



FAIR LABOR  
ASSOCIATION®

*Improving Workers' Lives Worldwide*



**SANMAR CORPORATION**  

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**ASSESSMENT FOR ACCREDITATION**

October 2012

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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 SanMar Corporation's compliance program on October 10, 2012, 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).



## SANMAR'S LABOR COMPLIANCE PROGRAM

SanMar Corporation (SanMar) is a family-owned and operated business founded in 1971 and headquartered in Issaquah, Washington. The company distributes imprintable apparel and accessories to screenprinters, embroiderers, promotional products distributors, athletic dealers, and industrial launderers. The company has many uniform programs and distributes a variety of products including woven and knit shirts, t-shirts, activewear, headwear, fleece, outerwear, infant and toddler wear, bags and other imprintable accessories. The following 8 private label brands fall under the FLA scope: CornerStone, District, District Made, Port Authority, Port & Company, Precious Cargo, Red House, and Sport-Tek. SanMar also purchases and distributes blank product in bulk from trade brands, many of which are FLA affiliates (Fruit of the Loom, Gildan, Hanes, Jerzees, New Era, Nike Golf, and Russell Outdoors). The only brands distributed by SanMar that are not affiliated with the FLA are Eddie Bauer/First Ascent and Ogio. For these third-party brands, SanMar does not manage the sourcing and these are outside of the scope of the company's affiliation with the FLA.



*SanMar's Headquarters in Issaquah, Washington.*

SanMar joined the FLA as a Participating Company in August 2007. SanMar's Factory Compliance Program has been managed by the General Manager, who is based in Issaquah and has served as the primary contact with the FLA. In May 2008, the company created a full-time Compliance Manager position based in the company's affiliate Hong Kong office. The Compliance Manager is responsible for the day-to-day activities and execution of the compliance program. Up through October 2012, the Compliance Manager has reported to the General Manager; after that point, he will report to the Corporate Compliance Manager. Other SanMar staff with compliance-related responsibilities include

the President, General Counsel, Global Quality Assurance Manager, Product Development & Sourcing Managers, and local quality and inspection staff located in a number of countries in which SanMar operates.

The table below describes SanMar's supply chain from 2007-2012, as reported to the FLA. Information on the results of the Independent External Monitoring visits (IEMs) and the remediation undertaken by SanMar in response to IEM findings are provided in FLA IEM reports online and discussed, as appropriate, in the next section.

SANMAR APPLICABLE FACILITIES AND IEMS, 2007-2009						
COUNTRY	2007 APPLICABLE FACILITIES	2007 IEM	2008 APPLICABLE FACILITIES	2008 IEM	2009 APPLICABLE FACILITIES	2009 IEM
Bangladesh	10		7	1	7	
Cambodia	6		4		1	
China	37		31	1	37	
Dominican Republic	1				1	
Egypt	1	1				1
El Salvador					4	1
Haiti	1				2	
Honduras					4	2
Hong Kong	1					
India	1		4		4	
Korea	1					
Laos	1					
Macau	2		1			
Madagascar						
Mexico					1	
Philippines	4		1			
Sri Lanka	7		5		3	
Taiwan	2		1		1	
Tanzania						
Thailand	2		2			
United States						
Vietnam	19	1	17	2	13	1
<b>Total</b>	<b>96</b>	<b>2</b> just 2 IEMs were conducted in 2007 since SanMar joined in August	<b>73</b>	<b>4</b>	<b>79</b>	<b>4</b>

SANMAR APPLICABLE FACILITIES AND IEMS, 2010-2012						
COUNTRY	2010 APPLICABLE FACILITIES	2010 IEM	2011 APPLICABLE FACILITIES	2011 IEM	2012 APPLICABLE FACILITIES	2012 SCI/SCOPE (planned)
Bangladesh	10		12	1	8	1
Cambodia	2		2		1	
China	31	2	25	1	21	1
Dominican Republic						
Egypt						
El Salvador						
Haiti						
Honduras						
Hong Kong						
India	1		1		1	
Korea						
Laos						
Macau						
Madagascar					1	
Mexico						
Philippines	1		1		1	
Sri Lanka	3		3		3	
Taiwan	1		1		1	
Tanzania					1	
Thailand						
United States					1	
Vietnam	14	1	13	1	12	
<b>Total</b>	<b>63</b>	<b>3</b>	<b>58</b>	<b>3</b>	<b>51</b>	<b>2</b>

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

Information used in this assessment originates primarily from annual reports submitted by SanMar to the FLA verified through: (1) visits to company headquarters by FLA staff in August 2009 and December 2010; (2) visits to the company affiliate Hong Kong office in July 2010, October 2011 and September 2012; (3) observation of a training session in China in August 2010; (4) shadowing of an internal monitoring visit in China in November 2010 and at another factory in China in October 2011; (5) interactions with SanMar representatives at meetings of the FLA Monitoring Committee and Board of Directors; (6) information gathered via in-person and/or phone interviews, and/or email correspondence with SanMar staff, consultants and other key stakeholders; and (7) analysis of results of IEMs and ensuing remediation.

### **I. ADOPTS AND COMMUNICATES A CODE**

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

##### Actions Taken:

SanMar has adopted the SanMar Global Operating Principles, which serves as the company's Code of Conduct. The Global Operating Principles were revised in 2012 to take into consideration the changes to the FLA's Workplace Code of Conduct.

##### Verification by FLA:

SanMar has as its Code of Conduct the SanMar Global Operating Principles. The Global Operating Principles document, revised in 2012, meets standards in all of the Code elements in the FLA's Workplace Code of Conduct. SanMar's Global Operating Principles also covers cargo security, transshipment, and document retention, which are not covered by the FLA Code.

#### **1.2 Informs all suppliers in writing**

##### Actions Taken:

SanMar sends to all active suppliers a copy of the Global Operating Principles as part of the overall Factory Compliance Monitoring Manual. Factories are asked to sign an acknowledgment form to confirm receipt and acceptance.

##### Verification by FLA:

FLA has on file a copy of the Factory Compliance Monitoring Manual that all active suppliers are required to review and acknowledge on a yearly basis. FLA has copies of signed acknowledgement forms submitted by factories.

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

##### Actions Taken:

SanMar's Factory Compliance Monitoring Manual requires factories to post copies of the Global Operating Principles in English and local languages. The locations selected must be easily accessible to all employees and in areas that afford a certain degree of privacy.

During SanMar internal audits, monitors check on whether the Global Operating Principles document is posted in a prominent place and in appropriate languages.

Verification by FLA:

As verified through review of SanMar internal audits, one of the third-party monitoring organizations contracted by SanMar checks for the posting of the Global Operating Principles on a consistent basis. FLA has on file the Audit Control document used by that monitoring organization to check that the Global Operating Principles document has been posted. During visits to the affiliate Hong Kong office, FLA viewed photo evidence of posting within the factories. FLA has on file a copy of the May 2012 communication from SanMar to a second third-party monitoring organization asking monitors to check the presence and location of the Global Operating Principles within the factory, the translations available, and trainings provided to workers.

In the 2007 IEM of a SanMar factory in Egypt, FLA monitors found that the SanMar Global Operating Principles was posted in English but not available in the language of the workforce. In one shared IEM in Honduras in 2009, FLA monitors found that the Global Operating Principles was not posted in the factory. As SanMar sources directly from the other FLA Participating Company involved, SanMar and the FLA agreed that posting the single FLA approved code of the other FLA Participating Company was sufficient. In this case, the other company took the lead on remediation and reported remediation of the issue.

FLA reviewed the 2008 version of the Global Operating Principles in English, Chinese, Bengali and Vietnamese. FLA has reviewed the Chinese translation of the updated 2012 version of the Global Operating Principles. The remaining translations for the recently revised 2012 version of the Global Operating Principles are underway.

FLA recommends procedures to ensure that all SanMar third-party monitors are verifying workers' access to a written copy of the Global Operating Principles. FLA recommends that SanMar ensure that the 2012 version of the Global Operating Principles is translated into all appropriate languages for workers in all of the applicable facilities.

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

Actions Taken:

The company requires that a member of each factory management team inform employees orally of the provisions of the Global Operating Principles, at least annually at worker orientations and annual meetings.

SanMar audits collect information on whether the factory management has communicated and provided training to all workers covering the elements in the Global Operating Principles.

Verification by FLA:

FLA reviewed the Factory Compliance Monitoring Manual. The document conveys the requirement for managers to train the workforce on workplace standards. FLA reviewed the Audit Control document used by [monitoring organization] to check that workers are trained on their rights under the Global Operating Principles on a regular basis. This Audit Control document is not used by [monitoring organization], the other third-party monitor used by SanMar.

In eight IEMs since 2007 in Egypt, Vietnam, El Salvador, Honduras and Bangladesh, FLA monitors found that workers were not informed orally on the elements in the Global Operating Principles. In only four instances was this finding reported to be remediated.

FLA recommends a consistent means of ensuring that workers are informed orally and educated at regular intervals, including through standardized monitoring by all third-party auditors and follow-through on remediation where there has been a finding that suitable training has not been provided to workers.

**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:

Through the Factory Compliance Monitoring Manual, SanMar asks factories to acknowledge that they may be subject to announced or unannounced compliance audits by SanMar or designated third-party auditors of the FLA, to remediate noncompliances, and to inform employees about the standards.

Verification by FLA:

FLA has on file a copy of the Factory Compliance Monitoring Manual. All active suppliers are required to review and acknowledge this document on a yearly basis. In the document, the company clearly lays out the possibility that SanMar suppliers may be subject to announced or unannounced audits, both for the company's internal program and as part of the company's participation in the FLA. The document is also very clear in the expectation for factory managers to inform workers of the standards and to remediate findings of noncompliance. FLA has on file copies of signed acknowledgement forms submitted by factories in July 2011.

## 2. TRAINS INTERNAL COMPLIANCE STAFF

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

Actions Taken:

SanMar has several staff dedicated to the company's compliance program. SanMar created a full-time Compliance Manager position in 2008. The Compliance Manager is responsible for the day-to-day activities and execution of the Factory Compliance Program. The Compliance Manager interacts on a regular basis with management, the FLA, third-party monitoring firms, and other internal and external resources on issues of program development and on vendor training, monitoring and remediation. Up through October 2012, the Compliance Manager reported directly to the General Manager. The General Manager has served as a primary contact for the FLA. Going forward, the Compliance Manager will report to the Corporate Compliance Manager who in turn reports to the General Counsel.

The General Counsel works closely with the family owners of the business and focuses on legal and corporate compliance across the company's supply chain, including product safety initiatives. She helps to generate internal support for the compliance program and dedicates about 10% of her time to social compliance-related issues.

The Product Development & Sourcing Managers have decades of experience at the company and in the industry. They emphasize the company's strategy for long-term relationships with factories. If a new factory is being considered, they visit and also work with the Compliance Manager to set up assessments. They are also involved in reinforcing remediation and transparency expectations and routinely visit each applicable facility.

In August 2012, an experienced General Manager and local engineering and inspection staff were added to SanMar's affiliate company in Honduras to support new initiatives in Central America and the region.



The company uses third-party monitors to conduct internal monitoring. The company has worked primarily with two monitoring organizations.

Verification by FLA:

During a headquarter visit in Seattle and field office visits to the affiliate Hong Kong office, FLA interviewed all company staff with compliance-related responsibilities in those locations. FLA interviewed staff on their roles, responsibilities, reporting structure, and interaction with the company's compliance staff. FLA has on file job descriptions for the Compliance Manager, Corporate Compliance Manager, General Manager (Seattle), and the Country Manager for SanMar's affiliate company in Honduras. The Compliance Manager and the General Manager have served as the primary contacts for all FLA activities.

FLA has observed [two monitoring organizations] in their capacity as monitors for SanMar internal audits. One of the monitoring organizations is accredited by the FLA.

**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:

The Compliance Manager participates in at least 40 hours of training per year related to workplace standards. He attends FLA trainings as well as trainings conducted by third-parties. Previous to working at SanMar, the Compliance Manager was an auditor at a large third-party monitoring organization. He is fluent in Mandarin, Cantonese and English.

Throughout 2010-2012, SanMar has focused on evaluating its third-party monitors primarily through field observations. The Compliance Manager has provided feedback to the organizations on their performance with the aim of ensuring greater consistency and adherence to SanMar monitoring expectations.

Verification by FLA:

SanMar staff has attended various FLA Monitoring Committee and Board meetings as well as FLA orientation and Sustainable Compliance Initiative trainings.

FLA has reviewed materials from training events attended by the Compliance Manager. FLA has on file materials from training events attended between 2009-2012 that cover such topics as:

- Key Performance Indicators, Metrics and Scorecards for Social Compliance
- Juvenile Workers, Student Workers and Interns
- Capacity Building in Chinese Factories
- How Enterprises Implement Collective Wage Negotiations
- Managing and Retaining Your Under-20 Workforce
- Addressing Working Hours
- Capacity Building & Continuous Improvement
- Effective Strategies to Improve Performance & Reduce Compliance Risk
- Hours of Work and Fair Wages

FLA recommends regular company internal training for other staff with compliance-related responsibilities, including those at company headquarters and in the affiliate Hong Kong office. FLA recommends further training on responsible

purchasing practices for all staff with compliance-related responsibilities and those that have a connection to buying/sourcing.

FLA interviewed the Compliance Manager regarding his ongoing review of the third-party monitors used for SanMar's compliance program. Further to FLA observations of the monitors that conduct SanMar audits (described below), the Compliance Manager has shadowed the monitoring organizations on multiple occasions to assess their adherence to SanMar monitoring methodology expectations and proposed areas for improvement.

FLA recommends written policy and procedures for SanMar observations and evaluations of third-party monitors.

## 2.3 Updates that training at regular intervals

### Actions Taken:

The Compliance Manager is evaluated on his training schedule on an annual basis. He is required to complete 40 hours of training per year.

### Verification by FLA:

As evidenced by interviews with the Compliance Manager, his supervisor, and documentation of trainings attended, the Compliance Manager regularly participates in training relevant to the company's social compliance program and his responsibilities.

## 3. PROVIDES EMPLOYEES WITH CONFIDENTIAL REPORTING CHANNELS

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

#### Actions Taken:

All SanMar factories are required to have appropriate grievance procedures including:

- An effective grievance management system
- Written grievance procedures
- Training to all employees to ensure awareness

SanMar encourages factories to establish worker committees and other grievance mechanisms to ensure appropriate communication channels between workers and factory management. This is especially true in cases where only state-approved unions are allowed.

Auditors check on the establishment of grievance procedures during internal monitoring visits.

SanMar organized supplier training sessions in China and Bangladesh covering effective Human Resource management systems, including grievance procedures.

#### Verification by FLA:

FLA has reviewed completed audit reports where third-party monitors have checked that factories have mechanisms in place for workers to raise grievances as well as procedures to maintain documentation related to the resolution of such grievances.

FLA monitors were unable to verify the existence of grievance procedures established in four factories that received IEMs in Vietnam, Egypt, and Honduras between 2007 and 2009. SanMar reported to have remediated three of the

four instances by posting their Global Operations Principles or establishing and posting written complaint procedures and grievance systems in the factory.

FLA observed the Human Resource management training session in China in August 2010. The training was organized jointly with SanMar and another FLA Participating Company. FLA noted that the topic was well received and engaging for factory management. FLA has on file copies of the session materials.

FLA recommends that SanMar consider further factory self-assessments and trainings on grievance procedures, making use of existing FLA tools.

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

#### Actions Taken:

SanMar operates confidential reporting mechanisms for workers to report any suspected violations of the law or of SanMar's Global Operating Principles. Any reported concerns received are communicated to the Compliance Manager and General Counsel and follow-up on concerns is taken immediately. The Compliance Manager reviews the complaint and determines the investigation method and plan of action. In all cases, the supplier is requested to investigate the circumstances, identify the root cause and establish a corrective action plan.

Depending on the incident of complaint and the remediation, SanMar may conduct a semi-announced or an unannounced audit to verify whether remediation work has been appropriately undertaken by the factory.

Details of the complaint, investigation result and follow-up work is documented and communicated to the General Manager, General Counsel, and Product Development & Sourcing Manager.

Complaints may be sent by email or by phone and the information for these mechanisms is included on the Global Operating Principles and posted in every factory producing the company's private label goods. Workers that are interviewed as part of the audit process receive a card with the hotline number on it. Local phone numbers are currently available to workers in the United States, Bangladesh, China and Vietnam. The decision to concentrate in those 4 countries was due to volume of production.

In April 2009, SanMar received one complaint from a worker that was general in nature.

No complaints were received in 2010.

In 2011, SanMar received 2 complaints via the confidential reporting hotline (email) and performed unannounced audits, local off-site observations (in the community and at the factory gate) and worker interviews to investigate specific risks associated with the alleged noncompliance issues.

No complaints have been received in 2012.

#### Verification by FLA:

FLA reviewed the Factory Compliance Monitoring Manual for the company's policy on a confidential noncompliance reporting mechanism available to workers.

Like the earlier (2008) version, the March 2012 version further revised in August 2012 (English and Chinese translations) of the Global Operating Principles includes a hotline number and an email address answered by the company's compliance staff. Additional translations of the recently published and updated Global Operating Principles are underway.

Since 2007, FLA monitors were unable to verify the existence of a confidential reporting channel in six factories that received IEMs in Vietnam, El Salvador, Honduras, China and Bangladesh. SanMar reported that it had remediated noncompliances regarding the confidential channel by posting their Global Operating Principles with a local hotline number and have put in place documented procedures for local staff, where applicable.

When FLA tested the hotlines in 2011, their functionality was inconsistent and the hotline number for China was not operational. In response to FLA feedback, SanMar has focused on ensuring that all hotlines are operational and that staff has been trained to receive complaints. As confirmed through interviews with SanMar staff and testing of the hotlines in 2012, the current hotline system will take the worker to a voicemail. The voicemail is checked on a weekly basis by local quality assurance and factory inspection staff. FLA has on file copies of emails from the quality assurance staff to the Compliance Manager reporting on whether any complaints were received. If a worker calls the voicemail in the United States, SanMar IT staff will send a notice directly to the General Manager, General Counsel and Corporate Compliance Manager.

FLA recommends that SanMar revise the voicemail message left on the hotlines to give assurance that the channel is secure or confidential. In addition, it also does not provide guidance to the worker on the details s/he should include, or on how and when the company will respond to any complaint.

During the 2011 shadow audit, FLA observed SanMar's third-party monitors handing out cards with the confidential noncompliance reporting channel information. Interviews with the Compliance Manager revealed that he distributes the cards when visiting factories or meeting with local workers. FLA has a copy of the business card with current (2012) hotline numbers, which are distributed to workers when interviewed.

FLA has a copy of the two 2011 complaints raised via the email channel and of follow-up email communication: (1) confirming receipt of complaints received through the confidential channel as they were communicated to SanMar staff; (2) describing the complaint to the monitors along with terms of the subsequent investigations; and (3) communication to factories about the issues raised.

For locations not yet covered by SanMar confidential reporting mechanisms, FLA recommends researching local resources for collecting worker grievances and directing those toward SanMar.

FLA recommends additional emphasis on worker trainings related to grievance mechanisms, including the confidential noncompliance reporting mechanism.

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

#### Actions Taken:

SanMar has a Grievance Procedure Policy Memo that is used as a guidance and training document for all sourcing and quality assurance staff, particularly local staff responsible for operating the local hotlines.

The noncompliance reporting mechanisms (emails and phone numbers) are secure and confidential.

Verification by FLA:

The statement on the Global Operating Principles states that the channel is secure and confidential. FLA has on file a copy of the Grievance Procedure Policy Memo.

During the 2011 shadow audit, FLA observed monitors describing the channel as confidential and secure to workers that were interviewed.

FLA found no evidence of worker retaliation for using the grievance channels.

FLA recommends including a step in SanMar's Grievance Procedure Policy Memo on providing feedback to the worker/workforce on the resolution of grievances to give workers greater confidence that the mechanism functions effectively and that it is reliable.

## 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:

Each potential new factory is required to complete a Social Compliance Questionnaire and a Factory Profile. Once a factory has completed both, an audit will be scheduled within a four-week window, preferably prior to the start of bulk production. At the end of the audit, the monitor will convey to factory management the findings and corrective action plans within 5-10 business days.

SanMar conducts both full-audits and follow-up audits at all FLA applicable facilities. On-site audits conducted by third-party auditors generally include a one or two day audit at each factory, and include the following components:

- Interview with factory management (opening meeting)
- Payroll and documentation review
- Health and safety inspection
- Visual inspection of all warehouses, locking docks, canteen and dormitory buildings
- Private and confidential worker interviews
- Debrief with factory management (closing meeting)

From time to time, the Compliance Manager participates in shadow audits with SanMar's third-party auditors and with vendors' in-house compliance auditors.

SanMar uses two third-party monitoring organizations to conduct internal monitoring. [Monitoring organization] has monitored SanMar suppliers in many countries including Bangladesh, Cambodia, China, Sri Lanka, Thailand and Vietnam. As a result of SanMar observations of [monitoring organization], the monitoring organization has agreed to use only experienced auditors to conduct audits for SanMar. In 2010, the company began using [monitoring organization] for audits and currently uses them in Bangladesh, Cambodia, China, India and Vietnam.

Verification by FLA:

During headquarter and affiliate office visits, FLA staff interviewed compliance staff on the selection of suppliers to be audited each year and the method of conducting internal audits.

Based on interviews with SanMar staff, the company follows several steps:

1. The customs team sends to the Compliance Manager a “Compliance Document” which includes a profile and self-assessment completed by a potential new factory. FLA viewed completed Compliance Document packets and has copies on file.
2. The Compliance Manager reviews the information in the Compliance Document and assigns a monitor to conduct a full audit on the factory. While sourcing staff will visit facilities prior to conducting business, the issuing of initial purchase orders does not depend on the outcome of the audit; SanMar may already be sampling from such factories at the time the audit takes place. However, subsequent decisions on whether to continue sourcing from the facility may be influenced by the results of such audits.
3. The Compliance Manager shares a copy of the audit report with the applicable Product Development & Sourcing Manager.

FLA recommends stronger alignment between sourcing practices and compliance program efforts and more explicit recognition of results of pre-sourcing audits on commercial decisions. According to interviews with SanMar staff, SanMar’s decision to create the Corporate Compliance Manager position was, in part, due to the company’s recognition of this need. The incumbent’s responsibilities will include management of pre-sourcing compliance assessments and the linkages between compliance and sourcing.

FLA reviewed internal monitoring reports from SanMar audits and observed two SanMar internal monitoring visits conducted by two third-party monitoring organizations and made suggestions regarding pre-audit information gathering and worker and management interview methodology.

After these observations, SanMar put in place a multi-year review process for the Compliance Manager to assess the third-party monitors and verify that methodology is consistent with SanMar expectations. During a visit to the affiliate office in Hong Kong, FLA viewed multiple email exchanges with one of the monitors and requests for changes in methodology. Continued areas for improvement by third-party monitors include:

1. Ensuring that monitoring organizations adhere to SanMar’s requests for auditors with appropriate expertise and experience; and
2. Ensuring that monitoring organizations implement SanMar’s written monitoring methodology and that there is consistency across both organizations.

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

### Actions Taken:

Monitors complete an audit report for each monitoring visit. An overall percentage of Compliance Level to Standard is documented for each audit and recorded in the Factory Audit Summary Report.

The factory is categorized using the following four categories:

1. Pass with Merit – Factories receiving a Pass with Merit score on the initial audit will not require a follow-up audit and may be exempt from further audits for a period of 36 months.
2. Pass – Factories receiving a Pass score on the initial audit are required to complete a Corrective Action Plan within 30 days, but will not require a follow up audit. These factories may be exempt from further audits for a period of 24 months.

3. Pass with Concern – Factories receiving a Pass with Concern score on the initial audit are required to complete a Corrective Action Plan within 30 days and are subject to a follow-up audit to be completed within 90-120 days. Once the remediation actions are verified by follow-up audit, the factory will be required to be audited every 12 months.
4. Fail – Factories receiving a Fail score on the initial audit are required to complete a Corrective Action Plan within 30 days and are subject to a follow-up audit to be completed within 60-90 days. Once the remediation actions are verified by a follow-up audit, the factory will be required to be audited every 12 months.

#### Verification by FLA:

FLA reviewed internal audit reports. FLA interviewed compliance staff on the program’s risk assessment rating system. SanMar categorizes factories into one of four groups – Pass with Merit, Pass, Pass with Concern, or Fail.

FLA reviewed and has on file SanMar’s Audit Scoring System Policy Memo with rating / risk-assessment procedures. FLA has a copy of the 2012 Factory Audit Summary Report listing all factories, audit status and ratings. During the field office visits, FLA staff reviewed dates of audits to verify whether the categories were receiving follow-up visits as per the procedures. There were only a few cases where follow-up audits were delayed.

During visits to the affiliate Hong Kong office FLA reviewed the internal system used by SanMar compliance staff to collect, verify and qualify compliance with workplace standards. The system includes individual audit reports, Audit Corrective Action Plan Reports, and supporting documents and evidence and it is well organized. High-level ratings of all factories are kept in the Factory Audit Summary Report (copies on file with the FLA).

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

#### Actions Taken:

SanMar continually tracks remediation plans. The number of factories in “fail” status continues to decline. No zero tolerance issues have been identified and the company continues to improve audit and training plans to ensure compliance with the Global Operating Principles across active factories.

#### Verification by FLA:

As confirmed through document review at the affiliate Hong Kong office and interviews with the Compliance Manager, analysis of monitoring results is done on a factory-by-factory basis. Remediation plans are developed for each noncompliance.

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

#### Actions Taken:

All remediation plans are tracked through to completion with evidence gathered as confirmation. Based upon the categorization of the factory after an audit (described above), there are prescribed time periods to conduct follow-up audits. Follow-up audits identify whether corrective action plans have been successfully and fully implemented.

#### Verification by FLA:

As confirmed through review of documents at the affiliate Hong Kong office, SanMar tracks the progress of remediation and assigns a status of open, pending, or completed. Monitors describe the progress of remediation on the follow-up audit reports and the information is also kept in the Audit Corrective Action Plan Report. The date of completion is captured as well.

## 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:

During an audit, monitors indicate noncompliances on the Audit Corrective Action Plan Report and ask factory management to sign a copy. The report includes fields for the standard (local law, Global Operating Principles), the level of nonconformance (minor, major, critical), details of the noncompliance, proposed corrective action, completion date, evidence provided, noncompliance status and verification. The Compliance Manager then works with the supplier to develop remediation plans for all noncompliances.

#### Verification by FLA:

Based upon review of audit reports and Audit Corrective Action Plan Reports during visits to the affiliate Hong Kong office, FLA noted that remediation plans are developed for the noncompliances raised. Most action plans are developed by the supplier and then reviewed by the Compliance Manager.

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

#### Actions Taken:

When the Compliance Manager receives an audit report, he reviews the noncompliances and asks the factory to develop a remediation plan. The Compliance Manager then reviews the remediation plan and also receives verification (documents, emails, photos) indicating progress.

#### Verification by FLA:

Based upon review of audit reports and remediation plans, the Compliance Manager works with suppliers to develop action plans for each noncompliance. FLA recommends continued emphasis on the development of sustainable remediation plans that include root cause analysis.

### 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:

Remediation plans are developed and submitted to the FLA within 60 days.

#### Verification by FLA:

During the first three years of SanMar's participation in the IEMs, certain corrective action plans were submitted late, however the company has improved performance and in recent years all of the FLA IEM corrective action plans have been submitted on time or early, save one.

### 5.4 Confirms the completion of remediation

#### Actions Taken:

SanMar requires third-party auditors re-audit any factory where moderate to serious violations of the Global Operating Principles are detected. SanMar expects that with each subsequent re-audit, continuous and measurable improvement can be verified. A follow-up visit is not necessary if all issues of noncompliance involve document



related issues only, such that the correction is accomplished by obtaining a document (such as a required procedure to be documented or an inspection certificate, etc.). In these cases, factory management may submit proof of remediation to the Compliance Manager directly.

Verification by FLA:

FLA review of the SanMar audit reports, remediation plans and supporting documents reveals that the company collects extensive photos and documents as evidence of remediation progress. The Compliance Manager tracks the progress and completion of all remediation issues, including those that have been verified through follow-up audits.

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

Actions Taken:

SanMar has implemented a formal policy to escalate issues should the need arise based on results of audits or other findings noted by SanMar compliance staff. The factory may be deemed inactive if the following occurs:

- Factory receives three consecutive audit ratings (i.e. 1 initial audit and 2 subsequent follow-up audits) below Pass with Concern.
- Minimum age, no minimum wage and/or inconsistent documentation violations are addressed in three consecutive audits.

These situations will be considered evidence that required remedial action is not being undertaken. A warning letter will be sent to the factory after the second follow-up audit. Though SanMar strives to work with vendors to address and resolve compliance shortcomings in their operations, the company may conclude that it can no longer do business with certain vendors, or that they will be precluded from producing goods until such time that they can demonstrate that they have addressed the situation and have put management systems in place to prevent recurrence.

An instance of zero tolerance is grounds for immediate termination of business with the factory and all existing orders may be cancelled. Once terminated, orders may not be placed with the factory for a period of at least 12 months. In order to reactivate a terminated factory after the 12-months suspension period, the factory is required to undergo a third-party audit and receive a rating of at least Pass with Concerns.

No suppliers have been terminated due to zero tolerance issues but certain factories did see a decline in business due to a lack of commitment to compliance standards. SanMar has terminated relationships with factories partially due to compliance reasons.

Verification by FLA:

FLA reviewed SanMar's escalation policy for factories. FLA interviewed Product Development & Sourcing Managers to confirm that they use their leverage in achieving remediation progress.

FLA has on file copies of warning letters issued to factories that had received insufficient audit ratings. The letters were issued by the company's General Manager and express the company's commitment to workplace standards and the steps that the factory must undertake if it seeks to remain as an active SanMar supplier.

## 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:

Below instances of noncompliance are defined as zero tolerance / critical:

- Bribery
- Use of prison labor

While any persistent noncompliance instances may rise to the level of zero tolerance, the following will always be considered critical:

- Child labor
- Harassment and abuse
- Discrimination
- Pregnancy testing
- Inconsistent documentation
- Severe noncompliance on health and safety

The Compliance Manager conducts some analysis on compliance information and also identifies persistent and/or serious noncompliances based upon his experience with the factories.

#### Verification by FLA:

SanMar has reported to FLA that persistent noncompliances include health and safety violations as well as hours of work, wages and benefits. FLA has reviewed some of the analysis that SanMar has conducted of noncompliances by benchmark and over the course of a few years. Analysis of noncompliances is a manual process for the Compliance Manager.

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

#### Actions Taken:

SanMar recognized a need for factory training on Human Resource systems and grievance mechanisms. In 2010, 17 Chinese suppliers attended a training on developing Human Resource functions, jointly organized by SanMar and another FLA Participating Company. A [CSO] external consultant served as trainer. As part of the training, suppliers were asked to set up an Employee Assistance Program. The company extended Human Resource and grievance systems training to suppliers in Bangladesh in 2011 and is looking to do a similar event in Vietnam at the end of 2012.

#### Verification by FLA:

FLA observed the 2010 Human Resources training delivered to factories in China. The training covered communication skills, worker trainings, employee assistance programs and grievance systems and was well received by factory managers. FLA reviewed materials from that training and the subsequent similar training in Bangladesh conducted by [monitoring organization] in 2011 in which 11 factories were trained on health and safety (fire safety), grievances and communications. FLA has copies of training materials on file.

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

#### Actions Taken:

As described above, SanMar has extended its program on Human Resources and grievance mechanisms to other applicable facilities.

#### Verification by FLA:

FLA has reviewed the training materials on Human Resources, communication and grievance mechanisms offered to factories in China and Bangladesh. The FLA understands that an additional training is being scheduled for Vietnam later in 2012 or early 2013.

FLA recommends that SanMar identify additional opportunities to take preventative steps in regards to prevalent noncompliances in its supply chain.

## 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:

SanMar provides the FLA with information on all applicable factories and submits all IEM related documentation in a timely and complete manner.

#### Verification by FLA:

SanMar joined the FLA in August 2007 and has participated in the IEM cycles between 2007 and 2012. SanMar has submitted factory list updates in a complete and timely manner, with two exceptions – one aborted audit in 2008 at a factory in China no longer an active supplier for SanMar and another in Honduras where the factory had closed but this had not been notified to the FLA.

SanMar submitted all required Access Letters, Conflict of Interest forms and Monitoring Services Agreements. All documents were in complete form and submitted on time. The current factory list on file with the FLA is up-to-date.

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

#### Actions Taken:

In the Factory Compliance Monitoring Manual, SanMar requires the following as part of the audit:

1. The auditor will have access to all areas of the factory and dormitories, including ability to document and/or photograph;
2. Factory will allow the auditor to review records including, but not limited to, employment policies and procedures, personnel files, payroll records, time cards, records of previous audits and contracts for any subcontracting that is done. Factory may not be given advanced notification of the audit, so it will be necessary to have these records available on site at all times. Inability to supply these records at the time of the audit will be considered a violation of SanMar's workplace standards; and
3. Factory will allow the auditor to interview selected factory management and workers in total confidentiality.

Verification by FLA:

In 2008 there was an aborted IEM at a factory in China; the factory and agent denied access to the factory because the factory was no longer producing for SanMar.

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

Actions Taken:

SanMar cooperates with FLA requests for information, clarification and follow-up in the IEM process.

Verification by FLA:

Overall, the company has cooperated with FLA requests for information, clarification and follow-up. There have been a few cases when the company was late in submitting responses to FLA's review of the corrective action plans or explanations of the company's exit from factories.

FLA recommends that SanMar implement policies and procedures to ensure that they send regular updates (at least twice a year) on remediation plans to the FLA and that, in cases where a factory is no longer active, the company provide FLA staff with an exit explanation in a timely manner.

## **8. COLLECTS AND MANAGES COMPLIANCE INFORMATION**

### **8.1 Maintains a database**

Actions Taken:

SanMar uses an Excel spreadsheets along with electronic files organized by factory in the company's shared electronic drive.

Verification by FLA:

FLA staff reviewed the database during visits to the affiliate Hong Kong office. The Compliance Manager keeps an Excel spreadsheet of active factories. Audit and remediation information is maintained in Word and Excel audit reports. Compliance staff maintained a shared drive with well-organized files arranged by factory. All staff with compliance-related responsibilities have access to these files.

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

Actions Taken:

SanMar is able to generate an up-to-date list of its suppliers when required.

Verification by FLA:

The Compliance Manager keeps a list of FLA applicable factory list. As a result of conversations with the Product Development & Sourcing Managers at SanMar headquarters and review of the SanMar factory list in the affiliate Hong Kong office, FLA and SanMar recognized that two newly added factories in Africa needed to be included on SanMar's applicable list with the FLA. This was done and the current list is up-to-date.

### **8.3 Analyzes compliance findings**

Actions Taken:

SanMar has tracked noncompliance issues for each substantive and procedural benchmark with comparisons to historical results.

SanMar compares IEM / IEV results with the regional compliance data available in FLA's annual reports.

Tracking results and related trends are prepared and communicated quarterly to Product Development & Sourcing Managers.

Verification by FLA:

During the headquarter visit, SanMar staff presented on analysis on country-level compliance issues for Bangladesh, Vietnam and China. FLA staff reviewed noncompliances compared over years (2009 vs. 2010) on specific benchmark violations. Benchmark violations were analyzed based on whether they were procedural or substantive in nature. FLA viewed comparisons of SanMar's IEM/IEV results with region-specific data from FLA IEMs/IEVs in 2011 and 2012.

As confirmed during a visit to the affiliate Hong Kong office, in-depth analysis is done manually due to the number of active factories being small (under 100). FLA recommends that the company explore opportunities to enhance data analysis capabilities.

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

Actions Taken:

SanMar has submitted annual reports in a timely and complete fashion, including analysis of the noncompliances that have arisen.

Verification by FLA:

SanMar has included some analysis of noncompliances in its reports to the FLA and during a visit to the company's headquarters.

### **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:

In 2012, SanMar created a policy on third-party engagement and consultation. The policy is intended to define the company's actions and strategies for incorporating third-parties, including civil society organizations and other knowledgeable individuals or groups into its social compliance program activities and risk management planning.

The company depends on the local expertise and knowledge of the third-party monitors that conduct internal auditing for the company. Through monitors, SanMar has focused on CSO engagement in China and Bangladesh.

SanMar compliance staff review reports and Internet sites of CSOs and local labor department websites.

SanMar compliance staff has attended FLA Stakeholder meetings.

Verification by FLA:

FLA reviewed SanMar's 2012 policy on third-party engagement and consultation.

FLA reviewed audit instruments verifying the engagement of SanMar's third-party monitors with civil society organizations.

FLA observed the training in China conducted by a [CSO] consultant and has material on file from the [monitoring organization] led training in Bangladesh.

During interviews, the Compliance Manager described his learnings from the various websites and listservs that he tracks.

SanMar staff was present at the FLA's Fair Wage Stakeholder forum in Hong Kong in October 2010 as well as FLA stakeholder events in the United States.

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

### Actions Taken:

On behalf of SanMar, [monitoring organization] has engaged with local organizations in factory locales. In northern and southern China, [monitoring organization] has engaged with multiple CSOs.

The monitoring organization, on the behalf of SanMar, also engaged in CSOs in Vietnam, Bangladesh, India, Cambodia.

The monitoring organization used learnings from those interactions during audits.

### Verification by FLA:

During affiliate office visits, FLA reviewed audit reports submitted by [monitoring organization] that verify all of the organizations listed that were consulted as part of monitoring activities. The monitor included detailed notes on the content of the consultations, including information that surfaced about workplace conditions, profile of workers and potential risks.

## 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:

The Compliance Manager meets directly with legally constituted unions or worker committee representatives. He has also had focused discussions with factory management, especially in China and Vietnam, to discuss how workers' rights regarding freedom of association are maintained, and where appropriate, strengthened to allow for more local level representation.

### Verification by FLA:

Through interviews with the Compliance Manager, FLA discussed his meetings with union and worker committee representatives during his visits to suppliers. FLA recommends that SanMar incorporate union and worker committee representatives into the opening and closing meetings of all internal audits.

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

Actions Taken:

SanMar auditors check the presence and content of collective bargaining agreements during internal audits.

Verification by FLA:

Based upon review of audit reports, both monitoring organizations] check on the applicability of and consistency with collective bargaining agreements; this could not be confirmed regarding the other monitoring organization.

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

#### **10.1 Pays annual dues**

Actions Taken:

SanMar has paid its annual dues to the FLA.

Verification by FLA:

SanMar is up-to-date on its annual dues. Documentation is available at FLA headquarters.

#### **10.2 Pays IEM administrative and monitoring fees**

Actions Taken:

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

Verification by FLA:

SanMar has paid all relevant dues and fees to the FLA. Documentation is available at FLA headquarters.

#### **10.3 Signs and honors required FLA contracts**

Actions Taken:

SanMar has signed and honored required FLA contracts.

Verification by FLA:

SanMar has signed and honored required FLA contracts. Copies of all contracts are on file at FLA headquarters.

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

Actions Taken:

SanMar submits factory lists, annual reports and all requested information in a complete and timely manner.

Verification by FLA:

The FLA confirms that SanMar submits factory lists, annual reports and other information in complete form and on time. SanMar has submitted annual reports as required for activities from 2008, 2009, 2010, and 2011.

## CONCLUSION

Accreditation of SanMar'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 SanMar and their third-party manufacturers. To check an affiliate's accreditation status, visit [www.fairlabor.org/accreditation](http://www.fairlabor.org/accreditation).