



FAIR LABOR  
ASSOCIATION®

*Improving Workers' Lives Worldwide*



**ZEPHYR GRAF-X**  

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**ASSESSMENT FOR ACCREDITATION**

June 2010

## TABLE OF CONTENTS

Introduction .....	2
Zephyr Graf-X’s Labor Compliance Program .....	2
Analysis of Zephyr Graf-X’s Labor Compliance Program Using the FLA Obligations of Companies and Evaluation Working Group Benchmarks .....	5
Conclusion .....	18

## 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 Zephyr Graf-X's compliance program on June 16, 2010, based on proven adherence to FLA's Workplace Code of Conduct and Obligations of Companies. Details on FLA's accreditation methodology can be found at [www.fairlabor.org/accreditation](http://www.fairlabor.org/accreditation).



## ZEPHYR GRAF-X'S LABOR COMPLIANCE PROGRAM

Zephyr Graf-X is a privately held company that produces and markets t-shirts and headwear, including headwear under license to Colleges and Universities, the NCAA, and U.S. and Canadian professional hockey leagues (such as the National Hockey League and Canadian Hockey League). Zephyr also has a custom product division for headwear. The company started in 1993 and is headquartered in Loveland, Colorado. Zephyr is a family-run business whose owners came out of a retailer background and moved into direct manufacturing. Zephyr works with contract facilities in the U.S. and overseas.

The Zephyr Social Compliance Program was created in 2001 to implement the company's affiliation with the FLA and its adoption of the FLA Code of Conduct. At that time, Zephyr affiliated with the FLA as a Category C Licensee on the basis of its revenue level. In 2003, Zephyr requested affiliation with the FLA at the level of Participating Company (Category A Licensee); the FLA Board of Directors approved the affiliation at such level with an implementation period of 3 years.

Zephyr's labor compliance program has experienced important changes in terms of staffing and structure within the organization since the company affiliated with the FLA. From 2001 to 2003, labor compliance was one of the many responsibilities of the Licensing and Human Resources Manager. From mid-2003 to 2004, the program was managed by the Vice President



*Managers, supervisors, and worker welfare committee from one of Zephyr's Bangladeshi suppliers with Zephyr Graf-X's Compliance Manager after a CSO compliance training in 2011.*

of Operations. A Social Compliance Manager, reporting to the VP of Operations, was appointed in 2005, but labor compliance represented only 25% of her overall job responsibilities. Since 2007, the Social Compliance Manager reports directly to the President and has had her responsibilities in compliance increased to 75%. Currently, compliance work is overseen by the Social Compliance Manager. In addition to being responsible for stakeholder outreach, monitor scheduling and remediation follow-up, she is also responsible for the Zephyr licensing department and royalty accounting.

Zephyr's owners and senior managers are involved in all sourcing decisions and in compliance oversight particularly in communication with suppliers. They assist the Social Compliance Manager in reinforcing compliance messages and remediation priorities to the factories. The President, in particular, communicates compliance messages to factories and uses his leverage as President and head of sourcing to effect change and to motivate factories to continue remediation efforts.

Zephyr's Social Compliance Manager conducts some internal monitoring for domestic facilities and follow-up audits and the company also relies on third-party monitors for audit, remediation and training work. In 2009, the company worked with [CSOs] in China and [CSO] in Bangladesh.

Zephyr's representatives have participated in a variety of FLA activities, particularly since the Social Compliance Manager was appointed. She has participated regularly in meetings of the Monitoring Committee, Board of Directors, and University Advisory Committee. The Social Compliance Manager is also a member of the FLA's Licensee Staff Advisory Committee. She has represented her company and licensees in discussion panels at meetings of licensors and attended trainings conducted by the FLA on a range of compliance issues for licensees.

In February 2007, the FLA Board of Directors established a Working Group to analyze and make recommendations regarding the accreditation of small or low-revenue Participating Companies (PCs). The rationale for the establishment of the Working Group was that small or low-revenue PCs (low-revenue PCs were defined as those with consolidated revenue under \$300 million) faced challenges in meeting all of the FLA company obligations in the same manner that larger



*Compliance staff from one of Zephyr Graf-X's suppliers working with a CSO on a factory improvement project.*



*Zephyr Graf-X hats from shaping and blocking machines to the quality inspection line in Bangladesh.*

PCs were able to do. In October 2007, the Board of Directors approved a series of proposals developed by the Working Group that modified the accreditation process for low-revenue PCs by: (1) allowing low-revenue PCs a longer implementation period, which could be as long as 5 years provided satisfactory progress in implementing a labor compliance program was being made; (2) maintaining the same company obligations for all participants but recognizing that low-revenue PCs could meet some of the company obligations primarily through collaborative activities organized by the FLA rather than through individual activities; and (3) taking into account this latter consideration in the evaluation of compliance programs for accreditation purposes. This assessment for accreditation of Zephyr's labor compliance program follows the guidelines for low revenue PCs approved by the Board in June 2007.



*Zephyr Graf-X's Compliance Manager conducting headquarter compliance training in 2011.*

The tables below describe Zephyr's supply chain over the period 2003-2009, as reported to the FLA. During this period, Zephyr factories were subject to a total of 7 unannounced Independent External Monitoring visits (IEMs) conducted by FLA accredited independent external monitors. Information on the results of the IEMs, and the remediation undertaken by Zephyr in response to IEM findings, are provided in FLA IEM reports online and discussed, as appropriate, in the next section.

#### ZEPHYR GRAF-X APPLICABLE FACILITIES AND IEMS, 2003-2006

COUNTRY	2003 APPLICABLE FACILITIES	2003 IEM	2004 APPLICABLE FACILITIES	2004 IEM	2005 APPLICABLE FACILITIES	2005 IEM	2006 APPLICABLE FACILITIES	2006 IEM
China			3		3	1	4	1
Bangladesh								
Korea	4		2	1	2		3	
Russia	3		1					
United States	1	1	2		2		2	
Vietnam			1				1	
<b>Total</b>	<b>8</b>	<b>1</b>	<b>9</b>	<b>1</b>	<b>7</b>	<b>1</b>	<b>10</b>	<b>1</b>

#### ZEPHYR GRAF-X APPLICABLE FACILITIES AND IEMS, 2007-2009

COUNTRY	2007 APPLICABLE FACILITIES	2007 IEM	2008 APPLICABLE FACILITIES	2008 IEM	2009 APPLICABLE FACILITIES	2009 IEM
China	4		4	1	2	1
Bangladesh	1	1	1		1	
Korea	1					
Russia						
United States	3		1		1	
Vietnam						
<b>Total</b>	<b>9</b>	<b>1</b>	<b>6</b>	<b>1</b>	<b>4</b>	<b>1</b>



# ANALYSIS OF ZEPHYR GRAF-X'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 Zephyr to the FLA verified through: (1) visits to Zephyr's headquarters by FLA staff; (2) interactions with Zephyr representatives at meetings of the FLA Monitoring Committee and Board of Directors and at FLA stakeholder engagement sessions; (3) visits to factories by FLA staff; (4) observation of Zephyr training sessions and other field activities by FLA staff; (5) information gathered via in-person and/or phone interviews, and/or email correspondence with Zephyr monitors and other key stakeholders; and (6) analysis of 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:

Zephyr adopted the FLA Workplace Code of Conduct upon affiliating in 2001.

#### Verification by FLA:

FLA staff reviewed copies of the FLA Workplace Code of Conduct adopted by Zephyr at company headquarters. The Code is also found on the "Values" section of the company's website at [www.zhats.com/values.html](http://www.zhats.com/values.html).

### 1.2 Informs all suppliers in writing

#### Actions Taken:

Zephyr sends out a welcome kit to each new supplier that consists of a Welcome Letter, Audit Process Letter, Annual Supplier Commitment Form, a copy of the Code of Conduct, and Zephyr Additional Guidelines. Suppliers are required to sign the Annual Supplier Commitment Form and Welcome Letter and return it to Zephyr. The Annual Supplier Commitment Form, which explains Zephyr's commitment to the Code of Conduct and what is required of each supplier in order to uphold the Code, must be completed and returned each year. These documents also inform the factories of Zephyr's obligations to the FLA. In 2009, the Social Compliance Manager began development of a Factory Manual that would be made part of the welcome kit with a pre-sourcing compliance questionnaire as well as FLA compliance benchmarks, and Standard Operating Procedures covering new factories, the factory approval/rating system, auditing and remediation, critical issues, grievance policy and procedure (including non-retaliation policy), a warning and escalation system for factories, and a termination/exit policy. Zephyr aims to finalize the development of all Standard Operating Procedures and the Manual in 2010.

Each factory must return signed documents stating they understand and agree to follow the Code.

#### Verification by FLA:

During visits to Zephyr headquarters, FLA staff reviewed welcome kits that were completed by suppliers and returned to the company. In 2007, not all factories were returning completed welcome kits consistently. During factory visits in China and Bangladesh, FLA staff confirmed that the welcome kits were distributed somewhat inconsistently but management at both factories were aware of the FLA, FLA obligations and the IEM process. The factory in China showed FLA staff a copy of the Annual Supplier Commitment that was stored on a computer. In subsequent verification of this obligation, the FLA received copies of signed Annual Supplier Commitment forms for all factories and has retained these on file. FLA staff has reviewed and commented on draft Standard Operating Procedures during Zephyr's development of the Factory Manual and have been updated on the progress of the Manual.

FLA staff confirmed that the Annual Supplier Commitment Form has been amended to clarify how factories should proceed in cases of different standards in national law compared to the Code of Conduct, compliance benchmarks, or Zephyr Additional Guidelines. A copy of the document is on file with the FLA.

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

#### **Actions Taken:**

Zephyr requires all factories to post the Code in several places throughout the factory and in the local languages. In recent years, Zephyr focused on Code of Conduct standardization. The company logo was inserted on the Code of Conduct and Zephyr worked with translators where necessary to ensure that all translations were consistent (the FLA had earlier noted that the Chinese translation of the Code of Conduct failed to include the Freedom of Association element).

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

The FLA confirmed that the welcome kits clearly communicate instructions about code posting.

The Zephyr Code of Conduct is translated into English, Spanish, Bengali and Chinese and includes the Zephyr logo. The FLA reviewed company internal audits and photos displaying the code postings in prominent places and in local language. Photos of posted Zephyr Codes of Conduct are on file with the FLA.

IEM data confirms that copies of the Zephyr Code of Conduct are found posted in the factory. A 2007 IEM in Bangladesh revealed that the Code of Conduct was posted in local language but was not readable due to small font size. This same factory received an IEV the next year and monitors confirmed that the Code of Conduct font size had been fixed.

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

#### **Actions Taken:**

Zephyr encourages suppliers to train workers on the Code of Conduct at the time of recruitment and at regular intervals.

Suppliers and company staff have been trained on the Code of Conduct. One new supplier was trained by the Social Compliance Manager in Colorado. Approximately 25 employees at Zephyr headquarters also received Code of Conduct training during a company quarterly meeting in 2009. Supplier factories in China, Bangladesh and the United States have all participated in recent (within the past year) Code of Conduct training.

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

For several years Zephyr did not maintain documentation that training of workers on the Code had taken place at factories of suppliers, an issue that was identified during a headquarter visit by FLA staff in 2007. Documentation has been maintained since then and has been reviewed by FLA staff. It includes training schedules and documentation of training in Bangladesh, China and the United States.

During visits to factories in China and Bangladesh, FLA staff confirmed that Zephyr had requested training of workers about Code of Conduct provisions. The factory manager in China indicated that trainings took place every 3 months for managers, supervisors and workers and provided photographs of a training that had taken place in 2007. The factory did not maintain any sign-up sheets to reflect the dates of trainings, content, trainer and who participated. In Bangladesh, Zephyr has engaged a third-party service provider to train worker committee members on the Code of Conduct. Training for factory managers, HR managers, supervisors, worker committee members and machine operators was observed by FLA staff.

According to an IEM conducted in 2003 at a U.S. factory, the supplier had not received the company's Code and workers were unaware of the Code elements. The factory subsequently received training and the FLA maintains documentation on file. IEMs in 2004 and 2005 revealed that the Code had been posted in the locations but that employees were not aware of the contents of the Code. In both cases, Zephyr has provided updates to the IEM report indicating that training has been conducted. In IEMs at Zephyr suppliers in 2006, 2007, 2008 and 2009, there were no findings of noncompliance in regards to worker awareness of the Code.

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

**Actions Taken:**

All new suppliers must sign the Welcome Letter and Annual Supplier Commitment Form, both of which set out conditions for external audits and requirements of factories after such visits. Suppliers must also be up-to-date with respect to signing the Annual Supplier Certification Form as a condition for maintaining business. Zephyr has also created the Zephyr Additional Guidelines to supplement the Code of Conduct; they were developed from FLA Obligations of Companies and Compliance Benchmarks and cover such topics as informed workplace, worker wage awareness, social security benefits, excessive overtime, grievance procedures, retrenchment and subcontractors. This document is sent to suppliers along with the Annual Supplier Commitment Form.

**Verification by FLA:**

Factories visited by the FLA appeared familiar with the FLA IEM requirements. The FLA has reviewed signed Annual Supplier Certification forms and Zephyr Additional Guidelines.

## 2. TRAINS INTERNAL COMPLIANCE STAFF

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

**Actions Taken:**

The Social Compliance Manager is in charge of all duties relating to the Zephyr compliance program. The position formerly reported to the Vice President of Operations, but the President of Zephyr now provides oversight. Zephyr also relies on the services of contracted monitors for monitoring, remediation and training services.

**Verification by FLA:**

Initially, the FLA interacted with the Vice President of Operations regarding IEMs and FLA obligations. As of 2006, the Social Compliance Manager became the FLA contact. The Social Compliance Manager reports directly to the President, a sign of the company's increased commitment to compliance. The FLA reviewed the job description of the Social Compliance Manager and compliance-related duties of the President and staff in production, purchasing and sourcing.

**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 Social Compliance Manager attends FLA meetings on a regular basis and undergoes training in regards to international and labor standards, risk factors and techniques for monitoring, interviewing and remediating.

The Manager is planning training sessions for top management (owners and senior department managers) to cover the Code of Conduct, FLA membership, and compliance expectations for factories.

**Verification by FLA:**

In 2007, the Social Compliance Manager attended the FLA Foundation Course for 3.0 and a joint-training conducted by [monitoring organization] on social compliance monitoring and remediation. The FLA reviewed the training report from [monitoring organization] and confirms that the topics covered included: (1) global and local standards of compliance; (2) productivity enhancement and efficiency; (3) root cause analysis; and (4) FLA obligations. The Manager has also proactively sought information on labor laws and practices in the manufacturing countries where Zephyr sources through research and attendance at FLA workshops and trainings. In 2008, the Social Compliance Manager attended the FLA stakeholder forum in Shanghai to learn about current labor issues in China, CSR trends and initiatives, and aligning purchasing practices with compliance efforts. The Manager attended 4 compliance-related meetings in 2008 (3 FLA Monitoring Committee and Board Meetings and 1 University Advisory Council meeting) and 4 in 2009 (2 FLA Monitoring Committee and Board Meetings, 1



University Advisory Council meeting and 1 remediation training). The FLA has also confirmed that the Manager attended the [CSO] Social Compliance Leadership Series training and took part in 3 follow-up webinars (on instituting supplier compliance programs, C-TPAT security and root cause analysis of hours of work issues).

The FLA recommends increased training for the Social Compliance Manager and senior management.

### 2.3 Updates that training at regular intervals

#### **Actions Taken:**

The Manager has attended FLA Monitoring Committee and Board meetings on an increasingly regular basis and participates in regular trainings.

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

FLA staff confirmed that the Social Compliance Manager has attended meetings of the Monitoring Committee and of the Board of Directors. Further, FLA staff reviewed Zephyr's compliance budget and noted the allocation of funds for internal training.

## 3. PROVIDES EMPLOYEES WITH CONFIDENTIAL REPORTING CHANNELS

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

#### **Actions Taken:**

Zephyr encourages factories to establish grievance procedures, mainly by requesting that factories have at least a suggestion box that workers can use to express any concerns or complaints.

Zephyr is also piloting a project with 1 factory in China based on the FLA Guidelines of Good Practice. The factory has improved the instructions and guidance for using suggestion boxes. The factory will be using a spreadsheet to track grievances and will be looking for trends that may emerge.

In the 2009 annual report submitted to the FLA, Zephyr included an analysis of the various worker noncompliance reporting mechanisms used and their effectiveness in the different locations.

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

The FLA confirms that Zephyr has communicated to its factories the need to establish internal grievance procedures, initially through the establishment of suggestion boxes. The FLA also reviewed Zephyr internal audits in which monitors verified the effectiveness of the suggestion box approach. Similarly during FLA-observed factory visits in China and Bangladesh, FLA staff confirmed that suggestion boxes were in place. Instructions for how to use the suggestion boxes were not consistently posted by each box, for example at the China factory only 2 of 4 boxes had instructions.

In China, FLA staff was able to review records of the issues raised through the suggestion box which are posted for workers to see, including management's responses. In Bangladesh, FLA staff saw suggestion boxes with grievances and confirmed that the factory had set up a review process of the grievances and suggestions raised through the suggestion boxes which involved a member of the [worker committee] and the HR manager in review, response, and communication of the issues. The factory in Bangladesh is participating in the FLA's PREPARE project. The aim of the project is for workers and managers to learn how to establish communication channels and to increase dialogue and negotiation.

The FLA has reviewed the draft Grievance Mechanism communication developed by the Zephyr Social Compliance Manager for supplier employees. This Grievance Mechanism communication describes the various systems available to employees—factory level systems, NGO hotline (where applicable) and Zephyr complaint channel. The FLA encourages Zephyr to finalize this communication and convey the information to workers systematically throughout the supply chain.

The FLA encourages Zephyr to continue to analyze different forms of worker input and to follow-up on the pilot project in China, evaluating its performance and considering its replication in other factories. The FLA encourages Zephyr to implement plans for a new, more effective pilot project on confidential reporting mechanisms in its Bangladesh supplier facility.

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

#### **Actions Taken:**

The main channel available for workers to directly contact Zephyr is through e-mail or a toll-free number (both are posted on the Code of Conduct and business cards). Zephyr has been aware of the fact that workers may not be able to use a US toll-free number and may not have access to email. They have therefore explored alternative methods, such as working with a hotline in China. Factory workers in the US facilities can make use of the toll-free number and email addresses.

Zephyr added a note to the Code of Conduct explaining that emails sent to the company could be written in local languages. The company continues to have a Chinese translator available and, in 2008, engaged the services of a Bengali translator.

Zephyr has developed a Standard Operating Procedure on handling complaints to ensure that responses are conveyed back to the complainant (if the worker provides his or her name) and that Zephyr can verify that the worker has not been retaliated against.

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

The FLA confirmed that the Code of Conduct includes an email address and toll-free number. In Bangladesh, the US email address and toll-free number were posted but there was no explanation for how to use the communication channel or training provided to the workers, except for a statement saying that this line is to be used in cases of emergency and is a confidential channel. Zephyr has received 1 complaint from a worker in Bangladesh. As verified by the FLA during a capacity building training session for the PREPARE project, workers felt comfortable in broaching the subject of the complaint (verbal abuse) with factory managers.

During the observation at a factory in China, the FLA confirmed that information is posted on how to contact a local hotline, including a local number and explanation of the purpose of the hotline. The factory invited the organization responsible for running the hotline to train the workforce on its operation and to provide some training on Chinese labor law. The factory claims that 100% of the workforce have been trained on using the hotline. At the time of the FLA visit, no complaints had been lodged through the hotline. FLA staff subsequently reviewed correspondence about a complaint submitted by workers. The FLA encourages Zephyr to continue to use this resource and to investigate and address any reasons that might be responsible for the low usage.

To address the problem that foreign workers are not likely to use a U.S. toll-free number, Zephyr has developed a Grievance Mechanism communication geared to workers which has been reviewed by FLA staff. It covers: (1) factory internal grievance procedures; (2) the NGO hotline available to workers in China; and (3) a direct channel to Zephyr. Regarding the direct channel to Zephyr, workers are instructed to submit a complaint by email or phone; these would be received by the Social Compliance Manager. Emails may be submitted in the local language. It should be noted that at the time of this assessment, the communication to workers had not yet been translated into the appropriate languages and conveyed to workers. FLA staff have also reviewed the corresponding (draft) procedure for compliance staff and factory managers which serves as a counterpart to the version for workers. Copies are on file with the FLA.

Only the 2003 IEM for Zephyr indicates a noncompliance with respect to a confidential noncompliance reporting mechanism.

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

#### **Actions Taken:**

The email address and phone numbers provided on the Code of Conduct and business cards are secure in that they both are directed to the Social Compliance Manager. The postings also state that the channel is secure and confidential. Similarly, the hotline in China provides for a secure and confidential reporting channel. After 2007, Zephyr added language to the Code of Conduct to make its non-retaliation policy more explicit.

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

The FLA confirms that the Zephyr Code of Conduct now includes a statement that the email address and toll-free number are secure and confidential channels and that workers shall not be retaliated against for using it. The

FLA has also confirmed that the Annual Supplier Commitment Form now clearly states that workers shall not be prejudiced or punished for using the confidential mechanism.

During visits to Zephyr factories in 2008-09, the FLA confirmed that the language described by Zephyr management was posted by the contact information. In earlier visits to factories in Bangladesh (2006) and China (2007), FLA staff observed that there was no non-retaliation clause explaining that worker would not be punished or prejudiced for using these channels.

The hotline used in China does provide language on confidentiality and non-retaliation. During a headquarter visit, the FLA reviewed remediation plans in which Zephyr requested factories to implement grievance procedures and emphasize that workers would not be retaliated against for use.

#### 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:

Zephyr has monitored an appropriate sample of its factories each year. Monitoring includes pre-sourcing audits as well as follow-up verifications.

Zephyr uses a combination of internal staff and third-party monitors to conduct internal monitoring visits. Third-party monitors use the FLA audit instrument and audit methodology. The Social Compliance Manager, who also uses the FLA audit instrument and audit methodology, conducted 2 audits in 2008 and 2 follow-up audits in 2009, focusing on increasing the quality and quantity of worker interviews.

Prior to conducting an audit in China in 2008, the Social Compliance Manager consulted with an NGO in formulating interview questions and for some additional background on China contract labor law. In line with recommendations from FLA staff, the Social Compliance Manager used the services of a NGO representative to translate during worker interviews.

###### Verification by FLA:

During FLA visits to the Zephyr headquarters as well as during field observation visits, the FLA confirmed that Zephyr has been conducting internal audits annually for a sample of factories. The FLA is familiar with the third-party auditors used by Zephyr and confirms that these monitors follow a standard auditing protocol. Moreover, the FLA observed the Social Compliance Manager conducting a follow-up audit and confirms that she also followed a standard audit process but with some challenges due to language barriers. During the FLA observed visit in 2007, FLA staff translated policies and documents and acted as an interpreter during worker interviews. In 2008, the Social Compliance Manager began using translators during internal audits (including for worker interviews, management interviews, and document review). In Shanghai, the Social Compliance Manager uses the services of an NGO and in Qingdao, an individual from translation company.

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

###### Actions Taken:

Zephyr uses the FLA audit instrument to collect and verify compliance with workplace standards and relies mainly on FLA-accredited monitors.

###### Verification by FLA:

The FLA reviewed Zephyr internal audits using the FLA audit instrument and tracking chart during the headquarter visit. Samples of these audit reports are on file with the FLA. During factory visits by FLA staff in China and Bangladesh, the FLA also confirmed that internal audits were done using the FLA audit instrument, although in some instances the findings were transferred to the monitor's own format and submitted to the company and the factory in that format.

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

#### Actions Taken:

Upon receipt of an audit report or completion of an internal audit, the Social Compliance Manager reviews the report, focusing on noncompliances. Zephyr's management team discusses some or all of the findings with the factory management and listens to their explanations or remediation suggestions before agreeing on an action plan. The Social Compliance Manager writes up the remediation plan on the tracking chart with target dates for completing remediation. These dates may be modified depending on the complexity of the issue.

#### Verification by FLA:

The FLA reviewed remediation plans and correspondence between factory management and Zephyr as well as documentation of follow-up visits and confirms that remediation plans were developed in good order and are being implemented. Sample reports and correspondence are on file with the FLA.

### 4.4 Tracks the progress of remediation

#### Actions Taken:

Zephyr management tracks the progress of remediation in a number of ways. They: (1) speak regularly and candidly about remediation plans to the owner of their strategic partner factory group; (2) receive periodic updates on the progress of remediation via email; (3) collect documentation from the factory for completed remediation (e.g., copies of documents or photos); (4) follow up on remediation through discussions with factory management and factory walk-through when visiting the factory for business reasons; and (5) schedule, as appropriate, a follow-up audit by a third-party monitor focusing specifically on issues the previous audit uncovered. Given the costs of follow-up audits by a third-party auditor, they are generally limited to one a year.

#### Verification by FLA:

FLA staff confirmed with factories that these methods to track remediation are implemented. The FLA has sample documentation on file. The FLA also confirmed with third-party monitors who have received copies of remediation plan updates and have been asked to verify with workers that the remediation has taken place (for example, in the cases of back pay and Code of Conduct of training).

## 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:

As mentioned above, upon completion of an audit and receipt of a report, Zephyr reviews and analyzes the report, asking for clarification from the monitors if appropriate. The company then tries to engage in a conversation with factory management about the report within 15 days of receipt so that a remediation plan can be completed within 30 days. At times, the discussion takes longer than 30 days, if complex issues are involved.

In 2008, Zephyr began prioritizing issues for factory discussions and engaging more extensively with factory management in the development of remediation plans. The Social Compliance Manager follows the steps below in developing a remediation plan:

1. Prioritize Issues – The Manager prioritizes egregious issues (e.g., critical health and safety findings, non-payment of wages) and groups together like issues (e.g., all policy-related findings).
2. Communicate with Factory – The Manager does some root cause analysis with the factory and engages it in dialogue through regular email communications.
3. Summarize – The Manager summarizes email communications and inserts the results of the discussion / decisions into the Audit Status Report.
4. Audit Status Report – The factory-specific Audit Status Report detailing findings and corresponding remediation is sent to the factory.

5. Additional Documentation – The factory sends additional documents and feedback after the development of the corrective action plan.

Based on the Social Compliance Manager’s participation in the remediation training organized by the FLA (Los Angeles, March 2009), she focuses on the Plan-Do-Check-Act problem-solving process as well as on the development and implementation of policies and procedures.

**Verification by FLA:**

The FLA reviewed sample correspondence between company management and factory and discussed the post-audit process with Zephyr factories. The FLA has noted that this process has evolved over the years. While sample emails shown to FLA staff during a headquarter review in 2007 showed that the remediation plans are developed by Zephyr and forwarded to the factories for implementation, this was not always the case. In one instance, the factory was asked to develop the remediation plan and timelines for completion. In 2008 and 2009, the FLA has reviewed email correspondence regarding the development of remediation plans between Zephyr and factories and confirms that there is an increasing level of dialogue. The FLA has verified that remediation plan discussions include clarification of findings, explanation of applicable law, and communication of supporting evidence.

The FLA recommends that Zephyr more systematically incorporate target completion dates in remediation plans developed with factories.

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

**Actions Taken:**

Zephyr provides the factory with a timeline for completing the remediation plan and follow-up. Frequently, Zephyr attempts to develop remediation plans that are sustainable and will prevent the recurrence of such noncompliances.

**Verification by FLA:**

The FLA reviewed some remediation plans in which Zephyr incorporated preventative measures, including the development of policies, procedures, and oversight mechanisms to prevent the recurrence of noncompliances. During observations of a 2007 follow-up audit at a factory, the discussions that took place with the factory focused on eliminating the noncompliance but did not focus on the root causes of the noncompliance and how they could be prevented in a sustainable manner. The visit concluded without agreement on remediation of some of the more serious issues such as overtime and social security benefits payments. Nonetheless, Zephyr’s President joined the discussion and expressed willingness to adjust the ordering process to support the factory in reducing overtime. The FLA encourages this level of dialogue with factories to develop sustainable solutions through collaboration between the brand and the supplier. Zephyr subsequently partnered with [CSO] to develop a project for this factory aimed at the more serious and recurring noncompliances.

The FLA encourages Zephyr to continue preventative remediation through its corrective action plans, taking advantage of face-to-face meetings with factory management to prioritize serious noncompliances, further understand the underlying causes of the noncompliances and ensure a common understanding of the steps required to remediate sustainably and preventatively.

**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:**

Zephyr supplies remediation plans within 60 days.

**Verification by FLA:**

The FLA confirms that Zephyr’s remediation plans for IEMs are consistently received within the 60-day period. If additional time is required, the company requests a time extension.



#### 5.4 Confirms the completion of remediation

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

Zephyr confirms the completion of remediation through a variety of means, including updates from the factories, photo documentation, follow-up visits and formal third-party follow-up audits.

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

The FLA confirms that Zephyr verifies completion of remediation through visits by company representatives and other means. The FLA has also reviewed documentation of completed remediation as well as follow-up reports from third-party monitors.

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

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

Zephyr communicates to all suppliers that repeated failure to comply with the Code of Conduct will result in termination of the business relationship. Zephyr has not left a factory solely on the basis of their labor noncompliance, but it has been a factor in some decisions.

The company has adopted a policy of conducting pre-sourcing audits so that they can be more selective about the factories with which they do business. Zephyr seeks to ensure a factory's commitment to compliance prior to sourcing. The President arranges for a meeting between the Social Compliance Manager and management of the factory being considered to discuss compliance issues and complete the pre-sourcing questionnaire, including the factory's compliance history (brands sourcing from the factory, audits per year, last audit report, management systems in place, etc.). Production decisions are then made based upon this information (conditional approval) or by conducting an audit. The President will not agree to source from a new supplier unless it has been approved by the Social Compliance Manager.

One of the documents in the Factory Manual is a New Factory Approval procedure. It focuses on all of the key areas – quality, innovation, delivery price, order quantity and compliance – that drive factory approval. In the document, Zephyr is trying to stress to factories that compliance is just as important as the other areas and the factory's commitment to compliance will be a deciding factor in whether they are approved.

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

The President of Zephyr stated to FLA staff that compliance issues are now integrated into all of his business discussions with factories. The factories visited by FLA staff in China and Bangladesh were aware of the message that future business relations were conditioned on compliance. In both cases, both factories were approved before Zephyr had a pre-sourcing audit practice.

The FLA staff reviewed some pre-sourcing audits conducted by Zephyr. Copies of the pre-sourcing audits did not demonstrate that a full audit was completed (including worker interviews and a full document review). The FLA recommends that the pre-sourcing audits also include these aspects.

FLA reviewed the New Factory Approval procedure. The FLA encourages Zephyr to apply the procedure systematically, ensuring equal weighting to compliance in all sourcing decisions. The FLA has also reviewed the procedure on Factory Termination, Closure or Downsizing, portions of which are based upon the FLA's Retrenchment Guidelines. The FLA has also reviewed the SOP on Factory Rating, which includes a progressive warning system to notify factories of a potential decrease or cessation of business if noncompliance issues are not remediated.

## 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:**

Given the small supplier source base, Zephyr manages the analysis of its audit instrument manually and uses a comparison of the audit reports to identify recurring noncompliances over time. The Social Compliance Manager has reviewed ILO Better Work Good Practices Sheets and will begin using several for health and safety training.

The Manager is also putting together a project whereby factories would receive an interactive workbook with the applicable sheets and have the opportunity to train on these subjects, take notes, and submit evidence of improvements they have made as a result.

Zephyr has made some internal changes to align sourcing decisions and compliance efforts. Several key changes have been made regarding sourcing, purchasing operations and compliance (e.g., increasing the minimum order amount, lengthening delivery estimates to customers, having a strict internal sample policy, etc.) in order to positively impact labor conditions. One recurring noncompliance issue targeted was excessive overtime hours at a facility in China. This facility has been a long-time partner with Zephyr and over the past year the company has been in conversation with the factory about how best to support business. It is, however, difficult to know whether this receptiveness may be attributable to the company's changes or a result of reduced working hours overall at the facility due to the economic downturn. These purchasing changes have been applied to other factories as well, though Zephyr represents a much smaller percentage of business at other facilities and therefore it may be difficult to observe an impact.

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

Zephyr has provided results of its analyses in its annual reports. As with many companies, this is a challenging issue for smaller PCs. The FLA encourages Zephyr to explore adopting tools developed by other programs or in-house to identify systemic noncompliance issues.

FLA staff has discussed policy changes within Zephyr to better integrate purchasing practices and compliance. FLA staff has examined documentation regarding this policy and feedback from the factory. The FLA encourages Zephyr to continue to recognize the effects of purchasing practices on compliance and to take into account purchasing practices when considering compliance issues.

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

#### **Actions Taken:**

Although Zephyr has pointed out that this is a challenging obligation to fulfill, nevertheless the company has taken steps to try and design remediation programs that result in sustainable changes. Since 2007, in particular, Zephyr has placed more emphasis on encouraging factories to implement policies and procedures that support remediation so that factory systems are in place to prevent further noncompliances. Zephyr has also placed more emphasis on providing training for factories, such as a partnership with an NGO in Qingdao, China to provide worker education on labor laws and grievance procedures and to assist in the formation of a worker committee. The NGO is also a resource for workers to raise grievances regarding factory systems and conditions.

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

The FLA confirms that Zephyr has recently been seeking to create more systematic remediation plans and has observed trainings conducted at factories, reviewed documentation of trainings and has spoken to the service providers that have provided the trainings. The FLA encourages continued efforts in this area.

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

#### **Actions Taken:**

Zephyr has attempted to work directly with factory owners on remediation plans in an attempt to deal with noncompliances at a vendor level rather than a factory level. Zephyr is attempting to share best practices among factories that are likely to encounter similar problems. Zephyr has also participated in the FLA courses and is considering participation in other projects aimed at creating both sustainable and preventative systems at the factory level.

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

The FLA has reviewed correspondence that demonstrates Zephyr's discussions with factory owners. The FLA can confirm that the Social Compliance Manager has attended FLA courses/trainings and that the Bangladesh factory is enrolled in the FLA PREPARE project.

The FLA encourages Zephyr to use its relationship with factory owners to preemptively set up compliance systems in all factories and to continue to focus on other sustainable compliance initiatives, including vendor forums, for sharing best practices.

## 7. SUBMITS TO INDEPENDENT EXTERNAL MONITORING

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

#### **Actions Taken:**

Updated factory lists, access letters and other documents have been provided to the FLA as required and upon request; updated information has been provided on a regular basis.

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

Zephyr has provided factory lists, access letters and other documentation on a timely basis throughout their implementation period. Zephyr has also been diligent in updating the factory list or other documentation as appropriate.

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

#### **Actions Taken:**

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

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

The FLA confirms the cooperation of Zephyr suppliers during IEM visits. There have not been any issues of denial of access to monitors in any of the IEMs conducted for Zephyr.

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

#### **Actions Taken:**

Requests for information, clarification and assistance are promptly answered and followed up. Zephyr has also recently sought to contact the FLA proactively and transparently to seek technical support with regard to challenging remediation issues and the development of their compliance program.

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

The FLA confirms that Zephyr responds promptly to all FLA requests regarding the IEM process and has reached out to FLA staff for technical assistance with complex remediation plans.

## 8. COLLECTS AND MANAGES COMPLIANCE INFORMATION

### 8.1 Maintains a database

#### **Actions Taken:**

Zephyr has created an Access database to house all compliance information including factory profiles, noncompliances and remediation plans. The database is also used to track noncompliance trends and factory compliance histories.

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

The FLA has reviewed factory profiles that Zephyr is requesting from its factories to store in the database. The profiles include information on factory location, production, number of workers, corrective action plans, and timelines, among other issues. At the time of the headquarter visit, the FLA reviewed the Access database and confirmed that it manages compliance information. The FLA reviewed the functionalities of the database including possible queries and reporting to verify that the company is able to collect pertinent compliance information centrally and is able to analyze noncompliances.

**8.2 Generates up-to-date lists of its suppliers when required****Actions Taken:**

The database is able to generate an up-to-date and accurate factory list.

**Verification by FLA:**

The FLA confirms receiving updated factory lists from Zephyr in good order and on a regular basis.

**8.3 Analyzes compliance findings****Actions Taken:**

Zephyr's electronic database enables the Social Compliance Manager to collect and analyze compliance findings for all audits at supplier facilities.

The Social Compliance Manager conducted research on zero-tolerance issues and devised a matrix based upon information from 8 companies. She then refined the critical issues to ensure that they were in alignment with the Zephyr context and past noncompliances that the company had encountered.

**Verification by FLA:**

The FLA confirms that Zephyr's analysis of noncompliance data to date has been generated through the company's Access database. Samples of Zephyr's analysis are available in the annual reports submitted to the FLA and maintained in the FLA offices.

**8.4 Reports to the FLA on those activities****Actions Taken:**

Zephyr reports on its compliance activities through IEM reports, internal audits, and the annual public report. Zephyr also regularly contacts the FLA to discuss complex remediation issues or to get input on draft documents or new initiatives.

**Verification by FLA:**

The FLA confirms Zephyr's regular submission of documentation and discussions on their compliance program, including noncompliance findings and remediation.

**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:**

Engagement with civil society organizations has proved to be a challenge for small companies. Zephyr has made efforts to build relationships with some organizations in specific settings. As described above, Zephyr has established a relationship with a local NGO in Qingdao to provide a hotline service as well as worker education on local labor laws and the formation of a worker welfare committee. Zephyr has also requested a proposal from their monitor in Bangladesh to receive worker grievances and provide labor law training to workers in their contract factory.

**Verification by FLA:**

The FLA can confirm Zephyr's interactions with a local NGO in Qingdao and has observed worker education trainings in Bangladesh. The Social Compliance Manager participated in the FLA Beginner's Guide to CSO Outreach activity, led by the FLA's NGO and Trade Union Coordinator (March-April 2008) and in the stakeholder event organized by the FLA in Shanghai in June 2008. Through the exposure to CSOs in Shanghai and the training by the FLA, Zephyr identified over 30 CSOs in China and Bangladesh as potential engagement partners.

The FLA confirms that the Social Compliance Manager has implemented a system to track and document CSO communication and engagement. Zephyr has been in contact with CSOs regarding social insurance requirements, workplace injury insurance, and local labor issues in Shanghai.

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

### **Actions Taken:**

Zephyr has consulted with the local Department of Labor and Employment and with NGOs and monitors in China and Bangladesh to gather insightful information that Zephyr could use to guide its monitoring efforts.

### **Verification by FLA:**

The FLA encourages Zephyr to continue to build and maintain relationships with local CSOs. The Social Compliance Manager regularly contacts the FLA staff overseas, particularly in China, to make contact with CSO organizations. The FLA has put Zephyr in touch with organizations such as the [multiple CSOs]. The FLA encourages Zephyr to maintain these relationships and/or to collaborate with other FLA companies in maintaining contact or training for factories.

## 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:**

Zephyr does not currently source from any factories with unions but they use the FLA audit instrument which verifies the existence of unions as part of the audit process.

### **Verification by FLA:**

The FLA confirms that questions about unionization are asked in the audit instrument. The Social Compliance Manager interviews worker committee members when she visits factories. Interview notes are on file with the FLA.

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

### **Actions Taken:**

Zephyr does not currently source from any factories with a collective bargaining agreement (CBA). Zephyr does use the FLA audit instrument, which checks if a CBA is in place.

### **Verification by FLA:**

The FLA confirms that the audit instrument used by Zephyr asks questions about CBAs.

# 10. PAYS DUES AND MEETS ITS OTHER PROCEDURAL REQUIREMENTS

## 10.1 Pays annual dues

### **Actions Taken:**

Zephyr has paid its annual dues to the FLA.

### **Verification by FLA:**

Zephyr 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:**

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



**Verification by FLA:**

Zephyr has paid all relevant dues and fees to the FLA. Documentation is available at the FLA offices.

**10.3 Signs and honors required FLA contracts**

**Actions Taken:**

Zephyr has signed and honored required FLA contracts.

**Verification by FLA:**

The FLA confirms that Zephyr signs and honors required FLA contracts.

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

**Actions Taken:**

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

**Verification by FLA:**

The FLA confirms Zephyr has submitted factory lists and annual reports in complete form and in a timely manner.

## **CONCLUSION**

Accreditation of Zephyr Graf-X'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 Zephyr Graf-X. To check an affiliate's accreditation status, visit [www.fairlabor.org/accreditation](http://www.fairlabor.org/accreditation).