STAKEHOLDER ENGAGEMENT DIALOGUE

ADIDAS-SALOMON
DECEMBER 13, 2001

FINAL REPORT

EXECUTIVE SUMMARY

Meeting participants were favorable towards adidas' report to the public on its social and environmental programs. This report goes beyond what most companies publish. The role of workers featured prominently in the discussion about programs, as there is an interest in finding a worker-centered or "bottom-up" model of engaging with suppliers and improving working conditions.

Key themes that are explored in this report:

- While law governs the private-public sector relationship, the private and nonprofit sectors interact on a purely voluntary basis. Partnerships between companies and nonprofits can ultimately benefit both companies and workers.

- Company-NGO (nongovernmental organization) partnerships may yield good models for improving workers' lives, although the models might not be universal. Consider using a case-by-case experimental approach as well.

- We need a new, worker-centered model of workplace improvement.

- adidas should continue current compliance efforts, improve some areas, such as monitoring labor conditions and health and safety training

- Conduct a "needs assessment" of workers to explore what workers really want and need.

- NGOs can advise companies and assist with projects, but have limited capacity to carry out all the necessary work.

Please see page 5 for a listing of comments about the report itself.

The meeting agenda is attached as an appendix. [Moderator notes, in brackets, are intended to show emphasis or context that was implied but may not have been explicitly stated during the conversation.]

MEETING NOTES

- <u>While law governs the private-public sector relationship, the private and nonprofit sectors interact on a purely voluntary basis. Partnerships between companies and nonprofits can ultimately benefit both companies and workers.</u>

A discussion of the role of companies in society concluded that some key aspects of corporate responsibility include: respect for laws, respect for consumers, protection of the livelihood and personal development of workers/employees, protection of the environment, and adherence to international standards on labor and the environment. It

may not always happen, but companies must think about the future, which means the long-term impacts of their business on community, workers, and the environment.

Orientation of business: profit. Profit will ultimately impact business actions and motivation. Companies are challenged with balancing shareholder profit and community needs. Stable relationships with the community are encouraged. Community includes: consumers, production workers, workers transporting goods, NGOs, families of workers, and the local geographic area surrounding a company.

Beyond maintaining these relationships, companies will ultimately benefit from forming partnerships with sectors such as NGOs and consumers. These partnerships are ideally equal, but in reality are a bit unequal, as the company tends to have more power.

Company-NGO: the company-NGO relationship is a voluntary one.

There is a natural and healthy tension between companies and NGOs. Hopefully a company can be open to the fact that NGOs have a distinct role [for example, advocacy or analysis of social relations]. This is balanced by the fact that there is no obligation for companies to work with NGOs. A company has the ability to choose its partners.

Ideally, a company will be open to working with any groups that can help it improve its social responsibility practices.

Acting within a legal framework – although seen as a western model of organizing society – is a key tool for NGOs globally. NGOs will push for companies to comply with the law, and will push for governments to have good laws. Additionally, NGOs are looking beyond the legal model to see what other motivational strategies will work case-by-case, because each business is distinct [e.g., structure, management capability, philosophy, planning, desire for improvement].

Company-government: the company-state relationship is a legal one.

Where the state is not strong, NGOs may push back on companies to fulfill their obligations. There is no obligation that companies should take over what are traditionally governmental functions, such as running public facilities, providing general education, and monitoring/enforcing regulations.

Whereas codes of conduct (COCs) attempt to compensate for lack of government enforcement, it is an open question as to whether that is good or not.

The role of government is to maintain social stability through monitoring and control procedures. Companies follow government regulations [mainly] to avoid problems. The role of NGOs is to foster social improvement as well as suggest improvements to laws and business practices.

Ideally, there should be healthy and dynamic relationships among the three sectors, nonprofit, public, and private. As an example: business might produce some good models for social improvement, which NGOs can then communicate and encourage government to follow.

- <u>Company-NGO partnerships may yield good models for improving workers' lives, although the models might not be universal. Consider using a case-by-case experimental approach as well.</u>

There is tension between the desire to generalize lessons (for example, roll out a successful training program to many factories) and the reality that each situation is different; one must literally go case-by-case or factory-by-factory to know what program might work there.

Usually companies give out rules (via COCs), but they almost never ask locals what they think. There is a top-down process but not an actual dialogue between brands and suppliers. There are frequent trainings, for example, but no genuine attempt to secure owner or manager buy-in or feedback. The preferred method of managing suppliers now is via COC compliance, but that may not encourage genuine improvements.

A company that decides to take up the case-by-case approach to developing models must move slowly. It is a slow process to build capacity and build commitment. This means that scalability is a challenge, because going beyond a COC is a difficult thing to do across a large supply chain.

The current model of COC compliance applies to large suppliers, but not small or medium suppliers, who often lack the resources and capacity to achieve compliance. Good models for improving workplaces often develop in large companies and there is hope that these can be taught to small companies although the dynamics of both are very different.

NGOs have their priorities for whom to reach. Two priorities include: small companies, because that is where the most problems are, and companies whose owners are committed to social responsibility and are open to trying new ideas.

- <u>We need a new, worker-centered model of workplace improvement.</u>

When it comes to improving suppliers, adidas is working on a top-down model. Then again, so are most NGOs; there is just a difference of opinion over which sector's top-down model is superior to the other's. [For example, NGOs presume to know what issues are in workers' "best interests" although workers themselves might have other concerns. If workers were asked how to improve their factory, they might choose entertainment as their main issue, although an outsider might think another issue is more important.]

Can a bottom-up approach be achieved, when program-planning itself usually doesn't include production workers? How does one develop programs in consultation with

workers? <u>It will take a transformation of culture to achieve this</u>. Take safety as an example. Personal protective equipment (PPE) is a requirement handed down to workers. We ourselves (outsiders) may think it is important to use PPE. However, if workers were able to think about this in their own terms – and if they had the capacity to know the options – they might look for ways to eliminate both the hazard and the PPE.

Current approaches to safety (both private and public sector) are not centered around workers and therefore should be regarded as a medium-term step that exists until workers are empowered to be more involved in planning.

There is tension between this desire to move towards a worker-centered model, and the reality that certain obligations must be met immediately, such as health protection. For now, the best strategy is to try everything. Many companies should try many different things, and then let us see which efforts succeed or fail. <u>Everyone is trying to do the same thing these days, but it would be better if everyone tried different things in order to find what works</u>. Failure is as important as success, and it is the only indicator that someone is thinking "outside the box."

One or two models of worker empowerment are needed to show how bottom-up processes can improve workplaces. It is especially important to develop a Chinese model as an example.

- <u>adidas should continue current compliance efforts, improve some areas, and also explore what workers really want and need.</u>

Answers differed as to whether adidas is directly responsible for production workers. On the one hand, it would appear that the answer is yes, because the brand profits from the labor of these people, even if they are employed by independent businesses. The Standards of Engagement demonstrate a commitment to worker protection. On the other hand, the answer can also be "no" because the claim of direct responsibility (as expressed in most codes of conduct) is paternalistic, implying that all the power rests with adidas – or whichever brand/company – and none rests with the workers themselves. This assumption is inherently paternalistic.

In fact, the workers should enjoy the right to bargain collectively and need the means to do so effectively. The true responsibility lies with the people inside the factory.

Taking this latter view, adidas ought then commit itself to be a partner in a process of creating space and capacity for bargaining. The brand is needed for this because a global company does have more power than workers, and it can help leverage that space needed for organizing and dialogue.

adidas' activities: Monitoring should continue. Health & safety training can go further, especially on the idea of strengthening health & safety committees. Lastly, adidas is urged to do a needs assessment of workers. All three areas should happen at the same time, because all three models are still being tested.

- Conduct a "needs assessment" of workers.

Workers are likely have a different agenda than companies. Through the expression of these interests, one can see who the natural leaders are. Those are the candidates for other types of training later.

Could only NGOs do the needs assessment, or could brand staff also gather information and assess worker needs? It could be a mixture of both, as brand staff have more factory contact (albeit with other objectives in mind). The key is that the brand not be "hands off" in this process, but rather, should be engaged, committed, and involved with whoever is doing such a project.

Before surveying workers, try to achieve real trust and buy-in from the factory – workers and management – otherwise the information is not real. Remember that, ideally, an evaluative process is ongoing because feelings and ideas change over time. The correct order of activities would be to first foster a relationship and then collect information via a survey.

Dialogue with workers is hard to start without a concrete *process*, because management wants to know what the process is and what it leads to. But, we are talking about starting something that doesn't exist yet.

- General comments

Standard approaches don't produce the best range of options. Even when talking about education and training, a standard approach is not sensitive to differences.

The best learning happens at the time of creating a program; it's the process that matters. Beyond the initial creation, that program gets bureaucratized.

The public debate misses an essential thing: the complexity of factories themselves. Different parts of a factory are under different types of pressures. The public, including academics and activists, wants a simple story and a simple solution.

- Reflections on the *adidas* social report

When an NGO reads a report like this, there are three main things it wants to know:
1) *What* issues is the company addressing?
2) *Why* is it addressing these issues?
3) *How* will it address the problems identified?

In this report, where are the workers? There is nothing in the text or photos about workers, no quotes or images. The whole report is about production, yet there is not one picture of production. First impression was that it was a slick, fancy public relations piece (from use

of photos). It appeared like it was deliberately given a drab color to avoid this impression. It almost looks like a product catalogue.

There is also no indication of how the workers are linked to adidas. Readers remember stories best. There should be stories or illustrative examples. Talk about the programs that really impact workers, such as an education program or breastfeeding program – these are things that really matter to workers' quality of life. Discuss more about the two worlds that are being linked together.

There could be more nuts & bolts information about how objectives were achieved. Problems are identified, but why do they exist? How will they be solved? Beyond simple trainings, what is being done to think more deeply about the problems being confronted? The chart on page 26 appears inaccurate and misleading. It was surprising what issues were left out of China column, as well as Sri Lanka and others. There are many more problems than are checked off for each country.

Future evaluation should look at whether the program satisfied workers' needs? Did it satisfy suppliers' needs? Use a feedback process to survey existing programs' impacts. If a needs evaluation were incorporated, it could look at: why does the issue exist? What works? Is the solution adequate?

This is not worker-friendly, nor does it have any relation to workers. Write a report that is for the workers as well. What is posted for workers to learn? One version of the report does not seem to suit all the possible audiences. It may need different messages for different groups. Either separate reports or separate chapters.

The star rating system for factories doesn't provide much "real" information now, but would be interesting to track over time, such as several years.

Nike report showed greater understanding of the challenges confronting them and what they are doing about it. Likewise, it too lacked the workers' stories. Nike had more information, although the reader did not know what to do with it. In the adidas report, the links are clearer, even though there is less volume of information.

In the context of what companies are reporting publicly, this is ahead of everyone else.

The report outlines a process – but what happens when adidas follows it? What are the problems along the way? For example, the general public thinks that adidas has total control over its suppliers (that is, it can twist their arms) but if that is not true, then explain how these relationships really work.

This is just a report now – if it is to be a discussion tool, then provide the "why" and also invite comment. Better yet, solicit comments on a draft report before the final one is published.

What new indicators will be used in '01 report? Are these indicators publicly available?

Accountability was not clearly discussed or illustrated. In what ways has the company responded to stakeholders?

- <u>NGOs can advise companies and assist with projects, but have limited capacity to carry out all the necessary work</u>

Primary NGO interest areas: worker communication, health & safety training, capacity building of managers and workers in factories, worker organization training (how to run a committee), H&S committee operation, training on how to interview workers.

NGOs can work in partnerships and/or alliances, but tend to have few dedicated staff resources to work on COC issues. The timing is good, interest is high, and companies are coming to NGOs for ideas.

The pace of change – identifying which issues are most urgent and in need of solution – is difficult to manage, particularly in a small operation. Then again, no NGO is ever big enough to handle all possible projects that come its way.

NGOs in Hong Kong would find it difficult to develop a comprehensive model of engagement for workers on the mainland because HK people are foreigners and are "outsiders" from mainland point of view. However, HK groups could work in consultation with local mainland groups who are in charge of implementation.

- <u>Process comments about the dialogue itself</u>

This dialogue was useful, as participants are also engaged in thinking about their agendas. It would be useful to do a similar type of discussion again, although no particular time frame in mind.

If the process is to be meaningful going forward, then it would be useful to preview and comment on a draft social report before it goes to print.

Consider involving environmental groups, especially in China.

STAKEHOLDER DIALOGUE AGENDA
13 December 2001

Location: adidas-Salomon International Sourcing Ltd.
Suite 5, 10/F, Tower 3, China Hong Kong City, 33 Canton Road
Contact: Tara Holeman, 9838-5239

8:45am
Coffee

9:00am

Introduction and ground rules for discussion
Questions or amendments to process

9:30am

Program discussion
- The role of private companies in social and environmental responsibility
- What issues should adidas be concerned about?
- General comments on adidas programs
- Are there good models from other companies?

11:00am
Break

11:15am
Program discussion continues

12:00pm
Lunch is served
Over lunch, a discussion about ideas generated in morning session, what capacity do NGOs have, recommendations for future process of stakeholder engagement.

1:15pm
Report discussion
- Is there value to this type of public reporting?
- What information is useful / not useful
- Missing information?

2:15pm
Break

2:30pm
Report discussion continues
Process critique: how useful was this type of meeting?
Wrap-Up of day's meeting

3:15pm
Finish