

Casestudy:
STITCHING FOR A PITTANCE?

**India Committee of the Netherlands (LIW)
versus
adidas-Salomon**

In 1996, sporting goods manufacturer adidas-Salomon appeared in the news in connection with the alleged use of forced labour, child labour and unacceptable working conditions in the factories of suppliers. With support of the Clean Clothes Campaign (CCC), The India Committee of the Netherlands (LIW), among others, organised a campaign against the exploitation of factory workers in developing countries. Central to the adidas-Solomon case is the issue of adopting, complying with and monitoring a code of conduct which is aimed at improving working conditions in the sporting goods industry.

Societal Interface Management Challenges

PUBLIC ✶ PRIVATE	PROFIT ✶ NON-PROFIT	EFFICIENCY ✶ ETHICS/EQUITY	
Minimum wages is a government matter	Relationship with FIFA	Cost-effective production: low wages but longer supply-chains	Labour rights
Ditto human rights and child labour	Relationship with consumers and trade unions	Competitive advantage with respect to other manufacturers such as Nike	Supply-chain responsibility
Adoption of a code of conduct/not	Under supervision of non-profit organisation or sector?	Marketing through sponsoring or employment of other channels?	Race to the bottom of developing countries: is it acceptable?
Verification: internal or external (ILO)?			
Relationship with European Union	Sponsoring by whom?		

This case has been written by Alex van der Zwart with Rob van Tulder (RSM Erasmus University). This case applies the methods and theories as used in the book "International business-society management: linking corporate responsibility and globalization" (2006, Routledge), www.ib-sm.org. The Dutch newspaper articles in this case have mostly been translated into English.

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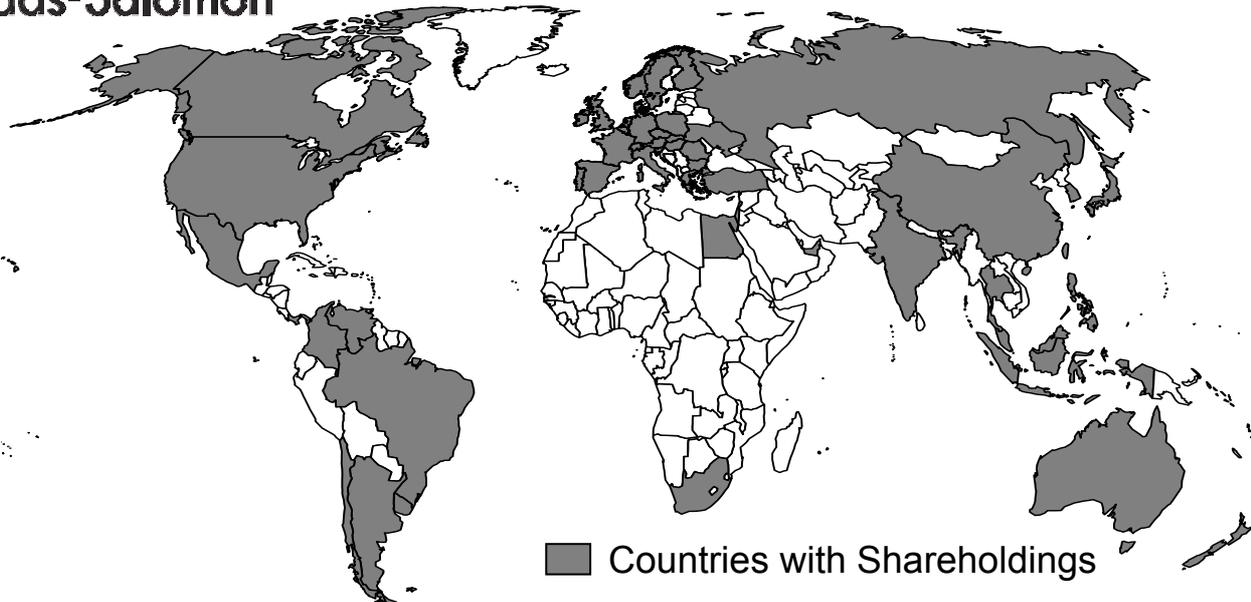


adidas-Solomon AG

adidas-Solomon is a German sports goods manufacturer of brands such as adidas and Reebok, (general, including footballs), Solomon (winter sports), TaylorMade (golf) and Mavic (bicycles). The company owns a number of factories in Italy and France for the production of ski merchandise. adidas sportswear, footballs and footwear are manufactured by sub-contractors outside Europe. The company was a major sponsor of sports events such as the 2000 European Football Championships (Netherlands and Belgium), the 2002 World Cup (Japan), the 2006 European Football Championships (Germany) and the Olympic Games. adidas-Solomon AG is listed on, among others, the German Xetra-DAX stock exchange in Frankfurt. In 2005, the net sales of the company amounted to 6,6 billion euro (adidas AR, 2005).



adidas-Salomon



Source of Production in 2003

	Footwear	Apparel
China	53%	17%
Vietnam	24%	
Indonesia	18%	18%
Other Asia	<1%	37%
Europe	4%	20%
Americas	1%	8%

SHAREHOLDINGS OF adidas-Salomon AG, HERZOGENAURACH as at Dec. 31, 2003
 Note: in some companies operations may be a minority holding
 Source: adidas 2003 AR p152

Based on sales and assets and outside Europe as foreign the 1998 TNI is 43%



Conflict

In 1996, adidas appeared in the news in connection with the manufacturing of its footballs, among other articles, in sweatshops in Asia and Central America. Approximately ninety percent of clothing sold in Europe, is produced in Asia, South America, Central America or Eastern Europe (Werner and Weiss, 2002; Klein, 2001). Like its competitor Nike (Chapter 11), the commotion surrounding adidas-Salomon is continuing issue. A number of highlights will be discussed in this chapter.

In November 1996, the company fell into discredit when it emerged that child labour was being used in football factories in Pakistan. According to societal organisations such as Oxfam, the LIW and the CCC, workers in such countries earn a pittance for their labour. Oxfam reported dismal working conditions, use of child labour and wages below subsistence level in the factories of adidas-Salomon suppliers.

In 1998, adidas signed a contract with football star Patrick Kluivert. Due to the negative publicity in the media surrounding the footballer's alleged involvement in a gang rape, adidas decided to put the contract on hold for fear of reputational damage. On 2 July 1998, adidas received negative publicity once again. This time, it concerned a report by the International Textile, Garment and Leather Workers' Federation (ITGLWF) which implicated adidas in the use of prison labour in China in the manufacturing of footballs. The fuss this report generated led adidas to cancel its contract with the supplier.

Subsequently, in 1999, the world's second largest sporting goods manufacturer was put in the spotlight as a result of the working conditions, absence of unions, alleged use of child labour, sexual intimidation, forced overtime work and the repression of trade union rights in factories in El Salvador. adidas had these allegations checked by the non-profit organisation Verité.¹ The inspection revealed that the improvement measures that had been promised earlier in 1999 had not been implemented.

¹ www.verite.org, consulted on 12 February 2002.

India Committee of the Netherlands (LIW)



Landelijke India Werkgroep

India Committee of the Netherlands

The objective of the India Committee of the Netherlands is to contribute to enhancing the quality of life of the disadvantaged in India. The LIW forms part of the Clean Clothes Campaign Netherlands.

Clean Clothes Campaign (CCC) et al

The CCC is a foundation that comprises a coalition of NGOs and trade unions dedicated to creating better working condition in the international apparel and sportswear industry. The CCC demands that the sports apparel and footwear industry comply with the ILO conventions and commit to living wages and the independent monitoring and verification of working conditions. The protest actions surrounding the 2000 European Football Championships and the 2002 World Cup – in which adidas also came under fire – were supported by organisations such as Amnesty International, Centra voor Ontwikkelingssamenwerking (Eng: Centre for Development aid), ASN Bank, FNV, Hivos, Fair Trade organisation, Unicef, Landelijke Vereniging Wereldwinkels (Eng: National Network of Fair Tradeshops), Novib, Pax Christi, LIW, VVCS, CCC, Global March Against Child Labour and the Alternatieve Konsumentenbond (Eng: Alternative consumer organisation) (now Goede Waar & Co.).



FIFA, European Football Championships 2000 and World Cup 2002

The LIW², the CCC and other pressure groups chose the European Football Championships 2000 in the Netherlands and Belgium to pressurise adidas-Salomon and competitors such as Nike and Reebok (Reebok is now part of adidas since January 2006 officially) into improving working conditions in their supply chain.³ In 1996, FIFA the international football federation, together with international trade unions, formulated a code of conduct that all FIFA licenced goods, such as footballs and jerseys, but also thousands of other consumer goods, should comply with. The code was introduced in response to several reports of serious labour rights violations in India and Pakistan. The FIFA code of conduct included a number of minimum ILO standards, such as the right to decent wages and the prohibition of child and forced labour. FIFA never signed the code which was developed in partnership with the international trade unions. Instead, FIFA agreed its own licencing contracts with major sports labels such as Nike and adidas and other football and sportswear companies regarding the use of FIFA logos and logos of major sports events such as the 2000 European Football Championships and 2002 World Cup. The contracts were initially concluded via the company ISL but since 2001, its own division FIFA Marketing AG has been taking care of it. The contracts included the code of conduct of the World Federation of the Sporting Goods Industry (WFSGI) which formulates requirements such as acceptable working conditions, paying (at least) the official minimum wage, the prohibition of child and forced labour and the freedom to form unions. In India and Pakistan, the only part of the code in the contracts between FIFA and sporting goods companies which was actually monitored, was child labour. A range of societal organisations, reported large-scale violations of basic labour rights in China, India and Pakistan.⁴



adidas-Salomon manufactures a large quantity of FIFA licenced products, including footballs for official tournaments. In practice, it appeared that the company did not comply with the code partly because FIFA hardly ever checked. During the run-up to both the 2000 European Football Championships and the

2002 World Cup, societal organisations attempted to enforce the implementation of FIFA's code and to ensure the independent monitoring of working conditions. FIFA, major brands such as Adidas and Nike and, amongst others, the KNVB (Dutch football federation) and the organising committee of the 2000 European Football Championships were called to account over the matter.

In March 2000, the WFSGI modified its code when it was confronted with images and proof of questionable practices in the sportswear industry. In June 2000, the LIW published a report, 'The Dark Side of Football', on child labour and unacceptable working conditions in the football industry. In the federal state Punjab, in India, at least ten thousand children were stitching footballs for a pittance. In this report, the role of FIFA received special mention. The report states that it was likely that the contract of the sportswear industry with FIFA was also violated on almost all points. The LIW sent a copy of the report to FIFA, the WFSGI and a range of football importers, including adidas. The reactions followed shortly thereafter. FIFA responded by stating that the report was 'un-sportsmanlike' but comprehensive and that it

² www.indianet.nl, consulted on 12 February 2002.

³ www.indianet.nl/in-voet.html, consulted on 12 February 2002.

⁴ <http://www.globalmarch.org/world-cup-campaign/break.php3>



would investigate the matter. FIFA also made known that it had launched a programme to combat child labour in the football industry at the beginning of 2000. In Pakistan, a similar programme had been running for longer. According to local Indian organisations, the LIW report contributed to the establishment of dozens of schools for Indian football stitchers.

According to the LIW, adidas failed to respond to the ‘The Dark Side of Football’ upon which, in June 2002, the organisation decided to lodge a complaint against adidas at the Netherlands National Contact Point (housed by the Ministry of Economic Affairs) for the OECD guidelines for multinational enterprises.

Hearing

On 22 November 2000, the English member of the European parliament, Richard Howitt arranged a hearing in the framework of the resolution ‘Standard-setting by European companies in developing countries: towards a Code of Conduct’, which was adopted by the European parliament on 13 January 1999. The resolution calls for the development of a legal basis for binding European agreements aimed at regulating international operations of companies. The resolution proposes a model code of conduct, a social quality label, public hearings and the establishment of an independent European monitoring mechanism for overseeing European companies’ compliance with human rights and social and environmental policies abroad. adidas-Salomon was invited to the hearing given that a female worker at one of the factories was to appear as witness.⁵ The company did not respond to the invitation. After the hearing, the accusations against adidas were repeated in the media. Following the accusations, the Board of adidas visited Brussels for consultations with the European Parliament. The issue, however, was not settled.



In May 2001, with the launch of its campaign ‘Kick child labour out of the world’ in Japan, the Global March Against Child Labour (the LIW was a member and policy advisor to this organisation), called on FIFA to implement its entire code and to report on it. FIFA did not respond. In November 2002, in a letter addressed to Unicef’s director Carol Bellamy, the Global March Against Child Labour requested that FIFA be called to order for not complying with the code of conduct in drawing up sponsoring contracts for the 2002 World Cup in Korea and Japan. adidas-Salomon, among others, had such a contract. Unicef was approached, because before and during the 2002 World Cup which took place in June, FIFA, together with Unicef, ran a campaign calling attention to the rights of the child with the motto ‘Say Yes for Children’. The worldwide alliance between Unicef and FIFA started on 20 November 2001, on the day of the rights of the child. On 21 February 2002, the LIW, the CCC and the FNV, linking up with the campaigns of the Global March and the European Clean Clothes Campaign, started an e-mail campaign against FIFA and large sporting goods companies, including adidas and Nike. FIFA and the companies were still failing to meet their commitments regarding child labour and working conditions.

⁵ www.cleanclothes.org, consulted on 5 January 2002.



According to adidas-Salomon, the allegations were exaggerated. The company has in the meantime introduced a code of conduct which includes references to the ILO guidelines. Moreover, factories in Pakistan, among others, are regularly audited by independent ILO auditors. Since its collaboration with the ILO, the organisation has never found children working in the factories of adidas suppliers.⁶

Demonstrable indicators of reputational damage

Consumer market

At the adidas-Solomon headquarters in Europe, several large-scale campaigns were held on the issue of sweatshops in developing countries. In the months prior to the 2000 European Football Championships, more than 6000 consumers in the Netherlands signed up as Clean Clothes Supporter. In return, they received a Play Fair card and a brochure with the tournament schedule supplemented with information on working conditions. The LIW also organised a campaign to send faxes to the organising committee and FIFA in order that an adequate code would be introduced. More than 1000 people supported this campaign. In Belgium, 48 teams participated in a football tournament 'Onrecht scoort slecht' (Eng: Injustice scores badly). The final match was played between politicians, artists and athletes. The regional media was well represented and through this tournament, many youths became involved in the campaign in Belgium. The Flemish Clean Clothes Campaign collected signatures and photos of 50.000 supporters who demanded a decent wage for the men and women working in the sporting goods industry. On the Sunday market in Luik, a range of organisations held demonstrations and invited the public to sign a card in support of the CCC. More than 1500 people signed the cards. In Germany, 35.000 people signed Red Cards which were subsequently presented to the Board of adidas in the presence of an attentive media. These card campaigns were also held in England and Spain. In Austria, the Clean Clothes Campaign organised a marathon in Vienna where 300 people wore a t-shirt designed by 'Frauensolidarität' (Eng: Solidarity among Women). In Sweden, the Clean Clothes Campaign made its presence felt by organising card protest campaigns at outlets like Intersport, at schools and through the collection of footprints.

The annual turnover of adidas-Salomon, however, was barely affected and increased by nine percent in 2000 compared to 1999, and in the last quarter of 2000, even by seventeen percent. Six percent of the increase in turnover could be attributed to the adidas label. Net earnings, however, declined by more than twenty percent. This was largely as a result of higher marketing costs at the time of the 2000 European Football Championships and the Summer Olympics in Sydney (adidas-Salomon, 2000). In general, it is unclear whether the campaigns affected sales figures. In view of the many protests and postcards, however, it is likely that adidas sustained reputational damage on its consumer market.

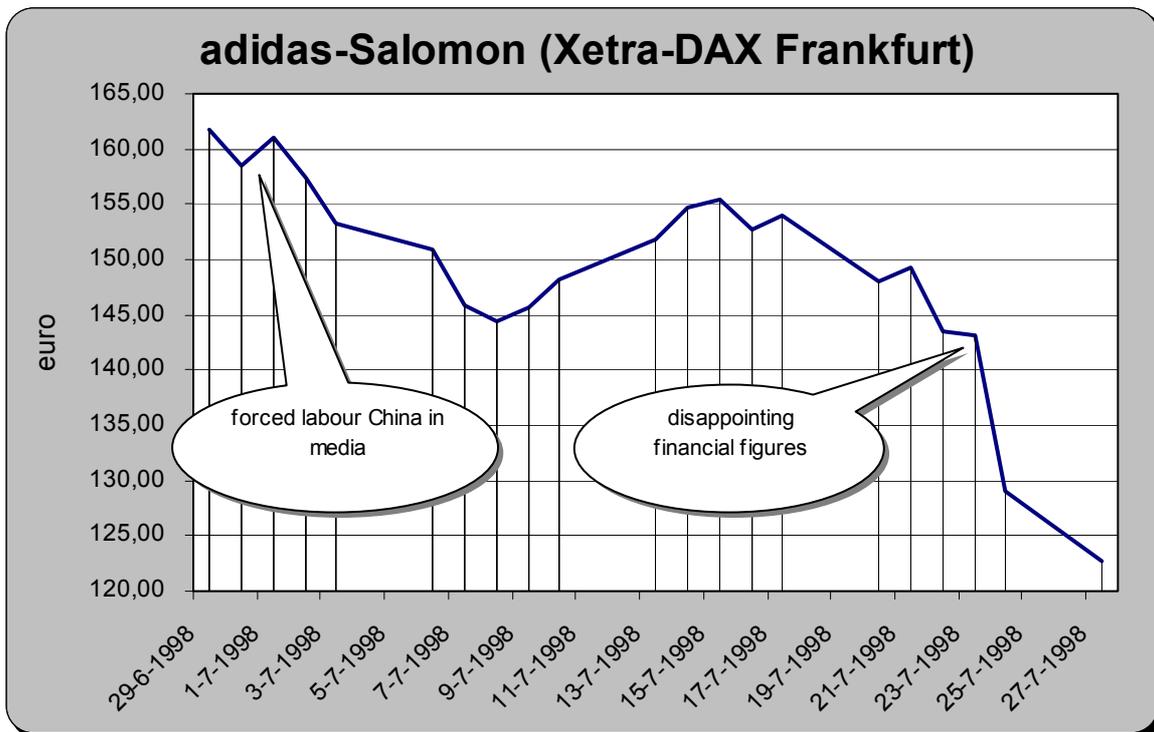
⁶ www.adidas-salomon.com/en/overview, consulted on 17 July 2002.



Capital market

In assessing the reaction on capital markets, one incident in which adidas was accused of unaccountable conduct was isolated. In July 1998, the company was implicated in the use of forced labour in the manufacturing of footballs. The reaction on the Frankfurt stock exchange (Xetra-DAX) was analysed.

26 juni 1998 – 27 juli 1998. Around 2 July 1998, the media reported that Chinese prisoners had been used in the manufacturing of adidas footballs, which was in breach of the agreement



between adidas and its supplier. On 3 July 1998, adidas dissolved its contract with the supplier on the grounds that the supplier had misled Addidas. The share price declined rapidly. On the day of publication, on 2 July, the share price decreased by 2 percent and in the following days, it decreased a few percent more. In the newspapers of 9 to 15 July, buying advice from, among others, Goldman Sachs and Commerzbank AG analysts, turned the tide for the declining adidas share price. The share price once again exhibited an upward trend. On 24 July 1998, when the disappointing earnings of the division Salomon were announced, the share price declined by more than 15 percent in two days. To this day, the share price level of 1 July 1998, has never been achieved again. Figure 14.1 depicts the price movements of the adidas share.

Labour market

No information has been found on the effects of the issue on adidas-Salomon's labour market.



Demonstrable indicators of disciplining

Although adidas-Solomon tried to shirk its responsibilities at the beginning, the company's eventual approach can be described as one of bridging. adidas-Salomon undertook several (disciplining) initiatives to manage the issue. In the course of the years, a range of measures were taken to guarantee better working conditions.

- In response to persistent criticism, adidas-Salomon adopted a code of conduct, the Standards of Engagement (SOE). One of the objectives of the code is to promote better working conditions, fair labour conditions and safety in the factories of suppliers. All suppliers are required to sign the code. The SOE also states that suppliers are to act in accordance with the ILO guidelines. The SOE is being externally and independently verified and audited, by Verité and the Fair Labour Association, among others.
- The company has appointed a team of thirty to monitor compliance with the SOE.
- The contract with the Chinese supplier was severed after the use of forced labour was exposed.
- The number of approved supplier factories in Pakistan has decreased as a result of adidas-Salomon's commitment to the SOE;⁷
- In collaboration with Save the Children UK, the company supports a local education project in Pakistan.
- In addition to implementing a code, adidas-Salomon published a social and environmental report in 2000. The company also invites stakeholders, including the LIW and the CCC, to share their viewpoints on the annual social report. adidas, which initially declined to respond to a critical publication is now willing to hold discussions with the LIW.

Outcome

Whose interests were conceded to?

The interests of the LIW and the CCC, and by implication, those of the workers in developing countries have been met to some extent. Companies in the sportswear industry are currently paying a lot of attention to working conditions in the factories of their suppliers.

Issue resolved?

The issue of working conditions in the sporting goods industry has not been resolved. Public interest organisations will continue to keep a close watch on adidas-Salomon's compliance with its code. New protest actions against adidas (and also Nike) are already on the cards. In its contracts with FIFA, adidas has signed the code but according to NGOs, it still does not fully comply with it. False promises make one vulnerable.

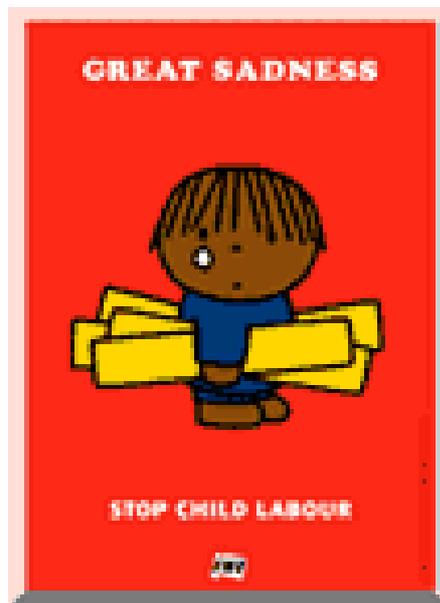
The aftermath

Despite persistent criticism, adidas-Salomon has made a few sustainable marks on capital markets. In October 2000, the adidas-Salomon share was listed on the DJSI World and DJ Stoxx Sustainability Index of the Dow Jones Sustainability Group Index (DJSI). Dow Jones

⁷ www.adidas-salomon.com/en/overview, consulted on 19 July 2002.



(DJ) has examined the financial, social and environmental performance of adidas-Salomon and concluded that the company is playing a leading role in the area of CSR in the textiles industry.⁸ DJ had special praise for its progress in the area of working conditions in factories and its compliance with the SOE. DJ also pointed out that more improvements could be made. On 4 September 2001, the listing of adidas-Salomon on the DJSI was extended. This was partly due to its publication of an social and environmental annual report at the beginning of 2001, which discusses its performance and developments with respect to social and environmental issues (e.g. eco-efficiency). In July 2001, adidas-Salomon was also included in the FTSE4Good Europe Index.⁹



⁸ www.sustainability-index.com, consulted on 4 October 2001.

⁹ www.fste4good.com, consulted on 5 October 2001.