

Human Rights and Responsible Business Practices

Frequently Asked Questions

Introduction

The need for companies to understand and address human rights as a responsible business practice is growing. For the adidas Group this is reflected in the following key drivers.

The first is the *OECD Guidelines for Multinational Enterprises*¹ which were revised and re-issued in May 2011. The updated OECD Guidelines now include a chapter on Human Rights. The adidas Group has been a long time adherent to these voluntary guidelines, which sets out good practice for multinational companies in relation to a range of topics, including consumer interests, corruption, environment, employment and industrial relations. The OECD Guidelines have the backing of 41 countries globally, including Germany where the adidas Group is headquartered.

The second driver is the work of the UN Special Representative on Business and Human Rights, Professor John Ruggie.² After 6 years of consultations with the industry, governments and civil society, Professor Ruggie submitted his final report to the United Nations Human Rights Council on May 31, 2011.³ The report was unanimously endorsed by the Council. The UN Special Representative's report contains an important set of Guiding Principles, which outline how States and businesses should implement the UN Business and Human Rights Framework of "Protect, Respect and Remedy".⁴ The adidas Group supports the UN Framework and has considered and incorporated key elements of the Guiding Principles into its general practice in managing the human rights impacts of its business. In particular, we have embedded human rights into our general risk management approach, which is explained in the Frequently Asked Questions (FAQ) below.

¹ The *OECD Guidelines for Multinational Enterprises* (hereafter *OECD Guidelines*) form part of the *OECD Declaration on International Investment and Multinational Enterprises*. The amended *Guidelines* were adopted by the forty-two governments adhering to the *Declaration on International Investment and Multinational Enterprises* on 25 May 2011.

² Mr. John Ruggie is a Professor on Human Rights and International Affairs at Harvard University in the United States. His full designation is 'Special Representative of the Secretary-General on the issue of human rights and transnational corporations and other business enterprises'.

³ The adidas Group engaged closely with Professor Ruggie and his advisors, including presenting at regional stakeholder consultations hosted by the UN Special Representative in Bangkok in June 2006 and New Delhi in February 2009.

⁴ The UN Framework is comprised of three parts: Protect, Respect and Remedy. Under the 'State Duty to Protect', governments get guidance on how to take more proactive ownership of their human rights responsibilities and provide stability, clarity, and consistency to citizens and businesses. The 'Corporate Responsibility to Respect' principles provide a blueprint for companies on how to know and show that they are respecting human rights. And the 'Access to Remedy' principles are about assurance, making sure that States and companies are held accountable.

Finally, at a trade level, we see that human rights and especially labour rights continue to feature in international trade agreements; especially those that are intended to promote or secure preferential trade status for poor or underdeveloped nations. National and State legislators in the developed world are also introducing measures to safeguard against the importation of goods from any country where there is evidence of child labour, or other forms of modern day slavery and human trafficking. A recent example is the State of California's *Transparency in Supply Chains Act of 2010*. The law requires retail sellers and manufacturers in California to disclose how they address the risks of human trafficking and slavery in their product supply chains. We are likely to see more such legislation in the future. As a responsible business it is important that our stakeholders – governments, investors, consumers and civil society – are confident that we are effectively managing human rights issues in our global supply chain.

Answers to the following ***Frequently Asked Questions*** explain the adidas Group's approach to integrating human rights into its business practices.

1. ***What exactly are human rights?***
2. ***Who should protect human rights?***
3. ***How should business enterprises respect human rights?***
4. ***What is the adidas Group's general approach to human rights?***
5. ***Are there examples of where the adidas Group is proactive in protecting human rights?***
6. ***Are there examples of where the adidas Group is proactive in promoting human rights?***
7. ***Who is responsible for implementing human rights within the adidas Group?***
8. ***What about specific policies, say for adidas Group employees?***
9. ***What about specific policies, say for adidas Group manufacturing partners?***
10. ***How does the adidas Group safeguard against adverse human rights impacts?***
11. ***How does the adidas Group integrate human rights risks into its decision-making?***
12. ***What if the adidas Group is doing business in a country that has gross human rights violations?***
13. ***Are there some countries where the adidas Group does not do business because of human rights concerns?***
14. ***What if the adidas Group, or one of its business partners, is implicated in a human rights issue?***
15. ***How does the adidas Group address human rights complaints?***
16. ***How are the outcomes of the adidas Group's human rights interventions measured and reported?***
17. ***Do these processes capture all potential human rights impacts for the adidas Group?***

1. What exactly are human rights?

The term “human rights” means different things to different people. It covers a broad spectrum of topics: from civil and political freedoms, to economic, social and cultural rights. At its very essence, it is about the rights and freedoms of individuals based on human dignity - a value which commands wide respect and acceptance internationally.

For the adidas Group the term refers to internationally-recognised human rights, as expressed in the United Nation’s (UN’s) *International Bill of Human Rights*⁵ and the International Labour Organization’s (ILO’s) *Declaration on Fundamental Principles and Rights at Work*⁶. In some circumstances, other internationally-recognised rights may also be relevant, such as the rights of vulnerable or marginalised groups, for example, indigenous peoples, women, ethnic and religious minorities, and children.

2. Who should protect human rights?

States have a duty to protect the human rights described in international treaties, covenants and conventions. This is a founding principle of the UN Framework for Business and Human Rights and reflects international law:

“States must protect against human rights abuse within their territory and/or jurisdiction by third parties, including business enterprises. This requires taking appropriate steps to prevent, investigate, punish and redress such abuse through effective policies, legislation, regulations and adjudication.”

There has been much debate about whether companies also have to protect and promote human rights. This has now been clarified through the UN’s Guiding Principles on Business and Human Rights, which have also been incorporated into the recently updated *OECD Guidelines for Multinationals* and the *ISO26000:2010 Guidance for Social Responsibility*⁷.

3. How should business enterprises respect human rights?

As a general principle, the OECD Guidelines call on multinationals to “respect the internationally recognised human rights of those affected by their activities”.⁸ This principle of respect has been described more fully in the UN Framework on Business and Human Rights as “the Corporate Responsibility to Respect Human Rights”. At its core, respect requires businesses to:

- a) Avoid causing or contributing to adverse human rights impacts through their own activities,

⁵ The International Bill of Human Rights, consists of the Universal Declaration of Human Rights and the main instruments through which it has been codified: the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights

⁶ The principles concerning fundamental rights are set out in the 1998 International Labour Organisation Declaration on Fundamental Principles and Rights at Work.

⁷ ISO 26000 is intended to assist organisations in contributing to sustainable development. It is not a management system standard and does not contain requirements. It is not intended for certification purposes or regulatory or contractual use.

⁸ OECD Guidelines, 2011, Clause IIA (2), p. 17.

<p>and address such impacts when they occur;</p> <p>b) Seek to prevent or mitigate adverse human rights impacts that are directly linked to their operations, products or services by their business relationships, even if they have not contributed to those impacts.⁹</p> <p>The responsibility to respect human rights is a global standard of expected conduct for all business enterprises, wherever they operate. Moreover, for business, the responsibility to respect human rights requires businesses to take adequate measures for their prevention, mitigation and, where appropriate, remediation.</p> <p>It is a standard which the adidas Group accepts and holds itself accountable to.</p>
<p>4. What is the adidas Group's general approach to human rights?</p>
<p>The adidas Group recognises the importance of respecting and promoting human rights globally. We also believe that the private sector can play a constructive role in advancing this goal. We recognise, however, our own limitations and ability to influence change on the world stage. We therefore focus our efforts on those areas which are within our own direct influence. We do so firstly by striving to operate responsibly and in a sustainable way along the entire value chain, and secondly by safeguarding the rights of our own employees and those of the workers who manufacture our products through direct supplier relations.</p> <p>Our policies to safeguard the rights of our employees and those of the workers who make our products are described below.</p>
<p>5. Are there examples of where the adidas Group is proactive in protecting human rights?</p>
<p>It is specifically within the area of workers' rights that we seek to hold direct dialogue with governments and where we have offered our support to civil society and non-government organisations in their campaigns and human rights activities. We do so when the issue, or adverse impact, is in a country or a locality from which we source our products and where we see a fundamental breach of rights or the rule of law that may impact our supply chain or business operations. The range of rights where we have sought to engage with governments includes discrimination, freedom of association, unlawful detention, forced labour, child labour, indigenous people's rights, and issues over livelihoods and the payment of minimum wages.</p>
<p>6. Are there examples of where the adidas Group is proactive in promoting human rights?</p>
<p>The UN has declared that "access to and participation to sports is a human right and is essential for individuals of all ages to lead a healthy and fulfilling life".¹⁰ This is fully aligned with our core values as a sporting goods company. Through our philanthropic and volunteering initiatives, including engagement with local and international non-government organisations, we positively</p>

⁹ Guiding Principles on Business and Human Rights: Implementing the United Nations "Protect, Respect and Remedy" Framework, UN Document A/HRC/17/31, 21 March 2011, Clause 13, p.14.

¹⁰ UN Inter-Agency Task Force on Sports for the Development of Peace, 2003. There are a large number of UN instruments which seek to protect or promote the right to access to sports, recreation and leisure including 1978 *UNESCO Charter on Physical Education and Sports*, 1979 *Convention on the Elimination of Discrimination Against Women*, 1985 *Convention Against Apartheid in Sports*, the 1989 *Convention on Rights of the Child*, and the 2006 *Convention of the Rights of Persons with Disabilities*.

encourage and support everyone's right to participate in sports.

7. Who is responsible for implementing human rights within the adidas Group?

The short answer is everyone. Every employee has a responsibility to follow the Group's corporate policies, as well as comply with the relevant national laws and regulations, including those that protect against the violations of human rights.

At an operational level, our commitment to foster the implementation of human rights and core labour standards is supported through our Human Resources function, the programme for Legal Compliance and Social & Environmental Affairs.

Our commitment to upholding human rights and core labour standards is in effect in all adidas Group locations and it applies to the Group's business operations worldwide.

8. What about specific policies for adidas Group employees?

Human rights are specifically referenced in the **adidas Group Labour Rights Charta**, which is included in our Global Policy Manual (GPM). The Charta acknowledges that:

"Our company policies and procedures adhere to all applicable domestic laws and are consistent with core labour principles of the International Labour Organization (ILO) concerning freedom of association and collective bargaining, non-discrimination, forced labour, and underage workers in the workplace. Promoting human rights and adhering to ILO core labour standards internally and throughout all our business operations is in line with the Group's values and principles."

The Charta goes on to detail our policies in relation to rewards, harassment and discrimination, freedom of association and collective bargaining, child labour, health, safety and the environment and data protection and security. A copy of the Charta can be viewed at: http://www.adidas-group.com/en/sustainability/assets/employees/adidas_Group_Labour_Rights_Charta_May_2011.pdf

9. What about specific policies for adidas Group manufacturing partners?

Our manufacturing partners are bound, contractually, by the **adidas Group Workplace Standards** which were developed around the UN covenants and conventions on human rights and labour rights. Our *Workplace Standards* are part of our GPM and are managed by Social & Environmental Affairs. A full copy of the *Workplace Standards* can be found at:

www.adidas-group.com/en/sustainability/suppliers_and_workers/code_of_conduct/default.aspx

The general principles in our *Workplace Standards* are explained through our supporting Employment, Health & Safety and Environmental Guidelines, which also reference international law and industry best practice. These guidelines offer advice to business partners on ways to prevent and mitigate adverse impacts, including impacts on what may be considered breaches of human rights. To see the full set of guidelines go to:

www.adidas-group.com/en/sustainability/suppliers_and_workers/supporting_guidelines/default.aspx

10. How does the adidas Group safeguard against adverse human rights impacts?

Due diligence is an integral part of our business decision-making and risk management systems.

The *Guiding Principles on Business and Human Rights* recommend that enterprises undertake due diligence in order to identify, prevent, mitigate and account for adverse human rights impacts. The process should include assessing actual and potential human rights impacts, integrating and acting upon the findings, tracking responses, and communicating how impacts are addressed.

Such a due diligence process is already in place within the adidas Group with respect to the way we manage labour rights, health and safety and environmental risks associated with our supply chain. This extends to and includes aspects of human rights. Such due diligence includes risk mapping, compliance monitoring, remediation and internal as well as external (i.e. public) reporting. We also have internal processes in place to protect employee rights and entitlements, through the policies and procedures of our Human Resources department, with regular reports and updates to the Executive Management team and the Supervisory Board. Compliance of adidas Group entities with the core policies as listed in the Global Policy Manual are regularly monitored by the Group Internal Audit function.

11. How does the adidas Group integrate human rights risks into its decision-making?

Every employee is aware of the adidas Group's Global Human Resources policies and expectations in relation to the Group's Code of Business Ethics and the requirements for legal compliance with respect to Privacy and Data Security. These have been communicated at induction and through online and other forms of training. Internal grievance systems and hotlines are in place globally and are accessible to all, as is access in Group headquarters to the Works Council.

We also have a well-developed code of conduct and supporting policies and procedures for our main supplier relationships, through our Group *Workplace Standards*, which have been endorsed by the Executive Management. These Standards include aspects of human rights, which are managed through our Social & Environmental Affairs department.

Whenever we can, we reduce our exposure to human rights concerns by identifying and weighing up the risks and, where necessary, taking steps to mitigate or eliminate any potential adverse impacts.

12. What if the adidas Group is doing business in a country that has gross human rights violations?

Doing business in a country which has a poor track record in managing human rights does not mean that business should not take place. Many of our activities as a Group relate to the marketing or sale of consumer goods, with minimal potential impact on human rights concerns. Our presence may in fact be viewed as a social good. However, when entering into a business relationship or embarking on a new business venture in a foreign country, we are cognizant of a range of legal, political and human rights risks.

For example, whenever a new manufacturing relationship takes place in a country not previously producing for the adidas Group, our Social & Environmental Affairs department will conduct a review and engage with embassies, government agencies and local non-government organisations, to consider the risks associated with such a sourcing relationship and locality.

The Social & Environmental Affairs department also conducts a periodic review of country risk for each country where we source our products. The review draws on local knowledge and engagement with stakeholders, as well as information available in the US State Department's annual *Country Report on Human Rights Practices*. The US State Department reports are produced

for every country in the world, with the exception of the USA; see www.state.gov/g/drl/rls/hrrpt/.

13. Are there some countries where the adidas Group does not do business, because of human rights concerns?

The adidas Group complies with international trade restrictions, sanctions and embargoes. This includes sanctions which prohibit the production and export of goods, for example, from countries such as Myanmar (Burma) and North Korea.

The adidas Group is also cognizant of embargoes that are imposed unilaterally, i.e. by a single country, rather than collectively through the UN. For example, the US government's trade sanctions against Cuba, which all businesses domicile in the United States must comply with.

14. What if the adidas Group, or one of its business partners, is implicated in a human rights issue?

The human rights landscape is constantly changing and multinational companies are often targeted by interest groups and human rights campaigners even where the links to an issue may at first seem tenuous. It is understood that high profile and popular brands, such as ours, may act as both a source of leverage, to drive change, but also provide the needed public visibility to a cause or campaign.

If an area of business becomes a target of concern for an interest group, a labour rights group, or a trade union, and there are claims that the adidas Group or one of its business partners are breaching "human rights", then this information is brought to the attention of Social & Environmental Affairs, whose staff have experience in handling stakeholder concerns and labour and human rights issues.

Most issues can be resolved through engagement with the affected parties, by discussing ways to cooperate and address the stated concerns and issues. Therefore establishing and maintaining an open and honest dialogue with stakeholders is an important first step in any remedial process.

15. How does the adidas Group address human rights complaints?

The choice of the remedial action will vary, depending on the nature and severity of the impact which has been identified either through our own due diligence, or due to a complaint, campaign or protest action. Verification of the allegations or human rights issue and the given facts in the case are a critical starting point and may require independent investigation and, where the issues and claims are complex, access to expert advice.

If a direct cause or connection can be shown, then any follow-up remedial action will depend on the degree of influence that the adidas Group has over the situation and its relationship to the affected party(s). Some situations may require co-operation or engagement with government agencies, judicial authorities or non-government bodies.

In some cases existing operational-level grievance mechanisms will be sufficient to resolve an issue. For example, if the issue is related to an ethical breach which is managed by Legal, or a matter handled by the Group's Privacy Officer or an employment concern addressed through Group Human Resources.

Complementing these in-house grievance channels, Social & Environmental Affairs also operates complaint hotlines for workers and has established channels to handle consumer and other

stakeholder enquiries, including those related to a breach of human rights. Added to this, the adidas Group is a founding member of the Fair Labor Association (FLA), which maintains an independent third party complaint mechanism. Workers and concerned third parties can use this complaint channel if the right in question breaches the adidas Group's obligations under the FLA Charter.

Whatever mechanism is adopted to address a human rights impact or violation, the adidas Group acknowledges and upholds the rights of the affected parties to pursue matters through a judicial or non-judicial process of their choosing.

16. How are the outcomes of the adidas Group's human rights interventions measured and reported?

The UN Framework on Business and Human Rights anticipates that every business **knows and shows** that they respect human rights. To do so, it is important to track the effectiveness of internal policies and procedures and to provide the necessary feedback to the Executive Management on the way in which human rights risks are being properly managed and adverse impacts successfully resolved. This is achieved through our internal reporting systems, including monthly updates by our Social & Environmental Affairs department to the Executive Management team.

The adidas Group has a well-developed stakeholder engagement mechanism in place and uses web-based communication to report transparently on sustainability issues to the wider public, interest groups and investors. Human rights fall under our broader sustainability reporting and the adidas Group uses its web platform to communicate any adverse or critical human rights issues. In specific cases, the adidas Group may also issue public statements to update interested parties on human rights investigations and the outcome of any mitigation measures or remedial efforts.

17. Do these processes capture all potential human rights impacts for the adidas Group?

The adidas Group has sound policies and effective procedures in place to monitor and manage human rights concerns where these are business-critical. These processes are executed using in-house expertise in human rights and labour rights and are supported by mature systems including country risk assessments, stakeholder outreach and engagement, and public disclosure and reporting. The focus of our efforts is on those areas where we have the most direct influence: our manufacturing supply chain and our internal employee relations. We recognise however that the potential for adverse human rights impact is wider than this and we are constantly reviewing our internal practices to strengthen and improve them.

Where we find potential or actual adverse impacts, we are committed to mitigate or eliminate those impacts, either alone or in co-operations with others. We do so to fulfil a basic obligation as a responsible business, that is, **to do no harm** when it comes to the exercise and fulfilment of human rights.