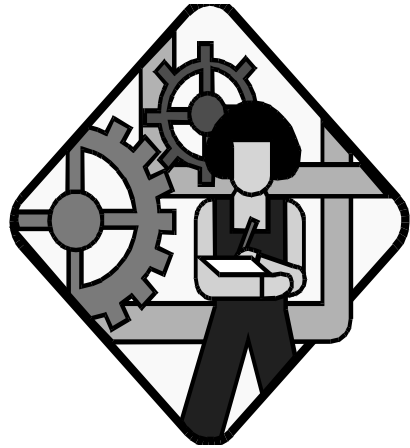


# COVERCO

**1st PUBLIC REPORT  
Independent Monitoring  
Pilot Project with  
LIZ CLAIBORNE, INC.**



**October 15, 1999**

## Contents

Background .....	3
How COVERCO works.....	5
History of this pilot project .....	6
COVERCO's relationship with LCI and the factory .....	7
Description of the factory.....	8
Methodology .....	9
Findings .....	13
Recommendations .....	21

### Appendices

1. LCI Standards of Engagement .....	23
2... Summary of contacts .....	24

## Background Information

### What is COVERCO?

In 1997 a group of professionals, leaders in Guatemala's civil society, came together to create the Commission for the Verification of Corporate Codes of Conduct (COVERCO).

COVERCO is a pioneering effort in the independent monitoring of working conditions in Guatemala's garment factories and agricultural export industries.

### What is a Code of Conduct?

Consumers increasingly demand that the goods they buy be produced under decent working conditions. Businesses find that good working conditions stimulate increased quality and productivity. Corporations adopt Codes of Conduct as a public expression of the minimum standards that will be met in their own operations and by those in their supply chain.

Most Codes of Conduct commit to ensuring protection of the workforce in line with internationally recognized standards such as the International Labor Organization (ILO) conventions in addition to requirements of national labor laws.

Codes of Conduct often address some or all of the following areas:

- ✓ Child, bonded or forced labor;
- ✓ Freedom of association and collective bargaining;

- ✓ Health and safety conditions in the workplace;
- ✓ Acceptable levels of wages and benefits;
- ✓ Excessive working hours;
- ✓ Non-discrimination;
- ✓ Regular employment
- ✓ Harsh or inhumane treatment, sexual or other forms of abuse.

At a global level, a variety of efforts are underway to develop standardized Codes of Conduct. COVERCO, for example, has received documentation describing the following:

- T the Workplace Code of Conduct developed by the Apparel Industry Partnership's Fair Labor Association
- T the SA8000 standard developed by the Council on Economic Priorities
- T the Base Code developed by the Ethical Trading Initiative in the UK
- T the Civil Society Proposal for a Canadian Base Code of Labour Practice

A Code of Conduct is a statement of intent. Like any business strategy, it needs adequate policies and procedures to ensure implementation. This process includes effective monitoring of compliance with the existing codes and remedial or corrective action when conditions fall short of the stated standard.

### COVERCO and Business in Guatemala

To date, COVERCO's work has focused on the garment and agricultural export industries.

Through independent monitoring and verification of Codes of Conduct, COVERCO seeks to foster a new vision

of how business in Guatemala can be successful in the global economy while bringing greater benefits to workers, their communities, and all of society.

COVERCO believes that, to respond to the demands of global consumers and to thrive in the global economy, business in Guatemala must develop a competitive advantage by providing decent working conditions in addition to product price and quality.

### **COVERCO and Independent Monitoring**

**M**any corporations have their own internal control systems to identify and rectify breaches of their Codes of Conduct. In addition,

many hire accounting firms to audit the financial components of their Codes. Increasingly, corporations are looking to independent monitors capable of providing a social and financial audit that is both independent and recognized as independent by their consumers and by advocacy groups.

COVERCO provides independent monitoring and verification that meets rigorous standards of accuracy, transparency and non-partisanship. As a not-for-profit, non-governmental organization (NGO) with a multi-disciplinary approach, we can provide authoritative and trusted monitoring that can give customers the confidence they demand.

## **How COVERCO Works**

***We do:***

**Monitoring** - Ongoing observation and analysis of working conditions and other factors that affect workers' lives; and

**Verification** - Periodic evaluation of compliance with conditions established in Codes of Conduct and pertinent national and international law.

### ***We are:***

**Independent** - COVERCO is independent of all national and multinational corporations, unions and governments. Because we are independent, COVERCO can work in trust with all relevant parties: management, workers, NGOs, community and advocacy groups, unions and governments.

**Multi-disciplinary** - COVERCO includes professionals from a range of disciplines:

- ✓ Law
- ✓ Sociology
- ✓ Communication
- ✓ Business Administration
- ✓ Education
- ✓ Pastoral Theology

This diversity permits us to conduct broadly based, technically sound investigations.

**Non-Substitutive** - COVERCO is not a substitute for unions, management or joint union-management endeavors, nor for governmental or advocacy organizations.

**Transparent** -The findings of COVERCO's investigations will be available to all interested parties. Sources and partial results of ongoing studies will be strictly confidential.

## **History of this Pilot Project**

**I**n 1996, Liz Claiborne Inc. (LCI) initiated conversations with a number of representatives of Guatemala's civil society about the possibility of beginning independent monitoring in Guatemala.

These conversations motivated several of the Guatemalans to crystallize their preliminary reflections about independent monitoring. In 1997, they created the Commission for the Verification of Corporate Codes of Conduct (COVERCO).

By mid-1998, COVERCO began talks with LCI about implementing a pilot project in independent monitoring at their supplier factories near Guatemala City.

**Not for Profit** - We are a registered, not-for-profit NGO. We raise a proportion of our funds from charitable support.

## **Members of COVERCO:**

**Juan Antonio Álvarez** - Specialist in Education and Communication

**Malvina Armas** - Labor lawyer specializing in Women's Rights

**Hector Castañeda** - Sociologist and Protestant Pastor

**Judith Castañeda** - Economist and General Coordinator of CEDEPCA

**Homero Fuentes** - Sociologist and Coordinator of the Socio-Political Program of the Friedrich Ebert Foundation

**Kenneth Kim** - Lay Mission Worker of the Presbyterian Church in Canada

**Edna Rodríguez** - Lawyer specializing in Women's Rights, university professor, consultant on gender issues to the OAS

**Sandra Sánchez** - Community Educator

**Anabella Sibrián** - Physician and Specialist in Children's Rights

**Dennis Smith** - Coordinator of Communication Training for CEDEPCA, Mission Worker, Presbyterian Church-USA

The terms of the study were negotiated over the next several months, and COVERCO began to visit one factory in November, 1998. The pilot project came on stream in January, 1999.

LCI agreed that COVERCO would have uninhibited access to the factory, would be able to set up occasional meetings with factory management and would have full access to factory records.

COVERCO agreed to provide LCI with regular updates on the situation at the factory, highlighting cases of non-compliance with LCI's Standards of Engagement. In addition, COVERCO committed itself to presenting periodic public reports summarizing our findings.

In return, LCI agreed to maintain fluid communication with COVERCO and with management of the local factory, and to take appropriate measures to ensure compliance with their Standards.

## Project Facilitators

LCI invited Business for Social Responsibility (BSR) and the International Labor Rights Fund (ILRF) to be key resources and facilitators for the pilot project. These two institutions provided resource materials for training events, participated in a number of meetings with LCI, COVERCO and factory management, and provided valuable advice to LCI and COVERCO throughout the pilot project.

BSR is a US-based non-profit business organization whose purpose is to serve as a resource to businesses interested in being commercially successful in ways that demonstrate respect for ethical values, people, communities and the environment.

ILRF is a Washington D.C.-based human rights organization that advocates and litigates on issues of international labor rights, often on behalf of workers and worker organizations in the developing world.

## COVERCO's Relations with LCI and the Local Factory

COVERCO affirms that, during this pilot study, we have had regular, cordial and business-like meetings with representatives of LCI. After an initial period of difficult communication with the local factory, COVERCO now enjoys a similar relationship with factory management. These conversations have been frank and wide-ranging and have led to a variety of concrete actions by LCI and local factory management. These actions include:

- LCI management has met with factory management and has carried out their own inspections of the local factory.
- LCI management has organized two workshops during the pilot study to explain their Standards of Engagement to factory management and workers.
- LCI management has had detailed meetings with factory management outlining the need to strengthen the chain of command. In consultation with LCI, factory management has designed and begun to implement a grievance procedure in the factory.
- Factory management has set up and staffed a rudimentary health clinic at the factory.
- After being made aware of violations, factory management has kept standard emergency exits unlocked and steel-curtain emergency exits partially open.

In a number of areas where violations have not yet been remedied, LCI has expressed their commitment to work with the factory toward compliance. Future COVERCO public reports will continue to document compliance or non-compliance.

## Description of the factory

The factory that is the subject of this monitoring program lies 30 kilometers from the center of Guatemala City. The site itself includes two large factory units, one more recently built, two canteens, a parking lot and a number of outbuildings.

Each factory unit contains a number of production lines, each consisting of about 30 workers. These lines process the cloth from the initial cutting and marking up, through the sewing and trimming stage, to final ironing and packaging, ready for export. These lines have their own weekly production targets and supervisors. The main production areas have high ceilings and are well lit. Music is played over a PA system.

The factory is foreign-owned and employs mostly non-Guatemalans at middle and senior management positions. All line supervisors are Guatemalans. At the beginning of the project, the factory employed about 550 workers, more than 80% of whom are young women. By the end of the second reporting period, the labor force had grown to more than 900 workers, with no significant change in the gender balance.

Many of the production line workers live in a poor community with dirt roads and limited access to public services that lies on a hill opposite the factory; others come from similar nearby communities.

Guatemala is a developing country. The current legal minimum wage for factory workers is Q21.68 per day. During the reporting period, the rate of exchange was about Q7.50 = \$1.00, giving a total of \$2.89 per day. This works out to an hourly rate of Q2.71 (\$0.36). Overtime must be paid at Q4.07 (\$0.54) per hour. The factory also has a complex system of production bonuses and deductions that are calculated on a combination of achieving production goals, attendance, tardiness and worker attitude.

## Methodology

**E**arly in the project, COVERCO carried out an informal survey to document the general characteristics of the workforce. Our survey design did not sufficiently take into account the low academic level of the workers and their unfamiliarity with the world of surveys. The results were not statistically significant. However, the survey did offer us a clear picture of a workforce that is overwhelmingly female, of about 21 years of age, where less than half had completed a primary education.

The same day as the survey, COVERCO handed out to workers a pocket calendar and a pocket-sized brochure describing our function as independent monitors. This visit also permitted us to circulate freely among the workers during their morning break and to introduce to them the principal investigator.

From the beginning of the project, we established a variety of communication channels with the factory workers:

**Off-site meeting places** - We arranged with a local women's group and a local church to use their facilities at designated times each week to talk with workers. These sites were never used by the workers. At the same time, a number of workers began to request meetings at other sites near the factory (a public park, a restaurant, a worker's home). We have acceded to these requests to make sure that workers felt confident and secure enough to share their stories.

**Telephone calls and visits to the COVERCO office** - Despite the added expense of calling or visiting our office in Guatemala City, these have proved to be the most popular options. Workers who took advantage of these channels seemed to be very comfortable sharing their particular stories. Some of these workers chose to leave signed, written complaints for COVERCO's files.

(For reference, a phone call from the factory to COVERCO's office costs about Q.0.40 or \$ 0.05 per minute. Round-trip bus fare is about Q.6.00 or \$0.80).

In addition, **COVERCO placed two padlocked suggestion boxes in the factory** as well as a number of posters describing the different communication channels. The boxes were placed at the main entrance to each of the two factory buildings. On sixteen occasions, workers complained that they felt intimidated by management when they deposited comments in these boxes and, in recent months, they have fallen into disuse.

Since the other communication channels have proved to be rich and reliable sources of information, and to encourage workers to make use of a new factory grievance system, COVERCO decided to remove the boxes at the end of this reporting period. (See **Findings**, Item C.1). Upon removing the boxes, COVERCO also handed out a second brochure to the now much larger workforce describing our function and listing our address and phone number.

In the course of the pilot project, COVERCO has noted that workers come to us with high expectations that we will intervene on their behalf in disputes with management, especially in the calculation of wages and benefits. We have clearly and repeatedly stated that this is not our role.

This ongoing misconception led COVERCO in February to recommend to LCI the posting of information that would respond to the frequent complaints related to the calculation of benefits. We also suggested posting information on how to contact sources of assistance such as the Ministry of Labor, and the legal aid offices of the local universities.

When workers have asked COVERCO to intervene in particular circumstances, beyond documentation of alleged violations of the Code, we have referred them to the Legal Aid Office of the University of San Carlos, Guatemala's national university. About 40 workers have taken complaints to this office. However, none of these workers has gone through the necessary procedures (compiling official documents and preparing affidavits supported by witnesses) to bring a formal complaint to court.

The coordinator of this Legal Aid office credits the lack of follow-through to a dearth of effective local advocates for workers and lack of confidence in the Guatemalan justice system. The coordinator said that some of the complaints were undoubtedly without merit, but that the lack of documentation made it impossible to say how many.

COVERCO began submitting regular reports to LCI on January 15, 1999. The first quarterly report covered the period from November 2, 1998 to February 26, 1999. The period covered is longer than three months due to the end-of-year vacation period and initial delays in the implementation of the project.

In the negotiations that led to the implementation of this pilot project, COVERCO and LCI agreed that the regular reports on the situation in the factory should be submitted weekly. As local management ironed out problems with its new grievance procedure, we may agree to change the basic reporting period to bi-weekly or monthly.

This second report covers the full period from November, 1998 through July, 1999. This report was extended to the end of July so that we could include the results of a key meeting with LCI and factory management. This extension was especially important to broaden the breadth of information reported, since COVERCO was not granted access to the factory's financial and administrative files until late June. LCI's cooperation was key in finally getting COVERCO unconditional access to these records. (See Appendix 2).

In the first months of this study, COVERCO had limited communication with factory management and was not granted access to factory records. Near the end of this reporting period, the factory's parent company changed plant managers. With this change, COVERCO was granted full access to factory records and began regular, ongoing conversations with factory management.

LCI has agreed to extend the pilot study for an additional quarter to compensate for the time lost in the first two reporting periods.

Throughout the pilot project COVERCO has engaged in an ongoing process of refining and perfecting our reporting procedures. In the early months, we relied mostly on brief, written and verbal summaries of worker complaints and the observations of our monitors. More recently, we have developed standardized forms to register all worker complaints, as well as the on-location

observations of our monitors. These forms are keyed to the items listed in LCI's Standards of Engagement.

Once allegations were made, COVERCO tried to document the specifics of the case from as many sources as possible: the worker or workers presenting the complaint, other workers on the same production line, middle and senior management, and, in some cases, the factory manager.

In the case of serious allegations, COVERCO made tape recordings of all interviews.

Most of the complaints have centered around remuneration issues and overtime. The preliminary audit performed in June tended to sustain some of the complaints, and demonstrate that others were the product of widespread confusion over the criteria employed to calculate production and other bonuses. This audit also left us unable to verify a number of complaints due to incomplete or poorly organized files. (See **Findings**, items G and H).

Despite documentation problems, in this report we try to employ as much precision as possible. In the **Findings**, we refer to the number of times an alleged violation was mentioned by workers. This is not meant to be a precise or exhaustive measure, but rather a general indicator of issues that require ongoing observation.

A number of variables come into play here: most conversations were with one to three workers, but one was with fifteen workers; some anonymous written complaints were drafted in plural, suggesting multiple sources; finally, most of the contacts with workers, whether by phone, in writing or in person included multiple complaints.

In the first three months of our study, our methodology did not exclude the possibility of duplicate complaints by the same worker.

One further disclaimer: the number of times an alleged violation is mentioned does not necessarily reflect the seriousness of the complaint.

As COVERCO improves our documentation procedures, future reports will contain more precise information.

In summary, the information contained in the **Findings** is derived from the following sources:

- Confidential interviews with individual workers and groups of workers
- Confidential interviews with local and international factory management
- Repeated visual observation of factory facilities and operations
- Factory administrative files and payroll records

## FINDINGS

The following findings are organized under the headings from LCI's Standards of Engagement. (See Appendix 1). They arise from COVERCO's monitoring and verification program and cover the period from November 2, 1998 to July 31, 1999.

### A. FORCED LABOR

A.1 COVERCO has found no evidence of any use of forced labor, be it prison labor, indentured, bonded or otherwise.

### B. CHILD LABOR

B.1 There have been no reported cases of workers younger than 15 years of age.

B.2 Guatemalan labor laws state that minors under 18 years of age cannot work overtime. However, COVERCO has discovered violations where minors under 18 years of age feel strongly pressured to work overtime. Following our reporting on this situation, the factory has agreed to consider setting up a two-shift system to accommodate current workers who are under 18 years of age. The factory is also considering hiring only workers 18 years or older in the future. At present there continues to be pressure on young workers to work overtime.

COVERCO received 54 complaints from young workers who claimed they were pressured into working overtime.

B.3 Current shift arrangements prevent young workers from pursuing education during weekday evenings or on weekends. In response to our reports the factory has agreed to consider changing the hours of work to allow these workers adequate time to pursue studies. One option under discussion is the possibility of the factory developing a separate production line if there are sufficient numbers of workers who wish to study and cannot work overtime.

COVERCO received 42 complaints from young workers who claimed they wish to study and cannot work overtime.

### C HARRASMENT OR ABUSE

C.1 One morning, Mrs. "X", a worker at the factory who was pregnant, was found to be in serious condition. She advised her line supervisor she was in pain. The line supervisor advised her to sit at her work station and rest. Mrs. "X"'s pain got progressively worse. When she and her line supervisor requested permission to leave, management did not allow it immediately. From the time Mrs. "X" first complained to her line supervisor to the time she left the factory to receive medical attention, almost five hours passed. Shortly after noon on the day of the incident,

Mrs. "X"'s husband took her to the Social Security hospital in Guatemala City. The child she was carrying was stillborn early the next morning.

About ten days before this incident, Mrs. "X" had visited the local Social Security clinic where the medical personnel refused to recommend that she be given leave for a high risk pregnancy. Dissatisfied with this result, the next day Mrs. "X" visited a private clinic. There the physician provided her with a written diagnosis describing the high risk nature of her pregnancy. Mrs. "X" promptly gave this document to management who introduced it into her file.

In COVERCO's discussions with factory management following this incident they agreed that their lines of command and grievance procedures would be clarified. This has been completed.

Factory management also agreed to send a letter to all workers referring indirectly to the incident and setting out new emergency and grievance procedures. This did not happen. However, information about procedures in case of medical emergencies has been posted in visible places in the factory.

The factory also offered to install an infirmary and a medically trained nurse. A rudimentary infirmary has been set up staffed by a full-time nurse's aide.

The manager who refused permission to Mrs. "X" to seek immediate medical attention resigned from the factory. Senior management did not take any disciplinary action against the Personnel Manager.

The worker in question is currently on medical leave and is scheduled to return to work in mid-August. In a future report, COVERCO will document her reinsertion into the workforce.

C.2 On 25 January, 15 workers left the production line complaining of an ongoing problem of forced overtime. (See Finding H.1). On 26 January five of these workers claimed they signed resignation letters under duress. One of the workers claimed that the Personnel Manager forced her to sign by intimidating her verbally and grabbing her arm. The factory claims that the workers resigned voluntarily and paid them the full severance package. The factory also claims that the Personnel Manager grabbed the worker's arm to secure her thumbprint on a receipt for her severance pay. LCI encouraged the factory to reinstate the workers. To our knowledge the factory management has not responded to LCI's suggestion. Subsequently the five workers have indicated to COVERCO that they do not wish to return to the factory.

## **D. NONDISCRIMINATION**

D.1 Mayan workers who wear traditional clothing reported a lack of advancement opportunities. They also complained of racial slurs. The factory has denied this. On our monitoring visits we have noted that there appear to be no line supervisors or assistant line supervisors who wear traditional Mayan dress.

COVERCO received 8 complaints from Mayan workers who claimed they had been the object of discrimination.

## **E. HEALTH AND SAFETY**

E.1 See the case of Mrs. "X" mentioned above.

E.2 The two factory units have two types of emergency exits: some are rolling steel curtains, others are regular doors. In repeated monitoring visits we found both types were locked. When our monitor pointed out this violation to factory management, they responded that they kept the doors closed due to fear of theft or inclement weather. Nevertheless, factory management agreed to keep the rolling steel curtains slightly open and the other doors unlocked. After receiving these assurances, our monitor still found the steel curtains completely closed during an unannounced visit.

LCI intervened on several occasions to correct this problem, including raising the issue with the President of the factory. Since our joint meeting with the President of the factory in June, this problem has been resolved: now the normal doors are kept unlocked and the steel curtains are kept partially open.

E.3 While a diagram that signals fire exits is posted in the factory, few procedures appear to exist to deal with emergencies such as fire or earthquake. The factory has promised to provide training to all workers on emergency procedures and to carry out simulations. The factory has not done this to date.

E.4 Supervisory personnel do not have basic first aid training. The nurse's aide and clinic were recently installed to respond to this need.

E.5 Our initial inspections indicate that there are an inadequate number of functioning toilets in relation to the number of workers in the factory. This is due, at least in part, to the fact that many toilets are out of service through disrepair. Guatemalan law stipulates the following regarding washroom facilities in the workplace:

- one urinal is required for every 20 men;
- one toilet for every 25 men for the first 100 workers;
- one toilet for every 15 women for the first 100 workers;
- after the first 100 workers, one toilet is required for every 30 of either sex;
- one washbasin is required for every 26 workers.

The older factory unit serves about 550 workers, of whom about 80% are female. The newer unit serves about 350 workers, with the same gender proportion.

Our initial inspection found the following facilities:

Location	Facility	Number on site	Number found to be usable
Older Factory Unit			
Men's washroom	Toilets	5	3
	Urinals	4	4
	Washbasins	2	2
Women's washroom	Toilets	18	7
	Washbasins	9	4
Newer factory unit			

Men's washroom	Toilets	3	2
	Urinals	6	5
	Washbasins	5	3
Women's washroom	Toilets	10 + 11 blocked off	4
	Washbasins	12	12

According to our calculations there is a shortage of women's toilets in the Older Factory Unit. The letter of the law on this issue can be met if all the toilets, urinals and washbasins are fully functional.

Subsequently most of the unusable toilets were repaired and cleanliness improved. Later inspections indicate this remains an ongoing issue.

E.6 In addition to problems with the number of toilets, in the Older Factory Unit the existing toilets were in poor condition. They lacked the proper regular maintenance needed to keep them in service.

E.7 In the period covered by this report there was no evidence of any pattern of workers being prohibited from using bathroom facilities by management .

E.8 Nursing mothers have reported lack of compliance with their right to breast-feed their babies. According to Guatemalan law one hour daily must be given to nursing women for this purpose. If the factory does not provide this time they must let the women leave one hour earlier, with pay. If the women work the full shift, then one hour must be paid as overtime. The factory has not been able to show records proving compliance with the law.

COVERCO received 23 complaints from nursing mothers regarding this legally-mandated benefit. COVERCO has not been able to document how many nursing mothers are currently in the workforce.

E.9 COVERCO has received frequent complaints that permission to seek medical attention on company time at the IGSS (Social Security Hospital) has been refused. Recently the nurse's aide assumed the task of advising whether or not a worker requires medical assistance from IGSS. The final decision continues to be made by the worker's non-Guatemalan supervisor. Further monitoring is required since the nurse's aide has been in her job for less than a month.

COVERCO received 25 complaints from workers who claimed they were refused permission to seek medical attention on company time.

## **F. FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING**

F.1 We have received no complaints about this provision of the Standards.

## **G. WAGES AND BENEFITS**

G.1 Administrative files are disorganized and are often misplaced. In some cases entire personnel files have been lost. The factory has promised to organize its files.

G.2 The majority of the workers do not have legal labor contracts with the factory as required by law. The factory has promised to prepare these documents.

G.3 When a worker resigns, Guatemalan law stipulates that they must provide a signed letter. In most instances this has not happened. The factory has agreed to revise their procedures and ensure that in the future they will have a signed letter of resignation when the severance package is paid. The factory has pointed out that when an employee abandons the job, they have no way of giving closure to the file with a signed letter.

G.4 There have been delays in paying the legally required severance package when workers resign. The factory has promised to pay relevant benefits and to pay within the legally required time period.

G.5 The factory normally pays production bonuses and other incentives in cash. Records of these cash payments have not been kept. The factory has informed COVERCO that accounting books have been bought to keep signed records of such payments. In cases where supervisors purchase perks for their lines the corresponding amounts and receipts will be entered into the books.

COVERCO received 14 complaints from workers concerned about how bonus funds have been administered by line supervisors.

G.6 Workers' files contain apparently contradictory signatures. As proposed by management, the standard reference will be the signature that appears on a worker's national identity card. In the case of minors who do not yet have a national identity card, the reference will be the signature that appears on the job application.

G.7 We have received complaints that wages are sometimes deducted for those who have received authorization to leave work to visit the Social Security Hospital. This would be illegal. The lack of proper payroll records has prevented full verification in this area.

COVERCO received 18 complaints from workers who claimed they received improper deductions for medical visits.

G.8 Our audit revealed that some new workers with prior experience are paid at a reduced "apprentice" rate. This rate can only legally be used for those who are true apprentices (i.e. those without prior experience in using the machinery required in the factory). True apprentices must be paid the full minimum wage upon completion of their apprenticeship.

In addition, the law permits a two month probationary period to test the competency of an experienced worker, but the full minimum wage, not the apprentice wage, must be paid during this time. At the end of the two months the factory has the right to hire the worker on a permanent basis or to dismiss the worker without prejudice.

The factory has agreed to address this issue.

G.9 Personnel files were too disorganized to be able to determine whether vacation payments had been made according to the law. The factory has promised to organize files so that vacation pay can be monitored.

G.10 Holidays and Time Off – Workers have the right to time off as stipulated by law, including Mother’s Day for mothers. The factory claims that mothers who worked on that day were paid an extra day. COVERCO is still in the process of verifying if all the mothers who worked on that day were paid.

G.11 Guatemalan law permits factories to employ complex bonus systems. Although the system currently in place at the factory is in the process of being duly registered with the Ministry of Labor, its implementation has caused much confusion among the workers. Many complaints center around the calculation of bonuses, penalties for tardiness and absence and so on. To help resolve this issue, COVERCO put the factory management in contact with a local design team to develop an easy-to-understand leaflet setting out these policies.

COVERCO received 40 complaints from workers who claimed their pay had been docked because of tardiness.

## **H HOURS OF WORK**

H.1 Overtime – Guatemalan law states that the normal work week for the factory studied consists of eight hours per day, Monday through Friday, and four hours on Saturday for a total of 44 hours. The maximum number of hours per week is 60. All overtime must be voluntary. Management is required to have prior consent in writing from all who wish to work overtime. Once such a document is signed, a worker is legally obligated to fulfill the promised overtime.

We have received numerous reports of management and peer pressure for workers to work overtime. The management pressure is usually described by workers as threats of dismissal or invitations by supervisors to submit their resignations. The peer pressure comes from fellow workers, who complain that those who don't work overtime undermine the efforts by the entire line to meet the high production goals required to qualify for production bonuses.

In response the factory has informed COVERCO that at the start of each wage period workers are asked if they are willing to undertake overtime. Those that wish to work overtime sign a form to this effect. The disorganized state of the personnel files has prevented effective verification of this issue.

COVERCO received 54 complaints from workers who claimed they were pressured to work overtime.

H.2 Overtime for minors under 18 years of age – (see Finding B.2 above)

## **I. ADDITIONAL LEGAL REQUIREMENTS:**

I.1 **IGGS Cards** – There have been delays in the preparation and handing over of IGSS (public health service) cards. The factory has stated that they have done their part in submitting the documents for processing, but that workers were slow in bringing in the required photos and that the local IGSS office does not process the forms promptly. The factory has now provided a subsidized photo service to speed up the process.

I.2 **Payroll records**- According to Guatemalan law, if the payroll records are kept in the computer the Ministry of Finance must authorize the system by assigning a corresponding number. The factory has promised to initiate a new payroll system and ensure it is legally authorized.

I.3 **Language** – Under Guatemalan law instructions to workers may not be given in a language other than Spanish. The majority of non-Guatemalan managers speak very little Spanish. Now the factory has arranged for non-Guatemalan staff to receive 4 hours of Spanish lessons per week.

I.4 **Internal work regulations** - The factory has the right to create internal administration and finance policies that are not contemplated by legal codes. However, local law requires that the factory must receive authorization by the Ministry of Labor to apply such internal policies. The factory had previously developed such an internal policy which was authorized by the Ministry of Labor. Later, recognizing that this first document was inadequate, they enacted a second one. At the moment the policy document in use is pending authorization by the Ministry of Labor.

I.5 **Childcare** - The factory has not made available the childcare services stipulated by Guatemalan law. The factory has informed us that at the moment it is not possible to change this situation. We note that in Guatemala at present there are no factories in the apparel industry providing this legally mandated service.

I.6 **Lack of training for workers** – We believe that many issues arise due to the lack of understanding by the workers, line supervisors and managers of not only their rights under LCI's Standards of Engagement, but also their obligations and responsibilities.

In response to this, the factory has placed information memos and posters in the factory and has made announcements over the p.a. system. They have also committed to improving the training of line supervisors and managers. Verification of these training sessions for supervisors and workers is still pending.

LCI, in consultation with project facilitators, conducted training sessions in November 1998 and June 1999 to educate workers and managers on the LCI Standards and applicable Guatemalan law.

In addition, as a joint effort, COVERCO, LCI and the factory management are developing an illustrated booklet explaining the Standards in easy-to-understand format.

## Recommendations:

1. So that we can monitor compliance with the Standards of Engagement, as well as Guatemalan law, we reiterate the need for COVERCO to be given full access to personnel files and payroll records. All such records must be complete.
2. Despite the efforts of LCI and factory management, much work has yet to be done to consolidate the line of command and the new grievance procedure in the factory. Middle-level management has demonstrated only a limited ability to change existing procedures and attitudes. We also note that new middle-management personnel, both Guatemalan and non-Guatemalan, have not been trained in the Standards of Engagement, the line of command or the newly-implemented grievance procedure. COVERCO recommends that all new management personnel, both Guatemalan and non-Guatemalan, be provided with introductory training and documentation on these issues.
3. COVERCO affirms that both LCI and local management have provided training to management and workers. LCI and local management have also expressed their commitment to further training. COVERCO recommends that LCI and local management design and implement mechanisms to evaluate the effectiveness of the training already imparted. In addition, we recommend that they use the results of this evaluation as a basis for designing a permanent training program for management and workers. We recommend that this permanent training program be built around three key elements:
  - a practical working knowledge of the LCI Standards of Engagement, the new grievance procedure and the line of command.
  - emergency procedures for earthquakes, fire and all natural disasters.
  - elementary first aid procedures, with special attention to the needs of pregnant women.
4. COVERCO recommends that local management continue to develop appropriate shifts and schedule options that will permit working minors to continue their studies. COVERCO also recommends that this information be communicated promptly and clearly to all working minors.
5. Communication continues to be a key issue in improving labor relations at the factory. COVERCO recommends that non-Guatemalan personnel be required to study Spanish at least 8 hours per week until they can demonstrate spoken proficiency in dealing with production and management issues, as well as health and safety issues. A better option would be for new non-Guatemalan managers to spend at least 6 weeks studying 4-6 hours per day at one of the many local language schools. Study should include orientation to Guatemalan history and culture. COVERCO also recommends that memoranda and all other correspondence sent by management to workers be written in simple and understandable Spanish.

6. COVERCO notes that the existing bonus system is linked to an extensive system of deductions (for tardiness, absence, failure to meet production quotas, etc.). We have documented that workers interpret the existing system as one of punishment instead of positive reinforcement. This negative interpretation has fuelled significant worker discontent. COVERCO recommends that local management redesign their bonus system and explain it clearly to workers so that the emphasis is on rewards for productive behavior.
  
7. COVERCO recommends that local management allocate the necessary resources to keep all restroom facilities clean and fully operational at all times.

## APPENDIX 1

---

Liz Claiborne Code of Conduct / Standards of Engagement.

Upon joining the Apparel Industry Partnership, and demonstrating our commitment to its goals, we have adopted the AIP's Workplace Code of Conduct as our own Standards of Engagement and Human Rights policy.

Liz Claiborne Inc. and its subsidiaries are committed to producing high quality products at a good value to our consumer. The Company follows the letter and the spirit of all applicable laws, and maintains a high standard of business ethics and regard for human rights. Moreover, we require sound business ethics from our suppliers. Suppliers must observe all applicable laws of their country, including laws relating to employment, discrimination, the environment, safety and the apparel and apparel-related fields. Suppliers must comply with applicable United States laws relating to the import of products, including country of origin labeling, product labeling and fabric and product testing. If local or industry practices exceed local legal requirements, the higher standard applies.

**Forced Labor.** There shall not be any use of forced labor, whether in the form of prison labor, indentured labor, bonded labor or otherwise.

**Child Labor.** No person shall be employed at an age younger than 15 or younger than the age for completing compulsory education in the country of manufacture where such age is higher than 15.

**Harassment or Abuse.** Every employee shall be treated with respect and dignity. No employee shall be subject to any physical, sexual, psychological or verbal harassment or abuse.

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

**Health and Safety.** Employers shall provide a safe and healthy working environment to prevent accidents and injury to health arising out of, linked with, or occurring in the course of work or as a result of the operation of employer facilities.

**Freedom of Association and Collective Bargaining.** Employers shall recognize and respect the right of employees to freedom of association and collective bargaining.

**Wages and Benefits.** Employers recognize that wages are essential to meeting employees' basic needs. Employers shall pay employees, as a floor, at least the minimum wage required by local law or the prevailing industry wage, whichever is higher, and shall provide legally mandated benefits.

**Hours of Work.** Except in extraordinary business circumstances, employees shall not be required to work more than the lesser of 60 hours per week or the limits on regular and overtime hours allowed by the law of the country of manufacture. Except in extraordinary circumstances, employees shall be entitled to at least one day of rest in every seven day period.

**Overtime Compensation.** In addition to their compensation for regular hours of work, employees shall be compensated for overtime hours at such premium rate as is legally required in the country of manufacture or, in those countries where such laws do not exist, at a rate at least equal to their regular hourly compensation rate.

\*\*\* If you believe that these Standards of Engagement are not being upheld or if you have any questions regarding these Standards of Engagement, please contact the Liz Claiborne country manager. Your identity will be kept in confidence.

**APPENDIX 2 SUMMARY OF CONTACTS**

---

Number of investigative visits to the factory in the period..... 33

**Contacts with workers at factory**

Number of interviews at the factory ..... 33

Number of meetings with the workers ..... 59

Number of telephone calls ..... 165

Number of written complaints ..... 32

**Documents inspected at the factory**

- Information posted on the information boards (re: bonuses, incentives, announcements, emergency exits)
- Documents such as draft payroll
- Records of IGSS payments
- Personnel files
- Payment records for holidays, July and December bonuses and severance pay.
- Payment vouchers
- Timesheets
- IGSS certificates of doctors' appointments and medical leave
- Contracts
- Job Application forms