

ADIDAS-SALOMON STAKEHOLDER DIALOGUE, BANGKOK 2004

Executive Summary

The following report summarizes the opinions, suggestions and recommendations of participants in the adidas-Salomon Stakeholder Dialogue on February 24, 2004 held in Bangkok, Thailand. The participants received a copy of the adidas-Salomon Social and Environment Report 2002 beforehand and provided comments at the workshop. Those selected to participate were chosen based on their specific expertise, experience and ability to contribute to the future clarity of the adidas-Salomon Social and Environment Report. The comments of the diverse group of individuals are categorized under specific subject headings. The structure of the report does not reflect the order in which individual statements occurred.

The debate covered a rich array of topics, as follows:

- Debate on the global sourcing process and the resulting impact on the socio-economic situation of developing countries in Southeast Asia and China.
- Advice on improving the auditing process and the factory rating system.
- Considerable dialogue on how freedom of association is interpreted in the adidas-Salomon Standards of Engagement.
- Concerns on how NGOs could cooperate with buyers on meaningful development projects in the community.
- The need for health programs at a factory level.
- General comments on buyers, factories and consumers.
- Constructive comments on the strengths and weaknesses of the adidas-Salomon Social and Environmental Report 2002.

The Principal Discussion Topics

1. Debate related to the Dissolution of the Quota Agreements and China

There was considerable concern from participants about the issues which manufacturers face in 2005. One participant complained that manufacturers are getting pressured to reduce the price of their products. One participant stated that it is not a level playing field and the retailers are driving the prices down. In addition, participants mentioned that “negative bidding” is commonplace (where factories are forced to lower prices or lose business to the competition). The buyers of the products (that is their purchasing departments) are also the ones least concerned about compliance.

One participant expressed further concern about how Thailand can compete with China, Vietnam and other countries with “less social security” (benefits). The buyers demand factory compliance, without a guarantee of more or continued orders.

2. How Do Wages and Working Hours Factor into the Equation?

The participants also raised the question of the responsibility of adidas versus the responsibility of the country or the impact of economic factors. The main problem is the competition between factories and lean delivery (*LEAN: A Lean manufacturing operation produces more with existing resources by eliminating non-value added activities, or wastes, that exist throughout a firm*). In addition, participants conveyed the view that there needs to be a change in how business is done and a coming together of the companies to influence change.

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Participants pointed to the need to contain working hours and raise wages (the fair wage issue). There was concern whether LEAN manufacturing can actually reduce working hours and improve workers' lives. Participants felt that the garment industry and production processes have fundamentally changed, but this does not always directly translate into better working conditions.

One participant stated that fair wages are a good concept, but asked, "How can cost accounting be linked to wages and the buying price for orders?"

Further concerns from participants were about workers on piece rates and that buyers need to develop and share software/formats concerning clear wages statements. Workers need a clear pay slip. The footwear and apparel industries rely on piece rates and have an obligation to communicate pay systems clearly to workers.

However, many participants believe that the issue of overtime hours must be considered more carefully. One participant stated, "What if workers want to work overtime?" Many workers complain about the 60 hour per week rule. They often quit their jobs or work additional shifts at factories offering more overtime.

3. Comments on Compliance Programs and Improving the Audit Process

There was considerable consensus among participants on code of conduct implementation. One individual argued that the process is too long (there is a long delay before remediation takes place and the corrections are not sustainable). Another stated that the codes are great documents to read (posted on the entrance to the factory), but compliance with the codes and understanding of them is often lacking. Furthermore, many of the audits are rushed – the audits need to be longer and delve more deeply into the problems.

The factories are "between a rock and a hard place" stated one participant (in reference to investments in code compliance and whether there is any guarantee of long-term orders).

Another participant raised the question, "Does it (the compliance process) mean no consultation with factories on the application/development of the codes?"

Although, the participants liked the idea of strategic compliance, that is to say a more focused approach to factory auditing, there was some doubt as to whether there really are strategic partnerships and the success of this approach depends on market conditions and a long-term process. One participant argued that factories and factory management are told what to do without any cooperative consultation.

Generally, participants commented that buyers need to pay more attention to raising awareness, education and offer training to get buy-in from factories. A participant emphasized the need to design better systems where audits and remediation really improve outcomes. In order for compliance programs to be self-regulating workers need to be part of the process. The systems should encourage, permit and enable workers.

One participant mentioned that when we talk about cooperation among strategic partners, we should focus on the employer and the workers most directly.

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In order to achieve strategic compliance the problem requires a global solution, which led to further questions:

- “Who is going to pay for the required improvements?”
- Monitoring must look at root causes in order to move towards strategic monitoring.

A participant expressed concern that compliance is a very new concept and is evolving slowly. Others argued that the compliance process is merely a policing activity and requires more room for discussion and consultation. Factories often see the requests of their buyers as having, “the law being put on them.”

adidas representatives mentioned that there has been a push to locate in fewer and larger contractors, which means an opportunity to apply higher standards in these factories.

There was a general consensus that buyers will have to work together in order to really see sustainable improvement. A participant stated, “Maybe adidas alone cannot do that much, they need to work with other players.”

4. Standards of Engagement and the Factory Rating System

Many participants noted that more universal regulations are necessary in order to create a strong factory rating system. One participant asked about the benefits of being a three star or five star factory in the long-term? Furthermore, will there be a long-term commitment to the supplier?

One participant singled out that in Thailand there are higher labor costs than the surrounding countries. Thai citizens pay social security and unemployment benefits costs, which further increases costs. The participant inquired whether Thai manufacturers would be favored (over countries with lower labor costs) in this rating system. Participants were concerned about future business and whether compliance is part of a long-term strategy for adidas.

adidas argued that rewards for suppliers are self-generating. The factories that do better on compliance also do better on quality, delivery and other issues. The adidas representative argued that the company wants to build strategic partnerships with suppliers for the long-term. If a factory is a 5 star in labor practices it is typically a productive one. adidas also made the point that in a well-managed factory the social and environmental strategies are mirrored in other departments (ie they don't exist in isolation in the compliance department or amongst staff responsible for implementing buyer codes). Additionally, participants showed interest in seeing a broad based survey that collected information on the business case for improving labor standards.

One participant commented that with compliance there is a big stick, but no carrot. Orders and factories can be cut, but where are the rewards? The good factories should benefit from positive incentives not just the threat of punishment. There is a missing link to ensure that the factories that perform well on compliance are rewarded with more orders (not just those with lower prices; perhaps a new scoring system is needed?)

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Participants also inquired about the linkage between the social compliance and business units at adidas (that is to say what is the organizational relationship within the adidas hierarchy?). One participant referred to the *Global Governance Code* in the report. “We have established a governance framework that identifies board-level responsibility for social and environmental affairs and allows for each to contribute to an annual business strategy” (*adidas-Salomon Social and Environmental Report 2002*). The application of global governance codes has interesting possibilities – how could this type of exercise be initiated in other countries asked another participant. It was generally agreed that this type of organizational structure was a beneficial aspect of the adidas compliance process.

There was a general concern about how different labor laws in different countries impact on the elements of codes of conduct. One participant stated that it should not be difficult for a factory to follow the labor law. However, the participant felt that when it comes down to it, the main factor is price over a five star rating on compliance issues.

5. The Standards of Engagement and the Application of Freedom of Association

The question of what Freedom of Association (FOA) means *within the context of compliance* was a pivotal area of discussion. Participants asked how does FOA materialize into something tangible? Especially in countries where no regulations exist, what can be done? It was suggested in an ironic tone by one participant that we go beyond or “break the law” (when FOA is missing from the country regulations).

There was consensus among several participants that FOA and collective bargaining is the best and most sustainable long-term solution to improving factory conditions. Participants raised related questions as follows:

- How to ensure that Freedom of Association really exists?
- What is the role of companies and factories?
- What is adidas’ role in ensuring Freedom of Association?

One participant raised concern over a general misunderstanding of the trade union’s role. The participant went on to define the role and requirements of trade unions:

- To look after the workplace
- As per the legal definition
- To have a share in the benefits of the production process

A participant requested further clarification of the adidas formal and legal obligations in respect of FOA. adidas agreed that FOA is a key issue.

Other general concerns of participants as follows:

- Codes need to define FOA more clearly – in black or white.
- Is forming a labor union the only way of creating FOA?
- Overarching framework of trade unions – although check lists have their place, without FOA there cannot be sustainable compliance.
- What role do welfare committees serve in the process? May be useful, but they are no substitute for a properly organized union.
- FOA can be used as a mechanism for achieving other standards/goals and make the compliance process more sustainable through social dialogue.

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6. Trade Unions and Capacity Building

A participant emphasized that a parallel means of FOA can start with worker-management training. This training should teach workers how to understand what trade unions are, how to take notes, hold meetings and negotiate with management. Workers need to understand the rationale for forming unions. Another participant stated, "We need to have responsible unions and companies!"

There was consensus among several participants on the importance of educational awareness of FOA. It was stated that the capacity for workers to form trade unions needs to be there first. FOA programs need to train and identify potential leaders. Buyers need to work with factories to enable unions to function better. However, FOA cannot be imposed on workers, it must be voluntary. Furthermore, no single "cookie cutter approach" to reinforcing the trade union process is guaranteed to work.

Others stated that worker-management communication is a first. If we go into factories and form unions, when they have no capacity or knowledge of how a trade union functions, this is merely "a pie in the sky" approach as a participant stated (an ineffective solution).

One participant mentioned the importance of using the influence of companies to "create space" for unions to organize and operate (for example a physical space like a meeting room). The buyer must encourage the existence of trade union trainings or make sure that workers are allowed leave to attend these programs. The building of trade union capacity can be a mutually reinforcing strategy for the factory.

Union to union training was posed by several participants as a constructive way to build the capacity of Asian trade unions:

- Brands need to be more serious about moving FOA forward and this can be done with fewer suppliers.
- Need to identify the capacity and power of the trade union to carry out activities (for example, workers can act as monitors for the brands).

Participants stated that FOA needs to be approached on a country to country basis. It was mentioned that in Vietnam FOA is a structural problem (similar to China), but participants believe there is more potential for trade union empowerment. In one case, after a government trade union official was formally contacted and received an in-depth explanation of the codes, he demonstrated considerable enthusiasm about getting involved.

One participant raised the Cambodian labor situation as an example. Cambodian factories are completely controlled by the employers. There are no independent trade unions and workers cannot negotiate fairly under the current system.

One organization mentioned that it can not work in China as it does not recognize the All China Confederation of Trade Unions (ACFTU) as a valid trade union.

Another participant questioned, "How can factories in China be found to meet the Standards of Engagement for FOA?"

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In special cases such as in China and Vietnam, several participants believed that effective dialogue with the government and the use of company clout can be used to press for FOA. One participant stated that “money talks” in reference to the financial pressure that Adidas and other buyers could leverage to request a stronger trade union role in Chinese factories.

Participants mentioned that in countries like China and Vietnam to advance FOA you can follow two tracks. Engagement in dialogue with government can lead to both longer-term structural changes and changes in the laws. However, in the near term there is room for improvement within the current legal system. There is also room for improvement in the existing, government sanctioned unions without changing the laws. Improvement can be attained through engagement, education and training of local unions/union leaders.

Another participant posed the idea that buyers could collaborate with employer confederations; and that: trade unions can train trade unions. For example, Australia has many skilled individuals who could come to train trade unions in China.

One participant felt that worker organizations sometimes take advantage of collective bargaining. The specific case of a Thai firm where workers made excessive demands was raised. The workers had great benefits and maids earned at least 8,000 baht a month. Then workers asked for a dormitory for visitors, which the participant believed was excessive. The participant went on to explain that the company eventually collapsed after continued collective bargaining and strikes at the factory.

In reference to the Thai case, the participant above raised several concerns about the trade union movement as follows:

- Unions need to consider the company’s needs as well as their own.
- What is fair for both workers and employers?
- Can trade unions make demands regardless of the economic situation?

Another participant suggested that Collective Bargaining Agreements (CBAs) are another leverage point for buyers. It was recommended that the buyer should be involved in executing a CBA where they are engaged in a factory that is having problems with workers.

Other general critiques of the implementation of FOA in codes were stated as follows:

- “Buyers can go further than they are now!”
- When a company audits code of conduct it needs to do so more stringently. As there has been great consideration of child labor in the codes, this is an absolute element in the standards. So, why is FOA treated in a much vaguer format?
- Terms and conditions concerning FOA in the code need to go beyond the law.

7. Working in Cooperation with Non-Governmental Organizations (NGOs)

NGO participants noted various means of improving stakeholder engagement with companies. They stated in the past the private sector was tentative about these relationships (with NGOs), but they can be beneficial. In order for the projects to be successful there needs to be compromise at both ends. However, contracts must be entered into slowly and carefully.

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NGO representatives at the dialogue advocated constructive dialogues with the corporate sector as a means of improving working conditions:

- Provide physical space, break rooms or other meeting areas.
- Offer training leave for workers.
- NGOs like the Worker Rights Consortium (WRC), the Clean Clothes Campaign (CCC) and others can provide union related training in these countries.
- Factory based initiatives need to directly involve unions

Participants offered other suggestions related to NGO and Company cooperation:

- The need for greater exchange between International Governmental Organizations (IGOs) and NGOs.
- The perceptions NGOs and companies have of each other need to change.
- Need to be careful of how a union's power may be co-opted by NGOs coming in and offering other solutions/support.
- Unions are the ones who should train unions, not NGOs.
- NGOs can be innovators: they provide a testing ground for new ideas and projects. They have access to different people/circles of individuals.

One participant further clarified the problems of company engagement. The private sector is a different kind of donor. They want more direct involvement. Something an NGO might do in two months, the company wants done in a week. Private donors are more concerned about outcomes and PR, having a good image.

Other pitfalls as mentioned by participants

- A company may try to absolve itself of responsibility by hiring an NGO to do its work.
- NGOs can be hired to start-up the work – but others need to continue it and ensure sustainability.
- An NGO may enthusiastically engage in a project that may be viewed unfavorably by government officials – this may damage the NGOs reputation.
- Some companies create “bogus NGOs” to deliver projects and be seen as socially responsible. Companies should not set up NGOs to carry out their projects as this can create an opportunity for scape-goating (the NGO has no independence or capacity, but the company can blame the NGO if anything goes wrong).

8. The Importance of Factory Based Health Programs

Another set of questions raised concerns about the extent to which buyers are willing to exert pressure over health issues:

- Why can't there be tax incentives for factories that are excellent in compliance?
- There could be initiatives related to occupational insurance policies. For example, AIA (American Insurance Company) has launched an initiative where factories that deliver AIDS related training may be eligible for a maximum 20% discount.
- With a united group of buyers these types of incentives could be promoted at the government level and influence positive change.

Other discussion by participants focused on improving factory health programs:

- Health education should also include reproductive health.
- The law may only require one check-up per year, but this is not sufficient.
- Occupational risks of specific workers need to be highlighted in assessments.
- Workers need to be trained to understand their rights.
- Self-monitoring by workers is an important part of the process.

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- Additionally, peer education can be a tool to effectively deliver training.

One participant mentioned that given 80 to 90 percent of the workforce is female, women's health and reproductive issues are an important concern that deserves more attention.

9. Additional Comments on Buyers, Factories and Consumers

There was consensus that big retailers (not high fashion brands) are one of the principal reasons labor standards are not improving in many countries.

Another participant expressed concern about the ability of one company to bring about dramatic changes in the industry – this needs to be a collective effort!

Others wanted to know if consumers really care about compliance when making buying decisions:

- Are there any consumer based surveys on paying more for products made in better working conditions?
- It seems that consumers care about price and quality foremost.
- However, adidas responded that compliance is important to investor groups, consumer groups and ethical investors.

Comments on the Structure and Details of the adidas-Salomon Social and Environmental Report

1. Positive Remarks

There was consensus among participants that the report is both valuable and transparent. Participants praised the report for containing good data and lots of statistical information. It was mentioned that the report went beyond being a public relations exercise and that many other buyers' sustainability reports lack substance. Another participant expressed that adidas shows that it is a progressive company through the transparency of its reporting process. Furthermore, the use of the Global Reporting Initiative (GRI) application is valuable and provides a good framework to the report.

Other positive remarks by participants as follows:

- "I went into the report with fairly low expectations, but was impressed by the amount of detailed, objective data on auditing, factory star ratings... the rankings are quite interesting"
- "It is a courageous effort."

2. Structural Comments

Although, there was consensus on the depth of the report, participants pointed to the weaknesses of the report as well. One participant stated that there is no section where best practices are shared. Others singled out that there, "is a ton of information" and a simpler shorter version might be more beneficial for other audiences. Another participant noted that the report could benefit from a stronger executive summary.

3. Missing Details

Many of the participants suggested that they would like to see more comments or incorporation of workers' voices in the report. It is not clear from the report whether there is really engagement with workers and unions. Furthermore, one individual expressed that the inclusion of comments from local organizations would strengthen the report. Another participant would like to see the inclusion of a study of the impacts of lean production on workers.

Further comments related to technical information lacking in the report:

- It needs information on the adidas Social and Environmental budget.
- It would be helpful to include a section on average wages by country.
- A participant suggested the inclusion of information on the living wage.
- A cost breakdown is missing – another report a reader reviewed showed the breakdown of costs for a shoe.
- Participants would like to see some more details about the scoring system.
- One recommendation was to publish Tier 1 suppliers in a report or on internet.
- The report needs a section on customer satisfaction.
- The definition of NGO in the glossary lacks substance.
- One participant requested a clearer definition of the use of *challenges* in the report.

Comments on the Structure of the Dialogue

Participants stressed that adidas should take into account the views of its partners, especially its primary partners: the workers. They should include more workers and factories in the stakeholder dialogue. A cooperative approach means bringing in workers voices – big groups of workers could feed into various smaller forums – these could be language specific as well. adidas should include a second day with specific project brainstorming in smaller groups.

More specific stakeholder engagement was requested as follows:

- The next meeting with the European Works Council should include trade unions.
- One participant said they would like to see more Indonesian leaders from government sector participate in the dialogue.

Other Feedback

Lastly, one participant expressed that there should be more discussion on the containment of working hours and increased pay standards at this workshop.

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Appendix 1

STAKEHOLDER DIALOGUE AGENDA

Tuesday, 24 February 2004

Location: Rama Gardens Hotel 9/9 Vibhavadi Rangsit Road, Laksi,
Tel: (66 2) 561-0022, Fax: (66 2) 561-1025, 561-3416
Contact: Alex Kaufman (66) 1 – 816-1248

9:00am

Icebreaker: Listening Practicum

9:15am

Introduction and ground rules for discussion
Questions or amendments to process

9:30am

General Dialogue

- How should private companies address social and environmental responsibility?
- What are the issues of primary concern for adidas?
- General comments on adidas programs
- How would you better manage a compliance program?

10:30am

Coffee Break

10:50am

What capacity do NGOs have to improve or participate in stakeholder engagement?

12:00pm

Buffet Lunch

1:15pm

Report discussion

- Is there value to this type of public reporting?
- What information is useful / not useful?
- Missing information?

2:15pm

Coffee Break

2:30pm

Report discussion continues

- Process critique: how useful was this type of meeting?
- General feedback
- Wrap-up

4:00pm

Finish