PCG's Core Values, Code of Conduct, and PCG's affiliation with the FLA.

PRINCIPLE 3: PRODUCTION STAFF TRAINING⁶

Accessible Workplace Standards

FLA verified that PCG has translated their Code of Conduct into Bahasa, Bengali, Burmese, Cambodian, English, Mandarin, Vietnamese, and Spanish. These languages cover all local languages of the production countries. Through SCI Assessments, Field Observations, and Field Office Visits, FLA has observed that the PCG Code of Conduct has been posted at various factory compounds.

Manager and Supervisor Training on Workplace Standards

At the administrative centers within each PCG production compound, staff from SD, HR, and the business units receive regular training on PCG's Code of Conduct and workplace standards. During the 2016 FLA Training Field Observation at one of PCG's Vietnam compounds, FLA observed an Employee Relations Management training for SD and HR staff at the administrative center and for the applicable managers and supervisors at the production facilities, provided by two SD HQ team members. This training covered relationship affairs, employee relations, grievance mechanisms, and harassment/abuse. To address grievances that had been received from workers on verbal harassment and abuse, PCG implemented this "friendly workplace" training module, in which the participants received an overview of what makes a friendly workplace and then discussed case studies on various grievances.

While all production sites receive regular training on the PCG Code of Conduct and ESH standards, PCG has developed an ESH school training program for SD staff at the HQ, at the administrative centers, within the business units, and at its production compounds in China, Vietnam, and Indonesia who are responsible for implementing PCG's health, safety, and environment standards. The SD-ESH staff at PCG's HQ are responsible for implementing the ESH school training program. The ESH School launched in 2016 with 23 training courses provided at PCG's China, Indonesia, and Vietnam

⁶ Principle 3: Company Affiliate trains all management staff and employees at owned production sites on workplace standards and tracks effectiveness of training.

production compounds. 650 PCG ESH staff were trained through the ESH School in 2016. In 2017, the ESH School consisted of 10 courses and 572 PCG ESH staff were trained on more advanced-level ESH topics, building off of the 2016 ESH courses. FLA recognizes the vast resources devoted to training all applicable staff at the HQ, production facilities, business units, and administrative center on the ESH standards and recommends PCG continue to implement the ESH School at its production facilities in Bangladesh, Cambodia, Mexico, and Myanmar.



FLA Director, Accountability and PCG staff review a worker training video at PCG's HQ Assessment for accreditation.

Through SCI Assessments, FLA assessors identified areas for improvement in training of managers and supervisors on the workplace standards, and PCG has worked implement training programs to remediate these findings. Additionally, in 2018, after PCG conducted an internal audit at its Mexico facility, PCG identified the need for more focused training on the PCG Code of Conduct and workplace standards. FLA reviewed training plans for the Mexico facility for managers, supervisors, and workers on the PCG Core Values, Code of Conduct, the customer's code of conduct, chemical safety, identifying and reporting harassment, and grievance mechanisms. FLA recommends PCG continue to implement effective training programs for managers and supervisors of production facilities to improve workers' rights and working conditions.

Ensuring Training is Effective for Production Facility Managers and Supervisors

PCG managers and supervisors undergo annual performance reviews to identify further training needs. Additionally, FLA has observed that the identification of noncompliances at PCG production facilities, through their internal or customer audits, are another key indicator that determines if improvement of training is required so that working conditions are improved. Additionally, PCG utilizes evidence from worker grievances as an indicator that more effective training is needed at specific production facilities. PCG utilizes the audit and remediation data collected and analyzed to gauge employee performance in upholding the workplace standards, and as issues and trends are identified, work with HR and SD to improve the training programs. PCG works to develop training programs that can address cultural differences and communication challenges to ensure implementation of the PCG workplace standards, especially in areas under employee relations.

The Expectation for Remediation

FLA verified through regular communication, review of training materials, and document review that the expectation to remediate noncompliances is communicated regularly throughout HQ, business units, administrative centers, and production facilities. These expectations are communicated beyond the SD, HR, and production facility staff, as most remediation actions require a financial budget and top management approval. Additionally, PCG's CEO regularly reviews the status of remediation at production facilities and will contact the head of the business unit if remediation is not progressing in a timely manner. FLA recognizes PCG's commitment to remediate noncompliances communicated and upheld by top management and considers the actions PCG has made to remediate noncompliances found through their own audits, customer audits, and FLA assessments as a critical strength of the social compliance program.

Worker Training on Workplace Standards

Through FLA SCI Assessments, Verification Assessments, and field observations, FLA has verified that workers receive regular training on the PCG Code of Conduct and workplace standards. Following the code of conduct trainings, workers are required to complete a short quiz on the content of the training.

Production facilities are also required to conduct worker satisfaction surveys, which include questions to gauge worker understanding on various elements in the PCG Code of Conduct and PCG's workplace standards.



Workers at PCG's Myanmar facility participating in training on workplace standards.

Because it can be difficult to ensure engagement and understanding from workers during code of conduct training, PCG has worked to implement creative ways to describe some of the workplace standards. For example, for its Vietnam production compounds, PCG's HQ staff developed a training video that illustrated to workers the production bonus and promotion process through a simple story about rice farmers. This video was shown to workers and then workers discussed how the video applies to the working environment at the PCG production facility. Workers also receive regular training on PCG's Core Values. These trainings include various activities such as painting,

singing, and songwriting contests. FLA noted PCG's creativity to develop interactive and applicable trainings for its workers as a strength of the program.

PRINCIPLE 4: FUNCTIONING GRIEVANCE MECHANISMS⁷

Providing Functioning Grievance Mechanisms

FLA has verified PCG's policy of ensuring that functioning mechanisms for worker grievances are implemented at all production facilities. The following mechanisms have procedures and policies in local languages.

- **Open Door Policy:** Workers can communicate grievances directly to supervisors or managers, as needed.
- **Face-to-Face Communication:** Each business unit within the production compound has a communication center, away from the production lines, for workers to raise concerns to a manager, supervisor, or HR representative. At a minimum, Operation Managers are required to have face-to-face communication with workers monthly; at some production facilities, managers will have face-to-face communication meetings with workers on a weekly basis.
- **Suggestion Box:** Each production facility has a suggestion box; some suggestion boxes are placed outside the facility or in the bathrooms, where the identity of the worker is not obvious if they were to submit a grievance.
- **Home Visits:** PCG requires all production line managers of the factory compounds to visit a samples of workers at their homes, so that they can understand how workers live and to establish stronger relationships with workers. During these home visits, workers may share concerns they have with the Operational Managers.

⁷ Principle 4: Company Affiliate ensures workers have access to functioning grievance mechanisms, which include multiple reporting channels of which at least one is confidential.

In the production compounds in China, Indonesia, and Vietnam, PCG has a union and/or worker representative structure in place. Workers can submit grievances through the representatives, who meet with management on a regular basis. FLA recommends PCG work with its production facilities in Cambodia, Mexico, and Myanmar to establish functioning worker representative structures.

Grievances are tracked by the HR administrative center staff for each production compound and entered in PCG's Employee Relationship Management platform system. SD staff from PCG's HQ review the grievance analysis reports on a monthly basis, and review grievance analysis reports with relevant business unit staff on a quarterly basis to ensure that grievances are being resolved. During the annual PCG internal audit, the SD audit team reviews the grievance mechanisms, logs, and tracking systems, and includes questions to workers on their experience using the grievance mechanisms to ensure functionality. During the FLA's Audit Field Observation at one of PCG's Indonesia production compounds, the PCG auditors found that the HR staff were not regularly checking suggestion boxes as the keys for the suggestion box had been left in the box. The suggestion box was included as a finding, and remediation was included as part of the corrective action plan. However, worker interviews noted that workers preferred to utilize the open-door policy, face-to-face communication, or contacting their union representative when communicating grievances.

FLA verified that PCG's grievance mechanisms include policies on confidentiality and nonretaliation. The confidentiality policy can be found on PCG's intranet site for employees. Additionally, PCG's Employee Relationship Management training for managers and supervisors includes content to emphasize PCG's grievance policies on confidentiality and nonretaliation. FLA notes PCG's work to ensure there are multiple functioning grievance mechanisms at each of its production compounds and encourages PCG to continue to identify improvements and creative solutions to ensure all PCG workers have access to a grievance mechanism they feel comfortable using.

Confidential Reporting Channel to PCG's Headquarters

FLA verified that PCG workers can submit grievances to PCG HQ through a hotline phone number, SMS, intranet system, and email to PCG HQ. There is a communication and resolution process that is followed when grievances are received through these channels. Grievances submitted through the confidential channels are included in the grievance analysis review. While there is evidence that these channels are utilized, as mentioned above, it was found during the worker interviews that workers prefer to raise grievances directly with their supervisor or manager or discuss them with a union or worker representative.

Grievance Mechanism Training

FLA verified PCG has regular training provided to workers on grievance mechanisms at all production facilities through interviews and document review at the HQ Assessment as well as through field observations. Through a review of SCI Assessments, FLA found that not all workers were knowledgeable about available grievance mechanisms. PCG improved training efforts to ensure workers understand the grievance mechanisms and verified worker understanding through worker satisfaction surveys that are now implemented at all production facilities. Grievance mechanism training is also reviewed during PCG's internal audit and included in questions during the worker interviews.

For managers and supervisors, PCG is continuing to develop and improve training plans at all production facility, administrative center, and business unit, and HQ staff. In addition to the Employee Relations Training discussed in Principle 3, PCG is piloting a leadership training program at two of its Vietnam production facilities to address worker grievances on disciplinary practices and workplace behavior. PCG found that its supervisors and managers need to improve on managing stress and

communicating with workers respectfully when discipline is needed. PCG is piloting this program at two facilities, and then will consider further implementation. FLA supports PCG's efforts to improve education of supervisors and managers on how to better communicate with workers and facilitate grievance solutions.

PRINCIPLE 5: MONITORING⁸

Assessing Production Site Conditions

PCG began its internal monitoring program in 2013, focusing on its 19 production compounds in China, Vietnam, and Indonesia. In 2016 and 2017, PCG began auditing its production facilities in Bangladesh, Cambodia, and Myanmar; in 2018, it began doing the same at its Mexico facility. Moving forward, all production facilities will receive regular internal audits based on the results of the previous audit. Following audits, production facilities are categorized into a specific zone ranking; Zone 4 is the lowest and Zone 1 is the highest.

Within a production compound there can be multiple production facilities for different business units, and therefore different production facilities within the same compound may have different zone rankings. Production facilities that receive a Zone 4 or 3 ranking receive annual audits. Production facilities that receive a Zone 2 or 1 receive audits every other year. From 2016 to 2017, the number of Zone 1 facilities increased from one to two facilities and the number of Zone 2 facilities increased from six to 12.

Since 2013, PCG's audit tool has gradually improved to reflect PCG's adoption of the FLA's Compliance Benchmarks. Following the 2016 Audit Field Observation, FLA provided a review of PCG's audit tool and recommended improvements to the tool. One of the improvements was adding



PCG SD staff conducting casual interviews with workers and line leaders during a factory walkthrough.

further questions to ensure that production facilities had established policies and procedures to ensure child labor is identified through the recruitment process.

FLA verified through both audit field observations that the PCG internal audit includes worker interviews, consultation with unions and/or worker representatives, management interviews, document review, visual inspection, and an occupational health and safety review. To conduct these audits, PCG coordinates an audit team made up of one lead auditor from Openview, two auditors from the HQ SD department, two auditors from the administrative center SD department, and one auditor from the legal department. Each production facility audit takes about two days, and

depending on the size of the compound, the audit team will spend between one and three weeks to audit all of the production facilities within a compound. Additionally, as verified in both audit field observations, where there is a collective bargaining agreement (CBA) in place the CBA is reviewed by the auditors to ensure the standards from the CBA are implemented.

FLA Field Observations of PCG Audits

⁸ Principle 5: Company affiliate conducts workplace standards compliance monitoring.

FLA conducted the first PCG audit field observation at a Vietnam compound in 2016. During this field observation, FLA identified the following areas for improvement: establish a clear lead auditor with auditing expertise, improve communications with workers during the interview process, and improve the identification of occupational health and safety findings. Following this audit field observation, PCG worked to implement FLA's recommendations. To better establish a lead auditor, PCG recognized the need to partner with a service provider to lead PCG's internal audits. For the 2017 and 2018 internal audit cycles, PCG partnered with Openview, an FLA accredited assessment service provider, and identified a lead auditor from Openview, who led and coordinated the audit team. To improve the audit team's performance in worker interviews PCG included casual worker interviews during the factory walk through and at lunchtime. Lastly, as discussed in Principle 3, PCG devoted considerable resources to improve the identification of health and safety noncompliances through the implementation of PCG's ESH School.

FLA verified these improvements during the second Audit Field Observation at a PCG production compound in Indonesia. The lead auditor from Openview coordinated an audit team of about 10 SD staff from the HQ and local administrative center to review documents, conduct worker interviews, and conduct the health and safety walkthrough; and about 11 HR staff from HQ and the local administrative center supported in providing documentation and participating in the management interviews. The lead auditor was also responsible for leading the opening and closing meeting and providing the final audit report. FLA observed vast improvement in how the SD auditors engaged with workers casually through the factory walkthrough, lunch time conversations, and worker interviews. Lastly, the identification of health and safety findings from the ESH SD auditor showed vast improvement, as the auditor made progress in analyzing the health and safety risks of various machinery. FLA also observed that the union leader and representatives were included in the opening and closing meetings of the audit. FLA encourages PCG to continue to improve its audit process to ensure that noncompliances are identified so that they can be remedied.

Pre-Production Assessments

PCG has established a pre-production assessment process for new production facilities. Since the newest PCG production facility was built prior to the establishment of the pre-production procedure, FLA was not able to verify its implementation. According to the procedure, the SD and HR departments would provide the required training to the managers and supervisors of the new production facility to ensure that PCG's Core Values, Code of Conduct, and workplace standards are implemented. Additionally, PCG would assign experienced staff from the SD and HR departments and/or the applicable business unit to support the implementation of workplace standards within the new production facility's operations. Within the first year of operations, the new facility would receive an internal PCG audit and be required to implement the CAP.

PRINCIPLE 6: COLLECTION & MANAGEMENT OF COMPLIANCE INFORMATION⁹

PCG Data Management & Analysis

PCG maintains its production facility information, such as address, contact information, and the presence of unions and worker representative structures, in their own data management systems. PCG's monitoring platform system stores historical audit data, CAPs, and other information to enable root cause analysis. The local administrative center of the production facility maintains, and the SD department reviews previous labor disputes, incidents, and accidents.

⁹ Principle 6: Company affiliate collects, manages, and analyzes workplace standards compliance information.

PCG is able to extract its audit and remediation data from their platform system to analyze trends and visualize progress. PCG can identify trends in ESH, HR, and labor findings. PCG uses box plot graphs to show the range of performance in recruitment and termination, working hours, compensation, labor relations, training, worker satisfaction, grievances, and ESH. For ESH, PCG has been able to track and analyze the causes of fire and workplace accidents from 2014 to 2017 and found a decline in both fire and workplace accidents after the establishment of the ESH school training program. FLA identified PCG's data collection and analysis capabilities as a strength of the social compliance program, as it enables the SD department to show improvements in working conditions and areas where improvement and attention are still needed. FLA also recognized that PCG utilizes the data to inform how PCG will invest in remediation actions, training programs, and other resources to address root causes to improve working conditions.

PRINCIPLE 7: TIMELY & PREVENTATIVE REMEDIATION¹⁰

Tracking Remediation at the Production Sites

During the closing meeting, the audit team provides a CAP to the production facility. The administrative center SD staff and the local business unit staff are then responsible for providing a finalized CAP to the HQ SD department within two weeks of the audit. The CAP is then stored on PCG's monitoring platform system. The CAP specifies responsible staff for each action plan and designated



Workers participating in a New Year celebration at PCG's Cambodia site.

local SD staff for the facility is responsible for providing remediation updates on the platform. Once a noncompliance is remediated, the production facility is required to provide remediation updates on the same noncompliance for another three months to ensure that the noncompliance has not reoccurred. Prior to the next internal annual audit, the production facility is required to ensure that all actions in the CAP are addressed and provide a self-assessment to the audit team prior to the audit. FLA verified that internal CAPs from various production facilities are stored on PCG's monitoring platform.

While the internal audits can identify some noncompliances, there are also incidents and accidents that occur outside of the audit that require remediation. PCG has an established "Abnormal Event Notification" process in which relevant staff, including the SD Department at the HQ, are notified of the event and the remediation actions. FLA reviewed examples of "abnormal events", including health and safety accidents and fires and worker strikes. The HQ SD staff will track remediation until the event is fully remediated. In serious cases, HQ SD staff are sent to the production compound to oversee remediation in-person.

For external audits from customers and the FLA, the relevant business unit, administrative center, and SD staff work together to provide and implement CAPs. For customer audits, the business unit staff communicate the CAP and remediation actions. For FLA SCI Assessments and Verifications, the HQ SD staff communicate the CAP and remediation updates to the FLA.

¹⁰ Principle 7: Company Affiliate remediates in a timely and preventative manner.

Root Cause Analysis

Through the audit field observations, FLA confirmed that PCG includes root cause analysis as part of the audit methodology and has improved in identifying root causes. Depending on the issue, the identified root causes are discussed throughout the audit through management and worker interviews. Following the second Audit Field Observation in Indonesia, PCG included documented root causes in the CAP and in the monitoring platform system. FLA recommend PCG continue to improve its root cause analysis process in the internal audit process and during regular operations. Additionally, since most production facilities reside within a production compound, the root causes are often similar within a compound. FLA recommends PCG continue to facilitate discussions within the same production compounds and between production compounds in the same countries to discuss similar root causes and possible remediation actions.

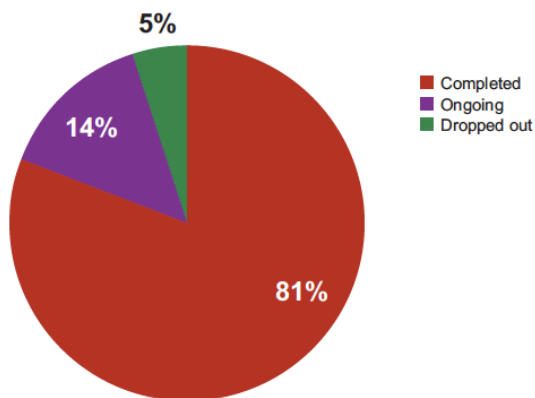
Effective Remediation

Throughout their affiliation with the FLA, PCG has demonstrated effective remediation. FLA identified the following characteristics that attribute to PCG's success in remediating systemic noncompliances.

- **Top Management Commitment:** As mentioned in Principles 1 and 3, PCG's CEO regularly reviews the progress of remediation at all production facilities and personally addresses the lack of remediation with the heads of the relevant business units, where necessary.
- **Financial Investment:** Through interviews with PCG's Chief Strategy Officer and its Board Director, General Counsel, the need for financial investment to be able to remediate noncompliances was discussed. The interviews showed that while remediation cannot always be planned and budgeted, PCG makes the necessary financial decisions to invest in the improvement of working conditions.
- **Accessibility of the SD Staff and Commitment to Training:** The HQ SD staff regularly travels to the production compounds to check on remediation progress and provide training or capacity building programs. Where a systemic issue has not been resolved, the SD works to develop specific programs to address the issue. The leadership training program and the ESH School mentioned in Principle 3 are examples of this initiative.

Below are examples of systemic or complex noncompliances that PCG has remediated and FLA has verified. More examples of remediation can be found in [PCG's SCI Assessment reports](#), that include the PCG's reported remediation updates.

Figure 2: Social Insurance Retroactive Contributions - Among applicants



From the FLA's Safeguard Investigation Report that verified PCG's social insurance and housing provident fund back contributions. At the time of the investigation, FLA verified 81% of the back contributions had been completed.

- **China:** In April 2014, workers at one of PCG's production compounds in China went on strike to protest contributions of social insurance and housing benefits that did not meet national laws. The strike lasted almost two weeks and involved thousands of workers in the production compound producing for FLA-affiliated and non-FLA affiliated brands. While PCG was paying social insurance and housing benefits, the amount contributed did not meet the legal requirement, although it was deemed to meet standard practice in the region and industry. Ultimately, PCG's CEO made the decision not only to uphold the legal requirements of the social insurance and housing benefits contributions, but also to match any back contributions workers wished to contribute to the benefit funds. Additionally, PCG implemented this same policy at all production compounds in China. According to PCG's financial statements for 2014 and 2015, PCG paid \$75,530 for the increased

back-pay of the social insurance benefits and housing provide fund. In addition to PCG's financial investment to uphold the legal requirements for social insurance and housing benefits, PCG also supported the local authorities in their capacity to provide the services required for workers to access their benefits. FLA conducted a [safeguard independent investigation](#) in 2015 and verified that PCG was upholding its commitment to provide the legally required social insurance and housing benefits, and had made progress in providing the back pay to workers who applied.

- Vietnam: In 2015, FLA conducted an [SCI Assessment](#) at PCG's largest compound in Vietnam and conducted an SCI Verification Assessment in 2017. This compound employs about 20,000 workers for one of PCG's business units. The SCIV verified that about 60% of noncompliances were remediated; of these remediated findings, 64 were health and safety related. One of the larger investments for remediation was the installation of an electrical grounding system for the compound. When the compound was originally built, Vietnam did not have legal requirements for grounding systems; however, the Vietnamese government issued a decree that required a grounding system in 2014. PCG invested about \$120,000 USD to implement the grounding system in 2016 while also remediating other noncompliances from the SCI assessment. FLA's full SCIV report at will be published once finalized by the FLA.

FLA recognizes PCG's efforts to remediate noncompliances and labor violations within its production facilities, while also recognizing that there are still labor violations at PCG's production facilities. FLA recommends PCG continue to remediate labor violations and risks as they arise and collaborate within compounds and production countries to improve working conditions.

PRINCIPLE 8: RESPONSIBLE PURCHASING PRACTICES¹¹

Responsible Production Policy, Procedures, and Practices

Being a strategic supplier to FLA accredited footwear brands with high workplace standards, PCG has strived to improve its production practices to mitigate negative impacts on workers. In coordination with its customers, PCG strives to ensure that standards are met in regard to excessive overtime, compensation, undocumented overtime, and retrenchment.

In 2017, PCG drafted its Responsible Production Policy that will be fully approved by the CEO by the end of 2018; through interviews at the HQ assessment, FLA has verified the implementation of the policy has begun. The policy includes the following:

- Purpose: To improve working conditions and protect the rights and interests of workers. Additionally, PCG is shifting from an "economies of scale" business model to a "value of economic benefits" model. The policy formalizes PCG's goals to incrementally improve business practices to address global economic conditions and trends; wages, salaries, and utilities; production manufacturing processes; competitive practices; and customer focus areas.
- Production Issues: This policy includes the expectation of documented procedures and workflows for each business unit to meet customer requirements and responses to different production scenarios. Examples include delay of delivery of raw materials, changes in orders, overbooked production capacity, and exceeding the legal working hours. For each scenario, there is guidance on how these issues are to be communicated and managed internally. Additionally, the policy includes an internal notification system for excessive overtime hours.
- Accountability: Through the internal audits, PCG will hold production facilities and business units responsible for the implementation of the Responsible Production Policy and progress towards improved working conditions.

¹¹ Principle 8: Company Affiliate aligns sales and planning practices with commitment to workplace standards.

Additionally, all business units and production sites have established production, planning, and sales procedures, including comprehensive workflows of operations and communication channels. FLA recommends PCG continue to implement and finalize the Responsible Production Policy.

Training Relevant Staff on Responsible Production Practices

Production and sales staff within the administrative centers and business units receive regular training and communication to ensure production operations are striving to uphold PCG's Code of Conduct and the customer's code of conduct. Depending on the business unit and production facility, the relevant production and planning managers will receive more focused training on improving operations to mitigate excessive overtime, especially for customers that require a LEAN manufacturing model. Additionally, all staff receive training on footwear manufacturing through PCG's power camp training orientation. Through interviews during the HQ Assessment and field observations, FLA verified that production managers and applicable business unit staff had received training on production planning to mitigate excessive overtime.

Since their area of expertise is social compliance, the SD team works to develop training programs to support the production facilities on how they manage stress where issues have occurred due to customer demands and pressures. As discussed in Principle 3, the SD team has been piloting a training program to support line supervisors and managers in managing stress and communicating with workers in a more respectable manner when there may be urgent customer demands. Following formal approval by the CEO of the Responsible Production Policy, FLA recommends PCG develop a training program on the policy that is applicable to all production facilities, administrative centers, business units, and top management.

Holding the Relevant Staff Accountable to Operate Responsibly

PCG has a comprehensive performance review for sales and production staff in all business units to hold relevant staff accountable. Specifically, the sales staff have a portion of their performance review devoted to SD performance and the audit results of production facilities within their business unit. The SD portion of the performance review represents about 15% of the overall performance. Not only are sales staff required to uphold PCG's Code of Conduct, but they also must ensure that they are conducting business with customers in a manner that upholds the customer's workplace standards.



FLA staff interview PCG' PGT business unit staff on responsible production practices at its compound in Indonesia.

Production managers are also held to the high standards of PCG and their customers. Production managers are responsible for maintaining planning and production calendars that are balanced to mitigate overtime practices. Additionally, PCG is working to implement an overtime alert system, as discussed in their Responsible Production Policy, in which production managers would provide notifications to relevant business unit staff and HQ SD staff when excessive overtime may occur. As mentioned throughout the report, the internal

audit results also hold the relevant production staff at the facilities and within the business units accountable for ensuring they are following PCG's overtime standards.

FLA has conducted five SCI Assessments and one SCIV Assessment throughout PCG's affiliation. Of the six assessments, FLA only found occurrences of excessive overtime (over 60 hours worked per week or over the local law requirement) in two of the facilities, the 2013 SCI Assessment of a production compound in China and the 2016 SCI Assessment at their production site in Bangladesh. The instances of excessive hours worked at the time of these SCI assessments ranged from 66 to 80 hours per week. SCI assessments of other production compounds in China and Vietnam from 2013, 2015, and 2017 found no noncompliances on excessive hours. However, there were noncompliances on undocumented overtime, where workers were working 15-20 minutes before or after their shifts, and noncompliances on production planning including overtime, although within the workplace standards of PCG, FLA and local laws. For all overtime findings, PCG has submitted its corrective action plan and remediation updates to the FLA, reporting on-going work and communication with its customers to reduce the amount of overtime; continuing to train line supervisors on mitigating undocumented overtime; and working with production planning to ensure that planned overtime is within the limits of workers who volunteer for overtime. Given common and systemic industry practices on overtime in the footwear sector, FLA recognizes the significant challenges PCG faces in balancing customer demands and ensuring workers are paid wages that do not rely on overtime premiums. FLA also recognizes PCG's significant achievements in mitigating excessive overtime at its facilities. FLA recommends PCG continue to work with its production managers and customers to continue to make progress in mitigating excessive overtime at all facilities.



Workers at one of PCG's China compounds receiving the annual employee recognition awards.

Dialogues with Relevant Staff & Customers to Implement

Responsible Production Practices

The business units are responsible for all communication with customers, including development, purchase orders, and social compliance. The SD team communicates with the business units to ensure standards are upheld at the production facilities at a programmatic-level, while production facility SD staff at the administrative centers and production sites ensure implementation of customer corrective action plans.

The business unit staff regularly communicate with customers on issues that occur at the factory-level

to ensure business decisions are made to align with both PCG's and the customer's standards. For example, following the strike over social insurance contributions discussed in Principle 7, PCG communicated to its customers that costing of products produced in China may need to be adjusted to accommodate the increased contributions to the social insurance benefits.

Because each business unit manages different customers, below is a description of how each business unit manages and communicates with their customers. FLA interviewed PCG staff from each of the four business units on their relationships with their customers, how the customers provide forecasts and long term plans, negotiate costing, nominate material suppliers, fill production capacity,

and regular communication. Through these interviews, FLA found that for the two business units that manage only one customer, the main challenges for PCG can be managing high production quality, design, material, and social compliance standards. For the two business units that manage more than one customer, the main challenges for PCG is managing smaller orders and changing styles between the customers and ensuring that social compliance standards are aligned with the PCG Code of Conduct, even if the customer has lower standards than PCG. FLA recommends PCG's business units to continue to ensure that dialogue internally and with its customers allow for PCG to improve working conditions and mitigate negative impacts to workers.

Evaluating and Incentivizing Production Sites and Material Suppliers to Improve Conditions for Workers

As discussed under Principle 5, PCG's internal audit includes a score and rating following the audit. To support the improvement of working conditions at all production sites, PCG has set goals for each business unit so that the facilities are motivated to improve their audit scores. Additionally, for 2018, PCG has set the goal not to have any Zone 4 rated facilities. Production facilities are incentivized to improve working conditions through expectations communicated by top management and through the performance review process. Additionally, facilities that receive a Zone 2 or better rating will receive internal audits every other year, instead of annually.

PCG's Global Supply Chain Management Team oversees raw material suppliers and has implemented a compliance program to assess for basic ESH, child labor, and forced labor for all material suppliers that are not nominated by customers and some nominated suppliers. The team conducts basic audits at the raw material facilities that result in a letter grade. Material suppliers that receive an A or B audit grade are invited to have a booth at PCG's annual vendor fair, where product development and production staff from the business units can see the newest technologies and capabilities developed by material suppliers. Based on these suppliers' capabilities related to chemicals, leather, mesh, and manufacturing, PCG can propose new solutions to its customers. FLA recognizes PCG's evaluation and incentive system for its production facilities and material suppliers as a strength of the social compliance program.

PRINCIPLE 9: CONSULTING WITH CIVIL SOCIETY¹²

Civil Society Engagement Strategy

PCG has developed a formal civil society engagement strategy and is applying the strategy in all production countries. PCG's main objective for engaging with civil society is to achieve the goal of developing an ideal and happy enterprise for PCG workers. The strategy includes how PCG has engaged with civil society, trade unions, and multi-stakeholder initiatives. It also identifies areas PCG would want to address through civil society engagement. PCG identified the following challenges: understanding local regulations, special labor protections for female workers, lack of social resources in developing countries, and labor turnover. The local administrative centers are responsible for engaging and developing projects with civil society organizations and nonprofits. FLA reviewed the strategy and recommended PCG improve and focus its areas for engagement. Additionally, FLA reviewed PCG's civil society engagement mapping, which includes organizations that are operating in PCG's production countries. FLA recommends PCG continue to expand its civil society engagement mapping, and to implement its civil society engagement strategy in all production countries.

¹² Principle 9: Company affiliate identifies, researches and engages with relevant labor non-governmental organizations, trade unions and other civil society institutions

Engaging Civil Society on Local Labor Issues and the Design & Implementation of Workplace Standards Strategies

Currently, PCG engages with civil society organizations in Bangladesh, China, Indonesia, and Vietnam.

- Bangladesh: PCG has engaged with Asia University, at the recommendation of FLA brands, on their worker/student sponsorship program. Through a selection process, PCG has sponsored at least one worker to attend classes at Asia University while continuing to pay the worker's salary.
- China: PCG has implemented a migrant parent and children summer program with nonprofit, Wave5. This program allows children of migrant parents who work at PCG's production facilities to visit their parents at the compound and participate in a summer camp. Children are not allowed in the production facilities but are allowed in the dormitories and canteens. Wave5 works with the production facilities to ensure that children are kept safe and occupied while their parents work. The summer camp also includes activities for the children and the parents that strengthen their relationship. Overall, PCG believes this summer camp has had a positive impact on its workers and their children.
- Indonesia: Through the Freedom of Association (FOA) Protocol, PCG engages with Oxfam, the relevant unions, the signatory brands, and other applicable suppliers to uphold workers' rights to FOA. PCG administrative center staff attend regular meetings with the unions, brands, other suppliers, and Oxfam. During FLA's Field Office Visit at one of PCG's Indonesia compounds, FLA interviewed the union leader who recognized the FOA Protocol in improving relations between supplier management and unions. The union leader also recognized PCG's improvement in the treatment of workers and union representatives through the leader's tenure. The union's current goal is to address traffic issues outside of the production compound. In the past, the union leader's goals were to address labor violations like unpaid overtime. Additionally, PCG has invited the union leader, and others from other production facilities, to meetings with top management at PCG's headquarters to discuss industrial relations.
- Vietnam: PCG engages with nonprofit Marie Stopes International to provide a voluntary training program that integrates gender-related issues to staff and production workers and PCG staff. This training worked to address gender inequality at the workplace, family environment, and social environment. PCG's administrative center staff in Vietnam also attended a workshop provided by UNICEF and the Vietnam Chamber of Commerce and Industry on a study of children's rights and the apparel and footwear industry to learn about a factory pilot program.



Taken during an interview between FLA and the union leader at one of PCG's production compounds in Indonesia.

FLA recognizes PCG's engagement with civil society and recommends PCG work to establish relationships with civil society organizations in Cambodia, Mexico, and Myanmar. FLA also recommends PCG continue to engage with labor-related civil society organizations in Bangladesh, China, Indonesia, and Vietnam.

Unions & Worker Representative Structures

PCG works with its factory managers to develop productive relationships with union representatives. In addition to regular interaction between production facility management and the union, PCG's audit team includes union and worker representatives in the opening and closing meetings and in the interview process in internal audits. PCG has unions or worker committees established at all production compounds. Production compounds in Cambodia, China, Indonesia, Vietnam, and Mexico have unions in place; the production site in Myanmar has an ESH worker committee; and the production site in Bangladesh has a worker committee. Below are examples of engagement in which the FLA has verified PCG's commitment to uphold the right to freedom of association and collective bargaining.

- **Indonesia:** FLA interviewed the union leader at one of its production compounds in Indonesia. The union leader discussed how factory management and the union have worked collaboratively to address worker grievances. For example, when PCG implemented the legally required health insurance enrollment, some workers revealed to the union representatives that they had provided false identification when seeking employment at the PCG compound, which would complicate their enrollment into the health insurance system. The union worked with factory management so that the workers could correct the false information and receive the health insurance benefits without retaliation.
- **Mexico:** During the audit at the Mexico production facility in 2018, PCG's auditors reviewed a collective bargaining agreement (CBA) that had been in place since the factory started its operations in 2008. Through consultation with the FLA, it was determined that this CBA was a protection contract and included clauses that required workers who are employed at the facility to join the union and terminate workers who left the union. Worker interviews confirmed that workers were unaware of the establishment of the union and that the workers did not pay union membership dues. PCG worked closely with FLA's CSO Engagement Manager, Latin America and Program Manager, Business Accountability to further understand the complexities of protection contracts in Mexico. FLA's CSO Engagement Manager, Latin America also participates in the regular meetings of the Mexico Committee of the Americas Group, a multi-stakeholder initiative of international apparel brands, the global union IndustriALL, the FLA and Maquila Solidarity Network focused on addressing labor violations in the Americas. In 2016, the Mexico Committee published [guidance](#) for suppliers on protection contracts and organized a training, which the HR Manager at PCG's Mexico facility attended at the invitation of an FLA accredited PC. This accredited PC is PCG's sole buyer at the Mexico facility, is a member of the Mexico Committee, and was aware that a CBA existed at the PCG facility. However, they had not been able to review the content. As part of the initiative from the Mexico Committee, the accredited PC requested PCG provide the CBA in April 2018. PCG provided the CBA and has since been working with the FLA and the accredited PC to implement immediate actions to ensure freedom of association is upheld for its workers. As part of these immediate actions, PCG is developing a freedom of association policy, providing further training to managers, supervisors, and workers on PCG's Code of Conduct and freedom of association, distributing the CBA to the workers, and developing plans to establish a worker-management dialogue committee. PCG will continue to work with the FLA and the accredited PC to address the restrictions of freedom of association with the union.
- **Vietnam:** One of PCG's production compounds in Vietnam has experienced two strikes in the last four years. In both cases, these strikes were initiated as reactions to PCG management's request for feedback on potential changes to the wage structure at the factory. FLA reviewed the compensation data collected through an SCI Assessment at this compound, and found that the average net wages provided fair compensation for workers, with the averages for all production occupations falling between the Global Living Wage Coalition's Living Wage Estimate benchmark and the Asia Floor Wage benchmark. FLA recognizes that PCG will eventually revise its wage structure at this facility and FLA recognizes PCG's commitment to

freedom of association and union and worker committee engagement as one of the strengths of the social compliance program. FLA recommends PCG continue to engage with the union and worker representatives in the revisions of the wage structures to continue ensure a level of fair compensation.

FLA recognizes PCG's continuous improvement in worker and union engagement and as an overall recommendation, FLA recommends PCG continue to work with its production sites in Cambodia, Mexico, and Myanmar to establish a worker-management dialogue committee.

PRINCIPLE 10: VERIFICATION REQUIREMENTS¹³

PCG has developed and implemented operating procedures to maintain its FLA affiliation. These procedures include processes for facilitating FLA SCI Assessments, submitting the annual self-assessment, maintaining an accurate production site list, and payment of FLA membership dues. PCG has participated in all FLA SCI Assessments, provided CAPs for findings, and remediation updates until completion. PCG has also submitted the annual FLA self-assessment every year from 2013 to 2017, as required; has provided an accurate list of all owned footwear production sites; and has paid their membership dues in a timely manner. PCG has attended some FLA Board Meetings, most recently in February 2017, and participated in the 2017 Responsible Production Practices meetings for Participating Suppliers. FLA recommends PCG continue to engage with the FLA and participate in future FLA committees and working groups to provide insight to the FLA and its members on the operational benefits and challenges for FLA Participating Suppliers.



The production floor at PCG's Mexico facility.

SECTION 4: CONCLUSION AND RECOMMENDATION TO THE BOARD OF DIRECTORS

This review of PCG'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.

Since affiliation as a PS, PCG 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 the FLA Board of Directors accredit PCG's labor compliance program.

The assessment identified certain areas in which PCG's labor compliance program has been strong and also areas where improvements are possible.

Strengths of Pou Chen Group's labor compliance program include:

- 1) Top management commitment to globally implement the workplace standards through allocation of human and financial resources;
- 2) Innovative, comprehensive, and on-going training of workplace standards to ensure understanding and implementation from the production-level to the headquarter-level;
- 3) Multiple grievance channels for workers to raise grievances at the production site or to the headquarters;
- 4) A comprehensive internal audit program and scoring methodology to inform top management of production site performance;
- 5) The integration of compliance data to inform top management decisions, communications, and improvements at the production and headquarter-level;
- 6) A comprehensive system to evaluate and incentivize production sites and material suppliers to improve working conditions; and
- 7) On-going engagement and dialogue with union and worker representatives to uphold workers' rights to freedom of association, address worker grievances, and improve working conditions.

Suggestions for strengthening Pou Chen Group's labor compliance program include:

- 1) Ensure consistent application of learnings from manager and supervisor trainings at all production sites;
- 2) Continue to improve collaboration amongst production sites and business units to share best practices and build efficiencies in business practices to uphold the PCG workplace standards;
- 3) Establish a formal responsible production practices training program for all applicable staff;
- 4) Continue to remedy labor violations identified through internal monitoring, buyer audits, FLA assessments, and other stakeholder grievances;
- 5) Continue to engage with civil society and establish civil society relationships, especially in Cambodia, Mexico, and Myanmar;
- 6) Establish worker-management dialogue committees at production sites in Cambodia, Mexico, and Myanmar.

APPENDIX A: THE POU CHEN GROUP CODE OF CONDUCT

Pou Chen Group CODE OF CONDUCT

Stemming from the commitment to corporate social responsibility, Pou Chen Group (hereinafter referred to as "PCG") always demonstrates rigorousness, openness, and transparency in its compliance with the applicable laws and regulations of the countries of operation; if there is discrepancy or conflict between different standards, whichever is higher is adhered to. PCG (i) develops its core standards for all employees performing duties by referring to the codes of conduct adopted by primary non-governmental organizations and various brand-name clients from time to time; (ii) dedicates itself to continuous improvements in work environment and risk control through the detection of potential problems by internal and external audits; and (iii) strives to further foster labor harmony and aims to become one of the best enterprises to work for. PCG's Code of Conduct is as follows:

■ **Employment Relationship**

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

■ **Nondiscrimination**

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

■ **Harassment or Abuse**

Every employee shall be treated with respect. It's not allowed to treat any employee by physical, sexual, psychological or verbal harassment or abuse.

■ **Forced Labor**

No use of forced labor shall be allowed, including prison labor, indentured labor, bonded labor or other forms of forced labor.

■ **Child Labor**

No person shall be employed under the age of 15 or under the age for completion of compulsory education, whichever is higher.

■ **Freedom of Association and Collective Bargaining**

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

■ **Health, Safety, and Environment**

Employers shall provide a safe and healthy workplace setting to prevent accidents and injury jeopardizing health when workers engage in work-related tasks or the operation of employers' facilities.

Employers shall adopt responsible measures to mitigate negative impacts that the workplace has on the environment.

■ **Hours of Work**

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

■ **Compensation**

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

■ **Community Outreach and Partnership**

PCG dedicates itself to active participation in community beneficial activity, enhancement of the community development, and creation of harmonized society.



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