



**FAIR LABOR**  
ASSOCIATION®

*Improving Workers' Lives Worldwide*



**PUMA AG**

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**ASSESSMENT FOR ACCREDITATION**

February 2007

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## INTRODUCTION

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

The FLA Board of Directors voted to approve the accreditation of PUMA's compliance program on February 14, 2007, based on proven adherence to FLA's Workplace Code of Conduct and the Obligations of Companies. Details on FLA's accreditation methodology can be found at [www.fairlabor.org/accreditation](http://www.fairlabor.org/accreditation).



## PUMA'S LABOR COMPLIANCE PROGRAM

PUMA is headquartered in Herzogenaurach, Germany. PUMA acts as a holding company for the sourcing operations of World Cat Europe (Germany), World Cat Far East (Hong Kong), and World Cat America (USA). PUMA also holds licensee contracts for selected products and countries, which generate royalty revenue.

PUMA's Social Accountability and Fundamental Environmental (S.A.F.E.) Standards Department is responsible for ensuring that labor and environmental standards, adopted by the corporation, are observed worldwide in the manufacturing of PUMA products. PUMA adopted a code of conduct in 1993 and developed a compliance program in 1999 which, in 2002, was formally named the S.A.F.E. Standards Department. The head of the Department reports directly to the Board of Management through the Chief Product Officer.



*Puma headquarters in Herzogenaurach, Germany.*

S.A.F.E.'s responsibilities are carried out by three divisions, each headed by a S.A.F.E. Manager: Europe, Middle East and Africa; Far East; and China. Currently, the Head of the S.A.F.E. Department is based at the Far East regional office in Manila. At the end of 2006, there were 8 full-time S.A.F.E. Department staff; one located in Herzogenaurach, Germany, one in Guangzhou, China, and 6 in Manila, Philippines. S.A.F.E. staff audits all facilities producing for PUMA. In 2006, 307 S.A.F.E. supplier audits were conducted worldwide.

In addition to the full-time compliance staff, PUMA has sought to integrate the S.A.F.E. program into its sourcing department (known as World Cat), its quality department, and its licensees, by having staff from these departments and business partners play a role in compliance oversight at the factory level.

- PUMA sourcing managers attend closing meetings of audits and are involved in production-related remediation activities and in scheduling production to support compliance program needs.
- Quality and production staff helps to coordinate monitoring visits, follow up on pending compliance issues, and translate and distribute S.A.F.E. Material and support capacity building programs.
- Finally, licensees are required to coordinate visits of their suppliers and fulfill the same functions as PUMA's own quality and production staff. Licensees are given the option to be audited by PUMA compliance staff or a third-party auditor.

PUMA AG joined the FLA in 2004 and chose a three-year implementation period. Over the implementation period, PUMA has made advances in internal and external monitoring of the supply chain, engaged in capacity building projects at factories with external partners, particularly NGOs, and has conducted awareness-raising activities regarding labor compliance within company departments such as sourcing. PUMA became increasingly involved in sustainable compliance efforts in 2006, and intends to continue to do so in 2007 and onward.

Throughout its affiliation with the FLA, PUMA has been very active in FLA activities. The Global S.A.F.E. Head, has served as a



*Puma Compliance Team conducting worker training.*



*Workers reading training materials.*



*Shoe factory workers at the assembly line.*

member of the FLA Board of Directors. PUMA representatives are regular participants at regional meetings and trainings in Asia and elsewhere. PUMA also co-hosted the FLA Board of Directors meeting that was held in Bamberg, Germany, in June 2006, the first meeting of the Board held outside of the United States.

The table below describes PUMA's supply chain over the period 2004-2006, as reported to the FLA. PUMA sourced from 274 applicable facilities in 2004, 370 in 2005, and 305 in 2006, located across all regions

of the world. During this period, PUMA factories were subject to a total of 44 unannounced Independent External Monitoring (IEMs) events conducted by FLA-accredited independent external monitors. Information on the results of the IEMs, and the remediation undertaken by PUMA in response to IEM findings, are provided in FLA tracking charts and discussed, as appropriate, in the next section.



*A Puma supplier factory in Vietnam.*

PUMA APPLICABLE FACILITIES AND IEMS, 2004-2006						
COUNTRY	2004 APPLICABLE FACILITIES	2004 IEM	2005 APPLICABLE FACILITIES	2005 IEM	2006 APPLICABLE FACILITIES	2006 IEM
Argentina	4		5		9	
Australia			3			
Bangladesh	3	1	6	1	7	
Brazil	1		6	1	4	
Bulgaria	8		6		2	1
Cambodia	2		4		5	1
Canada	1		1			
Chile			2		2	
China	69	4	107	6	101	4
Czech rep	1					
Colombia			2	1	1	
Ecuador	1		1		1	
Egypt	1		1		6	1
El Salvador			2		3	
Fiji	1					
Germany			3		0	
Greece	3		2		2	
India	9		8	1	3	
Indonesia	4	1	8	1	10	
Ireland	1		1		1	

PUMA APPLICABLE FACILITIES AND IEMS, 2004-2006						
COUNTRY	2004 APPLICABLE FACILITIES	2004 IEM	2005 APPLICABLE FACILITIES	2005 IEM	2006 APPLICABLE FACILITIES	2006 IEM
Israel					2	
Italy	12		20		4	
Japan	2					
Laos	3		2		2	
Lesotho	1		1		1	
Malaysia	12		13		13	1
Mexico	2		2	1	3	
Morocco	3		3		2	
New Zealand	1		1		1	
Pakistan			7		7	2
Paraguay	1		1		1	
Philippines	6		5		2	
Poland	2		3		1	
Portugal	21		19		9	
Romania	6		5		4	
Singapore	2		1		1	
Slovakia	2		2		1	1
South Africa	6		6		6	
South Korea	12		12		17	1
Spain	1		3		3	
Sri Lanka	1				1	1
Taiwan	7		12		8	
Thailand	24	1	16	4	19	1
Tunisia	1		5	1	3	
Turkey	19	1	34	1	14	1
Ukraine			3		2	
UK	1		1			
USA	2		1			
Venezuela	1		2		1	
Vietnam	14	1	17	1	20	1
<b>Total</b>	<b>274</b>	<b>9</b>	<b>370</b>	<b>19</b>	<b>305</b>	<b>16</b>

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

PUMA's initial monitoring plan foresaw a three-year initial implementation period, ending in December 2006, for its apparel, footwear and equipment product as well as product produced by its licensees.

Information used in this assessment originates from annual reports submitted by PUMA to the FLA verified through: (1) visits to PUMA's headquarters by FLA staff; (2) visits to factories by FLA staff; (3) observation of training sessions and other field activities by FLA staff; (4) information gathered via in-person and/or phone interviews, and/or email correspondence with PUMA monitors and other key stakeholders; and (5) results of IEMs and ensuing remediation.

## 1. ADOPTS AND COMMUNICATES A CODE

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

#### **Actions Taken:**

The PUMA Supplier Code of Conduct was adopted in 1993 and PUMA's Code of Ethics, a broader statement on corporate governance, was adopted in 2005.

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

PUMA's Code of Conduct meets FLA standards. The Code of Conduct and the Code of Ethics are available in English and German on the company's website, <http://about.PUMA.com> and the Code has been translated into the local languages of PUMA's sourcing countries. Initially, some of the translations of the Code of Conduct did not meet FLA standards because the Freedom of Association provision recognized local law but not the international standard. PUMA has since revised all versions of the Code to reference international standards.

### 1.2 Informs all suppliers in writing

#### **Actions Taken:**

Suppliers are provided an initial letter introducing the PUMA Code of Conduct and are required to sign an Annual Supplier Certification every year.

S.A.F.E. Handbooks in English and Mandarin are distributed to PUMA contract and licensee factories.

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

FLA staff reviewed the certification and initial letter, confirmed that they contained the Code of Conduct (consistent with FLA standards), and verified that they were signed by the supplier.

In the Manila office, FLA staff reviewed the two latest S.A.F.E Handbooks in English which contain explanations of PUMA labor and environmental standards and illustrations of good practices. During a factory visit in China in 2006, FLA staff also verified that the factory had received the S.A.F.E. Handbook in Mandarin.

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

#### **Actions Taken:**

PUMA requires factories to post the Code translated in local language of workers and managers, in prominent places in factories. Selected factories have been advised to also translate the Code of Conduct to the native languages of foreign migrant workers.

This posting is monitored during PUMA S.A.F.E. audits.

**Verification by FLA:**

FLA staff reviewed photos of the Code of Conduct posted at factories stored in the PUMA database.

During a factory visit in China, FLA staff did not see the PUMA Code posted. The factory only had a small sized copy of PUMA's Code of Conduct on file. In 2005, FLA Monitors cited the lack of Code posting in 25% of PUMA's IEMs and in 19% in 2006.

The FLA has reviewed PUMA internal audit reports and confirms that the audit instrument contains questions asking if the Code is translated into appropriate languages and if is strategically displayed. Copies of PUMA's internal audit reports are on file at the FLA.

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

**Actions Taken:**

Since 2005, PUMA factories are advised to include a briefing on the Code to all new workers and to have regular Code of Conduct training for workers and supervisors included in the factory's annual training plan.

In addition to training, pocket guides with the PUMA Code of Conduct were introduced in 2006; the pocket guides are available in Mandarin, Spanish, Turkish, Bahasa Indonesian, Bahasa Malaysian, Arabic, Urdu, and Vietnamese, among other languages.

PUMA requires its monitors to confirm that training has taken place and to test worker awareness during internal audits.

PUMA suppliers are asked to designate an internal Compliance Officer who will be in charge of all compliance issues in the factory.

**Verification by FLA:**

The FLA reviewed letters in which suppliers are asked to create training material to educate workers on the Code of Conduct and basic rights that are in accordance with guidelines given in the S.A.F.E. manual.

FLA also reviewed documentation of a Code of Conduct and labor rights training workshop PUMA provided to supervisors and worker representatives from 10 footwear factories in Vietnam in June 2005. FLA staff also reviewed training documentation for supplier trainings on the Code of Conduct, safety and health and grievance procedures in China, Singapore, and Thailand. FLA staff observed supplier trainings in Turkey and Bulgaria in 2005 and 2006.

The FLA reviewed copies of the pocket guides with the PUMA Code of Conduct at the Manila offices and saw them distributed in some factories.

The FLA confirmed that the PUMA audit instrument contains questions asking if workers are aware of the Code of Conduct. Copies of PUMA's internal audits reporting on training and worker awareness are on file at the FLA offices.

Nevertheless, in approximately 50% of PUMA's IEMs for 2005 and 2006, FLA Monitors still cited the lack of awareness by workers and/or managers regarding PUMA's Code of Conduct. This is consistent with findings for other brands and suggests that innovative ways to promote worker awareness are necessary.

During a visit to the PUMA office in Manila, FLA staff reviewed copies of the letter that PUMA sends out to its suppliers asking them to designate a Compliance Officer and the required responsibilities of this person.

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

**Actions Taken:**

As mentioned above, PUMA suppliers sign an FLA Annual Supplier Certification and an Access Letter that will allow entry by the FLA monitors to the factory during audits. PUMA notes that one factory in the Americas did



not agree to sign the FLA documents in 2006. Business relations with this factory will cease by end of the year.

Suppliers also sign a Declaration of Principles as part of the business contract with PUMA. In addition, upon receipt of the PUMA S.A.F.E. Handbook, suppliers are required to communicate the standards and content of the Handbook to their subcontractors. PUMA suppliers are also required to sign a Supplier's Undertaking and Letter of Authorization annually after passing the S.A.F.E. audit inspection. This Supplier's Undertaking is a document that is revoked if a factory fails a S.A.F.E. re-audit or if critical issues are found. If the document is revoked, then the factory goods cannot be shipped.

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

The FLA reviewed copies of the signed certification letters at the Manila office. The FLA also reviewed the documents that PUMA sends to the suppliers explaining the FLA and the possibility of having unannounced audits. During a factory visit, observed by FLA staff in China, a factory owner confirmed that he had received FLA documentation from PUMA but in another instance, factory management claimed not to have received any documents from PUMA and was not aware of PUMA's participation in the FLA. The FLA recommends that PUMA continue to focus on consistency in informing factories about their obligations through distribution of the S.A.F.E. manual and other documents.

The FLA staff reviewed copies of the signed Declaration of Principles in the PUMA database and the signed Supplier's Undertaking and Letter of Authorization during a visit to the Manila office.

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

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

#### **Actions Taken:**

PUMA has recruited staff with competencies the company has identified as important for the S.A.F.E. team. The head of the department has a Ph.D. in Environmental Chemistry and has worked in labor relations prior to joining PUMA. Other team members have degrees in labor, accounting, environmental science as well as health and safety engineering, and research (with a focus on CSR).

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

The FLA staff has interacted with PUMA staff members and licensees in East Asia, Southeast Asia, South Asia and Europe and staff has demonstrated competencies in understanding local labor law, identifying common violations, developing a remediation plan, and building supplier capacity on specific issues.

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

#### **Actions Taken:**

Most monitor training is received on the job but PUMA staff is also undergoing training to improve skills in different required areas such as languages and CSR through conferences, project management training, health and safety training, and so forth. Production staff receives training on S.A.F.E. standards through meetings and an online training program.

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

Most PUMA auditors confirmed that training is generally on-the-job. One auditor interviewed by the FLA said that participation in PUMA's sustainable compliance projects -- such as PUMA's Human Resource Management (HRM) project -- was a positive learning experience. The HRM knowledge obtained helped this auditor to better assess HR operations, policy, and development and implementation of procedures, which the auditor was able to apply in remediation work with factories. The FLA can also confirm that PUMA staff members have attended FLA training courses in Thailand and China.

PUMA auditors state that training is provided to their production and sourcing counterparts via the S.A.F.E. Newsletter.

### 2.3 Updates that training at regular intervals

#### **Actions Taken:**

PUMA holds periodic training refresher opportunities for staff.

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

During the annual S.A.F.E. Team meeting, compliance issues are discussed and experts are invited to train compliance officers on specific topics. FLA staff has participated in these sessions for the last three years.

## 3. PROVIDES EMPLOYEES WITH CONFIDENTIAL REPORTING CHANNELS

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

#### **Actions Taken:**

Factories are required to have suggestion boxes, grievance procedures and confidential response procedures.

PUMA supported a worker committee/representative training in China in early 2006. Moreover, working with another FLA brand, worker representative elections were conducted in one factory in China.

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

The S.A.F.E. manual, reviewed by FLA staff, contains guidance on how workers might make suggestions, raise grievances and/or file complaints. It introduces the concept of the Five Ws (what, why, who, when, where, and how). Guidance on establishing and using suggestion boxes is also provided. The FLA also reviewed PUMA's factory rating system, which foresees the evaluation of factory grievance systems.

FLA staff has observed some PUMA internal audits and found that although the S.A.F.E. manual was provided to most suppliers and in some cases suggestion boxes were established, the suppliers had not received training and PUMA staff did not explain the need for such a procedure to be established. The FLA can confirm that PUMA is giving more attention to this issue. The FLA can confirm that PUMA's internal audit questions examining factory grievance procedures have become more focused and specific, containing questions on the existence of an internal grievance procedure (or suggestion box) and assessing how it works. The FLA also confirms that PUMA has registered to send staff to the FLA grievance procedure training for the Soccer Project and one PUMA factory will attend a similar training. Moreover, PUMA has participated in the FLA's Sustainable Compliance Project and has made efforts to establish a grievance procedure in the corresponding factory.

Remediation plans submitted by PUMA for their 2005 IEMs explicitly included the development of an internal grievance process in those cases where this form of remediation was relevant.

The FLA staff reviewed materials regarding promoting workers' participation in a Chinese factory.

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

#### **Actions Taken:**

Since 2005, PUMA has attached stickers to all the Code of Conduct posters encouraging workers to report violations of the Code and providing contact information.

As mentioned earlier, pocket guides with contact information are provided to workers during both audits and regular production visits. PUMA auditors bring copies of the pocket guides for distribution when they conduct audits and are required to hand out business cards or contact information during worker interviews.

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

During a visit to the Manila office, FLA staff reviewed the Code of Conduct posters and the sticker with contact information.

FLA Monitors cited the lack of a confidential channel directly to PUMA in almost half of IEMs conducted in 2005; the corresponding share in 2006 was one-third. Similarly, during PUMA internal audits observed by FLA staff,

contact information was posted in some factories but not others. FLA recommends that the practice of providing contact information to workers be followed more consistently.

The FLA observed the pocket guide in different languages: Spanish, Turkish, Mandarin, Urdu, Bahasa Indonesian, Bahasa Malaysian, English, and Vietnamese. Per PUMA staff, the Arabic and Cambodian version are undergoing translation. The FLA reviewed pocket guides and confirms that the guides reviewed at the Manila office had contact information for Puma compliance staff. In cases where local contact information is not provided, Puma auditors confirmed that they provide their details.

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

#### **Actions Taken:**

PUMA requires its auditors to provide contact information confidentially during worker interviews.

A worker complaint procedure was developed by PUMA in late 2005 to verify and address worker complaints, including timelines for responses by PUMA that also ensure the complainant is kept informed of the status of the complaint.

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

During factory visits in China, the FLA observed PUMA auditors handing out the pocket guide with PUMA's Code of Conduct in Mandarin with contact information during confidential interviews.

The FLA verified that PUMA has a system that tracks the complaints against Code violations received and the action taken by PUMA in response. PUMA should work to ensure all compliance staff is aware of the complaint tracking system.

## **4. CONDUCTS INTERNAL MONITORING**

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

#### **Actions Taken:**

PUMA visited nearly 100% of its applicable active factories during its initial implementation period. In 2006, PUMA conducted 307 S.A.F.E. audits at suppliers and some subcontractors (some factories are visited initially and then again for a comprehensive follow-up). The frequency of audits is based on PUMA's 4-grade rating system that places heavy penalties for failures in the areas of child labor, minimum wage noncompliance, and prison labor. "A" factories (those considered at least 95% compliant) are monitored once every 2 years; "B" factories (85%-94% compliant) are monitored annually. Factories below 85% compliant are either conditional failures (C rating) or outright failures (D rating). Factories with C or D ratings are either dropped or more frequently monitored to ensure compliance reaches an acceptable level prior to production or continuation of production.

All new factories for both World Cat and Licensees underwent preliminary full audits either prior to production or during the trial phase.

All PUMA audits are announced through the World Cat office or licensees. The factory is provided with a list of documents to be reviewed during the course of the audit (some documents are requested only during the visit). An opening meeting is held with factory management, followed by a document review. A walk-through of the factory is conducted, including production, living, and recreation facilities. Workers are selected for interviews randomly during the document review and factory walk-through. If PUMA inspectors do not speak the local language, a translator is used. Interviews are usually conducted on-site except in the case of worker complaints. There is also a closing meeting with management.

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

During a visit to the Manila office, the FLA reviewed the auditing information and factory grades in the PUMA database. FLA staff also reviewed auditing schedules and randomly cross-checked reports in the database and

found that most of the factories producing for World Cat were audited in 2006. PUMA S.A.F.E. staff confirmed that they use the ratings to determine audit schedules but explained that most factories are visited regularly to ensure that they have maintained the appropriate rating.

FLA interviewed PUMA field staff in two countries in Asia who confirmed that 100% of new factories receive pre-production audits.

During factory visits observed by FLA staff, all of the processes for an audit were completed. Auditors upload the results of their work into the database on a daily basis.

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

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

PUMA has created an audit instrument that is used to capture information about factory conditions.

PUMA maintains a database which stores the results of audits and verification visits.

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

A copy of the PUMA audit instrument is on file at the FLA offices. It was reviewed during a visit by FLA staff to the Manila field office and during an observation of a PUMA internal audit in Asia and Europe. The FLA notes that PUMA's audit instrument does not request verification of existing collective bargaining agreements.

FLA staff tested the compliance database in the Manila office and found that it is functional and accessible and collects and tracks audits and details of remediation and verification.

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

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

An initial analysis of the monitoring results is conducted during the audit and is presented during closing meetings with factory management. A final analysis is done one week later. Copies of the reports are provided to World Cat, the licensees, and the factory. The factories are expected to provide a formal response to the initial analysis within a week after the audit. Corrective action plans are signed by factory management and auditor. Clear deadlines are included in corrective action plans.

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

The FLA reviewed corrective action plans at PUMA headquarters. The FLA can confirm that PUMA encourages considerable time be spent on remediation activities. Some PUMA compliance staff members, however, stated that they found it difficult to spend sufficient time on remediation due to the other monitoring activities. PUMA has advised all compliance staff to prioritize remediation work as needed. The FLA encourages PUMA to continue to monitor the workload of each compliance staff member to ensure they are spending adequate time on remediation.

#### **4.4 Tracks the progress of remediation**

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

Remediation tracking is done through the PUMA database and report addenda. Remediation is also tracked through documentation submitted by the factory as evidence of corrective action taken. Phone calls with the factory and verification visits are also used to track the remediation.

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

In conversations with auditors and through observation of the database and auditing documents, FLA staff has verified that the remediation is tracked through the corrective action plan template. A more detailed history of factory remediation is tracked for the factory rating system. FLA staff reviewed the database and found that remediation is tracked and documentation is maintained.

Remediation plans submitted by PUMA for their IEMs consistently include updates and follow up visits to factories.

## 5. REMEDIATES IN A TIMELY MANNER

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

#### **Actions Taken:**

After receipt of an internal audit report or an external monitoring report, PUMA S.A.F.E. staff works with factory management to develop a corrective action plan. In the case of external audits, PUMA internally compares the findings of the FLA audits with its internal audits. The factory is contacted along with the relevant production staff to schedule the initial remediation visit. The factory is provided a copy of the tracking chart for reference.

PUMA gives the factories 60 days to correct critical noncompliances. For issues that involve large capital expenditure or are rooted in cultural/social norms, a longer timeframe is granted.

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

At the Manila office, FLA staff reviewed remediation plans and email exchanges between auditors and factories communicating about corrective action plans.

The FLA has observed PUMA monitors discussing remediation timelines and plans with monitors. In one instance, FLA staff observed PUMA auditors spending two hours during the closing meeting to discuss the audit findings (including a discussion of strengths and weaknesses) and to allow the factory to respond to the findings. During interviews, PUMA auditors confirmed to FLA staff that the timeline for corrective action depends on the issues. If the issue is related to systems, the factory can take it up to 60 days. However, for some of the issues that can be easily resolved, the timeline is shortened. For deep- rooted issues, longer timeframes are allowed.

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

#### **Actions Taken:**

In order to support the factories in the implementation of remediation plans, the plans are reviewed by production staff with reference to production issues (e.g., on-time delivery, overtime, etc.) to see if any internal PUMA production processes can be adjusted to support the factory's efforts to meet compliance standards.

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

The FLA confirmed that production/sourcing/licensee staff was present at factory audits observed by the FLA. PUMA staff tries to involve production and sourcing in remediation discussions to prevent noncompliances, particularly those that are production related. PUMA also attempts to assign one staff member to take on capacity building and train factories on preventative systems.

Remediation plans submitted by PUMA for their IEMs consistently include the need for the development of policies and procedures, and the need for a factory to communicate these processes to workers.

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

#### **Actions Taken:**

In the case of IEMs, tracking charts are provided to FLA within the 60 day period, which already includes an initial visit with the factory and any progress the factory has made up to that point.

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

The FLA confirms that PUMA's tracking charts are generally received on time.

#### 5.4 Confirms the completion of remediation

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

PUMA requests that photos and documents be sent to verify the completion of remediation for minor issues. For more serious noncompliances, PUMA S.A.F.E. staff schedules follow-up visits to verify and confirm that remediation is complete. These usually take place 2-3 months after the initial visit.

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

During a visit to the Manila headquarters, FLA staff examined the auditing schedule of the PUMA S.A.F.E. team and verified that there is a staff person responsible for arranging the auditing schedule, including follow-up visits, for the team. Photographs and scanned documents, in addition to follow-up phone calls and verification audits are used to track the completion of remediation.

FLA staff observed a PUMA follow-up visit at a factory in China and confirmed that PUMA's auditors accept photographs from the factory as evidence of remediation of most health and safety issues. During the visit, the auditors focused on the follow-up of other pending noncompliances.

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

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

PUMA states that production managers or licensee representatives are usually present during factory visits to stress that continued business is dependent upon factory cooperation.

As mentioned above, suppliers must also sign a Letter of Authorization indicating that they have passed an annual audit and may proceed with shipping production.

The S.A.F.E. audit result has also been fully incorporated in the World Cat 5-Point Sourcing Criteria and Strategic Partner Concept (SPC). The system grades a supplier's Price, Quality, In-Time Delivery, R&D and S.A.F.E. ratings. Passing a S.A.F.E. audit is a necessary but not sufficient condition for production to start or continue. Currently, deliberations are underway to further improve the integration of S.A.F.E. results into the overall sourcing decision, including rewarding factories that achieve high ratings and disciplining factories where there is minimal or no improvement.

A warning letter system was established in 2006 in support of the S.A.F.E. Complaint mechanism. This system serves as the procedural basis for serious redress or termination of business relations with suppliers that do not comply with the Code of Conduct. The warning letter is signed by the General Manager of World Cat, the sourcing organization of PUMA.

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

The FLA staff confirms that PUMA compliance and sourcing staff are present at the closing meetings of PUMA audits and are involved in the discussion of remediation and timeframes for implementation. This was observed at visits in East Asia, South Asia, Southeast Asia and Europe. In an interview with a PUMA field auditor, the FLA confirmed that sourcing is notified if corrective action is not fully implemented, and that both sourcing and the licensee play an active role in following-up on corrective actions.

During a visit to the Manila headquarters, FLA staff reviewed PUMA's Letter of Authorization.

During the FLA's visit to the S.A.F.E. Headquarters in Manila, PUMA S.A.F.E. staff held a meeting to discuss the new vendor rating system, which was being introduced to the compliance staff. This system, which is already in use, is being strengthened and expanded.

The FLA can confirm that in 2006, PUMA issued a warning letter to a factory in South Asia that business would end if compliance conditions did not improve.

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

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

#### **Actions Taken:**

An analysis of compliance findings, including an in-depth analysis of failed factories, is undertaken at the start of each year, followed by a less detailed mid-year assessment. The database system automatically issues reminders to PUMA compliance staff about the need to conduct assessments and re-assessments.

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

PUMA sustainability reports have been reviewed by FLA staff. PUMA has informed the FLA of the results of its compliance analysis through reports submitted to the FLA.

Field staff identified issues of excessive overtime and low enrollment in social insurance programs as persistent noncompliance issues. These were determined through an analysis of compliance findings in China.

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

#### **Actions Taken:**

PUMA has sought a project-based development approach when dealing with persistent and serious forms of noncompliance in an attempt to create factory level systems that may be more sustainable and preventive and that increase worker rights awareness and participation. The initiatives include training elected trade union members in selected factories in China and working with other brands to establish HRM systems.

PUMA is also introducing a monitoring system to identify the root causes of noncompliances so that remediation is more preventative.

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

The FLA verified that PUMA worked with the [CSO] to conduct training in one factory in 2005 on worker committee participation improvement. In 2006, the same organization trained trade union committees. The FLA also reviewed documentation of PUMA's collaboration with other brands in a Human Resource Management project in China which seeks to establish human resources systems at factories.

PUMA participated in the FLA Soccer Project which seeks to identify the root causes of noncompliances with respect to grievance procedures and hours of work. The PUMA factory participating in the project has been involved in a needs-assessment as well as training on the balanced scorecard methodology and the guidelines of good practice (for recruitment, termination, discipline and grievance). PUMA staff has followed up the progress with the factory through its comprehensive audit and communicates to the FLA regional staff on the status. PUMA has also participated in the FLA sustainable compliance project that seeks to establish better human resource systems and communication channels in factories in China.

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

#### **Actions Taken:**

PUMA participates in a number of collaborative projects which are expected to be preventative and are applied to all factories irrespective of whether the particular noncompliance has been identified. PUMA has involved its factories in projects to assist persistent noncompliances such as: (1) Freedom of Association; (2) Hours of Work; (3) Human Resource Management Systems; and (4) Health and Safety. PUMA has appointed a capacity building officer to oversee the implementation of preventive systems in each factory.

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

The FLA confirms PUMA's participation in the following collaborative projects: FLA projects (Soccer, Sustainable Compliance), [CSO] project in Turkey, the [CSO] project on promoting dialogue between workers and management in Bulgaria and Romania; a cooperative program with the [CSO] in Central America, and a future cooperation with [labor federation] on health and safety training in Bangladesh.

## 7. SUBMITS TO INDEPENDENT EXTERNAL MONITORING

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

#### Actions Taken:

PUMA provides updated factory lists periodically to FLA.

#### Verification by FLA:

The FLA confirms receipt of PUMA documents as requested on a timely basis.

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

#### Actions Taken:

All PUMA suppliers are provided FLA-documents to ensure that factories would cooperate with IEM staff.

#### Verification by FLA:

One IEM was aborted for PUMA in 2006 due to a factory manager's refusal to participate in the FLA IEM process. PUMA acknowledged that this supplier did not agree to sign the annual supplier certification and participate in the IEM. PUMA informed the FLA that they plan to cease business with this supplier due to lack of commitment to compliance efforts. Two other IEMs were aborted because, although the factories were active, they were completing their final orders. In another two cases where IEMs were denied access for similar reasons, PUMA staff was able to facilitate entry into the factory.

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

#### Actions Taken:

All requests for information are promptly answered at the global level.

#### Verification by FLA:

The FLA confirms that PUMA responds promptly to all FLA requests regarding the IEM process. The FLA staff has communicated with PUMA staff on remediation and PUMA staff is always cooperative and available.

## 8. COLLECTS AND MANAGES COMPLIANCE INFORMATION

### 8.1 Maintains a database

#### Actions Taken:

PUMA has a database that is routinely updated by all S.A.F.E. staff. Global audit performance information is kept in a customized computer database system that is accessible globally via PUMA secured networks.

#### Verification by FLA:

PUMA auditors are required to update the database after every audit. The FLA reviewed updated information in the database during a visit to the Manila office. In the database under each factory's profile, the factory rating is provided for each audit so that PUMA staff (compliance and sourcing) can see the current performance status of the factory.

The FLA found the PUMA filing system for reports and other supporting documents to be well organized. Documents are kept in a library, making it very easy to find information and the compliance history of a factory. Production staff have read-only access to the database, so they can help following up on issues at factories for which they are responsible.



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

### Actions Taken:

PUMA collects supplier lists from World Cat and Licensees every six months and updates factory status information regularly. PUMA also generates a factory list for public distribution through the FLA.

### Verification by FLA:

The FLA has received about a dozen requests from the public for PUMA's factory list and has made it available to interested parties.

## 8.3 Analyzes compliance findings

### Actions Taken:

PUMA performs an analysis of compliance findings/failures at the beginning and in the middle of the year.

### Verification by FLA:

FLA staff has reviewed analysis of compliance findings conducted by PUMA through a review of its S.A.F.E. reports and at the PUMA offices.

## 8.4 Reports to the FLA on those activities

### Actions Taken:

PUMA reports on its activities on a regular basis and through its annual company report.

### Verification by FLA:

PUMA's annual reports have been submitted to the FLA and are available in the FLA offices.

## 9. CONSULTS WITH CIVIL SOCIETY

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

#### Actions Taken:

PUMA maintains links with a number of civil society organizations in the context of work in various regions (e.g., the [labor federation] for work in Bangladesh and at stakeholder conferences in Germany and Asia). PUMA has invited stakeholders to its global S.A.F.E. meetings and participates in forums related to labor and compliance issues.

#### Verification by FLA:

FLA staff reviewed minutes of engagements with many organizations during a visit to PUMA's Manila office.

For the past four years, PUMA has been holding an annual stakeholder meeting in Banz, Bavaria. Many European stakeholders, selected PUMA suppliers, and PUMA's top management participate in the consultation and discuss compliance issues and best practices. The meeting also serves to determine future priorities of PUMA's S.A.F.E. program. These regular meetings have established a level of trust among the participants that allows for the discussion of difficult compliance issues in a constructive way. FLA's President and CEO and other FLA staff have participated in all of the Banz stakeholder meetings.

In addition, PUMA engages civil society through the following networks: (1) the "Round Table" of the GTZ (since 2003); (2) DNWE (the German Network of Business Ethics) (since 2002); and (3) the Global Compact Germany (since 2006). FLA staff have been present at several of these engagements.

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

### **Actions Taken:**

PUMA staff has consulted with local civil society groups as part of its monitoring activities on a regular basis, including in Eastern Europe and South Asia.

### **Verification by FLA:**

PUMA staff have maintained contacts and consulted with a variety of local civil society groups, among them CSOs, universities, unions, and partner organizations in Romania.

FLA staff spoke to a PUMA auditor who stated that interactions with NGOs and trade unions are handled by the headquarters and that PUMA field staff does very little work with local civil society organizations.

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

### **Actions Taken:**

Factories with recognized unions are consulted during the regular audit process and in other circumstances.

### **Verification by FLA:**

FLA staff has observed monitors interviewing union members during factory visits in China.

In 2006, PUMA initiated an FLA Third Party Complaint regarding allegations of violations of Freedom of Association and the Right of Collective Bargaining at a supplier in Turkey. The FLA consulted regularly with the Turkish union on behalf of PUMA and other brands. Through the intervention of PUMA and other FLA and non-FLA brands, management and labor at the factory came together to negotiate a collective bargaining agreement. PUMA also involved unions in [CSO] projects in Bulgaria and Romanian focusing on worker management relations.

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

### **Actions Taken:**

PUMA's field auditors review collective bargaining agreements as a matter of course in their inspections, particularly as they relate to wages and other working conditions.

### **Verification by FLA:**

The FLA notes that there is no specific question in the audit instrument that asks whether a CBA is in place. The FLA recommends that PUMA amend its audit instrument to ask explicitly whether there is a CBA and test whether it is being observed.

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

### 10.1 Pays annual dues

#### **Actions Taken:**

PUMA has paid its annual dues to the FLA.

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

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

### 10.2 Pays IEM administrative and monitoring fees

#### **Actions Taken:**

PUMA has paid all relevant fees to the FLA.

**Verification by FLA:**

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

**10.3 Signs and honors required FLA contracts**

**Actions Taken:**

PUMA signs and honors required FLA contracts.

**Verification by FLA:**

PUMA has signed and honored required FLA contracts.

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

**Actions Taken:**

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

**Verification by FLA:**

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

## **CONCLUSION**

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