



FDRA

FOOTWEAR DISTRIBUTORS AND RETAILERS OF AMERICA

2016 FACTORY SURVEY

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1. EXECUTIVE SUMMARY

The Footwear Distributors and Retailers of America (FDRA), in partnership with ELEVATE, invited members from their global footwear manufacturer's base to participate in the association's annual Factory Survey for the seventh consecutive year. The survey gained insight into the current state of footwear production, mainly in China and Vietnam, as well as other emerging manufacturing countries. It also provided a deeper insight as to how factories manage the various challenges that face the footwear industry. From the survey results we found the following:

Key Findings:

Finding 1: In light of increasing oversea competition and operation cost, the 2016 Survey reveals a significant drop in percentage of large Chinese footwear factories, dropping from 47% two years ago to 25% this year.

Finding 2: Labor shortages no longer appear as a top concern for Chinese factories. Instead, they face increasing competition from Vietnamese factories despite the country's minimum wage increases and labor strikes.

Finding 3: Vietnam continues to capture a greater share of the U.S. footwear import market, and is expected to grow significantly in light of the TPP and other variables.

Finding 4: Worker-supervisor relationships are crucial for increasing and maintaining efficiency. 52% of workers who do not feel comfortable communicating with their supervisors, say they "sometimes" or "often" need to redo their work. For workers who feel very comfortable talking to supervisors, that number is 19%.

Finding 5: One in three workers do not always know their targets. Survey data shows that when workers know their production targets they are much more likely to meet their targets and less likely to need to redo their work.

Finding 6: Factories say working hours and rest days are among their top two compliance concerns. Worker survey data shows that nearly half of workers surveyed work more than 10 hours per day during the busiest season.

Finding 7: 13% of surveyed Chinese factories still lag behind on paying legal wages.

Findings 8: Worker Survey data shows that when workers understand how their wages are calculated they are more likely to feel fairly compensated. When workers feel their compensation is fair, they're more likely to be happier and remain at the factory.

Finding 9: Factories report a low level of worker feedback, whereas workers survey data suggests otherwise. 13% of Chinese and 8% Vietnamese report that they have brought forward feedback at least once over the past 12 months. Among those who have, the vast majority think their feedback has been partially or not at all treated seriously, or addressed.

Finding 10: Supervisors are tasked with a wide range of responsibilities. They are workers' primary communication channel, yet they are not always equipped with the necessary skills to manage and communicate with workers. Worker and supervisor survey data emphasizes the need to focus on supervisors in capacity building programs.

Finding 11: The percentage of factories that do not undergo social and environmental audits in the last 12 months continues to decrease. Factories on average experience six audits per year.

Finding 12: An increasing percentage of factories report that they have heard about the FDRA Code of Conduct. Among them, close to half find it is not challenging to comply with.

The factory survey showed that Chinese factories continue to struggle in the context of increasing business competition and increasing labor cost. This is evidenced by the decline in average factory size from 1,868 workers in the 2013 Survey to 732 workers today. Vietnam, on the other hand, sustained its growth in and now represents 16% of the total U.S. market for footwear imports. This trend is expected to continue, especially in light of the Trans Pacific Partnership (TPP).

In the overall business environment, factories continue to struggle in meeting working hours and legal wage requirements. In line with previous years, auditing falls short in helping factories tackle those compliance challenges and improve business outcomes.

The worker and supervisor survey provides new insight into areas for improvement. The data shows that 17% of workers in China say they sometimes or often need to redo their work, the percentage is nearly double that (35%) in Vietnam. Further analysis indicates that when workers feel comfortable communicating with their supervisors or receive better production information, they are less likely to need to redo their work.

The data also shows that supervisors play an important role in worker-management dialogue and relationships. 72% of all workers say they would speak to their supervisors in case of an issue making supervisors the primary communication channel in the factory. However, they are not always equipped with the necessary skills and capacity to effectively handle worker feedback. Results suggest that investing in supervisor capacity is an area of opportunity for improving factory productivity and compliance performance.

2. INTRODUCTION

In 2015, the United States, which remains the largest import market for footwear, remained stable showing 6% growth in USD from the previous year. Chinese manufacturers continue to experience increasing competition from emerging manufacturing countries with Vietnam gaining more of the overall footwear market share. Meanwhile, Chinese factories also face challenges with the cost of labor and raw materials. Vietnamese factories, which also cited “wages and compensation” as their top business challenge, will continue to face this challenge as Vietnam agreed to implement a higher legal minimum wage in 2016.




In March 2016, the Footwear Distributors and Retailers of America (FDRA), in partnership with ELEVATE, invited footwear manufacturers to participate in the association’s annual factory survey for the 7th consecutive year. In response to the widely publicized labor strikes in China and Vietnam and increasing challenges for factories managing and retaining workers, the FDRA also invited 10 factories to participate in a worker and supervisor survey program in China and Vietnam, with the purpose to provide bottom-up insight into the footwear manufacturing industry. This report summarizes the key findings of the survey results and sheds light on potential areas for improvement in the business, and compliance performance.

3. SURVEY INFORMATION

Survey Tool:

The 2016 FDRA Factory Survey consisted of 76 questions and assessed new dimensions including challenges factories face with customer relationships, efficiency, and product safety. These questions were in addition to the core components assessed in previous years which focus on performance and challenges related to compliance, overall business and worker-management dialogue.

The worker and supervisor survey is structured in a consistent and coherent manner. It covers key compliance areas such as working hours, wages, health and safety, and includes questions on workers’ self-evaluation of productivity, awareness of company policies, and asks for feedback on existing communication mechanisms.

Survey Audience	 Factory Survey	 Worker Survey	 Supervisor Survey
Survey Vehicle	Online	Offline (via iPad/Paper Questionnaire)	
Survey Methodology	Online Voluntary Survey	Representative Sampling and Controlled Survey Methodology	
# of Questions	76	51	55
Dates Taken	Mar 16 th – Jun 4 th , 2016	Apr 20 th – Jun 2 nd , 2016	
# of Completed Surveys	87 Factories	971 Workers	301 Supervisors

Survey Methodology:

The factory survey was conducted via an online questionnaire and the invitation was sent to FDRA’s footwear manufacturing members.

In a professional and scientific methodology, workers and supervisors were gathered in factories to take the survey. All participants were selected through a representative sampling, which took into account age, gender, length of service, production department and several other factors. Respondents took the survey in a controlled environment, which ensured anonymity, on a tablet or iPad. The questionnaire contained pictograms and audio clips to support workers’ understanding of the questions.

Survey Summary:

This report presents the analysis of responses from 87 factories across the globe and 961 production workers and 301 supervisors from factories in China and Vietnam.

4. WHO ARE THE FACTORIES?

Table 2: Global Responses

Country	# Responses	%
China	69	79.3%
Vietnam	8	9.2%
Bangladesh	4	4.6%
India	4	4.6%
South Africa	1	1.1%
Guatemala	1	1.1%
Total	87	100%

● Guatemala

South Africa

India

Bangladesh

Vietnam

China













The list of countries where factories were surveyed continues to evolve along with the changing landscape of footwear manufacturing. China continues to have the largest presence in the survey representing 79% of all responses and Vietnam, increasingly important in global footwear trade, made up 9% of responses. India and Bangladesh, which were not covered last year, collectively represent 9% of the survey responses. Guatemala, not new to the survey, represents 1% and South Africa, previously not covered also represents 1%.

Fujian (32%), Guangdong (32%) and Zhejiang (17%) continue to be the most prominent areas for footwear manufacturing in China.

4.1 PRODUCT

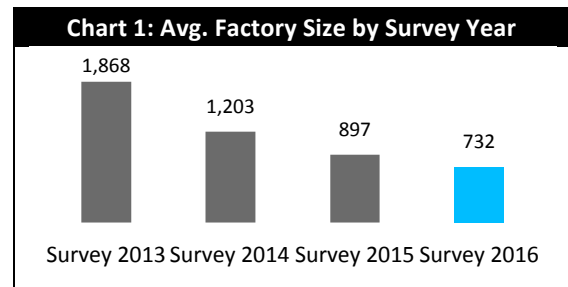
Cement Shoes continue to represent the majority product type manufactured with 67% of the 2016 survey respondents indicating it makes up the majority of their production. Sandal and Indoor shoes are the second most popular category with 37% of respondents saying they manufacture the most of this product and Welt Boots are again the third most produced among respondents. High End shoes continued to grow. In 2012, only 9% of respondents said High End shoes were their most popular category, now 24% say it makes up the majority of their production. While last year, we only saw High End products manufactured in China, this year we see that Vietnam, India, Bangladesh and China are also producing High End footwear. Women's still represent the largest market segment, however the percentage of factories saying they cater to Kids' shoes decreased significantly from 73% in 2015 to 55% in 2016.

City	Province	#	%
Putian	Fujian	16	23.2%
Fuqing		4	5.8%
Quanzhou		1	1.4%
Other City		1	1.4%
Dongguan	Guangdong	11	15.9%
Foshan		4	5.8%
Zhongshan		3	4.3%
Shenzhen		2	2.9%
Guangzhou		1	1.4%
Huizhou		1	1.4%
Wenzhou	Zhejiang	6	8.7%
Taizhou		3	4.3%
Other City		3	4.3%
Cities in other Province		13	19.2%
Total		69	100%

What Type of Footwear Makes Up The Majority of Your Production?		Which Gender do You Cater To?	
			
66.7% Shoes (Cement)	36.8% Sandal & Indoor	85.1% Women's	71.3% Men's
			
35.6% Boots (Welts)	24.1% Shoes- High end (Handsewn)	55.2% Kid's	8% Baby's
		What Percentage of Your Products Use Following Material Type(s)?	
20.7% Athletic Shoes (Strobel)	10.3% Rubber Shoes (Injection molding)	Material Types	Avg. %
		PU	37.8%
9.2% Vulcanized Shoes	6.9% Special Footwear	Leather	33.2%
		Canvas	12.8%
		Other	8.6%

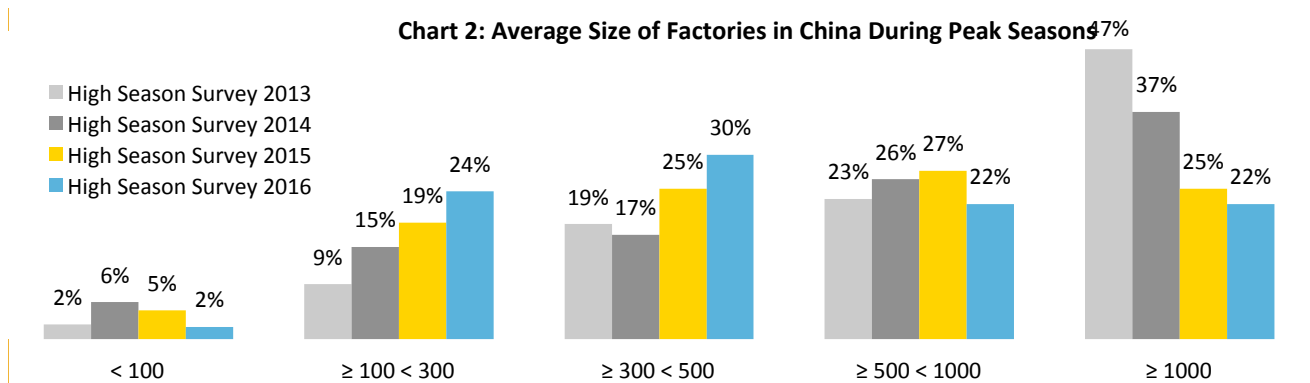
4.2 FACTORY SIZE

In last year’s report, we detailed the difficulties Chinese factories struggled with in terms of increasing labor and raw material costs as well as overseas competition. One of the indicators of increasing competition is the decline in factory size and the 2016 Survey data shows that this trend continues. This year, Chinese factories reported an average of 732 workers per factory, which represents an 18% decrease from last year and a 60% decline from the 2013 Survey. Three years ago, the average size of a Chinese factory surveyed was 1,868 workers, today it’s 732.



We also see a significant decrease in the proportion of large factories. Factories which employ more than 1,000 workers made up close to half of the Chinese factories (47%) surveyed in the 2013 Survey, now they represent 22%. However, the proportion of small sized factories with less than 300 workers increased from 11% to 26% for the same time period.

In Vietnam, factories remain large in size. In the 2015 Survey, 10 out of 12 factories employed more than 1,000 workers. This year all Vietnamese factories employ over 1,500 workers and reach up to 22,500 employees.



Finding 1: In light of increasing oversea competition and operation cost, the 2016 Survey reveals a significant drop in percentage of large Chinese footwear factories, dropping from 47% two years ago to 25% this year.

5. BUSINESS PERFORMANCE

When we asked factories to identify the most “significant” challenge that their businesses face, raw material costs, in line with results from previous years, continues to be the primary concern for Chinese factories. Behind raw material costs, factories cited wage and compensation costs as the next biggest challenge their businesses face. This has become more of an issue in recent years given the increasing attention to social insurance, which increases the labor cost significantly. Labor shortages continue to decrease in relevance due to the contracting Chinese economy, decreasing from the third most pressing challenge three years ago to the sixth this year. Business competition and economic downturn have become increasingly important over the past several years.

Vietnamese factories face similar challenges despite growing business and production volume. Vietnamese factories also cited wages and compensation as their biggest challenge, followed by raw material cost and overall business environment.

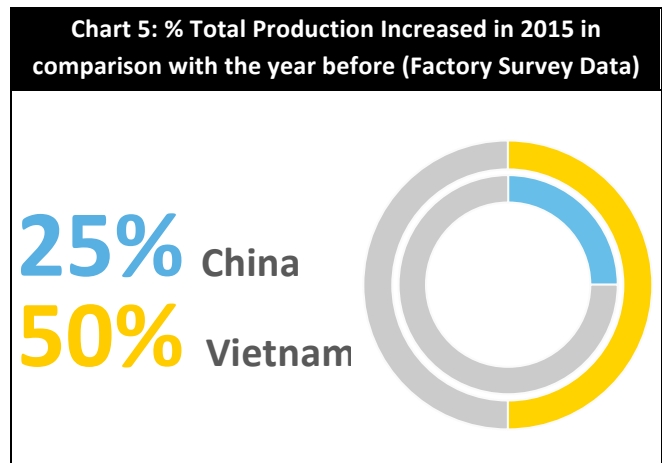
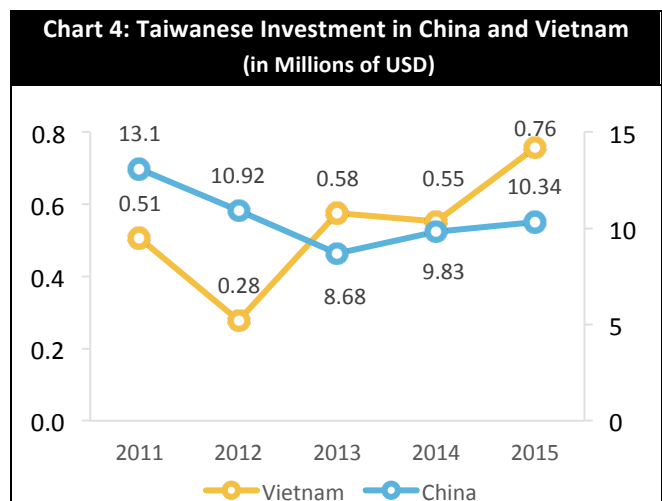
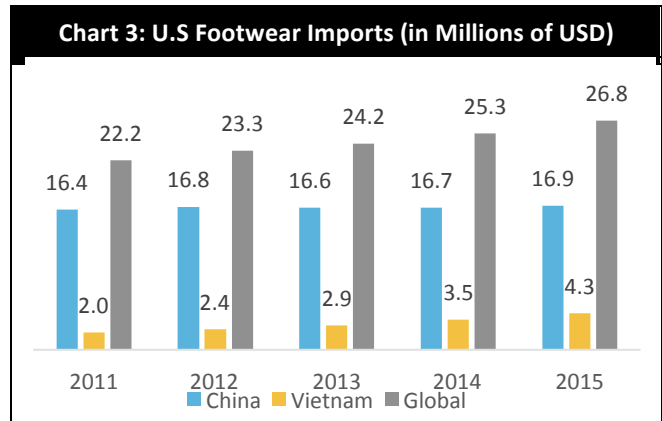
Challenges	China								Vietnam	
	Survey 2016	Survey 2015	Survey 2014	Survey 2013	Survey 2016	Survey 2015	Survey 2014	Survey 2013	Survey 2016	
Raw Material Cost	1	73.9%	1	56.1%	1	59%	1	75.8%	2	75%
Wage & Compensation	2	69.6%	2	52.8%	3	40%	2	73.6%	1	100%
Business Competition	3	42.0%	3	30.1%	5	19%	8	9.9%	3	37.5%
Economic Downturn	4	24.6%	6	15.4%	8	8.2%	9	6.6%	3	37.5%
Currency Fluctuation	5	17.4%	7	12.2%	4	26.4%	4	16.5%	/	0%
Labor Shortage	6	13.0%	4	25.2%	2	47.3%	3	67.0%	5	12.5%
Finding Good Management	7	11.6%	5	19.5%	6	15.5%	6	13.2%	/	0%
Worker Retention	8	8.7%	8	12.2%	7	13.6%	4	16.5%	/	0%
Resource Efficiency	9	4.3%	/	/	/	/	/	/	5	12.5%
Limited Raw Material Suppliers	10	5.8%	/	/	/	/	/	/	4	25%
Tougher Regulation and Legislation	11	5.8%	11	7.3%	8	8.2%	10	2.2%	/	0%
Unpredictable energy availability	12	2.9%	12	4.9%	/	/	/	/	/	0%
Political Instability	13	0%	/	/	/	/	/	/	4	25%

Finding 2: Labor shortages no longer appear as a top concern for Chinese factories. Instead, they face increasing competition from Vietnamese factories despite the country’s minimum wage increases and labor strikes.

INCREASING BUSINESS COMPETITION

In the 2015 Survey, business competition was cited as one of the top three challenges for the first time and this year close to half of survey respondents chose this option. This is in line with the overall decrease in size of Chinese factories and official import and investment data. According to the U.S. official import data, footwear imports are relatively steady and have experienced roughly 5% growth per year in USD from 2011 to 2015. Imports from China remain more or less the same during this period whereas Vietnam's share of U.S. imports has nearly doubled. Vietnam represented 9% of the U.S.'s total footwear imports in 2011 and now accounts for 16% of the market share.¹

When we look at Taiwan, as the hub of many major footwear companies, we see that their investment data tells a similar story to the U.S. import findings. While Taiwanese investments in Mainland China grew 6% from 2014 to 2015, an analysis of the past five years shows an overall 20.6% decrease in cash flow from 13.1 to 10.3 billion USD. However, over the same time period (2011-2015) Taiwanese investment has increased in Vietnam 50% from roughly .5 billion USD to .75 billion. This trend continues despite the series of strikes that took place in 2014 and 2015 at Taiwanese footwear factories. The upward trend in investment is expected to continue in anticipation of the Trans-Pacific Partnership (TPP), which, if implemented, will remove tariffs on footwear imports from member countries and reduce other barriers to trade, such as revising licensing requirements.² Analysts project that Vietnam could see an extra 30% in exports by 2030 from the TPP provisions in addition to the country's normal growth projections.³



Finding 3: Vietnam continues to capture a greater share of the U.S. footwear import market, and is expected to grow significantly in light of the TPP.

¹ "U.S. IMPORTS FOR CONSUMPTION FOR SELECTED PRODUCTS", U.S. Department of Commerce, Office of Textiles and Apparel, July 6th, 2016, accessible at <http://otexa.trade.gov/FLT/imports/catV10.htm>

² "The Trans Pacific Partnership: Summary of U.S. Objectives", accessed on July 7th, 2016 accessible at <https://ustr.gov/tpp/Summary-of-US-objectives#>

³ "Pacific Trade Pact Set to Give Big Boost to Japan, Vietnam, Malaysia" January 6th, 2016 accessible at <http://www.wsj.com/articles/pacific-trade-pact-set-to-give-big-boost-to-japan-vietnam-malaysia-1452110460>

PROFITABILITY AND PRODUCTION VOLUME

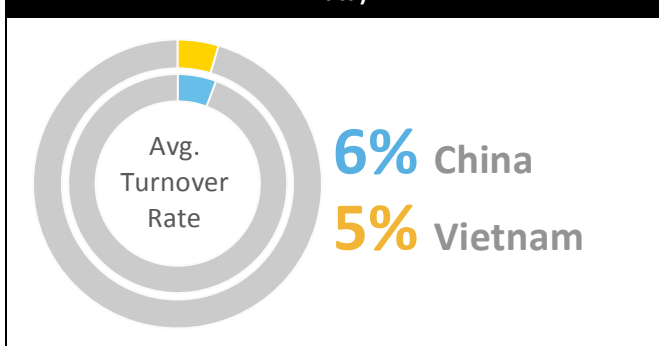
Chinese footwear factory struggles can also be seen in their degree of profitability and production volume. A quarter of Chinese factories surveyed report an increase in production volume over the past year. Only 30% of Chinese factories reported that they were more profitable than the previous year and 44% of factories in China said they were barely or not profitable.

6. WHO ARE THE WORKERS?

Table 6: Employee Structure (Factory Survey Data)

	Average Age	% Female Workers	% Domestic Migrants
Survey 2012	30	58%	67%
Survey 2013	33	61%	69%
Survey 2014	33	65%	62%
Survey 2015 (China)	34	62%	59%
Survey 2016 (China)	34	61%	67%
Survey 2015 (Vietnam)	28	75%	40%
Survey 2016 (Vietnam)	29	84%	47%

Chart 6: % Avg. Monthly Turnover Rate (Factory Survey Data)



Footwear factories continue to be a female and migrant dominated workforce. Women make up 61% of the workers in Chinese footwear factories and two thirds are workers migrating from a different city/province. 84% of workers are female in Vietnamese shoe factories.



Average age also remains more or less the same with 34 in China and 29 in Vietnam. No major changes have been observed in the workforce's overall demographic.

Chinese factories indicate that worker retention is not a big concern with less than 10% choosing this as one of their top three challenges. On average their workers stay for a period of 38 months and the monthly turnover rate is around 6%. Chinese New Year and new hires are relatively more difficult to manage. The turnover rate will double during Chinese New Year reaching 13% and a quarter (24%) of new hires will leave within the first three months of employment.

These findings are consistent with the worker and supervisor survey data. Amongst the seven Chinese

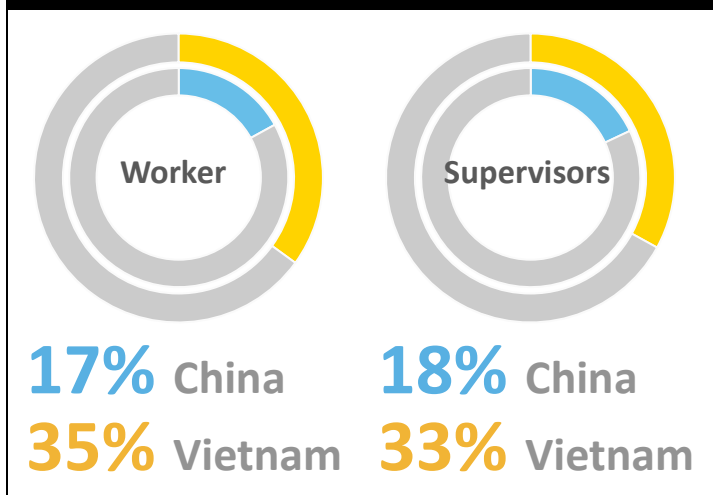
factories covering 802 workers, 56% of workers are female with an average age of 35. They have been with the factory for three years in average.

Table 7: Workforce Characteristics (Worker & Supervisor Survey)

	Avg. Age	Avg. Service Length	% of Female Workers	% Middle School and Below	
 	Worker (China)	36	58%	88%	
	Worker (Vietnam)	30	89%	64%	
	Supervisor (China)	35	4.5	47%	78%
	Supervisor (Vietnam)	30	4.6	67%	48%

7. REWORK AND EFFICIENCY

Chart 7: % Often/Sometimes Need to Redo Their Work (By Position and Country) (Worker and Supervisor Data)



The benefits of stability in the workforce cannot be overemphasized. Not only does it help reduce costs associated with recruitment, hiring and production interruption caused by employee turnover, but it also creates higher efficiencies through an experienced and skilled workforce.

The worker and supervisor survey allows us to gather bottom-up feedback, to help evaluate the extent to which footwear factories have utilized the benefits of a stable workforce and identify where improvements can be made.

The survey asks audiences: 1) how often rework is needed; 2) Are production targets understood; 3) how often production targets can be achieved from

both a worker and supervisor point of view.

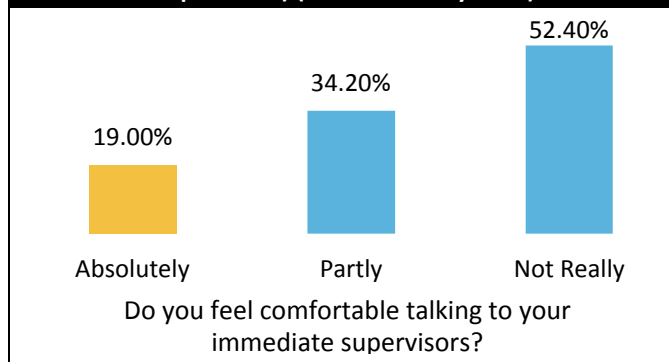
Data shows that Chinese factories have a much lower rework rate. 17% of Chinese workers indicate that they often or sometimes need to redo their work, whereas the percentage is more than double in Vietnam (35%). The supervisor data reveals similar findings.

It's worthwhile to point out that this rework data is based on worker and supervisor self-assessment, instead of an endline rework rate. It could be stitches out of line, the wrong number of stitches per inch, askew lasting and rework at finishing or additional touch-ups in the finishing process. These often are not captured or measured during normal production processes and could create opportunity for improving worker productivity and increasing overall efficiency.

Analysis shows that there are a number of factors that contribute to rework, including:

- Work Relationships Matter.** Workers that speak positively about their supervisors are less likely to redo their work frequently.⁴ Amongst workers who say they absolutely feel comfortable talking to their supervisors, 19% of them often/sometimes need to redo their work, while the percentage increases to over half (52%) amongst those who say they do not really feel comfortable communicating with immediate supervisors.

Chart 8: % Often/Sometimes Need to Redo Their Work (By Whether Workers Feel Comfortable Talking to Supervisors) (Worker Survey Data)



⁴ Correlation test shows that workers' frequency of rework correlates with their level of comfort talking to supervisors at $r=-0.085$, $\text{sig}=0.01$.

This could be explained by the fact that supervisors are responsible for training workers and communicating quality requirements. When workers feel comfortable asking their supervisors questions, they are less likely to make mistakes and need to redo work.

- **Information Is Power.** Workers who are better informed on production targets appear to be more productive and there is less of a need to redo work.⁵ One in three workers surveyed are not always aware of their production targets (67%). Sharing production information helps create a sense of engagement and ownership for workers, which will increase efficiency.

Finding 4: Worker-supervisor relationships are crucial for increasing and maintaining efficiency. 52% of workers who do not feel comfortable communicating with their supervisors, say they “sometimes” or “often” need to redo their work. For workers who feel very comfortable talking to supervisors, that number is 19%.

Finding 5: One in three workers do not always know their targets. Survey data shows that when workers know their production targets they are much more likely to meet their targets and less likely to need to redo their work.

8. WORKING HOURS AND WAGES

Working Hours

Controlling working hours continues to be chosen as the biggest compliance challenge. The three most difficult areas for compliance are working hours related. According to ELEVATE’s assessment data of footwear factories, the majority of Chinese and Vietnamese factories (76% and 57% respectively) audited have difficulty complying with the 60 hours per week requirement.⁶

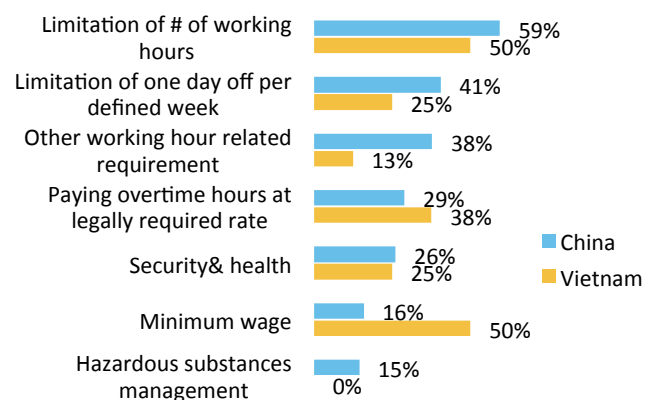
This is also supported by the 2016 Worker Survey reveals that 51% Chinese and 41% Vietnamese work

more than ten hours per day during the busiest season. Close to half of workers in Chinese factories (41%) have worked more than six days in a row without a day off, whereas Vietnamese factories do a better job of guaranteeing one day off per week with only 11% having worked more than six days consecutively.

When we ask workers what they think about the working hours, most workers in both China and Vietnam are

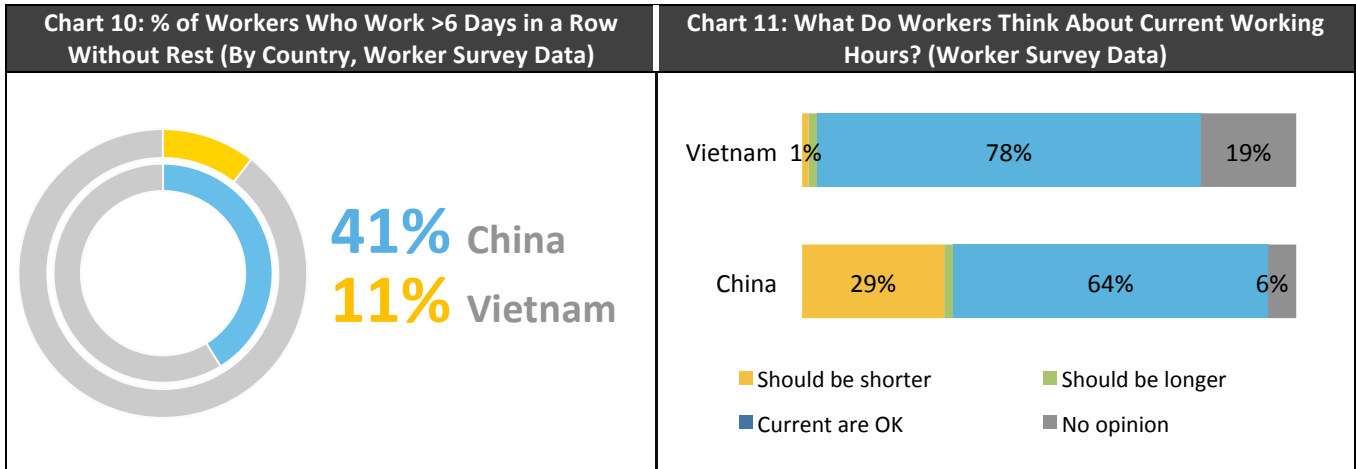
Finding 6: Factories say working hours and rest days are among their top two compliance concerns. Worker survey data shows that nearly half of workers surveyed work more than ten hours per day during the busiest season.

Chart 9: Which of the Following Do You Find Most Challenging to Comply with? (Factory Survey Data)



⁵ Correlation test results show that the extent to which workers know product targets are correlated with their rework frequency at $r=-0.067$, $\text{sig}=0.42$.

⁶ Data comes from ELEVATE assessment database. This only includes factories that are concluded being transparent during the assessment.



okay with the way it is right now. Only 2% would like to work longer than they currently do. 29% of Chinese workers would like to reduce working hours.

Wages:

Given the fact that workers are entirely or partly paid based on how many hours they work, in order to have a clear understanding of worker perception, working hours need to be reviewed in the context of wages.

Based on self-reported factory data, on average Chinese manufacturers pay 1.72USD (11.48RMB)⁷ per hour and Vietnamese pay 0.55USD. Simply comparing it against the average legal minimum wage within the reported city, 13% (9 factories) in China are paying below the requirement.

When we looked into worker and supervisor survey data, using the number of daily hours, rest days and average monthly wages, we calculated how much the factory pays per actual or real working hour. Real hours take into account that weekday overtime hours should be paid at 1.5 times the regular wage and weekend hours should be paid double or two times the regular wage.⁸ After calculating real hours and then the average hourly wage, we observed the potential issue of underpayment in three out of seven Chinese factories.

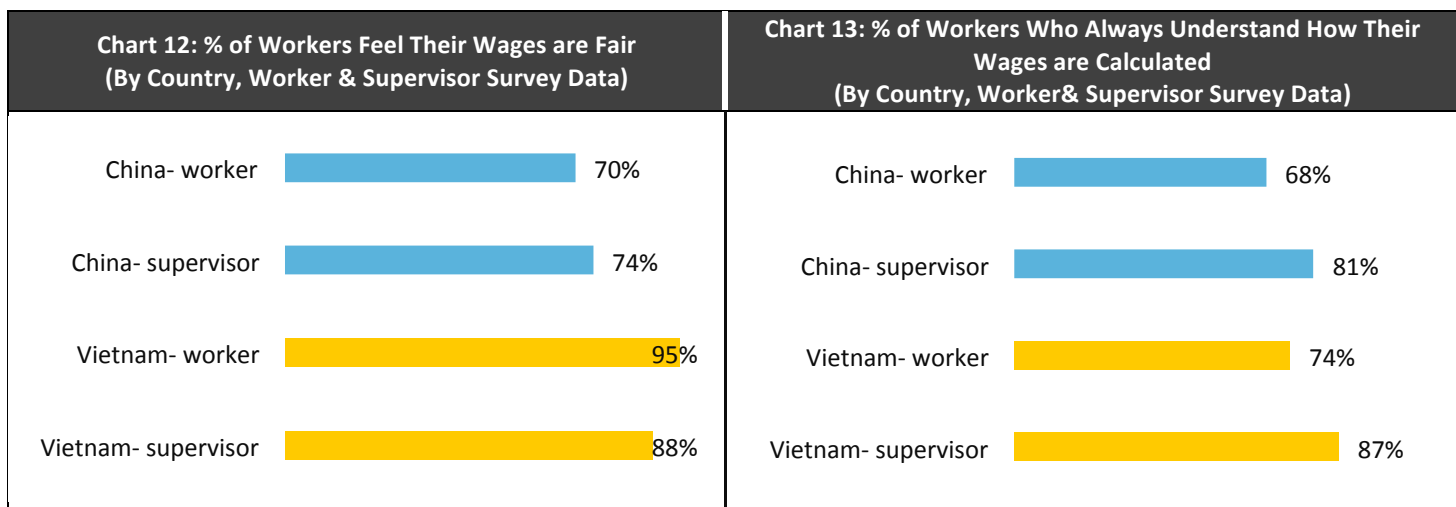
When we ask workers whether or not they think their wages are fair, 70% of Chinese and 95% of Vietnamese workers indicate “fair” or “very fair.” Supervisor feedback is somewhat mixed. In China, 74% of surveyed supervisors feel they are being fairly compensated, which is slightly higher than workers, whereas in Vietnam, a smaller percentage of supervisors (88%) feel the same.

This could be partly explained by the fact that workers are not always clear on how their wages are calculated.⁹ A third of workers in China (32%) report that they sometimes or not really understand their wage calculation method.

⁷ Exchange rate at 1USD=6.68RMB.

⁸ The legal wage is calculated based on the assumption that workers work 2 additional hours during work days, and the rest overtime is done during weekends. This assumption is in line with common practice in the manufacturing sector. To account for the legally stipulated overtime rate we used the following formula to calculate the average hourly minimum wage: “Hourly Rate= Average Wag/ ((21.75*8 + (Number of Workday OT)*1.5 + (Number of OT during Weekend*2))”.

⁹ Pearson Correlation results show that workers’ understanding of wage calculation is correlated with workers’ perception of wage fairness with r squared = 0.362 at the significance level 0.000. Understanding of wage calculation is also correlated with plans to stay at the factory with r squared = - 0.206 at the significance level 0.000.



Finding 7: 13% of surveyed Chinese factories still lag behind on paying legal wages.

Findings 8: Worker Survey data shows that when workers understand how their wages are calculated they are more likely to feel fairly compensated. When workers feel their compensation is fair, they are more likely to be happier and remain at the factory.

9. ARE WORKERS' VOICES HEARD?

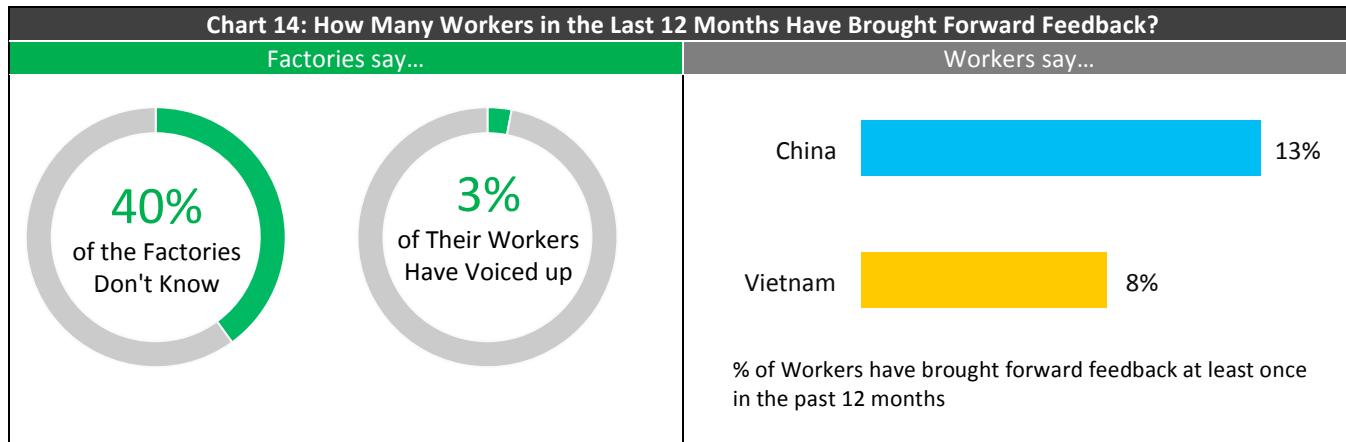
The 2015 Survey found that 24% of factory respondents had not received any worker feedback in the past 12 months. Among factories that received feedback, they reported that one in every 100 workers have vocalized their concerns. This year, additional questions were added to understand factories' internal worker management dialogue and its documentation system.

When we ask the factories how many workers in the last 12 months have brought forward feedback, 40% indicate that they do not know, and on average 3% of their workers have voiced up. The worker survey data paints a slightly different picture with 13% of Chinese and 8% Vietnamese reporting that they have brought forward feedback at least once over the past 12 months.

Among those who have, 72% Chinese and 48% Vietnamese workers think their feedback has only been partially or not at all treated seriously. A similar percentage of Chinese and Vietnamese workers (72% and 44% respectively) feel their issues have not been well addressed. The discrepancy between these percentages indicates that factories may not have proper systems in place to document, track, and handle worker feedback.

Again, when we looked at factors that could affect worker satisfaction and retention for the factory we see that worker-management trust is key. When workers feel that their feedback (including grievances, suggestions and

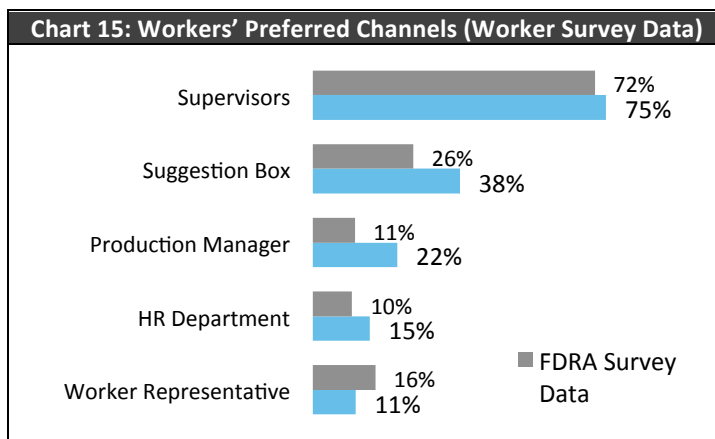
complaints) will be taken seriously by the factory's management, they are more likely to be happier and remain loyal to the factory.¹⁰



Finding 9: Factories report a low level of worker feedback, whereas workers survey data suggests otherwise. 13% of Chinese and 8% Vietnamese report that they've brought forward feedback at least once over the past 12 months. Among those who have, the vast majority think their feedback has been partially or not at all treated seriously, or addressed.

10. SUPERVISORS: IMPORTANCE AND STRUGGLES

To create and sustain an effective internal communication system, supervisors play a crucial role. They act as liaisons between workers and managers and are consistently cited as the first and foremost channel workers would use in case of an issue. According to ELEVATE survey data over the past 4 years, 75% of workers turn to their immediate supervisors if they have questions, grievances, complaints or suggestions.¹¹ This is also the case in the 10 footwear factories we surveyed this year. 72% of all surveyed workers



¹⁰ Pearson Correlation results show that workers' perception of how their feedback will be considered by management is correlated with their overall satisfaction with r squared = 0.524 at the significance level 0.000. and workers' plans to stay with r squared = -0.327 at the significance level 0.000.

¹¹ Data comes from ELEVATE survey database.

say they will talk to supervisors in case of an issue.

Meanwhile supervisors are also tasked with a number of responsibilities, ranging from time keeping, work assignment, training and quality control to managing and disciplining workers. Receiving and handling worker feedback and processing grievances is one of the many areas they oversee. In addition to all of these duties, they also manage teams of considerable size. Factory survey data suggests that on average 1 supervisor manages 32 workers. This is the reason why we surveyed them separately from production workers to understand the challenges they face.

Who are supervisors?

Supervisors from the factories surveyed are on average the same age as workers, 33. They have been working in the factory for a much longer period of time. The average tenure is 4.5 years in China, two years more than workers. Supervisors appear to be slightly more educated than production workers. 34% of supervisors indicate they have completed a high school education level or above in comparison to 21% of production workers.

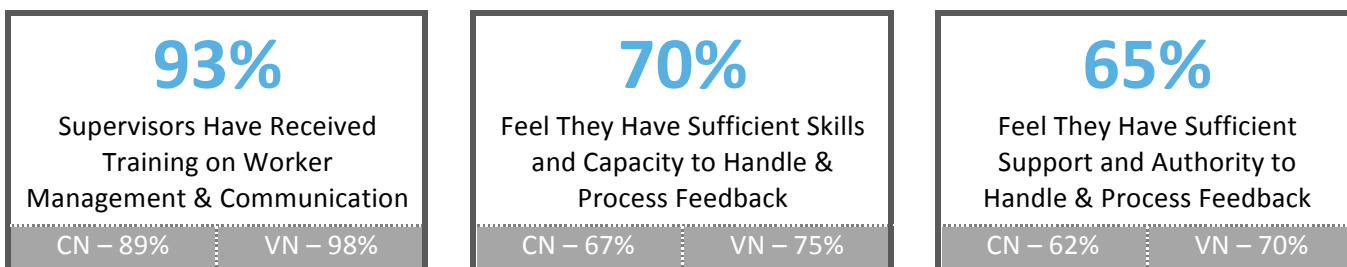
In other words, supervisors are typically production workers who were promoted, who may not necessarily have the skills and capacity to manage all the tasks mentioned above, in particular with regards to worker communication and management. While surveyed supervisors indicate that they have received some kind of training in this regard, around a third of them feel they do not have sufficient skills (30%) or being sufficiently supported.

How are supervisors doing?

In general, supervisors think they are doing a good job in the sense that:

- They feel they value worker feedback. Nearly all Chinese supervisors (96%) think they take worker feedback seriously most of the time, and 61% of Vietnamese feel the same way.¹²
- They listen to what workers have to say. Most supervisors (78% amongst Chinese and 82% amongst Vietnamese) feel they listen to their workers when they have a problem.
- They treat workers with respect. Few supervisors (6% Chinese and Vietnamese) report that they often or sometimes shout at workers with the vast majority saying “never”.

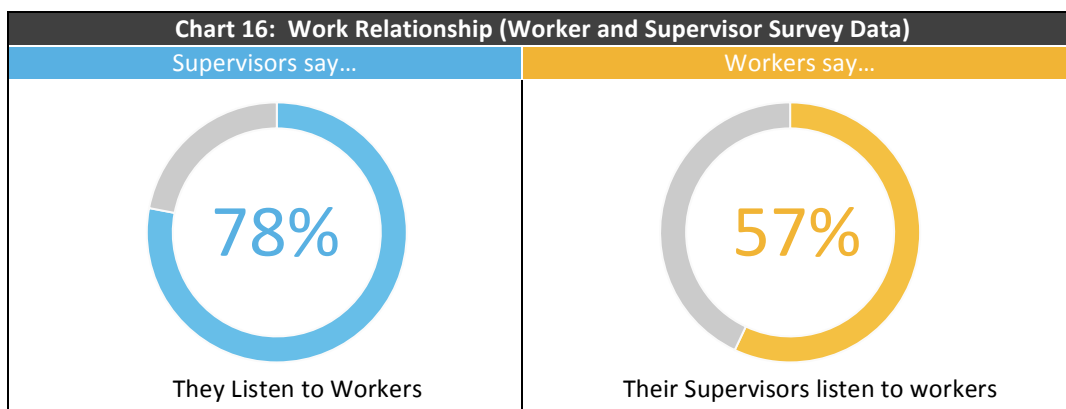
However, worker survey results paint a different picture:



¹² One-way ANOVA analysis shows that supervisors differ significantly by country of origin in terms of how seriously they take worker feedback at the significance level 0.000.

- A considerable group of Chinese workers (43%) feel their supervisors only partly or not at all listen to them.
- 16% Chinese and 29% Vietnamese workers say that their supervisors often or sometimes yell at them
- 37% Chinese and 66% Vietnamese workers choose “helpful” as their supervisor’s managerial style

In summary, data suggests that there is a gap between supervisors and workers, and bridging this gap is the key to have a functioning and efficient worker management dialogue, and help improve satisfaction, efficiency and overall performance.



Finding 10: Supervisors are tasked with a wide range of responsibilities. They are workers’ primary communication channel, yet they are not always equipped with the necessary skills to manage and communicate with workers. Worker and supervisor survey data emphasizes the need to focus on supervisors in capacity building programs.

11. CSR AND EHS MANAGEMENT

4% of factories have one or more staff dedicated full-time to CSR and/or factory compliance performance. In line with last year’s results, Vietnam reports a higher percentage of factories with staff dedicated to social compliance than China. All Vietnamese factories surveyed have staff for social compliance and 6% of Chinese factories lack staff in this capacity. Waste disposal, recycling and waste water remain the top three challenges factories face in environmental requirements for the third year in a row. However, the percentage of respondents who noted air pollution as their biggest concern increased significantly from 38% in the 2015 Survey to 58% this year. Energy reduction as a concern also saw a considerable increase (58%) up from 49% last year.

Chart 17: Issues that Customers Have Specific Environmental Compliance Requirements

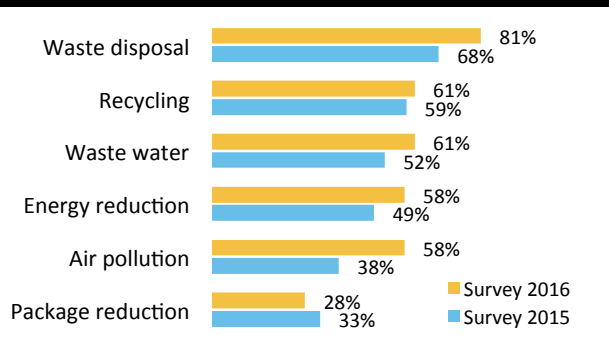


Table 8: Existing Procedure to Evaluate Health and Safety Risks

	Survey 2016	Survey 2015	Survey 2014
Fire safety	87.4%	81.3%	92.9%
Chemical management and safety	94.3%	78.0%	88.8%
Occupational diseases	78.2%	70.7%	78.6%
Machinery safety	80.5%	65.0%	78.6%
Electrical safety	70.1%	64.2%	77.6%
Building structural safety	48.3%	44.9%	52.0%
Confined spaces management	34.5%	38.2%	41.8%

Nearly all factories (94%) report having an existing procedure to evaluate risk for chemical management and safety up from 78%. This aligns with industry trends that focus increasingly on chemical management and environmental sustainability programs. The majority of factories have systems in place to evaluate risks related to fire safety (87%), machinery safety (81%) and occupational diseases (78%). The 2015 Survey results showed a decrease from 2014 results across the board in factory preparedness for risk assessment. The trend largely continued in the 2016 Survey with factories reporting a lower rate of preparedness to assess risks in fire safety, electrical safety, building and structural safety and confined spaces management in comparison to the 2014 Survey data.

12. AUDIT EXPERIENCE

The percentage of factories that do not undergo social and environmental audits continues to decrease. In the 2014 survey, 7% of surveyed factories were not audited, in the 2015 Survey that percentage decreased to 5% and this year only 2% of factories report not having been assessed. In the 2015 Survey, the average respondent was assessed seven times and this year factories report an average of six external social compliance audits per year, which is at least one audit every other month. Nearly 10% of factories were audited 12 or more times last year, meaning they underwent at least one audit per month. Chinese factories saw a slight decrease in the number of audits from the 2015 (seven audits per year) to the 2016 Survey (six audits per year). Vietnamese factories experienced a slight increase in the number audits from reporting four per year in the 2015 Survey and on average five this year.

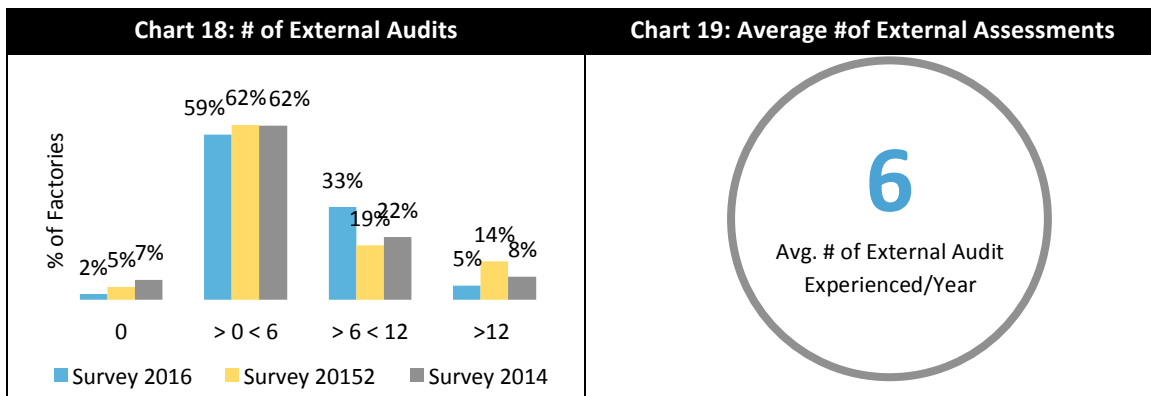
When trying to understand if auditing factories more has positive outcomes for factory business and social performance we see that the number of audits a factory receives is not correlated with working hour compliance, worker turnover or profitability. Further analysis shows the following:

- Chinese factories that have experienced more audits in the past year tend to have more procedures in place to assess risk.¹³

Finding 11: The percentage of factories that do not undergo social and environmental audits in the last 12 months continues to decrease. Factories on average experience six audits per

¹³ Pearson Correlation results show that the number of audits is correlated with the number of risk assessment procedures factories have in place with, $r^2=0.327$, $sig=0.002$.

- Factories with more audits do not show any benefits of decreased worker turnover, compliance with working hour requirements or increased profits. In line with last year's findings, factories that are assessed more are not necessarily better off than factories who receive less assessments.

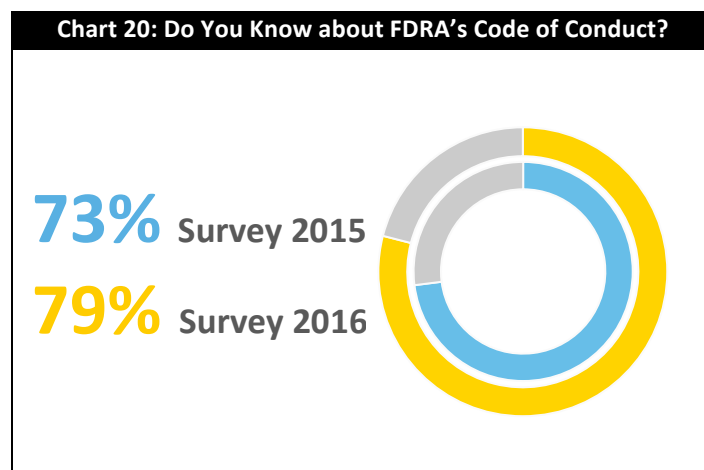


13. HOW WELL DO YOU KNOW FDRA'S CODE OF CONDUCT?

In the 2015 Survey, 73% of respondents were aware of the FDRA Footwear Production Code of Conduct, released in July of 2014. This year, 79% indicated awareness of the relatively new Code indicating that there is still room for improvement in communicating FDRA policies to factories.

Out of the factories surveyed this year, Chinese factories show a higher level of awareness than factories in Vietnam with 83% and 63% respectively saying they are aware of the FDRA's Code of Conduct. Bangladesh, only representing four factories in the 2016 Survey has an awareness rate of 50% and all 4 factories surveyed in India are aware of the Code.

13% of respondents from the 2015 Survey described the Code of Conduct as easy to comply with.] This year, when asked on a scale of 1 to 5 how challenging it is to comply with (1 being not challenging and 5 being the most challenging), 46% of respondents answered 1 or 2, indicating that they don't feel compliance with FDRA assessment is a challenge.



Finding 12: An increasing percentage of factories report that they have heard about the FDRA Code of Conduct. Among them, close to half find it is not challenging to comply with.

14. SUMMARY

This year, in addition to the annual factory survey, the FDRA in partnership with ELEVATE, also conducted ten worker and supervisor surveys in major footwear manufacturing countries. The factory survey showed that Chinese factories continue to struggle in the context of increasing business competition and increasing labor cost. This is evidenced by the decline in average factory size from 1,868 workers in the 2013 Survey to 732 workers today. Vietnam, on the other hand, sustained its growth and now represents 16% of the total U.S. market for footwear imports. This trend is expected to continue, especially in light of the Trans Pacific Partnership (TPP).

In the overall business environment, factories continue to struggle in meeting working hours and legal wage requirements. In line with previous years, auditing falls short in helping factories tackle those compliance challenges and improve business outcomes.

The worker and supervisor survey provides new insight into areas for improvement. The data shows that 17% of workers in China say they sometimes or often need to redo their work, the percentage is nearly double that (35%) in Vietnam. Further analysis indicates that when workers feel comfortable communicating with their supervisors or receive better production information, they are less likely to need to redo their work. 52% of workers who do not feel comfortable communicating with their supervisors say they often or sometimes need to redo their work, when workers do feel comfortable, that percentage drops to 19%.

The data also shows that supervisors play an important role in worker-management dialogue and relationships. 72% of all workers say they would speak to their supervisors in case of an issue making supervisors the primary communication channel in the factory. However, they are not always equipped with the necessary skills and capacity to effectively handle worker feedback. Results suggest that investing in supervisor capacity is an area of opportunity for improving factory productivity and compliance performance.