

Guidelines on Sustainable Compliance

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HR Human Resources

H&S Health and Safety

HSE Health, Safety and Environment

IL Industrial Leader (please see "Guidelines on Sustainable Compliance", Part 1, pages 1-2)

SEA Social and Environmental Affairs

SOE Standards of Engagement

1.1 PURPOSE

This document describes adidas' strategy for ensuring effective and sustainable compliance with the Standards of Engagement ("SOE") within the adidas supply chain. What does compliance mean? Compliance is another word for conformity. adidas requires business partners to conform to the spirit and the letter of the SOE as a fundamental term of the business relationship. Compliance begins with meeting all local legal requirements, and extends to each of the seven core labour standards, the health & safety and environmental requirements, and the community involvement standard described in the SOE.

This strategy document is meant to be read and used in conjunction with the SOE and the three existing SOE Guidelines addressing:

- Employment, ie labour practices;
- Occupational health, safety and environmental protection; and
- Environmental best practice.

Additional guidance will be issued to suppliers to support implementation of the sustainable compliance practices.

1.2 SCOPE

This strategy document is intended for all business partners manufacturing adidas Group products. It is recognised, however, that the actions to be taken by an individual supplier may differ depending on the scale of its manufacturing operations and the size of the workforce. This is reflected in the applicable actions and requirements detailed in Part 2.

In the case of a designated Industry Leader all requirements and actions set out in Part 2 are applicable and must be fulfilled. An Industry Leader is a supplier who, by virtue of its operating size, its specific product specialism or market position, or its long-standing business relationship with adidas, is viewed as a key partner. Such partners should act as industry leaders, setting the standard for others in the sector to follow.

In each region (Americas, Europe and Asia) the Social & Environmental Affairs ("SEA") Department will inform suppliers whether they have been designated as an Industry Leader for the purposes of SOE Compliance. Industry leaders are expected to comply with the highest standards in terms of management practices and sustainable compliance, irrespective of their operating size.

1.3 MANAGEMENT COMMITMENT & RESPONSIVENESS

"SOE compliance is not an end point, it is part of a business process. It is a process that begins, and ends, with management commitment".

At the end of 2003 and again in 2004 the SEA Department and adidas Sourcing clearly expressed the desire to maintain supplier partnerships that are based on a close alignment of shared values. We believe that the successful promotion of fair, healthy and safe working conditions can only occur when supplier management takes a leadership role. Therefore, we will seek partners whose management teams are committed and responsive to SOE requirements and who are able to demonstrate a high degree of self-governance. This means evaluating the delivery and effectiveness of our business partners' compliance practices against the following SOE measurables:

- 1) Management Commitment & Responsiveness
- 2) Management systems for human resources ("HR") and health, safety & environment ("HSE")
- 3) Worker-management communication
- 4) SOE compliance training for workers and management
- 5) Transparency in communication and reporting
- 6) Compliance performance under the SOE (Labour and HSE)

The evaluation of 'delivery' means an assessment of quantitative compliance measures. For example, do the factories of the business partner have operational HR and HSE management systems in place? Are remedial actions completed according to agreed deadlines? The evaluation of 'effectiveness' means addressing the substantive or qualitative compliance measures, ie do the HR or HSE management systems perform well, and are remedial actions sustainable resulting in lasting change?

As stated in the SOE, we expect our business partners to deliver continuous improvement in SOE compliance. This means that business partners must internalise and take ownership of their compliance programmes to ensure long-term execution and consistency. For internalisation of the SOE to take place, business partners must develop full and effective systems for managing Labour and HSE issues. The necessary resources, and management time, must be committed to maintain those systems.

1.4 KEY PERFORMANCE RATING

At the end of each year, SEA provides data and other information to Sourcing to assist in the evaluation of the general performance of our business partners. Sourcing uses this information to determine the priorities for, and placement of, future orders.

From 2005 onwards, an evaluation of each business partner's management commitment and responsiveness to SOE compliance will become the key performance indicator ("KPI"). The SOE KPI comprises the six SOE measurables set out above. Each measurable will be quantified and will contribute to a grade, based on a '5 Star' rating system, as follows.

- 1C** There are numerous, severe non-compliance issues. There are no compliance management systems or effective compliance practices in place. The factory has been given notice that business will be terminated unless there is immediate improvement.

- 2C** There are some non-compliance issues, and no compliance management system. However, there are some effective compliance practices being delivered.

- 3C** There are minor non-compliance issues. The factory has compliance management systems and some effective compliance practices in place.

- 4C** Generally there are no non-compliance issues. The factory has compliance management systems, and most of the components of the system are effective.

- 5C** There are no non-compliance issues and all of the factory compliance management systems are well delivered and effective.

1.5 ENFORCEMENT POLICY

Where our business partners fall short of our requirements, and consistently fail to meet our standards, we will take action. We have developed an internal policy to guide the SEA Team in its enforcement of the SOE, ensuring consistency across all regions and a level playing field for our suppliers. We strongly believe in a partnership approach, and where suppliers perform poorly in terms of SOE compliance we will work closely with them to find solutions. However, where we see ongoing and serious non-compliances and a lack of

commitment on the part of management to address these issues, we will consider appropriate steps as outlined in the SOE Enforcement Guideline.

1.6 BENEFITS FROM ACHIEVING SUSTAINABLE COMPLIANCE

The SOE requires business partners to treat the individual employee as their primary concern and to value the employee as an asset of the company. Based on this fundamental premise, we believe that sustainable compliance with the SOE will not only ensure fair, safe and environmentally sound workplaces, but will positively impact the operational performance of our business partners' factories. There are numerous company examples to support this view.

- Establishing management systems helps to structure, and provides discipline to, business processes. Management is able to identify and eliminate operational redundancies, double work and gaps which increase direct or overhead costs.
- Effective communication between workers and management promotes an atmosphere of trust and leads to improved relations in the factory. This results in higher productivity and efficiency.
- Investments in safe and healthy work places and in proper medical care for employees result in lower absence rates (due to illness or accidents), and a more stable and motivated work force. Such investments have direct gains.
- Applying best environmental practices leads not only to a significant reduction in environmental impact and consequent liabilities, but also to direct economic benefits through energy savings and optimal resource and waste management.
- Training employees to achieve their best performance results in higher productivity, and enhances worker loyalty and retention. This is essential in order to keep the factory competitive in terms of innovation, flexibility and quality.

1.7 GENERAL CONTENTS

Part 2 of this strategy document describes the SOE KPI and its six measurables:

1. Management Commitment and Responsiveness



2. Management systems



3. Worker-management communication



4. Compliance training for workers and management



5. Transparency in communication and reporting



6. Compliance performance



For each measurable, we set out our requirements and the specific actions necessary to fulfill those requirements. The actions will be updated as necessary and communicated regularly to our business partners.

Requirements	Actions Implementation Period 2005-2006	Designated IL's and Large Scale Factories (>1000 workers)	Medium Scale Factories (251-1000 workers)	Small Scale Factories (250 or less workers)
1. Management Commitment and Responsiveness				
Compliance Policies	Strategic Planning	✓		
Review by Management				
2. Management Systems				
a) Human Resource Management System				
Remuneration Systems, Linkages to Lean & Productivity Measures	Establishing Fair Wages and Benefits	✓	✓	✓
b) Health & Safety Management Systems				
H&S Certified Systems	Certified H&S Management System	✓		
	Develop an Occupational Health Programme for Employees			
	Non-Certified H&S Management System		✓	✓
c) Environmental Management Systems				
Certified EMS	Certified Environmental Management System	✓		
	Environmental Best Practices	✓		
d) Internal Compliance Team and Self Assessment (Auditing)				
Requirement for Internal Monitoring	Internal SOE Coordinators; appointment of Safety Officers and Safety Managers	✓	✓	✓
	SOE Self Assessment (Footwear & Selected Apparel)	✓		
3. Worker-Management Communication				
Industrial Relations	Implementation of Basic Communication Systems	✓	✓	✓
Regarding Worker-Management Committees	Establish Worker-Management Communication Committees	✓	✓	
4. Compliance Training for Workers & Management				
Training Programmes	Training in Rights & Obligations	✓	✓	✓
	Occupational Health Training for Factory Medical Staff	✓		
	H&S Management System Training	✓		
	SOE Coordinator, HR and HSE Training	✓	✓	✓
5. Transparency in Communication & Reporting				
Effective Communication	Updating SOE Action Plans	✓	✓	✓
	Communicating SOE to Subcontractors and Service Providers			
	Reporting Major Incidents			
	Reporting Safety Statistics	✓		
	Accident Policy and Investigation	✓		
	Immediate Action: VOC Monitoring	✓		
6. Compliance Performance				
SOE Internalisation	Improved SOE Action Plan completion and response	✓	✓	✓
New Production Sites	New Factory Construction and Building	✓	✓	✓

Scope

SOE Compliance must be driven by factory management, by incorporating compliance values and practices into core business planning. Compliance policies and review of the policies are the responsibility of management.

Requirements

Actions Implementation Period 2005-2006

Designated IL's and Large Scale Factories (>1000 workers)

Medium Scale Factories (251-1000 workers)

Small Scale Factories (250 or less workers)

Requirement for Compliance Policies

- There are company policies covering employment and HSE standards.
- The policies are accessible and communicated throughout the organisation, to both workers and management.
- There is a consistent linkage between compliance policies, management systems, and compliance targets and activities.
- Executive management assumes direct responsibility for compliance, ie there must be an individual who is directly accountable for employment terms and HSE conditions
- The company policies include mechanisms for regular review by executive management.

Requirement for Review by Management

- Executive management regularly reviews the policies.
- The review process includes reporting on:
 - the actual compliance status of the policies and programmes;
 - the number of internal and external audits conducted, and the key findings / results of the audits;
 - statistics for key compliance performance indicators as agreed with adidas; and
 - progress on adidas SOE action plans.

Strategic Planning

By second quarter 2006, designated IL's and other large scale business partners must prepare and submit to adidas SEA a 3 year Strategic Business Plan addressing SOE Compliance. At a minimum the strategic business plan should address:

- SOE training and employee development for factory workers and managers, including the intended subject areas and total man-hours of training per employee.
- Recruitment and/or retention of appropriately qualified HSE and HR professionals, and their job descriptions.
- Prioritising and resolving any major outstanding non-compliance items as detailed in existing adidas SOE action plans.
- Planned investment in the development of HR, H&S and (where appropriate) environmental management systems, including consultancy, certification and annual verification costs.
- Capital spending and other annual overhead costs related to SOE compliance, including the percentage each of these represents against total sales.
- Any planned closures or openings of new factories.
- An organisational diagram that explains the lines of reporting and levels of authority in decision-making for labour, HR and HSE issues.
- Information regarding the compliance performance of the business partners' suppliers and other subcontractors.
- Information regarding:
 - any ongoing social, occupational health and environmental projects;
 - integration of Lean manufacturing processes in the workplace, including any impact on wage levels, work stress and fatigue, and skills training and incentives;



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Requirements

Actions Implementation Period 2005-2006

Designated I.L.'s and Large Scale Factories (>1000 workers)	Medium Scale Factories (251-1000 workers)	Small Scale Factories (250 or less workers)

- development of existing and new relationships with NGO's, consultants, local authorities and other 3rd parties who will support compliance in the business partner's factories;
- special mention of how management will tackle critical or high-risk issues affecting the country or region in which they operate, such as fair wage, HIV/AIDS and worker representation/worker-management communication;
- crisis management – how management will handle any major incident, accident or worker fatality.

Throughout the plan, the various items and actions should specify timelines for completion.



Scope

We will support business partners to develop and implement an effective HR management system. The system should promote fair hiring practices, and effective grievance and disciplinary practices. It should also manage employee compensation, performance evaluation, employee development and training, worker turnover, worker participation and industrial relations.

Requirements

Actions Implementation Period 2005-2006

Requirements Relating to Remuneration Systems, Linkages to Lean & Productivity Measures

- Remuneration systems must be focused on achieving outcomes and maintaining and improving productivity, by providing incentives and opportunities for employees to develop required skills and expertise.
- Wage levels must be fair to employees but not undermine the viability of the enterprise.
- Remuneration systems must be linked to a transparent and fair system for wage adjustments which reflects improvements in worker skill levels and competence.
- Remuneration principles should be agreed with employees, and with unions where they exist in the work place, through a process of collective bargaining or direct negotiations.

Implementing an HR Management System

All business partners are expected to establish and implement an HR management system. The system will not be certified, but will be subject to audits by the SEA Team. In collaboration with other major brands, adidas has selected consultants to develop the necessary materials and training which will be rolled out over 2006-2007.

Business partners are expected to fully support their nominated trainees through the training programme and process of system implementation. Further information and requirements will be provided to all business partners through the course of 2006.

Establishing Fair Wages & Benefits

By the end of 2007, business partners must demonstrate that they are setting remuneration levels which are consistently above government minimum wages and match industry averages. Remuneration packages must include any social and medical coverage, and any other mandated benefits. Specifically, they should take into account:

- the basic needs of workers and discretionary expenditure;
- market demand for the relevant skills/capabilities, experience, and responsibilities;
- mandated or discretionary incentive or bonus payments;
- the need to retain workers and reduce turnover by offering competitive wage structures and benefits;
- incentives or bonuses and profit sharing schemes which match employee performance with operational targets; and
- salary increases for employees who year after year exceed the normal expectations of the job.

	Designated IL's and Large Scale Factories (>1000 workers)	Medium Scale Factories (251-1000 workers)	Small Scale Factories (250 or less workers)
Implementing an HR Management System	✓	✓	✓
Establishing Fair Wages & Benefits	✓	✓	✓



Scope

We will support business partners to develop and implement an effective H&S management system to address H&S, and operational risks in the workplace.

Requirements

Actions Implementation Period 2005-2006

Requirement for H&S Certified Systems

- A certified H&S management system should include the following components:
 - a documented analysis of all H&S aspects of the workplace;
 - the identification of workplace locations where personal protective equipment (or PPE) is required;
 - tracking mechanisms for sick leave, accident rates, and workdays missed; and
 - a plan for emissions and noise control supported by regular TLV (or threshold limit value) measurements and reduction programmes.
- A certified emergency management system must be in place, including:
 - fire preparedness and evacuation plans, and fire extinguisher training;
 - a first aid system, accident logs and reporting;
 - an alarm system, emergency drills, and an internal emergency reaction brigade;
 - plans for preventing and managing chemical spills; and
 - an evaluation of emergencies that occur, and corrective action plans for prevention.

Certified H&S Management System

By the end of 2006, all IL's and large scale business partners are expected to establish an operational H&S Management system, in accordance with OHSAS 18001. The system must be certified by a reputable, nominated certification body (see Appendix 1). Certification must be obtained within 1 year of the system having been implemented.

Develop an Occupational Health Programme for Employees

By the end of 2006, all IL's and large scale business partners must establish and maintain a health surveillance system. At a minimum, such a system must include the establishment of an occupational health record for each employee and regular occupational health checks. Further requirements will be given in an Occupational Health Guideline to be issued by adidas in the fourth quarter of 2005.

Non-Certified H&S Management System

Small and medium size business partners are expected to establish and implement a simplified H&S Management System. The simplified management system will not be certified, but will be subject to audits by the SEA Team. Guidance on setting up and implementing a simplified H&S management system is currently being prepared and will be distributed to business partners in the first quarter of 2006.

Designated IL's and Large Scale Factories (>1000 workers)	Medium Scale Factories (251-1000 workers)	Small Scale Factories (250 or less workers)
✓		
✓		
	✓	✓



Scope

We will support business partners to develop and implement an effective environmental management system to address environmental risks in the workplace and the impact of production and operations on the local environmental.

Requirements

Actions Implementation Period 2005-2006

Designated IL's and Large Scale Factories (>1000 workers)	Medium Scale Factories (251-1000 workers)	Small Scale Factories (250 or less workers)
✓		
	✓	

Requirement for Certified EMS

- The system should address environmental risks and risk management in the workplace. A certified environmental management system should include the following components:
 - waste management policies for waste water and industrial waste;
 - energy management policies for electricity and climate control and energy reduction programmes;
 - air emissions policies for emissions control and reduction programmes;
 - hazardous chemicals policies for storage, handling, posting of material safety data sheets (or MSDS); and
 - environmental data (energy consumption, emissions, resources, waste) as the basis for setting annual reduction targets.

Certified Environmental Management System

By the end of 2006, all IL's and large scale business partners are expected to establish an operational environmental management system, such as ISO14001. The system needs to be certified by a reputable, nominated certification body (see Appendix 1). Certification must be obtained within 1 year of the system having been implemented, i.e. by no later than the end of 2006.

Environmental Best Practices

In 2003, the Environmental Best Practices Guide was launched. This Guide sets out the best practices for environmental safeguards currently employed by industry, and defines the clear potential for operational cost reduction and increased competitiveness. At a minimum, by the end of first quarter 2006, IL's and large scale business partners should review their operations and determine whether there are potential savings to be obtained by adopting environmental best practices, and develop a plan of action for the implementation of suitable practices.



Scope

Business partners must develop and maintain an internal compliance team composed of individuals skilled and trained in HR and HSE.

Requirements

Actions Implementation Period 2005-2006

Requirement for Internal Monitoring

- The internal compliance team should be independent, and report directly to senior management. It should have unrestricted access to management and workers.
- The internal compliance team should be charged with completing the adidas SOE action plans.
- The internal compliance team should be charged with 'self-auditing' the factory's compliance with the adidas SOE employment and HSE standards. The audits should be planned and scheduled on a regular basis, using an audit tool which will evaluate the HR and HSE management systems. The audit methodology should include:
 - a physical inspection of the plant;
 - worker and management interviews;
 - a process for collecting key findings and developing corrective actions; and
 - a reporting mechanism, and an archive for audit documentation.
- There should be evidence that the team receives ongoing training to improve their qualifications, and that there is minimal turnover in the team's composition.

Internal SOE Coordinators

With immediate effect, at a minimum, all business partners are required to appoint an internal SOE coordinator responsible for sustainable labour and HSE activities in the factory. This person will collaborate with an adidas SEA Team member to follow up on SOE action plans, self-auditing exercises, and other SOE related activities. The coordinator should be empowered by factory management to make key decisions required by the SOE action plans.

Business partners employing more than 150 workers should employ a dedicated Safety Officer (see directly below) and a full-time HR Manager to manage HSE and labour compliance, respectively.

Appointment of Safety Officers and Safety Managers

By the end of second quarter 2006, business partners are required have in place qualified safety professionals. These are safety managers and safety officers who are qualified and competent to deal with H&S matters in the workplace. These professionals should be given the necessary authority and responsibility to complete health and safety duties.

- Factories with more than 150 employees are required to have one safety officer who has formal health and safety training.
- For every 1000 workers, factories require an additional safety officer.
- For factories with more than 3000 workers, one safety manager must be appointed to oversee the operation of the safety officers / safety department (see Appendix 2).

The minimum qualification for Safety Officers will be described in Guidance to be issued to our business partners at the end of 2005.

Designated IL's and Large Scale Factories (>1000 workers)	Medium Scale Factories (251-1000 workers)	Small Scale Factories (250 or less workers)
✓	✓	✓
✓	✓	✓



Scope

Business partners must develop and maintain an internal compliance team composed of individuals skilled and trained in HR and HSE.

Requirements

Actions Implementation Period 2005-2006

Designated IL's and Large Scale Factories (>1000 workers)	Medium Scale Factories (251-1000 workers)	Small Scale Factories (250 or less workers)
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SOE Self-Assessment

From 2006 onward, all footwear business partners in Asia are required to conduct internal audits using the adidas SOE auditing tools or an equivalent auditing tool and to submit the audit reports to adidas SEA.

From 2006 onward, selected apparel and accessories & gear factories will also conduct self-audits and report to adidas SEA. The first audit report must be submitted no later than four months after audit training is provided by the SEA Team.

(Note: Only business partners with a strong track record in SOE compliance and with an SOE rating of 3C and above, will be considered for self-assessment.)



Scope

Worker-management communications is an essential element of good industrial relations. It provides an opportunity for individuals from various levels within an organisation to give their views, which enhances problem solving and allows for continuous improvement. Worker-management communications can also be used to verify the effectiveness of training delivered to employees, to assess the awareness of the workforce in relation to compliance issues, and to promote the successful implementation of workplace programmes such as lean manufacturing.

Requirements

Actions Implementation Period 2005-2006

Requirements Regarding Industrial Relations

- Business partners must recognise the valuable role that unions can play in representing their members. Our business partners must acknowledge the independence of unions, the right of workers to form unions of their choosing, and the right of unions to represent member interests.
- Where unions are not present within the workplace (or the workforce reports that the union does not act as genuine representatives), business partners must explore parallel means of communication that permit worker representatives to debate and discuss employment terms and workplace conditions. To achieve this business partners are encouraged to establish worker management committees, as described below.
- Business Partners are expected to manage any form of industrial action in a proper and lawful manner, including work stoppages, slow-downs, strikes and disputes between management and workers or between different groups of workers. Industrial Disputes are labour matters that should not be dealt with by police or security officials, unless there is criminal behaviour involved or serious threat to the lives or safety of individuals.

Requirements Relating to Collective Bargaining

- At a minimum, business partners must adopt the core employment terms and conditions required by law.
- Business partners must bargain in good faith with each union in the workplace (or, where allowed by law, with the majority union only), and must comply with the law regarding individual employees who choose not to be covered by collective agreements.

Implementation of Basic Communication Systems

All business partners are expected to have at least two if not all four of the following communication systems in place and operational:

- information boards;
- newsletters;
- worker hot-lines; and
- suggestion boxes.

Develop Constructive Relations with Existing Unions

By the end of 2006, business partners are expected to demonstrate that they have:

- Actively sought to establish and develop constructive relationships with any existing unions.
- Communicated directly to the workforce that the decision to join any union is valid and acceptable.
- Provided information to new employees in the orientation stage about the various union membership options.
- Acknowledged the role of union officers in the workplace, and made reasonable arrangements for union officers to spend some time during normal working hours on union business.
- Prepared to negotiate or bargain collectively in good faith and on equal footing with the existing union(s).

Management of Industrial Action

By end of first quarter 2006, all business partners must have developed a strategy for proper and lawful management of any industrial action including:

- designating an appropriate person to meet with union officers and/or workers to discuss the subject of the industrial action;
- methods for notifying the workforce of disruptions to the production schedule, return to work (as agreed with worker representatives) and other relevant information;

	Designated IL's and Large Scale Factories (>1000 workers)	Medium Scale Factories (251-1000 workers)	Small Scale Factories (250 or less workers)
Implementation of Basic Communication Systems	✓	✓	✓
Develop Constructive Relations with Existing Unions	✓	✓	✓
Management of Industrial Action	✓	✓	✓



Scope

Worker-management communications is an essential element of good industrial relations. It provides an opportunity for individuals from various levels within an organisation to give their views, which enhances problem solving and allows for continuous improvement. Worker-management communications can also be used to verify the effectiveness of training delivered to employees, to assess the awareness of the workforce in relation to compliance issues, and to promote the successful implementation of workplace programmes such as lean manufacturing.

Requirements

Actions Implementation Period 2005-2006

- Business partners should explore consolidated bargaining with two or more unions where two or more unions have members in the factory (unless prohibited by law from doing so).

- mechanisms for hearing in a fair and consistent manner the arguments or case of workers and/or supervisors in relation to the dispute, and the involvement of government labour officers where necessary; and
- management of any threatened or actual physical harm or damage to employees or factory property, avoiding at all costs the involvement of police or military personnel unless absolutely necessary to protect the safety of individuals.

Requirements Regarding Worker-Management Committees

- Business partners must implement and actively promote effective and sustainable mechanisms for worker-management communications in the workplace. This includes freely elected trade unions where allowed by law, worker-management communication committees, welfare committees, H&S committees, grievance systems and SOE worker circles.

Establish Worker-Management Communication Committees

By the end of 2006, all IL's, large and medium scale business partners must have established joint worker-management committees which (a) meet regularly to discuss the general welfare, pay and conditions of employment, and (b) meet to discuss, plan and respond to general health & safety conditions within the factory. Committees are expected to convene on a monthly basis, have a formal agenda and keep records of the meetings and share the results and decisions with the general workforce.

General guidance on forming Worker-Management Welfare Committees will be distributed to business partners early 2006. (See Appendix 3 for a basic checklist regarding Committee set-up and function.)

Designated IL's and Large Scale Factories (>1000 workers)	Medium Scale Factories (251-1000 workers)	Small Scale Factories (250 or less workers)
✓	✓	



Scope

A key component of management systems is sustainable and relevant training programmes. Therefore, management systems should contain mechanisms for assessing worker training needs and evaluating employee performance. Trained and competent employees are sound administrators of company policies and management systems. Cross-trained and multi-skilled workers achieve higher efficiencies within fewer working hours. Training employees to achieve their optimum performance enhances employee loyalty and retention, resulting in a stable and productive workforce.

Requirements

Actions Implementation Period 2005-2006

Requirements for Training Programmes

- Business partners should be actively engaged in compliance capacity building and training for management, supervisors and workers. There should be a systematic approach to training that includes:
 - mechanisms for assessing employee training needs and compliance knowledge;
 - a personnel development plan;
 - allocation of budget specifically for workforce training;
 - a programme of capacity building and training that is relevant to the needs of workers and delivered regularly;
 - trainers who are qualified, experienced and up-to-date in the training subjects; and
 - reporting systems that not only record training but evaluate the effectiveness and relevance of the training.

Training in Rights & Obligations

All business partners must provide regular compliance training to the entire workforce in: local labour laws, local H&S regulations, and specific workplace terms and conditions, ie where there is a collective bargaining or other agreements in place. Business partners must demonstrate that this training is provided to new recruits during orientation. Any changes to the items above must be communicated properly to the workforce and included in ongoing training programmes addressing compliance.

Occupational Health Training for Factory Medical Staff

In collaboration with SOS International and other brands, adidas has organised OHS training for factory medical teams and nursing staff. By end of 2005, all footwear factories and selected large scale apparel factories in Asia are expected to have participated in this training programme. Once the training has been completed, business partners are required to continue sending their medical staff to OH related professional development training, seminar and conference.

H&S Management System Training

Starting in 2005, business partners working towards OHSAS 18001 certification will be expected to join training organised either directly by adidas SEA, or by certification and consultancy bodies.

Designated I.L.'s and Large Scale Factories (>1000 workers)	Medium Scale Factories (251-1000 workers)	Small Scale Factories (250 or less workers)
✓	✓	✓
✓		
✓		



Scope

A key component of management systems is sustainable and relevant training programmes. Therefore, management systems should contain mechanisms for assessing worker training needs and evaluating employee performance. Trained and competent employees are sound administrators of company policies and management systems. Cross-trained and multi-skilled workers achieve higher efficiencies within fewer working hours. Training employees to achieve their optimum performance enhances employee loyalty and retention, resulting in a stable and productive workforce.

Requirements

Actions Implementation Period 2005-2006

	Designated I.L.'s and Large Scale Factories (>1000 workers)	Medium Scale Factories (251-1000 workers)	Small Scale Factories (250 or less workers)
<p>From 2006 onwards, a series of modular training sessions related to OHSAS 18001 will be organised and coordinated by the SEA Team in order to help business partners to establish occupational health safety management system. There are several core modules that business partners must attend, for example Risk Assessment and Internal Audit. Specific information will be provided to the relevant business partners.</p> <p>SOE Coordinator, HR & HSE Training All factory based SOE coordinators, any designated H&S Managers and all HR/Personnel Managers should receive regular compliance training. Coordinators should attend SOE training which is delivered regularly by the SEA Team.</p>	✓	✓	✓



Scope

A key component of any compliance programme is transparency. This applies to the establishment of clear policies and systems which are effectively communicated to the workforce. Systems documentation and record keeping should be current, be easily accessed, and reviewed regularly by management. Open and honest reporting should also be a feature of the business partner's communications with adidas SEA.

Requirements

Actions Implementation Period 2005-2006

Requirements relating to communication & reporting

- Effective HR and HSE management systems and policies should be clear and demonstrable through the everyday operations of the factory.
- The policies and systems should be clearly communicated to, and understood by, the workforce.
- Compliance information and expectations must be communicated to all the business partner's material suppliers and subcontractors.
- The SEA Team must be provided with accurate information in a timely manner, as part of the business partner's external reporting.

Updating SOE Action Plans and Remediation

From the end of 2005, all business partners must report regularly to adidas SEA on the status of all remediation in outstanding and ongoing Labour and HSE action plans.

Communicating SOE to Subcontractors and Service Providers

By the end of first quarter 2006, all business partners should have communicated the SOE to their suppliers, material suppliers, subcontractors and other business partners. At a minimum, business partners must obtain written confirmation from such parties that they will comply with the SOE, and the business partner must maintain a database to track supplier information based on a standard template supplied by adidas SEA.

Reporting Major Incidents

All business partners must report immediately to the SEA Team any major incident, such as: accidents resulting in serious injury (ie requiring hospitalisation) or death; fires which cause significant damage to the factory (ie disrupt production) or serious harm to the workforce (ie requiring hospitalisation); and any natural disaster which causes disruption to production; any strike, work stoppage, slow-down or other industrial action by workers; or requests for information or access to the factory by media or any other third party.

Reporting Safety Statistics

Safety statistics are an important piece of information, reflecting the effectiveness of the internal HSE programme. Maintaining safety statistics is essential to identifying trends, and whether additional support is needed from adidas SEA or external service providers.

	Designated IL's and Large Scale Factories (>1000 workers)	Medium Scale Factories (251-1000 workers)	Small Scale Factories (250 or less workers)
Updating SOE Action Plans and Remediation	✓	✓	✓
Communicating SOE to Subcontractors and Service Providers	✓	✓	✓
Reporting Major Incidents	✓	✓	✓
Reporting Safety Statistics	✓		



Scope

Business Partners will be regularly monitored for compliance with the Standards of Engagement. In some instances, the manufacturing sites of business partners must be made available to independent monitoring organisations (for example, the Fair Labor Association) so they can verify compliance activities and workplace conditions.

Requirements

Actions Implementation Period 2005-2006

General Requirements

- Business partners are expected to internalise the compliance process by:
 - enabling worker-management communications;
 - implementing effective management systems and practices;
 - adopting good record keeping practices;
 - developing an internal compliance team;
 - executing self-audit exercises, and
 - performing internal training and capacity building activities.
- Business partners must give the SEA Team unrestricted access to manufacturing sites, managers, workers, documents, and other relevant compliance information.
- adidas SOE action plans must be completed rigorously and according to the timelines jointly agreed. Action plans should be supervised by a decision maker within the executive management

Improved SOE Action Plan Completion and Response

By end of 2005, all business partners must provide 'on time' completion of adidas SOE action plan items. Factory SOE coordinators will proactively communicate action plan progress, including verification, to the SEA Team.

Requirements Relating to New Production Sites and Factory Expansion

- Business partners must plan the construction of new production sites, or the expansion of existing sites, taking into account workplace health & safety, and environmental risks from the outset. It is critical to eliminate potential hazards at the design stage of new factory construction. The responsibility for safe design falls on a diverse group of parties, including architects, building contractors, and the business partner's senior management.
- Business partners should not begin operations at the new site until all human resource management systems are in place and the workforce can be adequately managed and protected.

New Factory Construction and Buildings

All business partners must communicate with adidas SEA at the initial planning stage of a project. Before the business partner commences operations in the new factory, HR and HSE management systems must be established.

	Designated IL's and Large Scale Factories (>1000 workers)	Medium Scale Factories (251-1000 workers)	Small Scale Factories (250 or less workers)
Improved SOE Action Plan Completion and Response	✓	✓	✓
New Factory Construction and Buildings	✓	✓	✓



Certification Bodies

Below are the certification bodies nominated for Environmental Management System (ISO 14001) & Occupational Health & Safety Management System (OHSAS 18001) certification.

Certification Body	Abbreviation	Website
British Standards Institution	BSI	www.bsi-global.com
Bureau Veritas Quality International	BVQI	www.bvqi.com
Det Norske Veritas	DNV	www.dnv.com
Société Générale de Surveillance	SGS	www.sgs.com
INTECHNICA GmbH	INT	www.intechnica.de
TÜV Rheinland Group	TUV	www.tuv.com

Requirements for Safety Officers

Factory Size	Safety Professional	Full / Part time	Qualification
Less than 150	Safety Supervisor	Part time	Safety certificate
More than 150	Safety Officer	Full time	Diploma in Safety
Every 1000	Additional one SO	Full time	Same as above
More than 3000	Safety Manager	Full time	Degree in Science

1. Committee Structure

Consider these points when setting up a management-worker committee:

- The most effective management-worker committees have equal numbers of employee and management representatives, with members appointed or elected by their own parties. Management representatives should include individuals with real decision making power.
- The committee should be large enough to include representatives from all relevant areas of the facility, but small enough to achieve a productive working atmosphere. Criteria can be established to help limit the number of committee members. For example, members might be appointed or elected from those production areas which are considered 'high risk', or where committee members can have contact with the greatest number of workers.
- A successful committee requires that the members to be motivated and knowledgeable about the area that they represent. However, knowledge can be acquired 'on the job' (ie on the committee) and it takes time to develop successful working relationships. It is recommended that a balance of experienced and new members be maintained. This means that committee members should serve for specified periods, staggering the beginning and ending dates. Ensure that all members have the opportunity to serve on the committee for an equal amount of time.
- Where more than one union exists in a factory, it would be appropriate to include representatives from each union on the committee.
- Committee administrative positions, such as chairperson and secretary, should be rotated between management and worker representatives.
- Committee members must be provided time to attend to committee work. For example, committee meetings should be conducted during normal working hours. This means that worker representatives should be allowed to leave the production area to attend committee meetings.

2. Committee Agenda

Below are some examples of the areas which the committee can focus on:

- Health and safety on the production line, in the dormitories and in life around the factory
- Working hours, wages and benefits
- Welfare issues - eg food, accommodation, communications and banking services, such as telephones, e.mail, bank transfers to 'home town'
- Company regulations and procedures
- Internal relationships between supervisor staff and workers

- Productivity and manufacturing initiatives or project, such as Lean - how will they be implemented and impact on the workforce
- Special training and projects which involve workers
- Company events and special activities - eg HIV/AIDS Day, Sporting Events, Environment Day
- Worker suggestions and recommendations

There is ample room for initiative and creativity. The items listed above are a guide only and should not limit the focus of the committee.

3. Committees at Work - Running a Meeting

To be effective, management-worker committees must be well organized. Members should come to meetings prepared. Members should complete their tasks within the timelines agreed by the committee and previous meetings and be prepared to report back to the committee on progress. Here are some tips to guide committees as they prepare to discuss problems.

Step 1: Advance Preparation

- In order to share the workload, the chairperson should designate an individual to take responsibility for preparing the agenda and circulating it before each meeting. This task should be shared between management and workers.
- Committee members should propose items for the agenda and provide these to the person responsible for the agenda in advance of the meeting.
- Before proposing an item, the committee member should gather all the facts and think through possible solutions or a course of action which can be suggested at the meeting.

Step 2: Format

- The chairperson should take responsibility for opening and managing the meeting. At its first meeting(s), the committee should agree on basic rules for running the meetings and ensuring smooth communication. The chairperson is responsible for running the meeting according to the rules. Basic rules might include such items as:
 - Method of appointment or election of committee members
 - Length of term per committee member
 - Length of term of the chairperson and secretary
 - Total meeting time per meeting
 - Length of time per speaker
 - Total time for discussion on any one agenda item
 - Speakers may not be interrupted
 - Problem solving mechanisms - eg voting methods to resolve a dispute or agree on an action
 - Content of meetings to be on public record

- At the beginning of the meeting, agenda items should be listed in order of importance. If workers and management cannot agree upon the order collectively, then management and workers may take turns raising items in order of importance.
- It is also important to allocate time appropriately to each item discussed. Committees should set a limit for discussion on any single item. If a problem cannot be resolved in the time allowed, it can be tabled, with management and/or workers agreeing to investigate further, and report back at the next meeting.
- Meetings should be action oriented, meaning that the committee should identify actions or solutions for items discussed, and individuals should be appointed to take responsibility for completing actions agreed by management and workers.

Step 3: Taking Minutes

- In order to share the workload, the chairperson should designate an individual to take responsibility for keeping the minutes of the meeting. This task should be shared between management and workers. All that is required is a basic record of the major points and the final decision or action for each item discussed.
- Minutes should be typed and provided to the members. A representative for both labor and management should review and sign the minutes.

Step 4: Information Employees about Committee Progress

- It is very important to communicate the results of committee meetings to employees at the workplace. There are several ways of doing this, and some example are listed below:
 - The secretary or a responsible person can prepare and post a brief summary or report of the committee meeting, agreed actions, and progress-to-date on 'old' action items.
 - Members can provide informal updates to their workmates and colleagues during team meetings, lunch-time discussion groups and other factory activities.
 - Updates can be posted in company newsletters or > magazines, or circulated in leaflet form with monthly pay-slips.
 - If there is a union in the factory, the union may include updates in their newsletters, meetings or other activities.
- If workers are provided information about the committee operation and activities, it will increase their interest in, and support for, the committee and encourage the participation of other employees.

- In this way, the management-worker committee serves as a direct communication mechanism (ie with those worker representatives on the committee itself) and an indirect form of communication with the larger workforce, through the updates and progress reports.

4. Management-Worker Committee Do's and Don't's

To better manage worker/ management committees the following principles should be followed,

Do

- ✓ Do focus on the issues/problems and not on personalities or personal problems.
- ✓ Do hold all meetings as scheduled, and cancel meetings only in an emergency.
- ✓ Do be prompt in attending meetings and follow the meeting rules.
- ✓ Do ensure that worker members are provided time off work to attend meetings, and that their supervisors allow this.
- ✓ Do submit the agenda in advance to allow sufficient time to prepare and investigate problems where necessary.
- ✓ Do keep meeting minutes, and maintain a record of actions completed or closed, and those still 'open'.
- ✓ Do provide summaries and progress reports to the workforce and ensure that employees understand the committee, its purpose and function.

Don't

- ✗ Don't start the first meeting with extremely difficult issues. Get accustomed to problem-solving techniques by tackling more minor problems first.
- ✗ Don't allow the meetings to become 'complaints' sessions – meetings should be action oriented and focused on solution.
- ✗ Don't deal in generalities. Be prepared with the facts and information and be specific about the problem and its suggested solution.
- ✗ Don't anticipate that you know the answer to a problem before it has been fully investigated or discussed. Ask questions to get the facts.
- ✗ Don't treat any issue on the agenda as unimportant. Each item deserves thorough investigation and discussion.
- ✗ Don't start meetings late, or continue past the time allowed as this will undermine the function and operation of the committee.
- ✗ Don't look for immediate results and be prepared for the fact that some problems may not have solutions that everyone can accept.