

## **Updated adidas Group Response to *War on Want* report: *Race to the Bottom***

**Herzogenaurach, April 16, 2012** - The updated adidas Group response addresses three systemic issues raised by 'War on Want' (WoW) research in Bangladesh. The specific topics of concern were: living wages, freedom of association and forced overtime. The response sets out our position on each of these issues and includes our detailed findings from the investigations we have conducted at the two factories referenced in WoW's report. Namely, ACTOR SPORTING LIMITED and DADA (DHAKA) LIMITED. During the course of those investigations we have examined the allegations of physical abuse and sexual harassment and have concluded that there is no evidence to support or corroborate the claims which were made in WoW's *Race to the Bottom* report.

### Background

Bangladesh, with 7 active factories, represents 0.005 percent of the adidas Group's global supply chain. It is one of our smallest sourcing countries and as such we have no physical presence in Dhaka; the majority of the factories making goods for us are under contract to agents or licensees. But this has not deterred us from putting in place a comprehensive and, we believe, effective monitoring process to protect the worker rights. As in other sourcing locations we have set up a local hotline for workers. This is managed by a credible local women's NGO, Phulki, who we have worked with for over 6 years. During that time they have conducted monthly worker interviews at our contract factories and have provided us with feedback on worker-specific issues and concerns. Our field staff, who are based in India, carry out formal audits at each factory twice a year. We also run periodic training on our compliance requirements and health and safety.

## **LIVING WAGES**

### *General Approach*

The adidas Group has researched the question of living wages and has concluded that the best way to improve the general welfare of workers is to work with our business partners at the enterprise level, to promote wage-setting mechanisms which are transparent and have the input of workers. Ideally, this occurs through negotiation or collective bargaining, where a trade union is present in the workplace, or through alternative legal means, such as a workers' council or welfare committee. We believe basic pay should be benchmarked at a level higher than the local minimum wage and should acknowledge and reward workers for productivity gains. Our suppliers' wage-setting efforts should also take into account the general cost of living and basic needs of their workforce. The wage setting mechanisms must also be complemented by improvements in the factories human resources management system and they must meet, in full, all legally mandated benefits. These are broad goals which we have been working towards in our engagement with suppliers and in particular through the development of associated assessment tools and training initiatives. For example, in 2006 we launched a Human Resource Management System (HRMS) training programme, which has been progressively rolled out across key sourcing countries, starting first with China, partially in Indonesia and in Vietnam. Since

2010 we have also supported the Fair Wage Assessment tool which has been developed by Daniel Vaughan-Whitehead<sup>1</sup>, in partnership with the FLA.

The Fair Wage approach is based on assessing 12 complementary Fair Wage benchmarks to gain a complete overview of wage practices at the enterprise level and to identify remedial needs. Different Fair Wage tools capture the different aspects of the wage story in the enterprise and provide findings that are reliable and robust. The opportunities in the Fair Wage project will help individual suppliers – and the adidas Group – to identify the management practices required in Fair Wage dimensions. The assessment evaluates compliance with legal wage provisions, wage levels, and wage adjustments and sets a series of wage policy recommendations. These recommendations encompass the quality of pay systems, their fairness and efficiency, as well as the strength of communication and social dialogue.

#### *Situation in Bangladesh*

We acknowledge and accept that wages are low in Bangladesh; in fact the lowest in Asia<sup>2</sup>. We understand that one of the underlying reasons for this has been the unreasonably long periods taken by the government's Minimum Wage Board to set new wages. The last national minimum wage increase took place in November 2010, after a hiatus of 4 years and the one prior to that was 12 years in the making. Both increases fell well short of the workers' and the trade union movement's expectations and demands. The long cycle times has hampered wage improvements for workers, whose disposal income has been steadily eroded by cost of living increases, in particular food and fuel price inflation.

Bangladesh is not currently within the scope of the adidas Group's Fair Wage research, but if the assessment tool proves it's worth it will be applied across our entire supply chain. In the interim, we will explore with the named suppliers their general approach to wage-setting and seek to identify any steps they have taken to consider and cushion the impacts of cost of living increases for their workforce

#### *Findings from our current investigations*

During our current investigations we have looked closely at one wage dimension: legally mandated wage payments and through our on-site interviews with management, off-site worker interviews and a review of payroll, pay slips and other records, we have concluded the following:

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<sup>1</sup> Vaughan-Whitehead is the ILO's Special Adviser responsible for wages policies and Professor at Sciences Po in Paris.

<sup>2</sup> ILO's Global Wage Report 2010/2011 shows country's average minimum wage is only \$58 on a purchasing parity basis.

**Actor Sporting Limited:**

<i>Issue (Degree of prevalence)<sup>3</sup></i>	<i>Findings</i>
	To verify the question of wages at Actor a total of 106 workers have been interviewed (approx. 5% of the workforce). We have looked at payment to all permanent workers in all job categories, including the lowest paid unskilled “helpers”.
<b>Underpayment of minimum wage (****)</b>	<b>Status: We found no evidence of underpayment (beyond that already identified by our auditors in 2011).</b> SEA field staff conducted a labour audit in June 2011. At that time we found that Actor had an issue with minimum wage compliance; it had used an incorrect dollar conversion rate and was therefore underpaying wages. The non-compliance was remediated and since September 2011 the factory has been following the correct conversion rates. This has been verified during our most recent (February 2012) audit and confirmed through worker interviews. In addition to the minimum wage payment, Actor provides workers with benefits, such as a lunch allowance of 30 taka/day, an attendance bonus of 200 taka/month, a special allowance of 500 taka/month and free transport.
<b>Unpaid overtime (**)</b>	<b>Status: We found no evidence of unpaid overtime.</b> Overtime work is paid as per the legal rate.

**Dada (Dhaka) Limited:**

<i>Issue (Degree of prevalence)</i>	<i>Findings</i>
<b>Underpayment of minimum wage (***)</b>	<b>Status: We found no evidence to support underpayment of workers.</b> Through off-site worker interviews and a review of payroll we can confirm that Dada pays their employees the correct minimum wage. Moreover, the factory provides workers with an attendance bonus of 150 taka/month and a minimum annual bonus of 300 taka.

<sup>3</sup> As indicated by War on Want in their correspondence with adidas Group

## **FREEDOM OF ASSOCIATION (FOA)**

### *General Approach*

The adidas Group's Workplace Standards are derived from ILO conventions. As such, FOA and the right to form and join a trade union of a worker's own choosing is a right that we seek to promote and protect. It is also a key performance measure for our suppliers. We believe that FOA requires a positive climate of non-interference from factory management and we encourage and support this through the development and implementation of effective systems of worker-management communication. At the very minimum, we expect our suppliers to recognise and respect FOA rights, to be neutral regarding organising, to forego campaigns against union formation and to avoid any discrimination action against union members.

### *Situation in Bangladesh*

Worker/manager participation committees do not constitute freedom of association in accordance with the relevant International Labour Conventions or the adidas Group's Workplace Standards.

Through our on-site investigations we have been unable to confirm any direct intimidation of workers who reportedly tried to organise at Actor. Nevertheless, we do agree that a more proactive approach would be helpful and as we have done on previous occasions in countries such as Indonesia and Sri Lanka, we will write to all of our suppliers in Bangladesh to clarify our expectation on freedom of association and follow-up with a target training programme on freedom of association. The latter could be done in partnership with other major sports brands sourcing from Bangladesh who were also named in the War on Want report. With respect to training, we have reached out to the ILO Bangladesh for their assistance and guidance.

Although there are specific restrictions on the establishment of trade unions in the special economic zones, we do note one positive practice by Dada, which lies outside the zone. Dada expressly acknowledges and includes an explanation of the workers' right to form or join a union in their employee handbook, which is part of the factory's induction programme.

## **EXCESSIVE HOURS AND FORCED OVERTIME**

### *General Approach*

Our Workplace Standards are very clear on the question of working hours:

*“Employees must not be required, except in extraordinary circumstances, to work more than 60 hours per week including overtime or the local legal requirement, whichever is less. Employees must be allowed at least 24 consecutive hours rest within every 7 day period, and must receive paid annual leave. ‘Forced’ overtime is strictly prohibited.”*

As part of our general approach to effective management of working hours we require our suppliers to:

- Have an automated time recording system that has the capacity to distinguish between regular and overtime hours.
- Have overtime request forms or other hand written documents relating to working hours cross-checked by the Personnel or HR department, against the time records which are collected electronically.
- Obtain any necessary permits from the local labour authorities to work in excess of the legal limits, in particular where the local legal maximum number of hours is below the adidas Group’s weekly maximum of 60 hours.
- Communicate with any unions present in the factory about the work schedule and seek consent to any overtime outside the normal work schedule.
- Demonstrate that they are willing to work overtime by signing a voluntary overtime work form.
- The voluntary overtime policy should be clearly stated in the worker handbook and included in orientation training and repeat training on basic workplace practices for supervisors.
- The factory should have a mechanism under which workers can report any case of forced overtime, and the mechanism should ensure that there is no retaliation against workers.
- Workers should be clearly instructed to record their start times before any morning exercises, pre-work meetings or after work cleaning so that these hours are recorded and paid as overtime.

### *Findings from our current investigations*

During our current investigations we have looked at excessive working hours and whether such overtime has been voluntary, as per our Standards. We have checked this through our onsite interviews with management, off-site worker interviews and a review of working hour records. We have concluded the following:

**Actor Sporting Limited:**

<b>Issue (Degree of prevalence)</b>	<b>Findings</b>
<b>Hours exceeded 60 hours (****)</b>	<p><b>Status: We confirmed that the factory is working excessive hours.</b> Based on our review of working hours and production records (from September 2011) we confirmed that the factory has been working more than 60 hours/week, with between 2 to 4 hours overtime per day. This is consistent with findings from our June 2011 audit where this non-compliance with our Standards was raised with the supplier for their corrective action. Although the most recent excessive hours breach our Standards they do not break Bangladeshi law, where a blanket waiver was granted by government to the Apparel industry.</p> <p>Our investigations also confirmed that the factory does not have an effective procedure in place to communicate, in advance, when overtime work is required.</p>
<b>Compulsory overtime (***)</b>	<p><b>Status: Worker interviews do not substantiate claims of forced overtime.</b> We found no evidence, nor did we receive feedback from the worker interviews, to indicate that workers face salary deductions if they refuse to work overtime. Nor could we find any reported case of physical abuse (of any kind) among the 100 plus workers who were interviewed, either in relation to their own direct experience or their observation of a situation faced by their co-workers.</p> <p>The factory does however lack a clear and transparent procedure to ensure workers understand and only sign on for overtime on a voluntary basis.</p>

**Dada (Dhaka) Limited:**

<b>Issue (Degree of prevalence)</b>	<b>Findings</b>
<b>Hours exceeded 60 hours (*)</b>	<p><b>Status: We have confirmed excessive working hours.</b></p> <p>Dada’s management has been transparent and acknowledged that they have worked extended overtime hours at peak production periods. Workers confirmed that excessive working hours is not a regular occurrence, with the overtime never normally exceeding 2 hours, but individual departments may work up to 4 hours if there are urgent deliveries to meet. Although working hours do not breach legal waivers granted by government they do exceed the adidas Group’s Workplace Standards.</p> <p>The factory has a procedure in place for communicating overtime requests to workers, but there is no a formal written record of consent. Workers have confirmed through interviews that those who do not wish to work overtime are free to leave the factory premises at the end of the regular working day and face no penalties or constraints, as overtime is voluntary.</p>

With respect to the findings of excessive working hours we will institute the following remedial steps:

- We will reinforce our existing Standards and requirements that the factory must not work more than the 60 hours in total per week, and provide the mandated one rest day in seven. Any work performed on a regular rest day must be provided with a compensatory day off.
- The management teams in each factory will be required to develop, communicate and train their workforce on their policies and procedure for the control of Working Hours (i.e. maximum 60 hours/week, 2 hours/day and applicable rest days. We do not accept government waivers where these breach the 60 hour cap established under our code of conduct, although other brands may be more flexible than ourselves.
- We will ask that each factory review their capacity planning. Their disclosure of available capacity should be based on the regular work week per Bangladesh law (i.e. 48 hours) and should not include any assumption of overtime. This capacity calculation must be confirmed and communicated with adidas Group sourcing entities for their consideration prior to any order placement, as must any other urgent orders or conflicting delivery schedules with other buyers.
- We will ask the factories to devise systems that cushion any overtime requirements, for example through cross-training and, where necessary, shift work operations.

- Each factory will also be required to develop and share with us their tracking systems to monitor the implementation of their working hour's policy and procedures, including its strict adherence by managers, supervisors and line leaders.

With respect to concerns over forced overtime, although this was a specific finding against Actor we believe that both factories could strengthen their existing policies and practices to eliminate any uncertainty over the voluntary nature of overtime. We will therefore ask each factory to:

- Document and communicate the policy of "voluntary overtime" (e.g. in the worker handbook), together with the procedure by which a worker can advise a supervisor that the worker is not available or not willing to do overtime and workers must be provided proper notice when overtime is scheduled.
- Conduct supervisor training on the overtime policy and process by which workers may refuse overtime. Train supervisors in the relevant labour law provisions and the SEA requirements in relation to the 60 hour work week and voluntary overtime.
- Devise a proper weekly/monthly work schedule, and advise workers in advance of any planned overtime.
- Require that employment letters contain a clear statement that any overtime worked must be done so on a voluntary basis.
- Devise a system which provides evidence that overtime work is voluntary, e.g. obtain worker consent on overtime work or form for voluntary overtime.
- Conduct monitoring on the implementation of voluntary overtime on regular basis.

## **NEXT STEPS**

We have completed our investigations and have examined the full range of issues raised in the *Race to the Bottom* report, including systemic issues which are summarised above. We welcome the opportunity to discuss with WoW these findings and the follow-up actions we will be taking with our suppliers in the weeks ahead.

We have also raised with WoW our concern over the allegations of physical and sexual harassment. When the WoW report was first published, special attention was given by the UK media to allegations of abuse and harassment profiled as case studies in the report. And yet from over 170 off-site worker interviews, we have found no evidence of any physical violence or sexual harassment taking place in the adidas Group' suppliers referenced in the report.

We have found individual incidences where supervisors (at Actor) shouted at workers, but even here the language was not reported to be abusive, but it was a form of harassment. Moreover we found that the line workers were able to freely report this matter to the management at Actor, who promptly dealt with the supervisors' behaviour. Phulki, who have been monitored women's rights in adidas Group contract factories in Bangladesh for



page 9

the past 6 years have had a close and personal relationship with many female factory workers. They are unable to cite any case where a female worker in Actor, or in Dada, has reported sexual harassment. The most recent round of off-site interviews conducted by Phulki concludes the same. When female workers were asked if the use of an apron, which requires the removal of the dupatta, causes any embarrassment for them, none felt it was.

There is a significant discrepancy between our own findings, and the claims which have been made in the War on Want report. We have raised this as a concern with War on Want.