

adidas AG

TICKER:
ETR: ADS

MARKET CAPITALIZATION:
US\$ 14 billion

HEADQUARTERS:
Germany

1 OUT OF 20

Company's Overall Ranking

81 OUT OF 100

Company's Overall Score

Adidas AG (adidas) ranks first on the benchmark, demonstrating strong disclosure of its approach to managing forced labor risks in its supply chain, and discloses a high number of leading practices. Adidas achieves a higher score than any of its peers on the themes of recruitment and worker voice. Adidas provides quantitative data, thus providing clarity on the scope of implementation, and, in contrast to many of its peers, adidas provides examples of implementing its policies and processes in different countries and of working with different stakeholders. The company also discusses implementation challenges and, most notably, its efforts go beyond its first tier suppliers. For example, the company provides modern slavery training to its second tier suppliers. To improve its disclosure, the company is encouraged to improve in the areas of risk assessment, purchasing practices, and worker voice.

THEME LEVEL SCORE

Commitment and Governance	96 out of 100
Traceability and Risk Assessment	100 out of 100
Purchasing Practices	44 out of 100
Recruitment	83 out of 100
Worker Voice	76 out of 100
Monitoring	90 out of 100
Remedy	75 out of 100

LEADING PRACTICES

Recruitment

Adidas demonstrates a strong awareness of the risk of exploitation of migrant workers by recruitment agencies and brokers. Adidas outlines requirements for the treatment and recruitment of migrant labor in its supply chain, which include pre-employment and recruitment, orientation and training, language concerns, wages and benefits, working hours, health and support services, living conditions and security, and end of contract. Those include that recruitment fees should be paid by the employer. When discovering that fees have been charged to workers in its supply chain, adidas works with its suppliers to ensure fees are paid back to the worker.

Factories which use a recruitment agency to hire workers must ensure the agency operate in accordance with the adidas standards. Even if an agency is involved in the recruitment process, workers will still sign contracts directly with the factory. Adidas' monitoring approach includes the evaluation of migrant labor issues, and suppliers are required to disclose the recruitment agencies they are using, the amount of fees being paid, what hiring practices are being followed, and are



required to monitor their recruitment agencies.

Worker empowerment

Adidas encourages suppliers to maintain a "non-interference" environment where trade union activities are not only allowed, but also stimulated through effective systems of worker-management communication and collective bargaining. The company recognizes the challenges that workers might face in forming trade unions, particularly in countries such as China and Vietnam, where the creation of independent trade unions is prohibited by law. Since these are major sourcing regions for the company, it has engaged with workers directly in order to identify parallel means for worker representation, through direct worker-led elections, as well as tracking the emergence of more representative state unions and the role of sectoral level collective agreements.

Remedy

The company discloses a summary of the human rights complaints it has received and details on the outcomes after the remediation process has ended. Adidas discloses several cases regarding migrant labor which required remediation actions. In 2013 and 2014, it worked with its suppliers in Taiwan to remedy poor working conditions of migrant labor by eliminating wage deductions made by employment agencies, returning passports and bank books, and relocating migrant workers to safer and higher quality dormitories. In 2014, it worked with local NGOs and trade unions to "secure the release and reinstatement of foreign workers who had been wrongfully arrested by the police in raids conducted by the government against illegal migrants. The workers held valid employment visas and were in legitimate employment in the garment sector."

NOTABLE FINDINGS

Supplier Training

In 2015, adidas provided training for all of its manufacturing and materials supply chain partners in Taiwan, highlighting the risks of bonded labor and how passport retention and the burden of recruitment fees impacts the rights of migrant workers.

In 2016, the company launched its Modern Day Slavery Outreach program, an approach directed towards identifying forced labor and human trafficking risks throughout its supply chain operations, especially those sections which fall outside of conventional monitoring. The program involves partnerships with first tier suppliers to support targeted training for second tier suppliers and direct training on forced labor indicators for material second tier suppliers. It further includes the development of collaborative models to address potential risks of forced labor in the third tier raw materials supply chain with a focus on conventional cotton, leather, and natural rubber.

Traceability

Adidas has mapped each supplier type/category across its supply chain, including its second tier embellishers and packaging, as well as key materials suppliers for footwear, apparel, and accessories products. The company has also mapped its material flow by country, and, for third tier raw material sourcing, the mapping focuses specifically on natural materials including cotton, leather, and rubber. Adidas further discloses a list of names and locations of its first and second tier suppliers.

Worker Voice

In order to effectively communicate its policies to suppliers' workers, the company moved from communications efforts focused on local language posters at suppliers' factories to placing more emphasis on building a greater level of local empowerment. As a result, adidas introduced supporting guidance, such as SMS messaging services and trainings, tailoring information to focus on local labor laws (sponsoring booklets and videos), as well as direct communication with factories when employing foreign workers.



Adidas' grievance mechanism system includes country level worker hotlines manned with staff speaking the local language. It is communicated to workers by posting the hotline phone numbers in accessible places in the factories, and the company provides the numbers during worker interviews and through its SMS Hotline System. The mechanism is regularly reviewed, assessed and upgraded in order to evaluate its efficiency. For example, an SMS complaint mechanism was adopted by around 58 suppliers in Vietnam, Indonesia, and Cambodia, with the total workforce of around 270,000 adopting this system. Suppliers in China are also expected to adopt the system as of 2016. Worker representatives can also access the independently managed Third Party of the Fair Labor Association, where adidas is a member.

OPPORTUNITIES FOR IMPROVEMENT

Purchasing practices

Adidas is encouraged to improve its disclosure around how it is mitigating the risk of forced labor in its supply chain through its purchasing practices.

While adidas has a strict pre-screening process in place for new suppliers, which includes examining forced labor and migrant labor concerns, adidas may consider putting in place a procurement selection process that considers the capacity of suppliers to meet fluctuating demand to avoid the risk of subcontracting. Further, while adidas has in place systematic dialogue with existing suppliers on their capacity that enables level loading during peak months, the company may consider addressing subcontracting risks as existing risks, for example through a subcontracting policy.

Adidas is encouraged to provide evidence of integrating its company code in suppliers' contracts, for example by disclosing the contract language.

To strengthen the implementation of its code further down the supply chain, instead of merely encouraging suppliers to cascade its standards, adidas is encouraged to require its first tier suppliers to ensure their own suppliers implement the company's standards.

Worker voice

While adidas engages with workers through a series of initiatives outside of the context of factories, including a women's empowerment program which aims to help women in its supply chain to have better opportunities in the workplace, the company is encouraged to provide evidence that it engages with workers outside of the context of the factories in which they work in order to help them assert their voice, and to provide evidence of the positive impact of this engagement. It is further encouraged to expand those programs to countries and tiers it is not currently covering.

Further, adidas is encouraged to put in place programs for countries where free unions are not restricted but the rights of migrants to associate are restricted. The company may also consider putting in place programs for countries/regions where there are cultural and linguistic barriers and discrimination for migrants to join or form unions.

Adidas may consider requiring suppliers to have in place a grievance mechanism and cascading this requirement down its supply chain. The company is further encouraged to roll out the SMS complaint mechanism some of its suppliers in Vietnam, Indonesia, and Cambodia have adopted to other suppliers and countries (as planned for example for China).

Remedy

While Adidas discloses a corrective action plan process, and examples of outcomes of remedy, the company is encouraged to disclose a process for responding to the complaints and/or reported violations of policies and standards (e.g. the timeframes, responsible parties, approval procedures etc.).



COMPANY PROVIDED ADDITIONAL DISCLOSURE

[Yes.](#)

