



Sportswear Industry Data and Company Profiles
Background information for the Play Fair at the Olympics Campaign



Clean Clothes Campaign
March 1, 2004

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Introduction

This report was produced by the Clean Clothes Campaign as background information for the Play Fair at the Olympics campaign, which starts March 4, 2004 and aims to contribute to the improvement of labour conditions in the sportswear industry. More information on this campaign and the “Play Fair at Olympics Campaign report itself can be found at www.fairolympics.org

The report includes information on Puma Fila, Umbro, Asics, Mizuno, Lotto, Kappa, and New Balance. They have been labeled “B” brands because, in terms of their market share, they form a second rung of manufacturers in the sportswear industries, just below the market leaders or the so-called “A” brands: Nike, Reebok and Adidas.

The report purposefully provides descriptions of cases of labour rights violations dating back to the middle of the nineties, so that campaigners and others have a full record of the performance and responses of the target companies to date. Also for the sake of completeness, data gathered and published in the Play Fair at the Olympics campaign report are copied in for each of the companies concerned, coupled with the build-in weblinks this provides an easy search of this web-based document.

Obviously, no company profile is ever complete. We urge all those who read this document to provide us with updates, corrections and additions via info@cleanclothes.org

The sportswear industry, which includes both athletic footwear and apparel (garments), is very labour intensive. Therefore, most production takes place in low-wage countries. The majority of employees within the supply chains of sportswear companies are young and female and they inevitably work under unreasonable terms of employment and poor working conditions. These include short-term contracts that include no health or social benefits, long working hours and unpaid overtime, unhealthy and unsafe working conditions, poor wages due to the fact that payment is often tied to unrealistic production targets or piece-rate systems, and redundancy policies that offer inadequate severance pay compensation. The various — often legal — barriers to the right to organise only exacerbates the problem because employees are prohibited from demanding basic workers rights.

During the 1990s, branded corporations within the athletic sportswear industry — particularly Nike, Reebok, and adidas — were targeted by transnationally organised anti-sweatshop campaigns. In response to these campaigns, the targeted companies instituted some small labour rights improvements. For example, they declared their commitment to the principle of respecting a worker’s right to organise and they began to co-operate with various international monitoring and verification initiatives.

“B” brands have until now often managed to escape the level of scrutiny of the sweatshop conditions that the “A” brands have been subjected to. While understandable from a tactical angle, the labour practices in the supply chains of the “B” brands are very similar to those of the larger brands. In fact, they often use the same suppliers. As also revealed in the Play Fair at the Olympics report “B” brand workplace conditions are no different from those of the larger brands. Their purchasing practices — like those of the “A” brands — encourage suppliers to adopt poor employment practices and working conditions. Suppliers transfer the burdens of unstable contracts, short delivery lead times, and low prices onto their workers.

The “B” brand companies have done little, if anything, to ensure that labour rights are respected in their supply chains. In fact, in a competitive industry like the sportswear industry, it is the failure of these companies to follow suit that is impeding the progress of the entire sector. That is why the Olympic Campaign is focusing on these brands.

When it comes to improving labour rights, most companies have thus far been extremely wary of moving too far ahead of the rest of the industry for fear of losing their competitive advantage. The sportswear industry is also characterised by the fact that factories and informal supply chain networks commonly supply a variety of buyers. As a consequence, as more buyers begin to demand respect for workers’ rights, the greater the incentive becomes for factories to comply.

This report has compiled information on the labour conditions in factories producing for Asics, Fila, Kappa, Lotto, Mizuno, New Balance, Puma, and Umbro.

It also includes company portraits of two large Asian transnational corporations (A-TNCs): Yue Yuen, controlled by the Taiwanese-owned Pou Chen, and Li & Fung. Yue Yuen is the world’s largest shoe manufacturer, employing some 250,000 workers. They are large suppliers of Nike, Reebok, adidas, Asics, Puma, and New Balance.

Li & Fung, is one of the world’s largest sportswear agents, functioning as a supply chain manager for numerous apparel brands, including Kappa. Perhaps the most remarkable fact is that although both companies are largely unfamiliar to the larger public, their net profits actually exceed those of the brands discussed in this report.

These two companies represent the increasing power of Asian TNCs within the global supply chains of the sportswear industry. Instead of making profits from marketing and distributing branded sportswear, they prefer to produce for consumer markets elsewhere. Henry Cornell, a Goldman Sachs’ executive, put it this way: “These types of businesses are not very sexy... but it is a superb economic model for northern Asia. They can make significant profits being manufacturers for research and development-oriented companies in the United States.”¹

The increasing domination of these companies is further indicated by the “increasing oligopolisation of the components market industry [that] raises barriers to entry and places the power to develop and handle component networks in the hands of the leading global suppliers.”² In other words, these corporations have managed to turn the tapping of the world’s reservoirs of cheap labour into a highly profitable activity. Their increased hegemony calls into question some of the presumed power dynamics within the global supply chains of sportswear where brand-name corporations are often considered the strongest players who dictate terms to the presumed weaker supplier.

This report commences with a sector overview of the position that the “B” brands and A-TNCs occupy within the sportswear market. It also briefly discusses some general characteristics of the sportswear and athletic footwear market.

The main sections of this report are comprised of individual company profiles. Each company profile includes the following:

- product categories
- history
- business info
- fact sheet
- sound bites
- athlete endorsements
- code of conduct
- sites of production
- labour and working conditions

(The company portraits of Yue Yuen and Li & Fung follow a slightly different pattern.)

Most of the information provided in this report comes from the Clean Clothes Campaign (CCC) archives, while some of the data was found in annual reports and various Internet sources. Some of the material on working conditions came via the “Play Fair at the Olympics Campaign” report (<http://www.fairolympics.org/>) which is based on various research reports on working conditions in the sportswear industries of Bulgaria, China, Cambodia, Indonesia, Thailand, and Turkey.

Overview of the Sportswear Market

In the 1970s, athletic sportswear began to evolve from a product line aimed at small and unique markets into a mainstream fashion product. The clear divisions between performance and fashion, function and style, formal and informal that once existed have

become increasingly blurred. “In the 1980s, the acceptability of casual dress on more occasions paved the way for sportswear to move into the mainstream clothing market. The trend was accompanied by a real increase in sports participation.”³

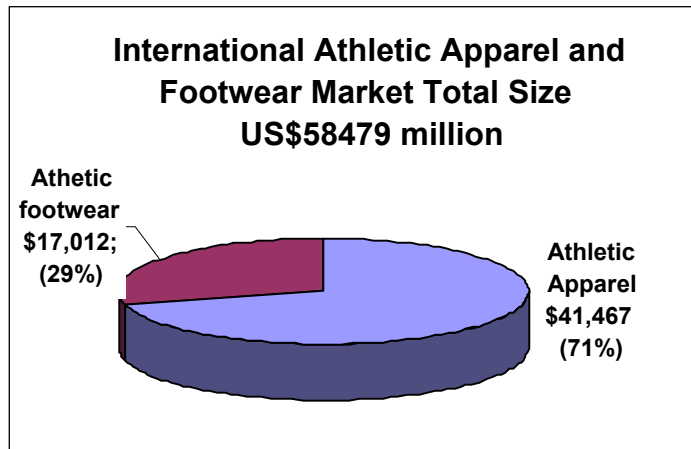
Most athletic footwear (around 70%) is bought for leisure, casual or every day use).⁴ In the UK, one report estimates, only 20% of sportswear is bought for actual sport or exercise).⁵

Nike in particular has played an important role in transforming sport shoes and apparel into a fashion statement.

Nike was not only the first to have its shoes produced in Asia, it was also the first in the marketing and advertising of athletic shoes. Today, practically all brand-name corporations have a business plan similar to that of Nike’s strategy of focussing on the branding and marketing of sportswear.

The total worth of the athletic apparel and footwear market is estimated at over 58 billion US dollars — of which the sportswear apparel sector forms a much larger part than the athletic footwear sector (see figure1).

Figure 1

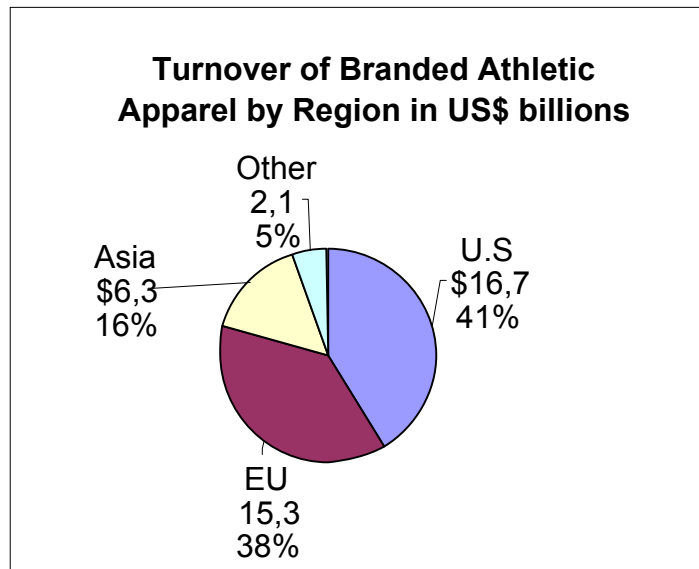


Source: International Sporting Intelligence, 2003

The International Athletic Apparel Market

The international athletic apparel market is worth nearly 41.5 billion US dollars [\$] at the wholesale level. The US sporting goods market is the world’s largest, accounting for 41% of total sales, followed by the European Union, which accounts for some 38% of total sporting apparel turnover (see figure 2).

Figure 2



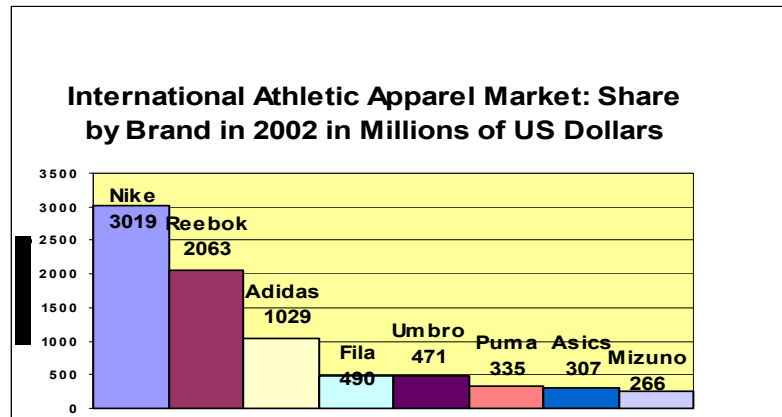
Compiled from: Sporting Goods Intelligence Market 2003

Nike, Adidas, and Reebok comprise some 14% of this market. They dominate the market almost everywhere. Meanwhile, Fila, Puma and Umbro each comprise of approximately 1% of market share, while Mizuno represents approximately 0.5%. The other brands included in this report – Lotto, Kappa, New Balance — represent less than 0.5% of market share.

Although the international athletic apparel industry is less concentrated than athletic footwear, for instance, the top-20 brands still manage to account for some 36% of the global wholesale market.

Figure 3 reveals how Nike, Reebok, and Adidas dominate the international athletic apparel market, with Fila, Umbro, Puma, Asics, and Mizuno following at some distance.

Figure 3



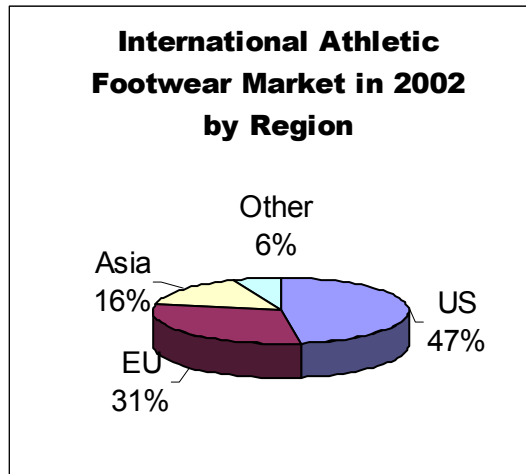
Source: Compiled from Sporting Goods Intelligence 2003

The International Athletic Footwear Market

Worldwide, the athletic footwear market is worth \$17.012 billion wholesale. While at the retail level, it is worth some \$25 billion.

The US athletic sport shoe market is the world's largest, representing 47% (or \$7.8 billion) of the world's total sales, followed by the European Union at 31% (\$5 billion) (see figure 4).

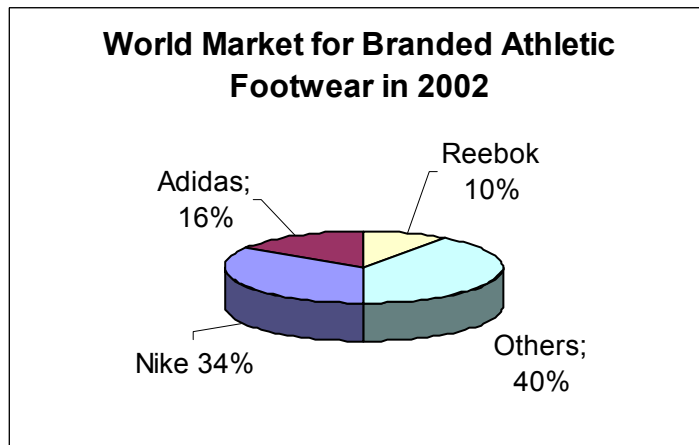
Figure 4



Source: Sporting Goods Intelligence 2003

Nike (34%), Reebok, and Adidas together account for 60% of this \$17 billion branded athletic footwear market (see figure 5).

Figure 5

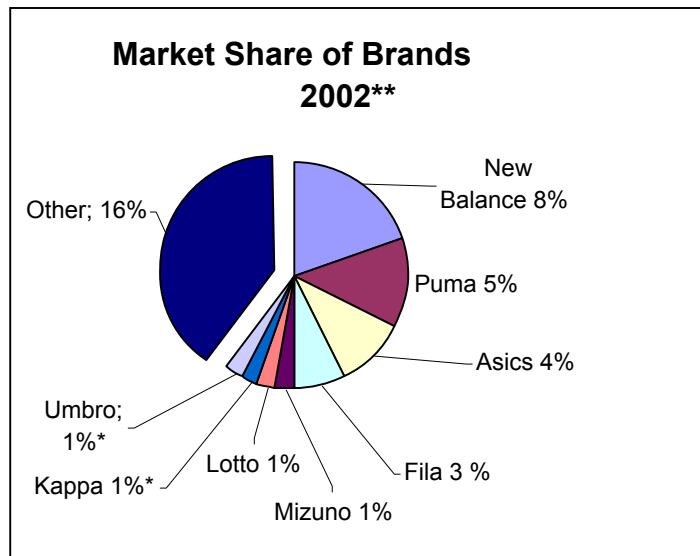


Source: Sporting Goods Intelligence 2003

In the US, 70% of this market is controlled by Nike, Reebok and Adidas. This kind of dominance and concentration means there is little room for growth. This means that many athletic footwear companies have sought to expand their market share elsewhere internationally (i.e., Europe, Asia, and Latin America) as well as in new product categories such as sports equipment.

Asics, Fila, Kappa, Lotto, Mizuno, New Balance Puma, and Umbro each comprise somewhere between 1% to 8% of the total global athletic footwear market. Together, however, they comprise some 24% of the world market (see figures 6 and 7). If we also include Nike, Reebok, and Adidas, these companies comprise 84% of the branded athletic footwear market. Other substantial brands not included in this report, but with more than 1% of the world market share include Keds, Vans, Sketchers, LA Gear, and Hi Tech.

Figure 6

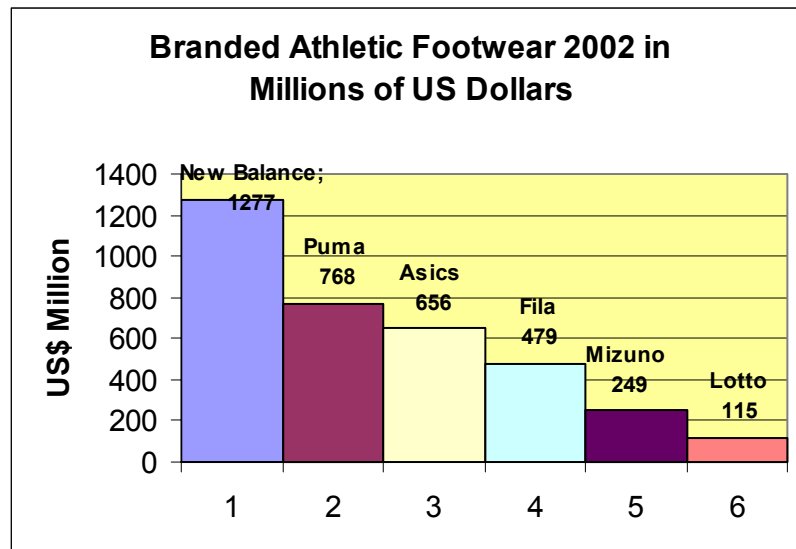


Source: Sporting Goods Intelligence 2003

*Kappa and Umbro rough estimates)

** In round figures

Figure 7



Source: Sporting Goods Intelligence Market Facts 2003

Profit

The sporting goods market in general is considered saturated. In the US, unit growth has been flat while prices have continued to fall. Europe offers a more complex picture, with falling prices in the UK, Germany and the Netherlands, while expansion of the sportswear market continues in countries like Spain and Italy. Japan has seen six straight years of declines for sporting goods.⁶

According to many business specialists “the profitability of selling athletic footwear and related apparel peaked around 1997 and is not likely to rebound soon”.⁷ As a result “there is a lot of gaining and losing of market share”, notes Tucker Anthony analyst, Steven Richter, in the *Financial Times*.⁸ As a result, profit margins for the brands discussed in this report are considered not very high. However, Puma and New Balance performed well and have expanded their market share in recent years.

**Table 1: Revenues and net income 2002
in Millions of US\$**

| | Sales | Net income |
|-------------|--------|------------|
| Asics | 1070.2 | 17.6 |
| Fila | 1.197* | 106.5 |
| Kappa | 142.6* | 1.5 |
| Lotto | 311. | 8.2 |
| Mizuno | 116.6 | 24.798 (|
| New Balance | 1.3** | Not known |
| Puma | 1.140* | 106.5 |
| Umbro | n.a. | n.a. |

Various annual reports

*Exchange rate 06/01/04

** Estimation

Other countries in Asia like China and India for instance, are still considered growth markets. But here too, competition between brands is fierce while the purchasing power of most of the people remains limited. For instance, the average retail price has dropped annually for most of the companies including Nike (2%), Reebok (9%), Adidas, (7%), and New Balance, (6%).⁹

This has led to what is often called the “perpetual sale” situation in which commodities “put into the stores on Monday are frequently marked down that same Monday”. Increasingly, large price cuts of 10 or 20% on apparel now often occur before Christmas. Sportswear apparel appears to be more price sensitive than footwear. Some business experts have predicted that athletic apparel prices will continue to fall at a rate of 2% annually for the coming years.

Although you will likely not hear consumers complaining about lower prices, someone along the chain of production ends up paying the price for these discounts. For instance, these discount strategies have already put adverse pressure on the profit margins of both the brand companies and the manufacturers. Puma representatives have argued that “global business trends [have] made profitable business growth in the sports sector difficult. In addition, the competitive pressure in saturated sub-markets has led to considerable price reductions by suppliers and thus to [ever] smaller margins”.¹⁰ Asics, in their annual report, notes that they expect competition in the sporting goods industry to become even more cut-throat as a result of “dampening consumer spending and a falling birth rate.”¹¹ Nonetheless, Puma and New Balance in particular have continued to perform very well in recent years. Both companies have expanded their market share and Puma has seen its profits increase dramatically. In addition, overall decreasing profit margins have not significantly reduced the enormous amounts of money these companies spend on marketing (see further below).

Falling retail prices affect the entire whole supply chain. Tom Haugen, a company director at Li & Fung noted in 2001 that “The pressure (on prices) never really disappears, but it is a little more intense now.... We’re able to find most of the things that our clients are looking for, in terms of price. Everybody is willing to bend on price right now...”¹²

As a result, this has also decreased wholesale prices that manufacturers charge. For instance, Yue Yuen’s average wholesale price has decreased at a rate of about 5% annually since 1997. However, Yue Yuen has been able offset these decreases with larger production orders and various improvements in productivity. Their net profits for 2003 was some \$305 million, a 33% increase over 2002. These kinds of dramatic figures, however, have not been duplicated by the smaller manufacturers.

This situation mean that with more or less stable non-labour production costs, manufacturers will continue to seek to keep their flexible costs (i.e., labour) as low as possible. This has led to an even worse scenario: competition between developing countries to sell their manufactured goods in developed countries is rapidly leading to the problem of “export displacement” in which “one country manages to increase its exports... by crowding out the another developing country’s exports.”¹³ It is expected that continued drops in retail prices in key markets will have serious and detrimental long-term effects on CSR and the various codes of conduct.

The main problem is that workers seldom have any recourse for defending themselves, because they are restricted in their right to organize and bargain collectively.

Marketing and Promotion

Despite declining prices and flat market forecasts, brand-name sportswear companies continue to spend heavily on marketing and promotion with the aim of boosting the consumer images of their particular brands. At the same time that Adidas closed its German factories in 1993, its marketing budget shot up from less than 200 million marks (about 102m euros) to over 800 million (about 409m euros). Companies like Puma expand from sponsoring individual athletes, teams, and sporting events like the Olympic Games to endorsements by pop stars or models.

This is how sportswear brands hope to stimulate demand for their products, and, by doing so, raising market barriers to hinder potential new competitors from entering the market.

The smaller brands have pretty much copied the marketing strategies of giants like Nike and Reebok, who stimulated consumption during the 1980s by emphasising physical self-improvement and health issues. This has led to a cyclical advertising pattern that involves sponsoring large events like the Olympic Games and the World Cup.

Some companies like Puma, Kappa and Fila have tried to distance themselves from the sport performance mantra and now prefer a marketing strategy based on the aestheticisation of the sport shoe. Puma’s global director of brand management, Antonia Bertone, observes that Puma is “targeting the sneaker enthusiast, not the guy who buys shoes for running. The days of buying a pair of

sneakers to fit in are gone.”¹⁴ The company’s commercial success in the integration of sportswear into a more leisure-oriented (streetwear) style will no doubt be copied by others down the line.

According to a retail analyst at Lehman Brothers, apparel retailers spend about 4-5% of total revenues on marketing and promotion, while in the athletic footwear sector it is as high as 10-11%.¹⁵

**Table 2: Marketing expenditures in 2002
(in Millions of US\$)**

| | marketing |
|-------------|-----------|
| Asics | NA |
| Fila | 116.4* |
| Kappa | NA |
| Lotto | 62.6* |
| Mizuno | 81.6 |
| New Balance | 195** |
| Puma | 156.6* |
| Umbro | NA |

Various annual reports and Sporting Goods Intelligence 2003

* exchange rate 06/01/04

** Estimation

The Outsourcing of Production

Every brand-name corporation involved in the sportswear sector uses outsourcing. Or as Nike CEO Phil Knight once put it: “there is no value in making things anymore. The value is added by careful research, by innovation, and by marketing”.¹⁶

This trend has now been copied by everyone in the industry; they’ve all become “manufacturers without factories” and source most of their products from overseas suppliers. As a result, Puma, Fila, Umbro, Kappa, and Lotto no longer own any factories.

Meanwhile, Asics, Mizuno and New Balance still maintain some in-house production capacity. But they too, source more and more of their commodities from “independents”.

For instance, Asics announced recently that it had substituted their old corporate pledge to contribute “as a *sporting goods manufacturer* to the advancement of athletics throughout the world” to a pledge to emerge as “the World’s No. 1 *Creator* of Sports-, Health- and Comfort-Oriented Lifestyles” (Annual Report, 2003: 2, emphasis added). In other words, their aim is to close more of their factories.

Mizuno, the other Japanese brand, recently stated that it would review the production process of each of its products “so as to achieve lower costs and strengthen our cost competitiveness.”¹⁷

Meanwhile, New Balance still takes some pride in the fact that it still produces on US soil. As Chief Executive Jim Davis notes “We want to employ Americans”, even though the bulk of their shoes are actually produced in low-wage countries far from the US.¹⁸

Location of Production

The sheer importance of outsourcing can easily be verified by showing the Western import figures. For instance, over 95% of US athletic footwear is imported from low-wage countries, of which China alone accounted for 75.7% of the total. Approximately 60% of apparel for the US market comes from East Asia. China accounts for about 10% of US imports directly and maybe another 10-15% of apparel in part produced there.¹⁹

One must differentiate between athletic footwear and garments, however. Over 90% of *all* athletic footwear is produced in three countries: China, Indonesia, and Vietnam. However, Thailand, the fourth largest producer, has lost a great deal of its production capacity over the last few years.

Table 3 shows the origin of athletic footwear imported into the US. In the case of Western Europe, Vietnamese imports are a bit higher while those coming from China are a bit lower.

Table 3: US imports of athletic footwear – market share by country

| China | | |
|-----------|--|--|
| Indonesia | | |
| Vietnam | | |
| Thailand | | |
| S. Korea | | |
| Other | | |

Source: UBS Warburg, May 19, 2003: 27

The map of sportswear apparel production is far more geographically dispersed. Since apparel production has shorter lead times than footwear, production can often be found much closer to its core market. That is why production for the European market can

often be found in places like Eastern Europe, Turkey, or North Africa, while production for the US market is often found closer to home in Central America, for instance. This situation has partly to do with the fact that athletic shoe production requires more advanced technologies and larger production facilities.

Meanwhile, sportswear apparel production is organised in a more complex manner than athletic footwear because production is greatly dispersed among many more suppliers over a much greater geographical area. This means that companies often hire buying companies (agents) to manage the production process.

Agents like Li & Fung often exercise a high degree of autonomy when it comes to the co-ordination of production. These kinds of companies function as supply chain managers and utilise large databases of information on thousands of suppliers located on several continents.

With the phase-out of the Multi Fibre Agreement only a few months away, many are expecting an increased consolidation of apparel production in China. According to some analysts, this might also lead to larger factories (that have the ability to reduce indirect costs) and, on the other hand, a smaller role for the agents. This is probably in part because these agents basically earn their profit margins on how efficiently and effectively they disperse and reintegrate orders.

Table 4 gives some data on the way the brand-name companies discussed in this report their outsourcing practices.

Table 4: Some data on outsourcing strategies

| | Asics | Fila | Puma | Kappa | Lotto | Mizuno | New Balan | Umbro |
|----------------|------------------------------------|--------------|------------------------|------------------|--------------|-------------|--------------------|---------|
| Maintains som | Yes, in Jaç | No | No | No | No | Yes, in Jaç | Yes, 4 in tr | No |
| Known custorr | Yes (5 th lar customer) | Unknown | Yes | Unknown | Yes | Unknown | Yes, in Chi for NB | Unknown |
| Sourcing from | Stopped sc | Stopped so | Until recen | States it stc | States it sl | Unknown | Unknown | Unknown |
| Construction o | Not much l | In the proce | Via its sub America (L | Via LF Bas China | Unknown | Unknown | Unknown | Unknown |

Macro Costs, Indirect and Direct Costs of Production

It is important to note that when companies choose a low-wage country as a place to produce both footwear and apparel is not just based on the fact that wages are low. Basically, costs can be divided into three categories: Macro-costs, indirect costs, and direct costs. Macro costs are costs related to the producing country. Indirect costs include the mills, factories, and agents involved in the production process. Direct costs are costs related to the goods themselves. Interestingly, the direct *labour* costs (or direct costs) are relatively insignificant when we compare them to the final retail price of the product.

While cheap labour can be found just about anywhere in the world, the “cost advantages” of cheap labour can easily be offset by the macro costs, for instance. This is especially true in countries lacking an adequate infrastructure, a stable government, access to raw materials, or local employees with managerial skills. Here companies discover that cheap labour is quickly offset by the rising and prohibitive costs of organising production. Macro costs are also influenced by how the national and/or governments get involved in the production process. This usually involves taxes and fees. But other factors must be considered as well. What are the country’s trade, banking, and monetary policies? How does it control the flow of capital and direct foreign investment? Does it control minimum wages or prices? Government regulations have the reputation of being both time consuming and expensive which, can, or course, increase production costs. And what are the government’s records when it comes to dealing with corruption and bribery, two details that must be factored in when estimating production costs.

Some of the macro-costs are controlled by the country of production. For instance, a nation’s government can set into motion improvements of its infrastructure or it can fight corruption. Persons can be trained in the necessary management related skills. However, other macro costs such as quotas, duties, country-of-origin, anti-dumping policies, and trade disputes cannot readily be controlled by an exporting country and can represent a sizeable cost factor. Quotas, for example, are often higher than the actual labour costs involved in producing a garment. Of course, this is why trading blocks such as the NAFTA can have important effects on where production takes place. Many brand-name corporations within (and beyond) the sportswear sector have tried to force these governments into reducing the macro-costs of production within their country. Export processing zones are one particular result of this kind of pressure.

Indirect costs, or those related to factories, mills and agents that brand-name companies hire to purchase goods, are also an important factor when a company is searching for the right place for a production facility. If a particular country’s do not meet certain standards of capacity, quality, and reliability the production costs increase dramatically. Garment business analyst, David Birnbaum, correctly points out that while Free on Board (FOB: which refers to the price charged for a product by a supplier) prices of made-in-China garments are far higher than the world average, China’s position as the world’s largest garment exporter is based entirely on macro-cost and indirect-cost advantages.”²⁰ Li & Fung has concentrated on organising this part of the supply chain. A company representative observed: “If Li & Fung does not own a factory, how can we say that we are in the production line? Actually, we are part of the production line because out of 15 stages of the value chain process, we are involved in 10 stages.”²¹

Number of Workers

Since most workers are employed by subcontractors located in low-wage countries, the number of workers employed by brand-name corporations is relatively small. Most companies included in this report employ a few thousand employees (see table 5). Michel Perraudin, Executive Vice-President at adidas-Salomon AG, estimates that the ratio of workers employed by branded corporations to workers employed by subcontractors in the athletic sportswear market is 1 to 20.²²

Again, one must distinguish between footwear and garment suppliers. Footwear suppliers employ on average between 5,000 to 10,000 workers. Yue Yuen is an exception in this sector, employing a staggering 250,000 workers (see company profile).

Garment factories, on the other hand, are generally much smaller, employing between a few dozen and few thousand workers. Another important difference between garment and footwear production is that garment production often include home-workers. It is estimated that approximately one million workers are involved in the orders that Li & Fung manages for Western retailers and brands.

Table 5: Number of Workers directly employed in 2002

| Company | Asics | Fila | Kappa | Lotto | Mizuno | New Bala | Puma | Umbro | Li & Fung | Yue Yuen |
|---------|-------|-------|---------|-------|--------|----------|--------|-------|-----------|----------|
| workers | 4,109 | 2,301 | 255 (?) | n.a. | 3,784 | 2,400 | 2, 192 | n.a. | 5,313 | 250,000 |

Workplace Conditions and Labour Rights Violations

Since the “B” brands have largely imitated the sourcing methods of the "A" brands, often even to the point of buying from the same suppliers, it should come as no surprise that substandard working conditions are all too common. For instance, Yue Yuen does not only supply goods for Nike, Reebok, and Adidas, but also for Puma, Asics, and New Balance. Other athletic footwear producers and certainly most apparel manufacturers supply goods for several brand names or retailers.

In many cases, researchers and activists have tended to focus on Nike, Reebok, and Adidas paying less attention to the fact that these same suppliers were also supplying goods for one or more of the “B” brands discussed in this report.

Nonetheless, the reported number of labour rights violations among producers for “B” brands is long and, in some cases, well documented. Puma, Fila, and New Balance in particular have been the focus of various consumer campaigns, urgent appeals, and critical reports about their labour conditions.

The Japanese brands — Asics and Mizuno — on the other hand, have had little media attention focussed on their workplace conditions. This is also true for Kappa, which organises an important part of its sourcing through a joint venture with Li & Fung. Although these companies have seldom if ever been subject of large consumer campaigns, this does not mean that the working conditions within their supply chains are any better than the average for the sector. For instance, the fact that Kappa only just recently stopped sourcing from Burma does not bode well; neither do the recent announcements by **Asics** and **Mizuno** that they are going to increase their outsourcing. Furthermore, none of these companies have ever provided any public information regarding their global suppliers or any detailed information about their social policies with regard to the workforce. Recent research has shown that numerous basic workers’ rights are regularly violated in factories that supply these brands.

In many cases, violations of the ILO core conventions have been reported. This includes violations of Convention no. 29 (forced and compulsory labour), Convention no. 98 (the right to organise and bargain collectively), Convention no. 100 (equal remuneration), Convention no.105 (forced labour), Convention no.111 (discrimination), and Convention no.138 (minimum age of employment). Other abuses highlighted in this report include bad treatment (authoritarian or militaristic management styles), sexual harassment, forced overtime, low wages (that is, lower than the national minimum wage), poor safety standards, unjust employment contracts, limited access to toilet facilities, intimidation, and the suppression of (independent) labour unions.

To offer a few examples:

In the summer of 2003, workers at PT Busana Prima Global, an Indonesian garment manufacturer that supplies **Lotto**, Bear USA, Le Cog Sportif, and Head, encountered an anti-union campaign instituted by its management. This included demoting union board members and cutting their pay. The factory also forced its employees to work overtime upon short notice and had a history of very poor safety standards. When 300 workers went on strike for four days to demand that management respect Indonesia's minimum wage laws and demand an end to the harassment and intimidation in the workplace, the company responded by locking out most of the striking workers. These illegally dismissed workers have to date never received any severance pay, child support, or any other benefits they may have been entitled to, and are presently are continuing their campaign.

Fila in 2002 was sourcing from the notorious *Bed and Bath* factory in Thailand. This garment producer, also a supplier of Nike, Adidas and Reebok, has often forced its employees to work extensive overtime periods. In some cases, workers had to work overnight until 5 a.m. and then start again on the morning shift at 8 a.m. When the factory ultimately closed down the owners disappeared, still owing workers their back pay and severance pay. Workers eventually managed to receive a settlement.

Something similar happened with a **Puma** supplier in 2003. Some 200 workers initiated a wildcat strike at the Mexican factory, Matamoros Garment, after they worked three weeks without being paid. The workers further complained that the "factory has forced them to work many hours overtime, locked them in the factory and signed a 'protection' contract with a 'sweetheart' union, denying the workers freedom of association. Two years earlier, a similar demand for back pay ended when the police raided the workers' peaceful protest leaving a number of workers wounded. Many of those who participated in the demonstration were locked out and never paid" (<http://www.cleanclothes.org/companies/puma03-02-27.htm>). An international campaign put pressure on Puma who eventually agreed to allow an independent investigation into the matter.

Although **New Balance** tends to make the most out of the fact that it still has some production facilities in the US, critics have pointed out the exploitative conditions that exist not only in its overseas factories but in the US as well. The ITGLWF and UNITE accused New Balance of obstructing contract negotiations at the company's distribution centre in the state of Massachusetts. Moreover, many of the workers were underpaid temporary employees forced to work compulsory overtime. In 2001, it was

discovered that the Lizhan Footwear factory, one of New Balance's Chinese suppliers, cheated on its SA8000 certification. Among other things, the National Labor Committee found dormitory rooms packed with up to 28 people, daily 12-hour work shifts, and workers that were fired after they participated in a strike. SAI subsequently launched an investigation into the complaint.

An investigation by the Hong Kong Christian Industrial Committee disclosed how Cheong Chip, a Chinese football supplier for **Umbro**, Amdane, Diadora, and **Lotto**, forced its employees to work 13- to 14-hour days during peak season. The researchers also discovered numerous health and safety hazards, arbitrary penalties, pay delays, and low wages.

At one Indonesian sportswear supplier that produces goods for **Asics**, **Fila**, **Lotto**, **Puma**, and Nike, workers reported being forced to work for as long as 24 consecutive hours during peak export periods. They complained to the factory's management that this kind of forced overtime is against the law but they were told that the goods had to be delivered at a fixed time otherwise the factory could have been fined millions of rupiah. Any delays would be blamed on the workers and it would be them who would have to bear the costs (source: Play Fair at the Olympics Report). Workers in a factory that produces for **Mizuno** and **Kappa** reported that they were blocked from resigning during peak production periods by the management's withholding of unpaid wages (ranging from two weeks to two months' pay) (source: Play Fair at the Olympics Report).

Codes of Conduct

International campaigning has encouraged the leading brand-name corporations within the sportswear industry — Nike, Reebok, and Adidas — to commit themselves in principle to respecting workers' rights by adopting voluntary codes of conduct that cover the labour practices of their suppliers and subcontractors.

All of the brands included in this report with the exception of Lotto have adopted codes of conduct. The codes instituted by Puma, Kappa, Asics and Umbro are among the better and include part of the standards as outlined in the CCC and ICFTU model codes, although they do fail to make reference to the ILO and are still weak particularly concerning hours and wages.

The codes adopted by Fila and New Balance include weaker standards and do not emphasise the freedom of association. The weakest code is the one adopted by Mizuno in that it functions more as internal guide and does not monitor the conduct of Mizuno's suppliers. This code contains very insubstantial standards and does not do much more than confirm "that profits can be attained by following a fundamental standard of ethics" (see code: [Mizuno](#)).

In many cases, the workplace conditions described above are in direct contradiction with the standards adopted in their own codes. Table 6 gives an overview.

Table 6: Overview of "B" brand codes

| | <u>Asics</u> | <u>Fila</u> | <u>Puma</u> | <u>Kappa</u> | Lotto | <u>Mizuno</u> | <u>New Balance</u> | <u>Umbro</u> |
|-------------------|----------------|---|------------------|--------------|----------|------------------------------|--------------------|---------------|
| Code | Yes, | Yes, adoption date but without direct r | Yes, first adop | Yes | No, none | Yes, adopted & behaviour. No | Yes | Yes |
| Publicly availabl | No | No | Yes | No | No | No | Yes | No |
| Explicit Mentio | No | No | No, but has to : | No | No | No | No | No |
| Freedom of asso | Yes | No | Yes, in accord | Yes | No | No | Not formally but : | Yes |
| No child labour | Yes | Yes, age 14 or 15 v | Yes, age 15 | Yes, age 1 | No | No | Yes, age 15 or 16 | Yes, age 14 o |
| No discriminatio | Yes | Yes, it's unwelcom | Yes | Yes | No | No | Yes | Yes |
| No forced labour | Yes | Yes | Yes | Yes | | No | Yes | Yes |
| Established worl | Yes, comply w | No | Yes, 60 hours j | Yes, 60 ho | No | No | Yes , 60 hours | Yes, 60 hours |
| Living wage | No, but mentio | No | No, but wage r | No | No | No | No | No, but menti |
| Compliance wit | Yes | Yes | Yes | Yes | No | No | Yes | Yes |

Codes of Conduct and Compliance Programmes

Codes of conduct, even codes of conduct that contain strong (although implicit) reference to the ILO conventions, remain weak instruments for improving workplace conditions as long as they lack compliance programmes to ensure that standards are implemented and verified.

Most of the companies in this report have been unable to clarify precisely how they intend to implement and verify their codes at the factories they source from. Puma is the only company among the "B" brands included in this report that publishes a social report.

The workers in the effected factories often have no idea that these codes even exist or they are not trained in how to properly utilise them. For instance, workers in sportswear factories in Turkey that produce for Lotto, Kappa, and Fila had never heard of any codes of conduct. In other cases, the codes are plastered on factory walls but workers often claim that no one has ever inquired about workplace conditions. One Indonesian factory that supplies goods for Reebok and Umbro, has reportedly posted its codes but the only problem is that they are in *English*.

And even if code compliance programmes are adopted by brand-name corporations, there impact is limited for three reasons: First, these compliance programmes seldom focus on the workers themselves or prioritise the right to organise. Instead code compliance has generally focused on the most obvious violations in the first tier of the supply chain. In general, workers and their representative

organisations are excluded from the mechanisms set up to implement and verify code compliance. Of the brands in this report, only Puma has recently begun to institute, and then on a limited scale, worker training programmes.

Second, these kinds of codes have little impact because the purchasing practices commonly found in the athletic footwear and apparel sector have not been adequately amended to make the labour rights strategies effective. The way that lead times and delivery schedules are established, the prices that are paid for particular jobs, and the kind of relationship (i.e., short-term or long-term) that exists between the production company and the sourcing company all have an influence on the capacity of the supplier to comply with the labour standards. Although there has been an increase in recognition of the importance of these issues that lead to the failing of the codes of conduct — which was even noted in a recent World Bank Report) — the companies included in this report have thus far been very silent concerning these topics.²³

Third, there has been little evidence of positive results concerning the codes of conduct because the system of abuse and exploitation in both the sportswear and athletic footwear industries requires a firm commitment from all the major sourcing companies in both industries before the codes will begin to make any difference. Many of the problems at the production level in the area and sustainable solutions are systemic and require an approach that goes far beyond the scope of one buyer or one supplier. Systemic problems require a collective effort on the part of the entire sector before they can begin to overcome the system's limitations and they begin to see results from the implementations and enforcement of the codes.

Thus far only Nike, Reebok, Adidas and, more recently, Puma have begun a limited way working with NGOs and trade unions to find ways to make their respective codes more effective. Puma only began to take steps to improve code compliance by suppliers after an international campaign concerning the Matamoros Garment case put pressure on them. Puma has since begun dialogue with trade unions and labour NGOs and has initiated health and safety training courses in its Chinese footwear factories (i.e., the Yue Yuen factories). This is a significant example of how effective campaigning and public pressure can increase the chance of success. In 2004, Puma became a member of the Fair Labor Association. The other corporations, however, have not followed suit and currently are still not participating in any multi-stakeholder projects. Table 7 gives an overview of several developments in this area.

Table 7: Activities related to Code Implementation

| | Asics | Fila | Puma | Kappa | Lotto | Mizuno | New Balance | Umbro |
|--------------------|-----------------|-----------|--------------------|---------------------------|---------------|---------------|---------------------|----------------|
| Inspections | Not mentioned | Own staff | Internal SAFE pr | Own (LF basic | Not mentionec | Not mentionec | Internal staff plus | Own staff, pro |
| Co-operation with | No | No | Yes, worker train | Mentioned in c Compact | No | No | No | No, but campe |
| Participation in M | No | No | Yes, FLA membe | No | No | No | No | No |
| Transparency | A few vague sta | No | Social reports sir | No | No | A few stateme | A few vague stat | No |

| | | | | | | | | |
|------------------|---|---|---|-------------------------------|--|--|--|-------------------------------|
| Responsiveness 1 | Has never been focus on other c publicly reportec | Has not been exist that focu have been pul Cut & ran from | Improving, non-r during Euro 200(stakeholder dialc | Has not been ε anti-Burma car | Responded to to intermediat Were mention | Has not been named in case been publicly | Subjected to som US). Has been named publicly reported | Approached b: usually deny ir |
| Urgent appeal or | Sourced from P: | Sourced from Lian Thai Fact Thai lryo Publi | <u>Matamoros</u> Garn | | <u>PT Busana Pr</u> (urgent appea & Bonair (Mauritius) | Azim Group | Lizhan Footwear Freetrend factory | Pan factory (B Bed and Bath |



“Bringing up sound youth through sports”

Asics

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www.asicstiger.com

www.asicseurope.com www.asicstiger.com

Product Categories

Athletic footwear — exercise, baseball/softball, basketball, running, track & field, volleyball, walking, wrestling, tennis, rugged sports

Apparel — activewear, golf

History

The predecessor of Asics, Onitsuka Co. Ltd., was founded in 1949 by Kihachiro Onitsuka. According to company legend, Onitsuka had a philosophy of "bringing up sound youth through sports". Asics Trading Co., Ltd., was established in 1955 as the first athletic shoe company in Japan.

A remarkable fact is that the forerunner of Nike — Blue Ribbon Sports — began by importing and distributing Japanese Tiger shoes to undersell adidas, which dominated the US market during the early 1960s. Tiger shoes have become trendy again and Asics has opened a store in Tokyo to sell the original Asics Onitsuka Tiger brand of shoes and products.

In 1977 Onitsuka Co. Ltd., GTO, and JELENK merged to form the Asics Corporation.



Business Information

The Japanese group, Asics, produces and markets footwear, sportswear, and sport accessories. The company has only generated profits in three out of the past 11 years.

In 2003, footwear represented 55% of total sales, with sportswear representing 31%, and other goods 14%. Asics is particularly big in Japan, which accounts for 60% of its sales. But since the Japanese market is flat, the company has sought to expand into the international market. To help achieve this goal, the company has consolidated its subsidiaries in China, Europe, Korea, and the US.

The company, known for its "high tech" running shoes, dominates this sector of the athletic shoe market. For example, 40% of the runners in the 2000 New York Marathon wore Asics shoes.²⁴ According to one business report, Asics has a 24% market share in Germany's running market, the largest in Europe. While in the US it represents a 10% market share.²⁵

Japan's Sakura Bank owns a 5% stake in the company.

Asics Corporation Headquarters



Asics has offices in Japan, South Korea, the Netherlands (in Hoofddorp), the US, France, Brazil, and several other locations. The American unit of the company is called Asics America Corp.

In their 2003 Annual Report notes that they are seeking to “take out the brand beyond the sports field and into everyday life” (p.3). Asics has used the Onitsuka Tiger brand to create its brand image.

Asics' Brazilian partner is Azaléia, the fifth largest footwear company in the world. It produces and distributes footwear, apparel, and accessories for the Brazilian market. The company produces 150,000 pairs of shoes daily and has a gross turnover of around (Brazilian) R\$638 million²⁶. Azaléia invested US\$4 million into the development of new shoes, clothing, and accessories for Asics. It produces and distributes Asics athletic footwear, apparel, and accessories in the Brazilian market and throughout Latin America.²⁷

Table 8: Turnover by product in millions of Yen

| | Footwear | Apparel | Sports equipment |
|-------------|-----------------|----------------|-------------------------|
| 2003 | 74,263 | 42,438 | 18,939 |

Table 9: Asics Global Athletic Footwear Market Share, 2002

| | US | EU | Asia | Other |
|---------------------|-----------|-----------|-------------|--------------|
| Market Share | 2.2% | 2.77% | 10.85% | 3.38% |

Fact Sheet

- Established in 1949
- Public company
- Market capitalisation: US\$23,535,913,280
- Sales in 2002: US\$971.8 million
- Net income in 2002: US\$16.0 million
- Number of employees: 4,109
- Sales in Japan: US\$695 million
- Sales in the US: US\$201 million
- Sales in Europe: US\$227 million
- Net sales: US\$1,130 million (Annual Report 2003)
- Net Income: US\$43 million (ibid.)
- Profit Margin (Op income / net sales, *100) 2.7%

Staff

- Chairman: Kihachiro Onitsuka
- President and Representative Director: Kiyomi Wada
- President and COO, ASICS Tiger: Richard M. Bourne

The company recently became a member of the European Sporting Goods Industry (FESI), which represents approximately 1,800 sports producers.

Sound Bites

The name "ASICS" is an acronym for the Latin phrase "Anima Sana In Corpore Sano" (A sound mind in a sound body).

“Bringing up sound youth through sports” (Business philosophy)

“To become the number one brand of the sports enthusiast.” (Mission statement, US branch)

“Asics recognizes environmental conservation as an important social responsibility of the corporations and takes action to realize sustainable development on a global scale” (Asics website).

Mr. Onitsuka, according to company legend, founded Onitsuka Co. Ltd. when one day he was confronted by a large group of homeless children whereupon he asked himself: “What can I do to give them a better future?” Sports was his answer. He is also cited on the Asics website as saying that his “dream is to form a new community through sports. Hoping that developing the links of sports with more people through community sports clubs, people can live their abundant lives within the community”. He also notes: “my ultimate dream is that people in the world will unite and prosper in good health and cheerfulness” (http://asics.cy-plus.com/index_e.html).

Athlete Endorsements

Marketing, athletes’ endorsements and advertising have long played a minor role in the Asics business strategy. They preferred to invest in the production and development of shoes. However, this strategy seems to be changing. In their own words: “...we take pride in having good technology; however, we were too strict about the marketing. We will develop an active and bold marketing strategy in line with Nike who made good use of NBA and PGA star players” (Company website).

Asics has been the chief sponsor of various marathons including the New York City Marathon, the Frankfurt and Hamburg marathons in Germany, and the Torino Marathon in Italy.

In 1992, Asics was the official supplier of shoes for the Staff of the Barcelona Olympics where 60,000 torchbearers and 20,000 staff wore Asics shoes.

In April 2002, Asics began a new marketing campaign called the ASICS Revolution Plan (ARP) — encourage sports participation and healthier lifestyles for people around the world (2002 Annual Report).

Athletes who endorse Asics products

| | |
|--------------------------------------|-------------------------------|
| Steve Backley | Andrea Giani (volleyball) |
| Stefano Baldini | Stefan Holm |
| Matteo Brighi (soccer) | Colin Jackson |
| Åsa Carlsson | Christian Malcolm (sprinter) |
| Heike Drechsler | Fabrizio Mori |
| Deena Drossin (long distance runner) | Alessandro Nesta |
| Tomas Dvorak | Zhanna Pintusevich-Block |
| Jonathan Edwards (triple jumper) | Juan Veron (soccer) |
| Thomas Enqvist | Andreas Vinciguerra |
| Sebastien Frey (soccer) | Naoko Takahashi (marathon) |
| Jason Gardener (sprinter) | Chris Tomlinson (long jumper) |

management and compliance” (2003: 2).

However, Asics’ code of conduct is basically oriented toward internal ethical behaviour and contains mainly vague standards. No mention is made of these might apply to its subcontractors and vendors.

Part III of the following deals with Asics workplace code of conduct. It states for instance that ‘Asics believes that consumers can have confidence that products that are manufactured in compliance with these standards are not produced under exploitative or inhumane conditions’. The code does not make any explicit reference to international (ILO) standards

Code of Conduct

Commenting on the company’s position and policy regarding corporate governance, President and Representative Director Kiyomi Wada states in Asics’ annual report that: “Asics has... drawn up a code of conduct” (2003: 2).

Kiyomi Wada argues that its code “requires all management and regular employees to have a deep awareness of their social responsibilities and observe the letter of all relevant laws and regulations in all business activities, and to clarify ethically acceptable behaviour. It also provides procedures for crisis management and encourages high standards of risk

I. CORPORATE PHILOSOPHY -ASICS

- 1) We shall provide all our customers and consumers with quality products and services.
- 2) We shall act responsibly to preserve the environment and to contribute to the prosperity of the people and their communities.
- 3) We shall make a sound profit to compensate our employees fairly and to provide our shareholders an adequate return.
- 4) We shall strive to become a company with fair rules that respect the dignity of all individuals

II. ASICS CORPORATION CODE OF CONDUCT

ASICS CORPORATION Code of Conduct, based on ASICS Vision and ASICS Principles (established in 2003), which show the fundamental view of the management, aims to clarify the essence of a corporate conduct to be respected and accepted by all people. The contents mainly delineate the appropriate corporate behavior as the Code of Conduct for each and all directors, officers, auditors, and employees of ASICS CORPORATION (hereinafter called "the Company") consistent with their sense of values and conduct and corporate activities consistent with the laws and corporate ethics.

1. Purport and scope of application

"ASICS CORPORATION Code of Conduct" (hereinafter called "the Code") specify items to be observed during the daily conducting of business by all directors, officers and auditors of the Company (including those in similar positions) as well as all employees (hereinafter collectively referred to as "we", "our" or "us") while being fully aware of the social responsibilities of the Company as well as thoroughly observing relevant laws and ordinances in all corporate activities, and fully recognizing that socially acceptable conduct is indispensable for the sound development

of the Company.

2. Basic Stance

- 1) In all of our corporate activities, we shall observe laws, ordinances and international rules as well as in-house regulations including the Code in letter and in spirit. We shall work to see that corporate activities as the ASICS group are managed properly and are consistent with social ethics.
- 2) We shall respect the fundamental human rights of all people in all of our corporate activities, and shall not act to discriminate against individuals on the basis of their ethnic origin, race, nationality, religion, gender, age or any disability, nor impair their dignity.
- 3) We shall work for appropriate disclosure of information, maintain fair, just and transparent relations with anyone having an interest in the Company, and conduct fair transactions.
- 4) We shall not engage in activity that would be against the proper interests of the Company or which would impair its trustworthiness and honor.
- 5) We shall conduct our corporate activities with consideration for the environment and safety in an ecologically responsible manner to protect the global environment and natural resources.

3. Responsibility for Observance of the Code

- 1) We shall faithfully execute the items stipulated in this Code.
- 2) All directors as well as officers shall guide and supervise all employees in their charge, and all employees shall guide and supervise their subordinates to take the initiative in observing the Code.
- 3) To ensure corporate conduct in accordance with the Code, all related divisions within the ASICS group companies (including the Company itself) shall establish in-house regulations, behavior manuals, make concrete observance items thoroughly understood, and develop other

necessary activities such as providing advice or guidance.

4) In case any infringement of this Code should occur, the top management shall work to solve the problem, identify the cause, and work to prevent recurrence of the trouble.

5) We shall bear in mind that the Company and we, who work for it depend on the trust and reliance of society at large and we shall fulfill the responsibilities entrusted us.

III. Asics Workplace Code of Conduct

Asics has addressed issues related to the eradication of sweatshops in our factories. On the basis of this examination, Asics has formulated the following set of standards defining decent and humane working conditions. Asics believes that consumers can have confidence that products that are manufactured in compliance with these standards are not produced under exploitative or inhumane conditions

- A. Forced Labour: Employers shall not use any forced labour, whether in the form of prison labour, indentured labour, bonded labour or otherwise.
- B. Child Labour: Employers shall not employ any person younger than the age of 16, or under the legal minimum wage where local standards are higher
- C. Harassment or Abuse: Employers shall treat every employee with respect and dignity. Employers shall not harass or abuse any employee by physical, sexual, psychological or verbal harassment or abuse
- D. Non-discrimination: Employers shall not discriminate in employment, including hiring, salary, benefits, advancement, discipline, termination or retirement, on the basis of gender, race, age, disability, sexual orientation, nationality, political opinion, or social or ethnic origin.
- E. Health and Safety: Employers shall provide a safe and healthy working environment to prevent accidents and injury to health arising out of, linked with, or occurring in the

course of work or as a result of the operation of employer facilities

- F. Freedom of Association and Collective bargaining: Employers shall recognize and respect the right of employees to freedom of association and collective bargaining
- G. Wages and Benefits: Employers recognize that wages are essential to meeting employees' basic needs. Employers shall pay employees, as a floor, at least the minimum wage required by local law and shall provide legally mandated benefits
- H. Hours of Work: Employers shall comply with all applicable laws of the country of manufacture and other regulation regarding hours of work and days off on a regular basis
- I. Overtime Compensation: In addition to their compensation for regular hours of work, Employers shall compensate employees for overtime hours at such premium rate as is legally required in the country of manufacture
- J. Inspection: Employers agree that ASICS, its Licensee, its agent or its customer shall have the right to conduct inspection in accordance with ASICS PRINCIPLES MONITORING to assure compliance with this CODE

Asics response to the campaign

After the campaign started, Asics has provided more information on the Code of Conduct and their Corporate Social responsibility program.

The company acknowledges the importance of CSR and said it intends to implement it in every aspect of its organization. The company also states that it is essential to work at the industry level and asks the WFSGI to take the initiative for that

Finally, the company has communicated that it is investigating the charges made in the "Play Fair at Olympics Campaign" report.

The information below was given by Asics in a meeting with campaign groups on its corporate social responsibility programs:

- 1998, company introduced Factory Management Guidelines
- 1999, audit of 2 Chinese factory by Ernst and Young.'
- 2000, company obtained ISO 14001.
- 2002 company started CSR project
- 2003 Chinese factories were subjected to an audit based on the checklist
- 2003, in response to criticism that the 1998 guidelines do not have enough section on environment, the company established a new Asics Policy of Engagement based on WFSGI
- Established management guidelines to other equipment and wear factories.
- April 2004, CSR committee established
- Beginning of gathering information on all suppliers.

Sites of Production

Asics products are in part still produced in Japan. In 1999, according to the Dow Jones International News "Asics Corp. intends to raise overseas output of sportswear to 50% of total production in several years from about 20% in fiscal 1999. Though, Asics' core running shoes products are all produced in China."²⁸

"The firm seeks to accelerate the relocation of the production of mainly its training and outdoor activity wear to a factory run by its joint venture in Jiangsu Province and other affiliated plants in China."²⁹. Recently Asics altered their corporate vision from the pledge of contributing "as a sporting goods manufacturer to the advancement of athletics throughout the world" into one that aims to become "the World's No. 1 Creator of Sports-, Health- and Comfort-Oriented Lifestyles" (Annual report, 2003: 2, emphasis added).

The company also states in its annual report (2002) that in the sportswear sector their aim is to “work to raise our overseas output as a percentage of all production to reduce costs” (p. 4).

Asics' known production sites include Indonesia, Brazil, Romania, Bulgaria, Vietnam, Bangladesh, China, and Thailand. While their shoes are sourced from China, Taiwan, Korea, and Italy.

Labour and Working Conditions

Asics has never been the target of a large consumer campaign or an urgent appeal. Although the company has received campaign cards from the Swiss CCC “Let’s Go Fair” campaign.

According to a 1998 report produced by the Interfaith Center on Corporate Responsibility, Asics is most likely Yue Yuen’s fifth largest customer behind Nike, Reebok, Adidas, and Converse. Yue Yuen has a long record of scandals particularly in the 1990s (see company portrait).

Romania

One internal CCC report (1998) has revealed Romania as an Asics apparel production site. The workers are mostly paid at a piece rate. Wages in some areas are extremely low. Overtime is seldom if ever adequately compensated.³⁰

Thailand

The Par Garment Factory

This garment factory that supplies Reebok, Nike, **Asics**, and **Fila**, has been extensively described by Frieda De Koninck. Some of the workplace issues include: freedom of association, wages, and workplace safety.³¹

Par Garment Co. Ltd. is a medium-sized manufacturer, based in Phatumthani, Thailand. Sukree Bodiratanangkura founded the company in 1988. Since its founding the factory has had a notorious record regarding workers’ rights violations.

In 2000, an international campaign was initiated to drum up support for the demands of workers who had been dismissed by the Par Garment factory. The intense local and international campaigning resulted in the 30 dismissed union members and leaders

being awarded compensation, and the five who had demanded reinstatement were to be rehired. But the company violated a court order by refusing to rehire these five workers.

In February 2003, the union reported that the factory had filed for bankruptcy. They closed down Par Garment and then relocated to two non-unionised factories it already had a financial interest in, out in the provinces far from Bangkok.

The union recommended that pressure be put on the brand label companies as well as the Thai Government to accept responsibly and ultimately intervene to pressure the company to meet workers' demands, which included compensation and back pay for its members, and jobs for any employees willing to relocate to the two new factories.

The dispute between Par Garment and the workers they had dismissed involved unpaid compensation of over Baht 8 million and has yet to be resolved.³²

Excerpts from the Play Fair at the Olympics report

Indonesia: High targets

In one Indonesian factory that supplies goods for **Lotto, Puma, Fila, Asics**, Nike, and Adidas, one worker told researchers: *“In the garment division, the usual target is a thousand pieces per lane, per day. But during export days, the target doubles to two-thousand pieces. This doubling is very stressful for us and we often cannot reach it. When we don't reach it we get yelled at by the management and sometimes we get warning letters.”*

Indonesia: Gender

A number of workers at Indonesian factory D where **Fila, Lotto, Asics, Puma**, Nike and Adidas products are made felt, *“Women are much easier to order around by authority figures. Women don't raise their voices and incite conflict the way men are prone to when subjected to oppressive authority systems.”* They also reported that: *“Pretty girls in the factory are always harassed by the male managers. They come onto the girls, call them into their offices, whisper into their ears, touch them at the waist, arms, neck, buttocks and breasts, bribe the girls with money and threats of losing their jobs to have sex with them.”* One worker notes that *“There is no time for housework. For our friends who have children, we hear from them that they feel very upset in their hearts, that*

they never get time to spend with their children and to watch them grow. During the spare time we do have, we feel constantly exhausted.”

Indonesia: Overtime

One Indonesian supplier (factory D), producing for **Asics**, **Fila**, **Lotto**, **Puma** and Nike, workers reported being forced to work for as long as 24 consecutive hours during export periods. They complained to management that such overtime is against the law but were told that the goods needed to reach the loading dock at a fixed time otherwise the factory would be fined several million rupiah and as this would be the workers' fault, they would have to bear the cost.



Fila

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<http://www.fila.com>

Product Categories

Athletic footwear — tennis, running, soccer, fitness, basketball

Apparel — basketball, golf, skiing, rugged sports

The company also designs and markets leisure and casual footwear and apparel.

Company History

Fila was founded in 1911 in Biella, Italy. The company began by specialising in the production of textile and knitwear. In 1973, it entered the sportswear market, focusing on tennis. In 1976, the company was sold to Cottonificio Olcese. In the 1980s, Fila, like many of its competitors, began concentrating more on fashion than sports.

In the period 1997–2002 Fila performed not very well. Net revenues fell from 1.303 billion Euros to 955.2 million Euros. This led to a successful takeover bid by Sport Brands International in 2003.

Business Information

Fila is a subsidiary of Sport Brand International (SBI) which is a privately held company based in New York, and associated with private investment fund manager, Cerberus Partners. In June 2003, it purchased all of Fila's subsidiaries worldwide for US\$351 million. Shortly thereafter, 500 Fila jobs were axed as part of a strategic restructuring.

SBI is a holding company that includes brand names like Ciesse and Enyce. About 20 companies within SBI are involved in the creation, production, and distribution of footwear and sportswear.

Fila was originally an Italian company, known for its highly fashionable shoes and sportswear. In order to enhance this image, Fila has established partnerships with luxury brands such as Ferrari, Ducati, and Pininfarina.

Fila products can be found in some 50 countries at more than 770 sales outlets (mono-branded stores as well as department stores). It has recently turned to developing its own distribution network. In 2001, the first Fila Sport Life Store was opened in Milan. The US is Fila's largest market.

Fila is currently also re-organising its corporate structure. This means further job cuts; 550 stand to lose their jobs and some US retail stores will close their doors.

Its marketing and design facilities are based in New York and Maryland. Its footwear research and development facility will be moving from Peabody, Massachusetts to Montebelluna, Italy. Jon Epstein, CEO, stated: "Our goal is to be closer and more responsive to market needs and quicker to meet our customers' requirements. By doing so we will be able to build a stable, profitable and sustainable business... The strategic reorganisation is another critical step in making Fila an efficient and flexible organisation in a highly competitive market and in building a solid foundation for the company's future growth."³³

In June 2003, the private equity fund, Cerberus Partners, completed its acquisition of Fila holding for \$350 million.³⁴

Countries with Fila sales and distribution subsidiaries include: Argentina, Australia, Brazil, Canada, France, Germany, Hong Kong, Italy, Malaysia, Mexico, Singapore, South Korea, Spain, Taiwan, UK, US. (Dec. 2000, Source: http://www.fila.com/corp_docs/sec_filings/20f_t00.pdf).

Other countries include: India and Turkey (licensing agreements)
(http://www.fila.com/corp_docs/press_releases/ps_lic10_2000.pdf)

Central and South America, Israel, Philippines, Japan, Uruguay (Dec. 2000, Source: http://www.fila.com/corp_docs/sec_filings/20f_t00.pdf).

Fact Sheet

- Owner: private equity fund Cerberus Partners Sales: US\$955.2 million
- Net income: US\$85.0 million
- Number of employees: 2,301
- Marketing: US\$116.4 million
- 1.7% market share of total world athletic footwear market

Key People

- Chairman: Nicolo Nefri

- Global Marketing Director: Andrea Zappia
- CEO: Marco Isaia
- CFO/CEO of SBI Europe / COO of SBI: Robert Galvin
- CEO of SBI / Asia: Gene Yoon
- CEO of SBI / the Americas: Tom O’Riordan

Figure 9



Sound bites:

Fila, not unlike other brands, seeks to “enhance the individual’s pursuit of sports” that “mirrors the values of winning sports teams”. Along with the “Italian flair for style” it also seeks to associate its products with a desire for success, commitment, enthusiasm, creativity, fun, and team spirit.³⁵

“Fila is an authentic sports brand, committed to creating and marketing products that enhance the individual’s pursuit of sports as a way of experiencing greater personal fulfilment. Fila is committed to building a great company by attracting, developing, exciting

and, retaining outstanding people. Fila mirrors the values of a winning sports team: desire for success, team spirit, commitment, enthusiasm, creativity, and fun.”³⁶

Athlete Endorsements

Fila often engages in cross-marketing deals with other portfolio brands like Ducati or Ferrari because Fila wants to capitalise on its Italian heritage. Fila is the official supplier of apparel and footwear for the Formula-1 Ferrari Marlboro Team. Michael Schumacher also represents Fila by wearing the FMS02 race shoe, for example.

Other celebrities include:

Margareth Okayo (marathon)

Jennifer Capriati (tennis) US\$2 million annually

Kim Clijsters (tennis)

Jelena Dokic (tennis)

Grant Hill (Basket Ball): \$220,000 a week for seven years³⁷

Barry Bonds (Major League baseball)

Mark Philippoussis (tennis)

Michael Owen (soccer) paid £5 million

In the 2000 Olympics Fila sponsored:

572 athletes from 40 countries

6 national Olympic committees

8 national track and field federations

1 women’s basketball federation.³⁸

In 1999, Chris Webber won a \$2.61 million judgment against Fila, which had terminated Webber endorsement after he was charged with marijuana possession while on a promotional trip for the company. In 1997, Grant Hill signed a new 7-year deal worth over \$80 million. It’s one of the largest sports endorsement contracts ever and not only guarantees Hill a generous financial reward,

but also makes him chairman of a committee that will advise Fila on selecting other athletes for endorsement contracts as well as on licensing deals involving Fila.³⁹

Code of Conduct

Fila signed the Athletic Footwear Association's Statement of Guidelines on Practices of Business Partners in 1993. The Guidelines state that "Members... will only do business with partners whose workers are in all cases employed voluntarily, not put at risk of physical harm, fairly compensated, allowed the right of free association and not exploited in any way."⁴⁰ The Guidelines also provide that, "in the event of any willful, non-compliance with these guidelines member companies may terminate or refuse to renew their supply agreements with business partners based on the business partner's awareness of these guidelines".

Fila also adopted its own company code of business conduct (see below). However, the code contains very weak standards. For instance, there is no mention of ILO core conventions at all, plus the right to Freedom of Association is ignored and there is no explicit mention of working hours.

CODE OF BUSINESS CONDUCT

FILA is dedicated to ensuring that its products are manufactured under conditions that reflect our commitment to human rights in the workplace. As a global corporation, we support internationally recognised norms for the safety and well-being of the employees who are responsible for the manufacture of our products, and we believe that it is incumbent upon ourselves to ensure that the employees' working environments around the globe meet or exceed these norms. This policy is intended to implement standards which are fair, reflect marketplace conditions, are appropriate to the variety of cultures and peoples which are an important part of our success as a brand, and encourage self-respect amongst our suppliers' and vendors' employees with a sense of pride and

accomplishment.

Compliance with Laws and Regulations

FILA prefers, as a matter of policy, to do business with Vendors/Suppliers who meet or exceed the standards set by the applicable laws and regulations relating to employee rights and working conditions. Vendors/Suppliers must, at a minimum- comply with all applicable laws and regulations including but not limited to age, hours of work, minimum wage, overtime, provisions for vacation and holidays, and required retirement benefits. If an industry standard is higher than the legal minimum, Vendors/Suppliers must apply the industry standard in lieu of the inferior law or regulation. Vendors/Suppliers must comply with all applicable laws and regulations relating to the exportation and importation of merchandise including country of origin, labelling, Customs classifications and valuation and all laws prohibiting counterfeiting trademarks or trans-shipment of merchandise.

Forced Labour

FILA will not do business with Vendors/Suppliers who employ forced labour. Vendors/Suppliers may not utilise imprisoned, indentured, bonded or any other form of compulsory labour in the manufacture of FILA products, including labour that is imposed as a means of political coercion or as a punishment for political or religious views.

Child Labour

FILA will not do business with Vendors/Suppliers that use child labour. No person shall be employed at an age younger than 15 (or 14 where the law of the country of

manufacture allows) or younger than the age for completing compulsory education in the country of manufacture where such age is higher than 15.

Safety and Health

FILA is committed to the health, safety and welfare of the employees manufacturing its products. Vendors/Suppliers must treat all employees with respect and dignity and provide them with a safe and healthy working environment. Factories shall comply with all applicable laws and regulations regarding the working environment and must be free of any hazardous conditions. Vendors/Suppliers who provide residential accommodations for employees must apply similar standards to their residential facilities.

Worker's Insurance

FILA prefers Vendors/Suppliers who provide appropriate health and life insurance for their employees. Vendors/Suppliers must comply with all appropriate local laws and regulations requiring health insurance, life insurance and worker's compensation.

Environment

FILA is committed to preserving the environment. Vendors/Suppliers must comply with all applicable local environmental laws and regulations and abide by FILA's own environmental regulations.

Equal Opportunity

FILA is absolutely committed to non-discriminatory employment practices. FILA will only do business with Vendors/Suppliers who share FILA's vision that discrimination is unwelcome in the workplace. Vendors/Suppliers must not discriminate in hiring, salary, benefits, advancement, discipline, termination or retirement on the basis of race, colour, nationality, gender, disability, sexual orientation, religion, social or ethnic origin, political or other beliefs. Employees should be hired and promoted on the basis of ability not on the basis of personal characteristics or beliefs.

Sites of Production

Product and apparel sourcing responsibilities are currently divided between its offices in Seoul and Hong Kong. As part of Fila's restructuring plan, it's in the process of centralising these functions in Hong Kong.

Fila's footwear sourcing office, currently based in Taiwan, will eventually move to China.⁴¹

Fila producing countries include: Thailand, China, India, Vietnam, Malaysia, Hong Kong, Indonesia, Swaziland.

In 2000, most of Fila's production was in Asia (76%). Italy accounted for 6%, the rest of Europe for 5%, and the rest of the world 13%.⁴² (Source: 131b).

Table 11: Footwear production in 2002 by country

| | | |
|-------|-----------|---------|
| China | Indonesia | Vietnam |
|-------|-----------|---------|

| | | | |
|-------------|-----|-----|-----|
| Fila | 35% | 50% | 15% |
|-------------|-----|-----|-----|

(Source: Banc of America Securities, June 2003, p. 14).

Working Conditions

Burma

Fila only cancelled its sourcing contracts with Burma some time in 2001.⁴³

China

A National Labor Campaign report investigated **Wei Li Textile** (also known as the Supercap Factory). It is a Taiwanese-owned company with three factories in Chongshan and Zhu Hai, employing a total of 6,100 workers, most of them young women. One recruitment advertisement encouraged only women between the ages of 17-21 to respond. Factory no.2 produces caps for Nike, **Fila**, and Agron.⁴⁴ According to the report, employees work in 12-hour shifts with only every other Sunday off. Overtime was not fairly remunerated in 1999: "On average, they were at the factory 84 hours but only paid for 78 hours". In 2000, however, the situation seemed to improve and workers "appeared to be working on a five-day, 8-hour day, 40-hour Monday through Friday schedule".

The factory has a company union with labour representatives appointed by management. Workers are paid according to a piece rate system and range from US\$19.46 to US\$25.02 per week, with an average US\$22.24 per week, or 56 cents per hour. "Eight workers share one room. Strict factory regulations require that all dorm lights be shut off before 11 p.m. Failure to do so will result in a fine. The workers must pay 70 rmb for their temporary residency permits."⁴⁵

Research performed by Chinese Labor Watch at Dongguan Elegant Top Shoes Co., Ltd. (source 110), a shoe factory that produces for major brands like Reebok, Clarks, and **Fila**, revealed that it used child labour and subjected workers to dangerous chemicals, such as methybenzene, without protection. Further, women workers have been subjected to sexual harassment and hefty fines were meted out for minor mistakes. Work hours exceeded 60 hours per week, while wages were about US\$25 US per week.⁴⁶

A 1997 internal CCC report notes that one Chinese supplier of Fila is run by the military. According to an interview with management, Fila quality control management is not interested in child labour or other labour issues.⁴⁷

China

In 2003, at a Chinese factory¹ that supplies **Fila**, **Umbro**, Nike, and Reebok, the following case was reported to researchers:

A female migrant worker joined this factory in October 2003. After eight days, she was informed that her child was seriously ill. Wanting to rush home to her village to care for her child, she tried to resign; but her request was denied. At the time of the interview, this factory's policy, in cases of workers who wished to resign, was to terminate the employment contract and refuse to pay outstanding wages — a policy designed to minimise worker turnover, since many migrant workers want to leave when they find out the reality of life in the factory. The worker in question decided to leave anyway and was willing to forego the wages that she had earned for those eight days. When she reached the factory gates, the security guards blocked her way. They said they would not let her go unless she paid them RMB 50 (US\$ 6) to release her luggage. She had no money to pay them, since she had not received her wages, and she begged them to let her go. One of the security guards said: *'You don't have the authorisation. You have to pay the RMB 50 (US\$ 6) to get permission. If we allow you to go, we will be fined RMB 150 (US\$ 18) for breaking the factory rules. Do you know that? It will cost us both RMB 300 (US\$ 36)! Which is higher – RMB 50 (US\$ 6) or RMB 300 (US\$ 36)? If you have no money, borrow some.'* The woman pleaded, *'I don't know anyone. I am new here. I must go back. My child is sick.'* The security guards refused. They said, *'We don't have time to argue with you. There is no exception. This is the factory rule and our duty.'*

Vietnam

In 1997, Thai Binh was a Fila supplier but there is no information about labour conditions there. Hiep Hung is also identified as a Fila supplier in 1997. Other sources,⁴⁸ report a history of labour unrest at this factory. "Over 30 workers at the Hiep Hung Footwear Company (HCM City, District 8) stopped work on August 30 to protest management's failure to pay salaries and back wages, which have been overdue since June. Hundreds of other workers did not take part in the strike but left the factory". The company still

¹ Factory P in the Play Fair at the Olympics report coding

owes five-months back wages to 300 contract workers. In addition to the unpaid salaries (estimated at VND2 billion,⁴⁹ the Hiep Hung Footwear Co. Ltd. also owes VND8 billion in social insurance payments, the *Lao Dong*, a labour newspaper reported.

Hiep Hung, while producing for Reebok, also had labour problems in 2001, according to *News Highlights of Vietnam* of 9 July 2001. "Hiep Hung Footwear workers strike. More than 200 employees of the Hiep Hung Footwear Co. in District 6, HCM City went on strike in the morning July 4. The reason cited was that they have been paid only 230,000 dong per month, which made it impossible for them to afford even basic living costs".⁵⁰

Indonesia

The Jakarta Post (8 Jan. 1999) reports that 4,500 employees of a shoe factory in Balaraja, which produces for Fila and Langford, went on strike to demand their annual holiday and *Idul Fitri* bonuses. "We want the company to pay us the same amount of THR (*Idul Fitri* bonus) as in previous years, and exclude the *Idul Fitri* holidays from the regular annual holidays', one of the protesters said in a statement during Monday's rally, which started at 8 a.m".

The Jakarta Post (16 April 2002) reports that thousands of labourers at PT Truba Raya Trading, a producer of Fila shoes, staged a rally in Ciawi, Bogor, demanding the company raise their wages in accordance with the new provincial minimum wage. They also demanded that PT Truba not impose income taxes on the workers". The company and the union had reached an agreement earlier but the company postponed it because it claimed that a particular shoe order had been reduced by 50%. One worker responded to the *Post* by observing: "Who said the orders are decreasing? We have to work overtime all the time, even on Sundays, to fulfill the orders".

In 1999, there was a strike at P.T. Tae Hwa Indonesia, a Fila supplier. The workers demanded their Lebaran bonuses (a customary bonus paid at the end of Ramadan). The workers also demanded an annual holiday for Lebaran from 16-24 January, which would not be counted against their annual leave. "Other demands included not cutting their usual incentive pay to make up the annual bonus, providing food for the night shift, increasing the daily food allowance, providing two days' menstrual leave for women workers, and not cutting the bonus pay for workers who have suffered industrial accidents. The management entered into negotiations with the workers and were able to come to agreement on most of these demands, except that of the Lebaran bonus pay."⁵¹

Turkey

In 1999, the International Textile, Garment and Leather Workers' Federation urged Fila to reconsider its decision to terminate its contract with Töstas, one of Fila's Turkish suppliers. Fila had terminated the contract after a factory inspection revealed that the factory was employing children. The factory inspection was prompted by Fila's general lack of respect for trade union rights — 135 of 180 workers at the Edirne branch were sacked nine months before for trying to form a union. "Even though the dismissals were overturned by the labour tribunal, the workers have still not been reinstated and have been camped outside the workplace to demand respect for their rights". The ITGLWF urged Fila not to run away from its problems and seek to resolve the situation by restoring order with the condition that the dismissed workers are re-hired and to "ensure the immediate transition of the children concerned from work to school, with lost income being replaced by the employment of adult members of the same family or by the payment of an appropriate allowance to enable the children to attend school."⁵²

Research conducted in 2003 in Turkey for the Play Fair at the Olympics report describes the situation at one factory employing some 450 workers (55–60% male employees).

- Employment is freely chosen and there is no indication of child labour or forced labour.
- There is no discrimination with regard to wages between men and women performing the same work. However, the great majority of the supervisors are men. While the women workers comprise 40–45% of total workforce they comprise nearly 65–70% of the sewing machine operators in the manufacturing department (lowest wage category). There is no evidence of sexual harassment or abusive treatment of women.
- There is no union at the factory and there is no collective bargaining agreement. Most of the interviewed workers believe that the existence of a union in their factory or any other free zone company is impossible. They also believe that if they joined a union they would immediately be fired and be unable to ever find a job in the region again.
- Workers receive a monthly wage, which are always paid on time. Average monthly wage in the factory is between 280,000,000 and 300,000,000 TL plus overtime payments.⁵³ The factory also provides lunch for the worker and provides bus transportation between the factory and home.
- Official records (payslips) reveal that all workers receive the legal minimum wage (226,000,000 TL)⁵⁴ and only this part is taxed and insured. Overtime and any other payment remains undocumented.
- Overtime is a common practice in the factory and is paid at 50% above normal wage. But there is no clearly defined procedure for its calculation. According to interviewed workers, they generally work 55 to 60 hours per week.

- According to Turkish labour legislation overtime should be voluntary, but management, when necessary, forces its workers to work overtime. Making overtime compulsory in effect. Without any “valid and really good reason” the workers cannot refuse overtime. Although most opt for overtime because normal wages remain very low. They can only survive by working this overtime.
- After 1 year of employment workers receive 2 weeks paid annual leave.
- Workers are mostly satisfied with the physical conditions in the factory. There are no problems regarding the health and safety issues and physical working conditions.
- Nobody seems to know anything about codes of conduct.⁵⁵

India

A SOMO report (2001) revealed that an Indian supplier for Fila had made overtime compulsory. Other observed working conditions include:

- “Normal working hours are 9 hours per shift and they work for another 3 to 4 hours a day overtime, which corroborates interviews with management”.
- “Overtime is compulsory for all workers. They work more than 60 hours per month overtime”.
- “80% of the workers work at least 6 days per week. 20% of the workers work 5 days per week”.
- “Workers work entire weeks, without a day off at least twice a month”.
- “All workers are treated equally and there is no discrimination based on caste, religion, colour, or age. However, discrimination based on sex prevails particularly among women who are denied the opportunity to work in highly skilled and lucrative jobs such as cutting and tailoring. Women mostly work the unskilled, low-wage jobs”
- “Workers know nothing about the code of conduct or about labour rights relating to the code of conduct. Management has never informed them about the code of conduct. This contradicts their claims that their code of conduct is put up on the factory walls in the local language. Either this is not the case — it was not possible to verify this — or it shows that merely hanging the codes on a wall is not enough to make workers aware of their rights as laid down in the code of conduct.”⁵⁶

Thailand

The Lian Thai Factory (part of the Global Alliance program) produces for, among others, Nike, Adidas, and Fila. Interviews with workers revealed that many of the workers have temporary contracts. After four months, they are dismissed and mostly rehired

again. Overtime is normal. Official work hours are from 8.00 until 17.00, overtime is from 17.30 until 23.00, and sometimes even longer. Most employees also work on Saturday and Sunday. Workers can refuse overtime, but refusal is met with much criticism from management.⁵⁷

There is a union at the factory. “In the beginning, when setting up the trade union, they encountered a lot of difficulties, members were, for example, moved to other sections. Now it works better”.

Both Nike’s and Reebok’s codes of conduct are visible on the walls. But interviews revealed that the concept of codes of conduct is barely comprehended by the workers.

“Monitoring Personnel from Nike and Reebok come to factory daily to control the quality. Nike’s Code of Conduct is the only Code of Conduct hanging up in the factory. According to the workers the others, like Reebok, are uninterested in working conditions. They feel a Code of Conduct like Nike’s is in principle a good idea, except for the fact that the factory owner just ignores it. Most workers do not know anything about a Code of Conduct, not even that they exist. The concept of a Code of Conduct is very unclear for most workers. They don’t understand what it means and what kind of rights it gives them”(etc.).⁵⁸

The Thai Iryo Public Company Ltd. and Thai Iryo Garments Ltd.⁵⁹): “The Thai Iryo Garment factory, which used to produce for big brands such as **Fila**, Timberland, Adidas, Nike, and Puma, closed down on the 30th August 2000 and 1,236 workers were made redundant. The company failed to pay the dismissed workers the full amount of redundancy pay due to them, despite Labour Investigation Officers ordering the employer to do so. Several hundred of the redundant employees decided to remain at the site of the closed factory until the firm paid them their money. They were supported in their demands by an international campaign. After a struggle lasting two months, the company signed an agreement to pay the remaining compensation to all the workers concerned”⁶⁰

Table 12

Chronology: Thai Iryo Garment Struggle

30 August 2000: The Company announced a closure and informed the workers to come and collect their compensation and unpaid wages in mid-August. The company failed to pay the workers when the time came.

September 2000: Workers tried to follow up with the company on the unpaid compensation and

wages, and decided to file their case to the police as well as at the Ministry of Labour.

6 October 2000: The dismissed Thai Iryo and Iryo Garment workers organised a peaceful rally outside the residential house of Supa Bodiratanangkura, mother of Chutipat Bodiratanangkura who owned most of the Thai Iryo shares.

7 October 2000: Thai Iryo and Iryo Garment workers filed their cases with the police, and demanded law enforcement against the employers for violating the labour law concerning compensation.

9 October 2000: Thai Iryo and Iryo Garment workers marched to the Ministry of Labour to follow up their cases with the Minister, Prayut Siripanich.

11 October 2000: The workers went to protest at the Thai Buddun Company, a subsidiary of Thai Iryo. 'Thai Buddun' is owned by the Thiengtham Family, also a major shareholder of Thai Iryo. At Thai Buddun the workers met with Orawon Thiengtham and Worajan Thiengtham, when the workers demanded that their compensation be paid. This also gave workers an opportunity to inform the workers at Buddun about management's behaviour.

13 October 2000: Nikorn Prajuabmau, a manager at Thai Iryo, came to the union office to meet workers' representatives; the main issue concerned was compensation payment. However at the end of the meeting, Nikorn simply said "we do not have the money to pay for compensation".

14 October 2000: Workers joined the commemoration event for those who died in the massacre of 14 October 1973. The workers talked to various people and the media about their situation.

16 October 2000: Workers went to the Labour Court because management had earlier requested a Court Order to dismiss the 11 Employee Committee members who had accepted the dismissal with 2 months compensation in the first place. (The dismissed employee committee had to file their case in Court to eventually be fully compensate.)

17 October 2000: Workers and another 200 workers from the Thai Durable Company went to the Industrial Council of Thailand located at the Sirikit National Convention Centre to submit a letter to the president of the Council. However, the president was unavailable, and his secretary received the letter for him and promised to inform the president about the workers' situation.

31 October 2000: The employer paid the second installment of compensation some 7 million Baht to be divided among 1,217 workers. The company promised to pay the remaining 43 million Baht⁶¹ on 25 November, 2000. The workers doubted the management's promises as there had been several times in the past that it had failed to keep its promises.

6 November 2000: 120 workers went to the Ministry of Labour to demand the Government

Social Fund, which the Ministry of Labour had been promising to pay since 28 October 2000, but the workers had still not received the money. Finally, upon the order of the Deputy Labour Minister, the workers received their money on 7 November 2000.

March 2001: The protests ended and the company's machinery was sold.

May 2001: After selling the company's machinery, workers received 45% of the total amount.

Source: Junya Yimprasert & Thai Labour Campaign, 30 August 2003, "Supply Chain in Thai Garment Industry: Impact on Women Workers!"

The Par Garment Factory used to supply goods to Fila (see [Asics](#) for more information).

Bed and Bath Prestige (Thailand) became a target of actions and urgent appeals after it closed down a factory without notice or compensation, contrary to Thai law in October 2002.⁶²

Bed and Bath became a registered company in 1994. The owners are a young couple, Chaiyaphat Phothikamjorn and Auayporn Songsermprasert. The 2001 property value of Bed and Bath Prestige (Thailand) is roughly 400 million Baht.⁶³ Bed and Bath subcontracted to produce children's and sportswear for many corporations including Nike, Reebok, Adidas, Levi's, **Fila**, **Umbro** and nearly 40 other brands that order through the agent, Haddad Apparel. It also subcontracted to more than 40 small and medium-sized sweatshops including many along the Thailand and Burma border. These sweatshops employ mainly vastly underpaid Burmese migrant workers.

There are 5 companies related to the Phothikamjorn family, namely Penny Industry (founded in 1981), Lintex (founded in 1988), Kennet Textiles (founded in 1991), Bed and Bath (founded in 1994) and Top Line Apparel (founded in 1995). Workers of the Bed & Bath factory began a campaign to fight for their legal rights to back wages and, in that regard, demanded the arrest of Chaiyaphat Phothikamjorn and Auayporn Songsermprasert.⁶⁴

Table 13

Chronology of B&B struggle

7–21 October 2002: Over 600 workers went to the Ministry of Labour asking for an investigation of the company's status since their employers disappeared and shut down the factory without compensation and the back wages of some 900 workers.

21 October: Over 400 workers decided to demonstrate at the Ministry of Labour. It lasted three months.

22 October: Workers' representatives handed a letter to the Labour Ministry calling for the Ministry to: 1. find their employers and take legal action against them; 2. investigate the workers' contribution to the Social Security Fund paid by employers; 3. investigate the reasons for the factory closure. As workers made their demands known, their representatives pressured the Ministry to find a solution to their cases.

24 October: The turning point came when Suwat Lipatapollop, Minister of Labour, was surrounded by workers while sitting in his car. Meeting him face to face they asked him to speed up the investigation. A decision was handed down on 25 October; labour officers in Samutprakarn province issued an order for the employers to pay 301 workers over 1,128,000 baht. Meanwhile, the Samutprakarn court issued arrest warrants for both Photikamjorn and Songpornprasert and voided their passports.

1 November: Some 300 workers marched from the Labour Ministry to the National Police Centre to hand a letter to the Chief of Police demanding they speed up the arrest process.

4 November: Workers marched to the NIKE offices in Bangkok calling on the company to accept their part of the responsibility. They carried banners with slogans like, "NIKE, we produce for you what can you do to help us".

18 November: Solidarity Forum at the Labour Ministry with B&B workers.

23 November: At 8.30, workers marched to the 'Conference of Asian Political Parties' at Shangri-La Hotel demanding justice. The Assembly of the Poor also marched to this conference.

29 November: Workers rallied at the US Embassy demanding pressure be put on the Thai government.

10 December: Workers submitted open letters to the UN High Commissioner and the deputy director of the ILO in Bangkok.

17 December: Workers submitted an open letter to PM at the Government House.

19 December: Thai Labour Solidarity Committees and 300 members of labour alliances visited B&B workers at the Ministry building and set up the forum "Law must be justice, workers are not slaves". They also declared their collective intention to pressure the Ministry to resolve these

labour rights violations immediately.

4 January 2003: Workers sew T-shirts and cotton shirts to raise money for their struggle.

9 January: At 6 p.m., 7 workers' representatives shaved their heads to protest the slow pace of legal case.

31 January: End of first phase of the 3-month struggle by 171 workers.

February: Solidarity Factory of former B&B workers was established. They used 'Made in Dignity' as their production logo. 40 former B&B employees work at this factory and continue to pursue justice in this case.

Source: Junya Yimprasert & Thai Labour Campaign, 30 August, 2003, Supply Chain in Thai Garment Industry: Impact on Women Workers!

Excerpts from the Play Fair at the Olympics report

A young female worker working in Chinese factory R that supplies Nike, **Fila**, Arena, Adidas, and Reebok told researchers: *"We have overtime work till 11pm or midnight everyday. The price they pay us per piece is so low, so there is no point to us working such long hours. If our income was higher, I would have no complaints. But all we have now is exhaustion and a low income. Some of us do not even have enough money to spend on food. It is more than we can bear"*. (OC-report-draft 26 January 2004)

Indonesia: Sexual Harassment

More disturbing are the regular incidences of sexual harassment of young women workers at various factories. At Indonesian factory D that produces for Fila, Puma, Lotto, Nike, Adidas, and Asics, workers reported: *"Pretty girls in the factory are always harassed by the male managers. They come onto the girls, call them into their offices, whisper into their ears, touch them at the waist, arms, neck, buttocks and breasts, bribe the girls with money and threats of losing their jobs to have sex with them"*.

Indonesia: Health and Safety Problems

The health toll among employees is high, thinks Fatima, a 22 year-old Indonesian woman worker employed in factory D that produces for Adidas, **Fila**, Nike, **Puma**, and **Lotto**: *"I have many health problems: headaches, diarrhoea, stomach flu, back pains*

and muscle cramps. All these are caused by the general situation in the factory – the bad air, having to stand all day and the long hours of work without sufficient rest, water or food” (OC-report-draft 26 January).

Indonesia Overtime

At Indonesian factory D producing for **Asics**, **Fila**, **Lotto**, **Puma** and Nike, workers reported being forced to work for as long as 24 consecutive hours during export periods. They complained to management that such overtime is against the law but were told that the goods needed to reach the loading dock at a fixed time otherwise the factory would be fined several million rupiah and as this would be the workers’ fault, they would have to bear the cost. *(OC-report-draft 26 January)*

Elsa, a contract worker in Indonesian factory D, told researchers: *“In the garment division, the usual target is a thousand pieces per lane, per day. But during export days, the target doubles to two-thousand pieces. This doubling is very stressful for us and we often cannot reach it. When we don’t reach it we get yelled at by the management and sometimes we get warning letters”*.

Indonesia: Fines

At a third factory⁶⁵ again producing for Umbro as well as for Fila, stitching workers report being fined a minimum of RMB50 (US\$6) each time the product they made was flawed. These same workers had a normal working day of 12 hours. Some of them worked the night shift from 7:30 p.m. to 7:30 a.m.

Turkey: Compulsory Overtime

In four Turkish factories (W,X,Y and Z)⁶⁶ producing for **Lotto**, **Fila**, **Puma** and **Kappa**, workers all reported working compulsory overtime.

Turkey: Code

Workers at four sportswear factories in Turkey producing for Lotto, **Fila**, and **Kappa** said that even though, in some cases, the codes of conduct were plastered on factory walls, they had never been asked about conditions in the workplace.



Kappa

Spett.le

BASICNET

Attenzione: Marco Boglione

14 giugno 2002

Roma, Italy

Prot.n. 201/02 R - VA.vp

<http://www.basic.net>

Product Categories

The BasicNet Group that owns the Kappa brand has business activities in clothing, footwear, and accessories, for sport and leisure, and for any informal social and professional occasions.

History

In 1971, an apparel line under the name of Robe di Kappa was launched in Italy. In the early 1980s, the company moved into the sportswear market under the name Kappa. In 1994, Marco Boglione obtained several trademarks (including Kappa, Robe di Kappa and Jesus Jeans) from the bankrupt Maglificio Calzificio Torinese. These trademarks were brought together under one holding company: the BasicNet Group. Marco Boglione transformed the company from a traditional clothing company into a network business model.

Business Information

The BasicNet Group's main businesses include sports and leisure apparel, footwear, and accessories. The company is based in Turin and has been traded on the Italian Stock Exchange since 1999.

BasicNet consists of 38 licensee companies, operating in 83 nations. A majority of its sales occur through its licensees. As one manager noted: "Licensing has made Kappa a global brand."⁶⁷ In 1999, the BasicNet Group owned two licensees directly: Kappa Italia S.p.A. (the licensee in Italy which represents the network's development laboratory) and Kappa USA Inc. (which represented, as its website notes, "the BasicNet Group flagship for market penetration in such an important market as the USA").

In December 2003, BasicNet signed an agreement to purchase the K-way brand and to become the sole licensee for the Superga brand. The Group's objective is to become a leading operator worldwide in the casual and sports apparel sector. Benetton is one of its major shareholders.⁶⁸

In 2001, a licensee agreement was concluded between Basic and the Li-Ning Group. This Chinese company, which is owned and named after the athlete who won six medals at the Los Angeles Olympic Games in 1984, is the largest Chinese distribution network for sportswear and equipment. It has 782 licensed stores, more than 2,000 sales outlets and 12 retail companies. Li-Ning Group has a turnover of US\$96 million.

This license agreement has stimulated the opening of 110 Kappa stores in major cities (see Annual Report 2002). Note that Li-Ning also markets and designs sports shoes. In the first six months of 2001, "six new shoe models were introduced, selling at half the price of their Nike and Adidas equivalents."⁶⁹

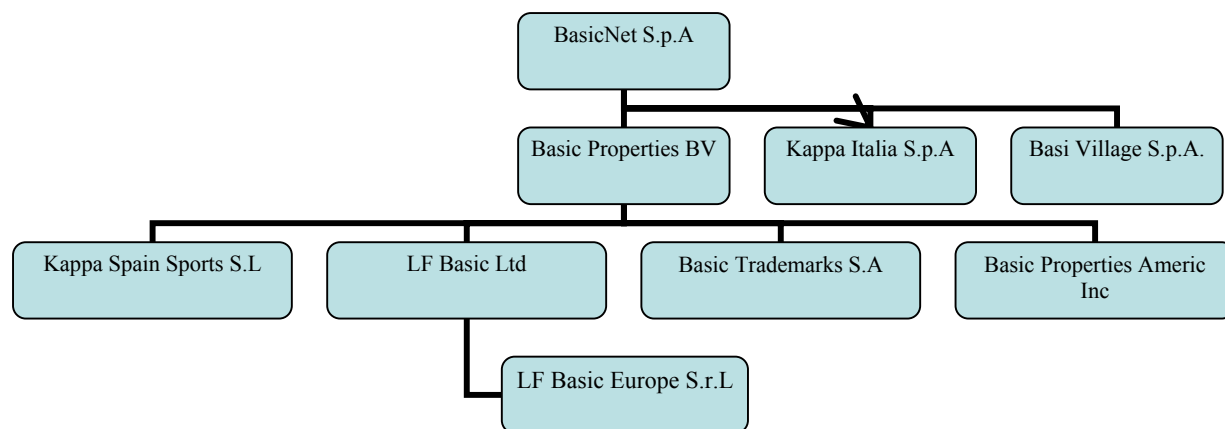
Most of the licensee revenue is generated in Italy, which accounts for 37% of sales, followed by France (12%), Spain and Portugal (7%) Germany (6%), and the US (5%). Europe accounts for 87% of its licensees' aggregate sales revenue.

BasicNet business system operates on a very simple level. The head of the group, BasicNet, handles the strategic work such as product research and development, global marketing, licensee network development and co-ordination, strategic finance, information technology (creation of software systems to allow the on-line management of every process in the chain).

The company is supplied via the sourcing centres that have the task of identifying and co-ordinating the factories to which product manufacturing can be entrusted (see below).

The licensees, defined on a territorial basis, are entrusted with distributing the products to the retailers, as well as local marketing based on the group's guidelines. When it comes to supplying the finished products, the licensees are free to revert to the sourcing centres or to turn to other suppliers outside the sourcing circuit, using the production specifications that BasicNet puts at their disposal.

Figure 11



BasicNet now directly employs over 390 people and a total of over 1500 people in 77 countries who work full time within its network. In 2001, global sales of group branded products were over 300 million Euros.

Fact Sheet

- Public Company

- Chairman: Marco Boglione
- Headquarters: Turin, Italy
- Sales: Euros 242 million (2002)
- Net income: Euros 1.2 million (2002)
- Media and sponsor costs: Euros 17.8 million (2002)
- No. of employees: 390

Sound Bites

“Judging whether a government is good or bad and deciding whether to produce in that country or not, I really don’t think this is our responsibility,” argues Marco Boglione, BasicNet’s president. “Moral political actions are tasks of governments or world institutions vested with this duty.”⁷⁰

“In a few years, BasicNet has been able to relaunch worldwide the trademarks that were part of the history of informal and sport apparel in Italy. And it has gone even further. Betting everything on new technology, it has managed to create a company that is not only completely integrated with the net, rapid, and reduced in size, but virtually present everywhere. *Ready to face the future*” (BasicNet Group Presentation, from website, emphasis added).

Athlete Endorsements

The company sponsors the football teams Feyenoord (the Netherlands) as well as A.S. Monaco (France), F.C. Porto (Portugal), Vasco Da Gama (Brazil), the Jamaica Football Federation, Real Betis Sevilla (Spain), A.E.K. Athens (Greece), Sparta Rotterdam (the Netherlands), Red Star Belgrade (Yugoslavia), among others. It also sponsors volleyball, water polo, the Ferrari racing team, several international teams use Kappa sportswear.

Code of Conduct

LF BASIC GROUP: the exclusive sourcing centre for KAPPA (Robe di Kappa and Jesus Jeans) adopted a Compliance Programme

For Code of Conduct, which was updated in December, 2001. This LF Basic Group Code of Conduct (“Code of Conduct”) outlines the basic requirements concerning working conditions that must be satisfied by all suppliers (“Vendors”) to principals of the LF Basic Group (“LF Basic”). LF Basic and its principals are free to supplement these requirements at any time.⁷¹

LF Basic Group Code of Conduct For Vendors

Child Labor

Vendors shall not use child labor. “Child” is defined as a person who is not older than the local age for completing compulsory education but in no event is less than 15 years at age. Vendors must verify the age of their workers and maintain copies of their workers’ proof of age. Vendors must follow all applicable laws and regulations regarding working hours and conditions for minors.

Involuntary Labor

Vendor shall not use involuntary labor. “Involuntary Labor” is defined as work or service which is extracted from any person under threat or penalty for its non-performance and for which the worker does not offer himself or herself voluntarily, and includes all manner of prison, banded, indentured and forced labor

Disciplinary Practices

Vendors shall not use corporal punishment or any other form of physical or psychological coercion or intimidation against workers.

Non-discrimination

Vendors shall employ workers solely on the basis of their ability to do the job, and shall not discriminate on the basis of age, gender, racial characteristics, maternity or marital status, nationality or cultural religious or personal beliefs or otherwise in relation to hiring, wages, benefits, termination or retirement.

Health and Safety

Vendors shall maintain a clean, safe and healthy workplace in compliance with all applicable laws and regulations. Vendors shall ensure that workers have access to clean drinking water, sanitary washing facilities and an adequate number of toilets, fire-extinguishers, and fire exits and that workplaces provide adequate lighting and ventilation. Vendors shall ensure that the aforementioned standards are also met in any canteen and/or dormitory which is provided for workers.

Environmental Protection

Vendors shall comply with all applicable laws and regulations in respect of protecting the environment and maintain procedures for notifying local authorities in the event of an environmental accident resulting from Vendors' operations.

Wages and Benefits

Vendors shall provide wages and benefits that comply with all applicable laws and regulations or match the prevailing local manufacturing or industry rates, whichever is higher. Overtime pay shall be calculated at the legally required

rate, regardless of whether workers are compensated hourly or by piece rate.

Working Hours

Vendors shall not require workers to work, including overtime, more than 60 hours per week or more than any maximum number of hours per week established by applicable laws and regulations, whichever is less.

Vendors shall guarantee that workers receive at least one day off during each seven- day period.

Freedom of Association

Vendors shall respect the right of workers to associate, organize, and bargain collectively in a legal and peaceful manner.

Familiarization and Display of This Code of Conduct

Vendors shall familiarize workers with this Code of Conduct and display this Code of Conduct, translated in the local language, at each of their facilities in a place readily visible and accessible to workers.

Legal Requirements

Vendors shall comply with all legal requirements applicable to the conduct of their businesses, including those set out above.

Contractors and Suppliers

Vendors shall ensure that their contractors and suppliers adhere to this Code of Conduct.

Source: <https://www.inventati.org/mailman/public/forumromanordest/2002-June/000649.html>, accessed January 14, 2004

See below for the document that describes how Kappa monitors compliance of its code of conduct:

Implementation and Monitoring

Monitoring of Compliance

Vendors authorize LF Basic and its principals to conduct scheduled and unscheduled inspections of Vendors' facilities for the purpose of ensuring compliance with this Code of Conduct. During these inspections, LF Basic and its principals shall have the right to review all employee-related books and records maintained by Vendors and to interview workers.

Corrective Action

When violations are found, LF Basic and the Vendor concerned will agree on a corrective action plan that eliminates the problem in a timely manner. If it is determined that a Vendor is knowingly and/or repeatedly in violation of this Code of Conduct, LF Basic and its principals shall take appropriate corrective action, which may include cancellation of orders and/or termination of business with the Vendor in question

Mission of Compliance

- * Absolute requirement for Social Accountability. (Minimum standard of labor rights, Health & Safety conditions, Compensation, etc.)
- * Company Policy to meet the requirement. (Policy, responsibility and documents, etc.)
- * Improve working conditions globally

Principles of Total Compliance Monitoring

Establish COC Standards

- * Standards established based on AIP/SA8000
- * Convey the standards to LF BASIC factories/suppliers in all sourcing countries

Develop Information Database

- * Audit Tools
- * Local Law database

Establish Program to Train Company Monitors

- * Training courses: SA8000, BSR, other NGOs
- * Seminars on local | international law
- * Seminars on audit techniques and procedures

Create an Informed Workplace

- * Conduct Vendor/Supplier seminars
- * Frequent communication with buyers, external monitors, governments and NGOs
- * Internal COC Meetings and latest issues update
- * Factory workers meetings

Conduct Periodical Audits

- * Prelim audits
- * Re-audits
- * Periodical Monitoring audits

Establish and Implement Remediation

- * Corrective Action Plan
- * Up-keeping and maintaining plan

Establish Continuous Review & Monitoring Program

- * Regular updating local conditions of all labor and human right laws and status
- * Implement consistent monitoring on compliance status

Compliance Procedures

- * Management review to ensure vendor's policy for social accountability and labor standards. In case vendors do not have the intention and willingness to comply. This vendor will be disqualified, or otherwise, must carry out the following:

- * Prelim audit by auditors in each product group for assessment of violation, omission, and deviation from COC requirements, that includes management meetings, document/record inspection, facility evaluation and workers' interviews.

- * Vendors submit Corrective Action Plan + Improvement calendar within 30 days. However, immediate remediation is demanded on 0-tolerance violations, such as forced labor and other unfair labor practices.

- * Monitor Improvement

- * Re-audit to be carried out by auditors in each individual product group within 90 days from first audit, to document all conformities according to preliminary findings, to provide advice in case further improvements are needed.

- * Final audit by external auditor within 180 days of first audit for total compliance.

- * Audit Report to be evaluated and approved by PGM.

- * Audit Report will be filed and will update the XTS database as an "approved vendor".

- * Periodic unannounced on-site monitoring will be conducted by LF Basic Compliance Division on all approved vendors in at intervals no greater than 6 months.

- * Remark: This Compliance Procedure applies to all LF Basic vendors in all

countries.

Key for Audit

All LF Basic auditors must:

- * Understand local culture/customs
- * Speak local language (at least one monitor per team)
- * Trained in COC/SA8000 requirements and audit techniques
- * Know local law and relevant information about the country
- * Be Trade Professionals in the garment industry

Compliance Schedule

SA8000 suggested 6-12months for improvement until total compliance. LF Basic will exercise the following monitoring plan:

- * 1st Day: Preliminary audit — Require remedy for all 0-tolerance violations, if any
- * Within 30 Days from first day: Corrective Action Plan on other violations and total Improvement
- * Within 90 days from first day: Second audit — minimum standard compliance
- * Within 180 days from first day: Third audit — total compliance
- * Within 180 days from third audit: Monitoring visit

Source: <https://www.inventati.org/mailman/public/forumromanordest/2002-June/000649.html>, accessed January 14, 2004

Sites of Production

BasicNet S.p.A does not own any production facilities. The Group monitors the quality of products distributed by its licensees “with a keen eye to sourcing finished goods from a number of production sources around the globe”. Production is completely outsourced to third parties. The company has so-called Sourcing Centres that supervise and optimise manufacturing phases on behalf of the licensees. These Sourcing Centres are responsible for finding appropriate manufacturers in terms of costs and standard of quality at a worldwide level.

It works closely with the Hong Kong based trading company Li & Fung. Together they established LF Basic Ltd., a joint venture between the Basic Network and the Li & Fung Group located in Hong Kong (see Li & Fung profile). This joint venture, in turn, wholly holds LF Basic Europe S.r.l. This first company is responsible for sourcing in the Asian region. It has established four operational centres located in Taipei (Taiwan), Bangalore (India), Bangkok (Thailand), and Shanghai (China). It is pretty certain that most of its products come from these countries. Meanwhile, its European subsidiary sources from the Mediterranean Rim. Li & Fung is one of the largest trading companies in the world. Its annual total traded turnover exceeds US\$4.8 billion (see company profile).

Sites of production include: Romania, Mauritius, Vietnam, China, and Indonesia.

Working Conditions

Kappa is not often named in sweatshop scandals and has not yet been the target of an urgent appeal.

Westbank

In 1999, following a worldwide publicity campaign, Kappa had to cancel their plans to have their sportswear produced at Matperat Barkan, a factory located in the Israeli settlement of Barkan on the occupied West Bank.

Burma

As part of the CCC's World Football Championship activities, the Italian Network Rete di Lilliput targeted the company and demanded that they stop sourcing from Burma. Campaigners easily unearthed the fact that Kappa was sourcing in Burma simply by looking at the tags stitched into their garments in several shops. The company sponsored the Italian national Football team.

Marco Boglione rejected the idea of cutting ties with Burma. He argued, as noted earlier, that: "Judging whether a government is good or bad and deciding whether to produce in that country or not, I really don't think this is our responsibility," he continued. "Moral political actions are tasks of governments or world institutions vested with this duty". The company was sent a second letter, in which the company was reminded of, among other issues, an ILO resolution in 2000 calling on its members to review relations with Burma due to the widespread use of forced labor.⁷²

According to *the Guardian* (6 October 2003), Kappa remained a target for the Burma Campaign which sent hundreds of e-mails and postcards asking the company to withdraw from Burma. In response, a Kappa spokesman stated: "We no longer source any product from Burma. Our headquarters in Turin are responsible for sourcing products around the world. We stopped doing business in Burma at the start of this year. It became clear that we had to move to another country". Mr Farmaner of the Burma Campaign, however, is calling for a boycott of Kappa products because they "are still finding their products in British stores that have been made in Burma" (*Guardian*, 6 October 2003).

Turkey

Research conducted in 2003 in Turkey for the Play Fair at the Olympics report describes a factory that employs some 400 workers of which 150 are women. The report notes that:

- There is no evidence of child labour or forced labour.
- There is no wage discrimination between men and women performing the same work. But, like other garment factories in Turkey, the great majority of its supervisors and higher positions are men. While the proportion of women performing the lower-wage jobs (simple sewing machine operators) is higher than men.
- There is no evidence of sexual harassment or any other abusive treatment of women.

- There is no union in the factory, which means workers are unable to exercise their right to bargain collectively. The workers believe that unionisation would be very difficult if not impossible. They believe that if they joined a union they would be dismissed.
- All employees receive a monthly wage, of an average between 300,000,000 to 350,000,000 TL (177 Euros to 206 Euros), which is the normal wage plus overtime pay. Wages are paid in time. The factory also provides lunch for employees and provides bus transportation between the factory and home.
- Official records (pay cheques) show that all employees receive the legal minimum wage (226,000,000 TL) and only this part is taxed and insured. Any other payment goes undocumented.
- Overtime is paid 50% above the normal rate.
- According to Turkish labour legislation, the normal working week consists of 45 hours. But many seem to work around 60 hours per week with overtime, the legal maximum. The overtime maximum is 3 hours per day for 90 total days or 270 hours annually.
- The factory operates 5 days per week, in principle from 8.30 to 19.00. So employees work 9 hours per day (1 hour for lunch and two 15-minute tea breaks). But the factory is also open on Saturdays (for overtime). Workers also work overtime 2-3 days per week (generally 2 hours per week day). According to the interviewed workers, they generally work 55–60 hours per week.
- Workers don't think overtime is abused factory but it *is* compulsory. Without any "valid and really good reason" workers cannot refuse overtime.
- Workers prefer overtime because their normal wage is so low; with overtime they can earn much more money.
- Workers at the factory for at least 1 year receive 2 weeks paid annual leave.
- The physical condition of the factory is good. There is a restaurant and canteen in the factory for the workers.
- There are enough toilets for both men and women.
- A sick or injured employee can go to the Social Security Institute hospital. It is covered by their insurance. There are also first aid kits in the factory. 2 or 3 days per week a doctor hired by the company visits the factory. Workers can go to this doctor for medical treatment.
- There are fire extinguishers in the factory.
- All the workers have labour contracts for the legal minimum wage.
- Nobody seemed to know anything about codes of conduct.

Excerpts from the Play Fair at the Olympics report

China: Piece Rate

At Chinese factory N that produces for Mizuno and Kappa, management decreased the amount paid for each piece when they were trying to force workers to complete larger target orders.

China: Compulsory Overtime

Workers at three factories — two producing for Umbro (Factory L and Factory M) and one for Mizuno and Kappa (factory N) — reported that they were not allowed to resign during peak production periods.

Turkey: Compulsory Overtime

In all cases in Turkey, overtime is obligatory. For example, in four Turkish factories W,X,Y and Z producing for Lotto, Fila, Puma, and Kappa, workers all reported compulsory overtime.

Turkey: Unions

In four sportswear factories (W, X, Y, and Z), producing collectively for **Lotto**, **Fila**, **Puma**, and **Kappa** no unions are permitted. Workers interviewed in these factories felt that joining a union was tantamount to dismissal.

Turkey: Codes

In a number of factories that supplied sports brands who claim to have implemented their codes of conduct, workers had never heard of these codes. This was indeed the case at four sportswear factories in Turkey producing for **Lotto**, **Fila** and **Kappa**.



Lotto Sport Italia Spa

Lotto Sport Italia Spa

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31044 Montebelluna (TV)
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Tel: +39-0423-6181
Fax: +39-0423-600402

<http://www.lotto-sport.de/index.asp?fl=1>

www.lotto.it

Product Categories

Lotto designs, markets and distributes boots, footwear, and clothing for soccer, five-man football, and tennis. Lotto is also involved in the creation of leisurewear.

History

The company was founded in 1973 by the Caberlotto family in Montebelluna. It initially produced tennis footwear, later it moved into the football shoe market as well as garments. Until 1984, Lotto focussed mainly on the Italian market. Today Lotto has a presence in 80 countries. In June 1999 the company was taken over by a group of local business people who were already in the sports segment. The company was renamed Lotto Sport Italia S.p.A. and headed by Andrea Tomat.

Business Information

Italian Sport Design is the name that accompanies all Lotto clothing and footwear collections. Lotto products are distributed in more than 80 countries through independent sports article stores, specialised chain-stores and large stores with specialised sports departments. Special emphasis is given to developing corners and flagship stores, which are now as widespread in Italy as they are abroad.

In 2002, Lotto's worldwide sales were US\$277.59m which is relatively small, compared to most of the other companies in this report. Lotto has its strongest presence in the European market, followed by Asia.

The company seems to be doing relatively well in recent years. It has increased its market share in both the football and tennis sectors.

Half of the company is owned by Enerlux S.A., which is in turn controlled by Andrea Tomat, Adriano Sartor and Gianni Lorenzato. The holdings of the remaining 50% is controlled by Giancarlo Zanatta and Franco Vaccari

In Japan, Lotto products are licensed to Kanematsu Textile Corp.⁷³

In Romania, Lotto shoes are represented by Sport System Development.

Athletic footwear company Lotto Sport Italia recently opened a branch in Dongguan City, a leading centre for the Chinese footwear industry in China. Its 700 square meter Dongguan City headquarters include a showroom, sales office and research and development unit was officially opened by Lotto vice-president Gianni Lorenzato. Lotto Sport's Taiwan CEO Winston Chen heads up this new division.

Fact Sheet

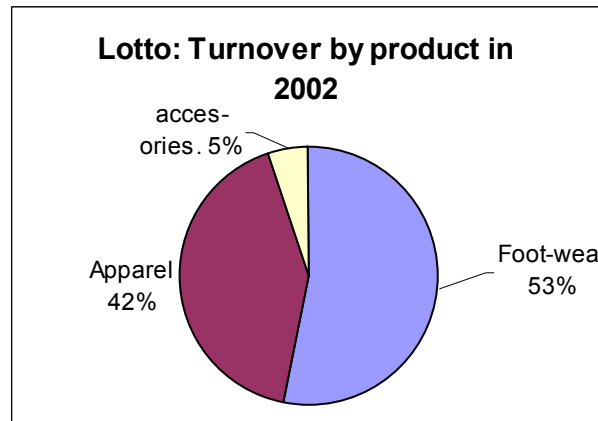
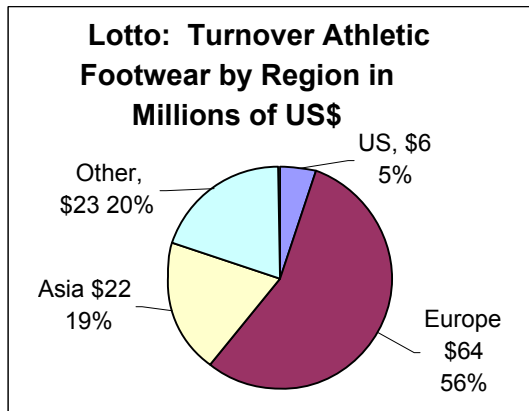
- Worldwide sales 2002: 245 million Euros (US\$277.59 million)
- Profit 2002: 6.4 million Euros
- Footwear: 47%, clothing: 48%, accessories: 5%
- Forecast worldwide sales 2003 euro 275m (\$311.59m)
- Footwear: 53%, clothing: 42%, accessories: 5%
- Lotto products are sold in 80 countries
- Strongest presence in the European market

Key People

- President: Andrea Tomat
- Vice-President: Franco Vaccari
- Vice-President: Gianni Lorenzato
- Board Members: Giancarlo Zanatta, Adriano Sartor and Marcellino

Figure 13

Figure 14



Source: Sporting Goods Intelligence 2003

Sound Bites

“Our commitment to on-site manufacturing allows for a proactive reaction to stock levels, ensuring that Lotto can deliver for your first choice”

“Lotto’s commitment to the game flows through everything we do”⁷⁴

Athlete Endorsements

Since the early 1980s, Lotto has used athletes like Boris Becker and Ruud Gullit to endorse its brand. Since 2001, Lotto has invested over 50 million Euros in this kind of endorsements.

In football, Lotto products are endorsed by **soccer star** Andriy Shevchenko, Cafu, Nonda the top-scoring French footballer, Clarence Seedorf, star Dutch footballer, as well as the entire World Cup-winning Brazil team.

In fact, over 50 teams in 20 countries are sponsored by Lotto including: Borussia Mönchengladbach (Germany), Toulouse (France), the Pumas (Mexico City) and Siena (Italy), as well as the Colombian national team and the Yugoslav Football Association.

Lotto sponsors over 100 tennis players including Andrea Gaudenzi, Davide Sanguinetti and the winning ladies' doubles partners, Ruano Pascual and Suarez Pver.

The company also has a presence at Grand Slam tournaments courtesy of a new agreement with the World Tennis Association. Lotto is also the official footwear supplier for the Wimbledon tennis championship.

Code of Conduct

Lotto states that it adopted a General Sourcing Policy (code of conduct) in 2001. According to the company, this Policy has been signed by all their sources of production. See below.

General Sourcing Policy

Lotto Sport Italia SpA (LSI) is concerned about the safety and fair treatment of the workers involved in the manufacturing of the goods, wherever the workers are located. For this purpose LSI has set forth the following General Sourcing Policy, which shall apply worldwide to the production factories. LSI guidelines require all of the Suppliers to comply with certain employment standards that LSI believes should be universally recognized notwithstanding more relaxed standards (if any) which may be provided by applicable local laws.

When selecting its Suppliers, LSI takes great care to choose reputable business partners who are committed to ethical standards and business practices in accordance with those of the Company. At the very minimum, LSI expects its Suppliers to comply with all legal requirements applicable to the conduct of their business.

Each of the Company's Suppliers agrees that, by accepting orders from LSI or any of its Affiliates, it will conform to and implement the terms of these General Sourcing Policy and require the same from each of its subcontractors. Every Supplier acknowledges that, should he fail to fulfill this agreement, LSI will be forced to reevaluate and possibly terminate, its business relationships with such Supplier.

Employment standards. LSI will only do business with Suppliers whose workers are, in all cases, present voluntarily, compensated fairly and allowed the right of free association and who are neither put at risk of physical harm, discriminated against, nor exploited in any way.

In particular, it is LSI's policy that:

Child labor. Child labor is not permissible. Workers may not be younger than 15 years or age (or 14 where local law permits) or the age for completing compulsory education if higher

Wages and benefits. LSI will only deal with Suppliers who compensate their employees fairly by providing wages and benefits that, at least, comply with legally mandated minimum wages.

Working hours. LSI will only deal with Suppliers who maintain reasonable work hours, not exceeding prevailing local standards or any maximum prescribed by applicable laws.

Health and Safety. LSI will only deal with Suppliers who provide their employees with a safe and healthy work environment, designed to prevent accidents and injury to health arising out of or occurring in the course of work. At the very least, the Company requires that its Suppliers comply with all applicable, legally mandated minimum standards for workplace health and safety.

Discrimination. LSI believes that employment should be based on ability and not on belief or any other personal characteristics. Thus, LSI will only deal with Suppliers who do not practice discrimination in hiring or in other aspects of employment on the basis of race, color, national origin, gender, religion, sexual orientation, disability or similar factors.

Harassment and abuse. LSI expects all employees to be treated with respect and dignity. Thus, LSI will not deal with Suppliers whose employees are subject to physical, sexual, psychological or verbal harassment or abuse.

Freedom of association. LSI expects all of its Suppliers to grant their employees the right to choose to affiliate with legally sanctioned organizations or associations without

interference.

This General Sourcing Policy is distributed by the Company to each of its Suppliers. In order to assure that the guidelines' contents are available to the Vendors whose well-being is their object, the Company also requires its Suppliers to post these General Sourcing Policy prominently on the premises where goods for the Company are manufactured.

These guidelines are integral parts of our purchase agreement with our Suppliers. To assure its Suppliers' conformity with these General Sourcing Policy, LSO reserves the right to make unannounced inspections of its Suppliers' facilities.

Moreover, every shipment of goods to the company must be accompanied by a certificate from the supplier confirming, in respect of the goods included in the shipment, that the Supplier and each of its Subcontractors have complied with the terms of these guidelines and that, in particular, no child labor was employed in the manufacture of such goods.

Suppliers agree to maintain and provide, upon request, all documentation necessary to demonstrate and to assure compliance with the General Sourcing Policy.

LSI welcomes question and comments regarding this General Sourcing Policy, all of which should be sent to the Company's Legal Office at the following address:

*Lotto Sports Italia SpA
Via San Gaetano 200
31044 Montebelluna (TV) Italy
direzione.generale@lotto.it*

Sites of Production

Lotto does not own any factories. All production is outsourced. The company is a customer of Yue Yuen.

Known production sites include Vietnam, Indonesia, Mauritius, China, Cambodia, Turkey and the Philippines (see below).

Working Conditions

Burma

According to the action group the Burma Campaign UK, Lotto used to source clothes from Burma. They warned Lotto that it would be placed on a “dirty list” of companies that support Burma’s dictatorship by providing it an important source of income. Lotto responded to Burma Campaign UK by claiming that it was unaware that one of its subcontractors was sourcing in Burma and promised that it would “strictly intervene” to end production in the country.⁷⁵

Indonesia

Workers at [PT Busana Prima Global](#) were locked out after a strike on 11 July 2003. This factory produces sportswear for **Lotto**, Le Coq Sportif, Ecko Unltd., and Bear USA. Earlier, management and workers had reached an agreement to various workers demands after they had engaged in another strike. This included an agreement that management would not prevent workers from exercising their legal right to form a union. On 1 June, workers formed SBTP, a union affiliated to ABGteks.

However, this newly created union encountered an anti-union campaign by factory management. This included demoting union board members, cutting their pay, suspending union members and even firing them. On 11 June, 300 workers went on strike to demand that management honour its earlier agreement and stop intimidating union members. Heavy pressure was exercised by factory management to force the strikers back to work. On 12 July, 70 workers agreed to return to work. On 15 July, the Ministry of Manpower mediated a meeting between management and worker representatives in which the company agreed to stop intimidating the striking workers. The following day, however, the factory refused to allow them to return to work.⁷⁶

The company states that in a letter that “Lotto Sport Italia has never dealt directly with this factory; as a matter of fact, our licensee in UK was involved with the factory due to its manufacturing of products in the said factory. After being informed of the problem in the factory, we immediately and strongly intervened with our licensee urging them to find a positive solution.” (28 April, 2004)

For a full and accurate update on this case including Lotto’s latest response please check. www.cleanclothes.org

China

The [Cheong Yip factory](#) produces for Lotto

The company denies that it ever sourced from this factory. They argue that this might be a case of counterfeit products. (see **Umbro** for more information).⁷⁷

Cambodia

In the summer of 2000, a large strike took place involving many Cambodian garment workers. An urgent appeal demanded that, Lotto, among other companies, urge “those they work with to enforce good labour standards and negotiate in good faith with workers and their representatives.”⁷⁸ Cambodia is also named as a site of production for Lotto products in an article that reports how Nike terminated its contracts with June Textiles Co. because they used child labour. The company, however, states that it is not sourcing from this country.⁷⁹

The Philippines

In 1995, Lotto was investigated when researchers visited the Mactan Apparel factory located in an EPZ. Researchers also noted that: “The work tempo is high. All over the factory there are [management] slogans on the walls: “Bet efficiency — you surely win an incentive”, “Always arrive to work 30 minutes before your supervisor”, “The harder the conflict the sweeter the triumph”, “What would I do if I lost my job tomorrow”. Interviews with workers revealed that they daily have to work overtime of 3 to 4 hours. Employees also often end up working on Sundays. There was an attempt to organise a union but many workers are afraid of losing their jobs.⁸⁰

Turkey

Research conducted in 2003 in Turkey for the Play Fair at the Olympics report⁸¹ describes one factory that produces for both Puma and Lotto. The factory employs some 300 workers (60% men).

- There is no evidence of child labour or forced labour.
- There is no wage discrimination between men and women performing the same work. But, like other garment factories in Turkey, the great majority of its supervisors and higher positions are men. While the proportion of women performing the lower-wage jobs (simple sewing machine operators) is higher than men.
- There is no evidence of sexual harassment or any other abusive treatment of women.
- There is no union in the factory, which means workers are unable to exercise their right to bargain collectively. The workers realise what a union could mean for them but they are afraid to exercise their legal rights. Last year at a neighbouring

garment company, a worker tried to join a union and aroused some industrial actions. But the end result was extremely bad for the workers. All those who joined in on the union activities lost their jobs. This is why Milteks workers believe a union organisation at their factory is next to impossible.

- All employees receive a monthly wage, of an average between 300,000,000 to 350,000,000 TL (177 Euros to 206 Euros), which is the normal wage plus overtime pay. Wages are paid in time with at most a few days delay. Workers stated that there are some slight wage differences between the jobs, for example cutting operators earn (20,000,000 – 30,000,000 TL) more than machine operators. Machine operators who make up the great majority of workforce earn some 300,000,000 TL (177 Euros) (wage + overtime payment).
- The factory also provides lunch for employees and provides bus transportation between the factory and home.
- Official records (pay cheques) show that all employees receive the legal minimum wage (226,000,000 TL) and only this part is taxed and insured. Any other payment goes undocumented. There is some confusion about this undocumented part; some workers consider this part as overtime payment, while others claim that their monthly wage is higher than minimum wage.
- Overtime is not paid at a higher rate and there is no clearly defined procedure for its calculation.
- According to Turkish labour legislation, the normal working week consists of 45 hours. But many seem to work around 60 hours per week with overtime, the legal maximum. The overtime maximum is 3 hours per day for 90 total days or 270 hours annually.
- The factory operates 5 days per week, in principle from 8.15 to 18.30. So employees work 9 hours per day (45 minutes for lunch and two 15-minute tea breaks). But the factory is also open on Saturdays (for overtime), working from 8.15 to 17.00 (7.5 hours minus breaks). Workers also work overtime 3-4 days per week (generally 2 hours per weekday). According to the interviewed workers, they generally work 60 hours per week.
- Overtime is compulsory practice in the factory. Without any “valid and really good reason” workers cannot refuse overtime. Besides they need the overtime to make ends meet.
- Workers employed at the factory for at least 1 year receive 2 weeks paid annual leave.
- The physical condition of the factory is good. There is a restaurant and canteen in the factory for the workers.
- There are enough toilets for both men and women.
- A sick or injured employee can go to the Social Security Institute hospital. It is covered by their insurance. There are also first aid kits in the factory. 2 or 3 days per week a doctor hired by the company visits the factory. Workers can go to this doctor for medical treatment.

- There are some fire extinguishers in the factory.
- Most of the workers have labour contracts. But the contracts only state the legal minimum wage.
- Nobody seemed to know anything about codes of conduct.
- There are some amount of workers who do not have contract. Probably 10 % of total workforce (or a little bit lower than this) is unregistered.
- Nobody knows anything about codes of conducts.⁸¹

According to management statements, the factory produced for Lotto for 3 years. It has also produced for Puma. At the moment, 25-30% of its production is for the Lotto. Some 550 workers are employed here with 60–65% women employees. Eight workers were interviewed; 4 men and 4 women. The report notes further:

- There is no evidence of child labour or forced labour.
- There is no wage discrimination between men and women performing the same work. But, like other garment factories in Turkey, the great majority of its supervisors and higher positions are men. Women workers generally perform the lowest wage works.
- There is no evidence of sexual harassment or any other abusive treatment of women.
- There is no union in the factory, which means workers are unable to exercise their right to bargain collectively. Nearly half the workers interviewed do not know anything about their union rights. workers believe a union organisation at their factory is next to impossible. They really fear that they will lose their jobs if they join a union.
- All employees receive a monthly wage, of an average between 300,000,000 to 350,000,000 TL (177 Euros to 189 Euros), which is the normal wage plus overtime pay. Wages are paid in time with at most a few days delay. Official records (payslips) show only the legal minimum wage (226,000,000 TL) (133 Euros) and taxes and social security withdrawals based on this wage. Any other payment including overtime go undocumented.
- Overtime is not paid at a higher rate and there is no clearly defined procedure for its calculation.
- The factory also provides lunch for employees and provides bus transportation between the factory and home.
- The factory operates 5 days per week, in principle from 8.30 to 19.00. So employees work 9 hours per day (60 minutes for lunch and two 15-minute tea breaks). But the factory is also open on Saturdays (for overtime), working from 8.15 to 17.00

(7.5 hours minus breaks). Workers also work overtime 4–5 days per week (generally 2 to 3 hours per weekday). According to the interviewed workers, they generally work 60–65 hours per week.

- Overtime is compulsory practice in the factory. Without any “valid and really good reason” workers cannot refuse overtime. They believe refusal could lead to dismissal.
- Besides, workers need the overtime to make ends meet.
- Workers have 2 weeks paid annual leave.
- The physical condition of the factory is good or at least acceptable.
- There is a restaurant and canteen in the factory for the workers.
- There are enough toilets for both men and women.
- A sick or injured employee can go to the Social Security Institute hospital. It is covered by their insurance. But unregistered workers have to pay hospital and medicine costs out of their own pockets.
- There are first aid kits in the factory.
- There are fire extinguishers in the factory.
- Most of the workers have labour contracts. But the contracts only state the legal minimum wage.
- Interviewed workers believe some 10% of the total workforce is unregistered. One of the interviewed workers was unregistered. But he said that it is not the company management’s mistake. Despite the fact that he has been working at the factory for more than two months, he was unable to provide the necessary documents to become a legally registered employee.
- Despite the fact that there is no clear evidence of illegal foreign immigrant workers, it seems that the factory sometimes employs some illegal foreign immigrant workers, or at least it did in the past.
- Nobody seemed to know anything about codes of conduct.⁸²

Excerpts from the Play Fair at the Olympics Report

Turkey: Union

Likewise, in four sportswear factories in Turkey producing collectively for **Lotto**, **Fila**, **Puma** and **Kappa** no unions were allowed. Workers interviewed in all these factories felt that joining a union would mean losing their jobs.

Turkey: Compulsory Overtime

In four Turkish factories (WXYZ) producing for Lotto, Fila, Puma and Kappa, workers all reported having to work compulsory overtime.

Indonesia: Piece rate targets and verbal abuse

Elsa, a contract worker at Indonesian factory D that supplies **Lotto, Puma, Fila, Asics**, Nike, and Adidas told researchers: *“In the garment division, the usual target is a thousand pieces per lane, per day. But during export days, the target doubles to two-thousand pieces. This doubling is very stressful for us and we often cannot reach it. When we don’t reach it we get yelled at by the management and sometimes we get warning letters.”*

Indonesia: Gender

Workers at Indonesian factory D where **Fila, Lotto, Asics, Puma**, Nike and Adidas products felt that: *“Women are much easier to order around by authority figures. Women don’t raise their voices and incite conflict the way men are prone to when subjected to oppressive authority systems.”*

Indonesia: Compulsory Overtime

At Indonesian factory D producing for **Asics, Fila, Lotto, Puma** and Nike, workers reported being forced to work for as long as 24 consecutive hours during export periods. They complained to management that this kind of overtime is against the law but they were told that the goods had to meet a deadline otherwise the factory would be fined several million rupiah and as this would be the workers’ fault, they would have to bear the cost.

Laila, who works in Indonesian factory D that produces for **Fila, Puma, Lotto**, Nike, Adidas and **Asics** laments, *“There is no time for housework. For our friends who have children, we hear from them that they feel very upset in their hearts, that they never get time to spend with their children and to watch them grow. During the spare time we do have, we feel constantly exhausted.”*

Indonesia: Sexual Harassment

At Indonesian factory D producing for **Fila, Puma, Lotto**, Nike, Adidas and **Asics**, workers reported that: *“Pretty girls in the factory are always harassed by the male managers. They come onto the girls, call them into their offices, whisper into their ears, touch*

them at the waist, arms, neck, buttocks and breasts, bribe the girls with money and threats of losing their jobs to have sex with them.”

Indonesia: Verbal Abuses

Elina, a garment worker in Indonesian factory B that produces goods for Lotto said: “There is a lot of verbal abuse. The management calls us names throughout our work shift. They call us ‘stupid, ‘lazy’, ‘ugly’, ‘useless’, bastard’s child’, and other crass words. They say ‘You don’t deserve any more than this’. Some girls start crying. Physical abuse happens too. Our ears are often pulled and managers yell directly into our ears”.



Mizuno Corporation

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US Subsidiary

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<http://www.mizuno.com>

Product categories

Footwear — golf, baseball, football, soccer
Apparel — golf, tennis, baseball, soccer
Equipment — baseball/softball, football, golf

The brands and product names the company develops include: Black Turbo, Grad, Worldwin, Power Close, Techfire, Power Lock, and TZoid.

History:

Mizuno was founded in 1906 by Rihachi Mizuno who opened a Mizuno shop in Osaka. In the beginning it specialised in the production of baseball products. Today, Mizuno produces quality sporting goods for running, track and field, soccer, rugby, volleyball, handball, and golf.

Business Information

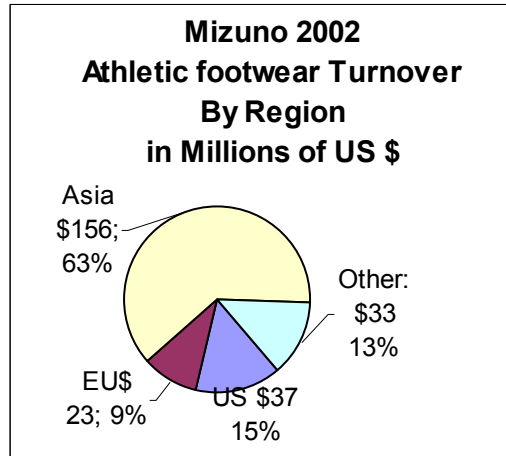
Most of Mizuno's turnover (85%) occurs in Japan. The company is currently making strides in the US with the golf equipment and running shoes. While in Europe, Asia and the Pacific, Mizuno outfits many popular soccer and rugby clubs⁸³

However, Mizuno's dependence on the Japanese market is a problem because demand for sportswear there remains flat — with six straight years of negative growth.⁸⁴ As a result, Mizuno has not been very profitable in recent years. The financial year 2003 ended with a net loss of US\$50.846 million.

The company has been seeking to expand its market share in Europe, the US, and in China. The company has signed a license with Speedo (known for its swimming products) to produce and sell their products in China. One business analyst expects Mizuno to increase its profits in relation to the “benefits from lower cost in line with a higher production ratio in China.”⁸⁵

Speedo has a world market share of 1 per cent (or \$137 million in sales) in sports apparel. Speedo has also just signed a contract with the Chinese Swimming Federation.⁸⁶

Figure 12



Sporting Goods Intelligence 2003

Fact Sheet

- Company type: Public (Exchange Tokyo)
- No. of employees: 3,784
- Net Sales in 2003: US\$1.16 billion
- Net losses in 2003: US\$50.8 million
- Spent \$81.6 million on advertising and promotion in 2002

Key People

- CEO: Masato Mizuno
- Vice-President: Akito Mizuno
- President of Mizuno USA: Bob Puccini

Sound Bites

“... as a company that is also a member of society, we intend to meet any social obligation such as those related to the environment, not just pursuing our own interest” (Annual Report, 2000).

“The behaviour of each and everyone in our company is guided by the ideal of true sportsmanship”

“To contribute to society through the advancement of sport and quality sporting goods”
(<http://www.mizuno.com/about/philosophy.html>)

Athlete Endorsements

Mizuno, in its 2003 factbook, announced that it “will engage itself in aggressive advertising and promotion activities in the United States and China to increase sales”.

Rivaldo of football club AC Milan and Brazil’s national soccer team is Mizuno’s most famous ambassador.

Baseball star, Ichiro Suzuki, the American League MVP, signed a four-year contract to endorse Mizuno products. The company will launch an “Ichiro” signature line of baseball equipment.

Mizuno provides the clothing and outfits for the IOC and administrative staff at the Olympic Games and other events. Mizuno was a Gold Sponsor of the Olympic Games in Nagano and is a sponsor of the Olympic Museum in Lausanne, Switzerland.

Athletes endorsed by Mizuno

Elfenesh Alemu (Ethiopia: Marathon)

Tereza Marinova (Bulgaria: Triple Jump)

Obadele Thompson (Barbados: 100m)

Terence Trammell (USA: 110m hurdles)

Vyacheslav Voronin (Russia: High Jump)

Svetlana Zakharova (Russia: Marathon)

Shawn Crawford (USA: 200m)
Gebrenariam Gebre-egzia (Ethiopia: 5000m, 10,000m)
Werknesh Kidane (Ethiopia: 10,000m)
Tirunesh Dibaba (Ethiopia: 5,000m)
Meseret Defar (Ethiopia: 5,000m)
Asha Gigi (Ethiopia: 5,000m)
Szymon Ziolkowski (Poland: Hammer)
Gert Thys (South Africa: Marathon)
Savatheda Fynes (Bahamas: 100m, 200m)
Morne Nagel (South Africa: 100m, 200m)
Maurice Wignall (Jamaica: 110m hurdles)
Andrey Sokolovskiy (Ukraine: High Jump)

Volleyball

Netherlands National, Junior Team
USA National, Junior Team
China National, Junior Team
Japan Women's National Team

Code of Conduct

Mizuno has a Code of Business Ethics which expresses its responsibilities towards society. There was only one reference to this code in an article by Ans Kolk and Rob van Tulder. They wrote that this code is “primarily oriented toward internal ethical behaviour, providing a fundamental standard of ethics directed at its operations and employees. The Mizuno code was adopted in the course of the 1990s, but even after direct consultation with the company it was not possible to pinpoint the exact date.”⁸⁷

According to Stock at Stake, all of its Japanese offices and factories were ISO14001 certified, zero emissions are planned. They note that Mizuno’s social reporting is limited to environmental issues.

See below for Mizuno’s Code of Business Ethics. In contrast to the codes of most other sportswear companies, Mizuno’s is internal and does not refer to labour standards or to the kind of behaviour it expects from its suppliers.

Mizuno – Code of Business Ethics

1. Our corporate philosophy is to “Contribute towards society through the advancement of sports and promotion of a better sporting life”
2. We not only have the duty to create profit for our shareholders, but also to contribute positively to the cultural, economical, and sporting development of both Japanese and global society.
3. We confirm that profit can be attained by following a fundamental standard of ethics.
4. In order to maintain a high standard of ethical behaviour within the company, compliance, to the firm’s responsibility to thoroughly educate all colleagues and establish an environment which punishes unfair behaviour in any shape or form.
5. It is our duty to consider the global environmental consequences of our actions.
6. We understand that the government exists to serve all society, and will not extort the government in order to increase our individual profit.
7. As a company belonging to a free and democratic society, we have the responsibility to work toward a society that protects the fundamental liberties of its members. We believe this can be accomplished by putting restrictions upon ourselves, thus making government restrictions unnecessary. We strive towards the loosening and/or abolishment of all government intervention in the market.

8. To permeate this code of ethics throughout the firm, we have the duty to carry out the necessary improvements and reforms in order to build an ethically stronger cooperate environment.

Sites of Production

Mizuno still produces some of its products in Japan. Most of the production, however, apparently take place abroad. Recently Mizuno announced that “the production process of each product will be thoroughly reviewed so as to achieve lower costs and strengthen our cost competitiveness” (Factbook, 2003).

Mizuno is currently still in the process of relocating production from Japan to China to reduce costs. In 2002, the production of golf clubs and baseballs was partly moved from its Japanese Gifu factory, in operation since 1943, to a Mizuno factory in Shanghai, China, that opened in 1997.⁸⁸ Shanghai Mizuno Corporation Limited is a fully owned subsidiary of Mizuno Corp., located in China (address in Factbook 2003). This became one of Mizuno’s prominent production bases that makes golf clubs and sportswear. Apparently, Mizuno also operate. a golf club factory in Scotland.

In August 2003, Mizuno announced that it was closing its Japanese swimwear plant and relocating production to China to benefit from lower costs.⁸⁹ Mizuno also produces (and distributes) Speedo swimming goods in China.

Mizuno Corporation of Hong Kong Ltd., is a production management company for the Asian area.

Thailand

Production of sportswear in Thailand began in 1989 place under a joint venture agreement with the Thai Saha Group, as Thai Sports Garment Co. Ltd.

Bangladesh

The *Azim Group* in 1997, was one of the biggest garment factories in Bangladesh, and owned 11 registered factories, 8 of which are in Chittagong. They employ at that date over 6,000 people in Bangladesh and annually export 8 million pieces. G.K. Garments

and Global Fashion Garments are names for the same factory in Sabar. Back then they produced jackets for Mizuno. This factory employed 1,000 workers. Of total production, 55 to 60% was shipped to the US, the rest mainly to Europe.⁹⁰

Working Conditions

The company has never been the subject of a large campaign.

Excerpts from the Play Fair at the Olympics report

China

Jing, a worker in sportswear factory N that produces for Mizuno and Kappa told researchers: *“The contract is a scrap of paper. The factory management never gives us what is written in the contract. Talk about no overtime work for more than three hours? I can’t remember having a day where I have worked for less than three overtime hours...”*

In the extreme, workers in three factories in China – two (L & M) producing for **Umbro** and one for **Mizuno** and **Kappa** (Factory N) - reported being prevented from resigning during peak production periods. The management do this by retaining their wages (ranging from half a month to two months’ worth of money).

China: Piece-rate Wage

In Chinese factory N that produces for both **Mizuno** and **Kappa**, management decreased the amounts paid per piece as a way of accelerating production so that the company can meet its targets.



New Balance Athletic Shoe, Inc.

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Tel1: 617-783-4000
Fax: 617-787-9355

www.newbalance.com

Product Categories

Athletic footwear — running, walking, cross-training, basketball, tennis, outdoor, casual, and kids. Work and hiking boots, sandals, boat shoes, and rugged casuals (also available through the company's Dunham Bootmakers division).

Apparel – Active wear

History

New Balance was founded by William Riley in 1906. The company manufactured arch supports and orthopedic shoes. In 1956, Paul Kidd bought the company. In the following years, the company began focusing more on shoes. Running shoes became New Balance's core business. In 1972, the company was purchased by James S. Davis, who is still the Chairman and CE to this day.

Since then, New Balance has become more of a sporting goods company that produces a wide range of athletic footwear, apparel, and accessories.

The company remains privately owned.

Business Information

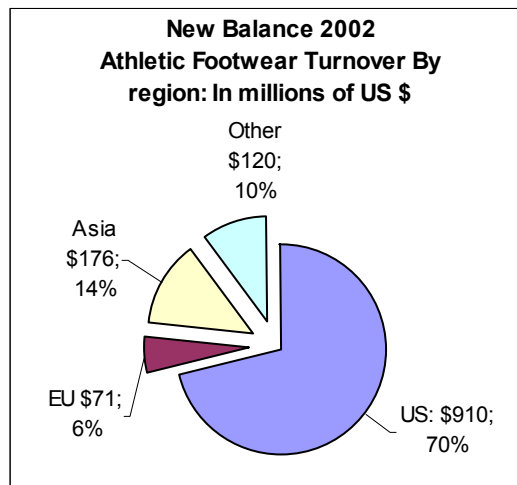
In recent years, New Balance has had great success with its mission of becoming “recognized as the World’s Leading Manufacturer of High Performance Footwear and Apparel”. Over the past ten years, its turnover has increased from US\$210 million in 1991 to US\$1.3 billion in 2002, making it the fourth largest athletic footwear and apparel company in the world. In the US, New Balance became the third largest seller of athletic shoes with a market share of 12%.

While its strategy is similar to Nike’s in its strategy of developing the largest possible number of shoe styles and selling primarily through specialty athletic shoe stores and sporting goods stores.⁹¹ However, in contrast to Nike, it has created an upscale brand image that aims to attract more mature customers aged 35-64. This group can not only afford more expensive shoes, but it is also generally less receptive to marketing campaigns and, consequently, more likely to remain loyal to one brand. New Balance does not pay any athlete to endorse its shoes. New Balance also differs from Nike and most other sportswear companies in that it still produces some of its shoes in-house (see production section).

New Balance acquired the rights to the PF Flyers brand name in February 2000. An active casual, lifestyle brand, PF Flyers became available to consumers in February 2003.

New Balance operates wholly-owned subsidiaries in the UK, France, Germany, Sweden, Hong Kong, Singapore, Australia, New Zealand, Mexico, Canada, Japan, and South Africa. They also have a number of licensees, joint ventures, and distributors all over the globe. New Balance products are sold in 120 countries, but most of it in the US.

Figure 15



Source: Sporting Goods Intelligence 2003

New Balance Athletic Shoe, Inc. employs 2,300 people around the globe (96% in Western countries) as of 31 December 2002.

Fact Sheet

- Privately owned
- In 2002, it directly employed 2,300 workers (Source: Stock at Stake).
- Headquarters located in Boston and Lawrence, Massachusetts.
- New Balance has subsidiaries in Canada, Mexico, UK, Australia, France, Sweden, South Africa and Germany, licensees include companies in South America including Peru and Chile.
- Products are sold in 120 countries
- Worldwide sales in 2003: approximately US\$1.3 billion
- Spends approximately 15% of sales revenue on marketing

Key People

- Chairman & CEO: Jim Davis
- Company President: Jim Tompkins
- Executive Vice-President of Manufacturing & Procuring: Herb Spivak
- Vice-President of Manufacturing: John Wilson
- Executive Vice-President of Global Marketing: Paul Hefferman
- International Marketing Manager: Catherine Jakaitis

Sound Bites

“We are energized by an environment in which everyone’s contributions are encouraged and respected” (Source: <http://www.mewbalance.com/aboutus/careeropp/index.html>)

“We must be prepared today for the responsibility that comes with prominence”. Jim Davis, Chairman & CEO, 15 October 1998

“To be recognized as the World’s Leading Manufacturers of High Performance Footwear and Apparel” New Balance Mission Statement

Core values: Teamwork, Total Customer Satisfaction, Integrity

Athlete Endorsements

In contrast to all of the other sportswear branded corporations, New Balance does not sponsor athletes or celebrities. New Balance is trademarked by an “Endorsed by No-one” slogan.⁹² The company does not engage in “developing gimmicks or sponsoring celebrities to wear its products.”⁹³ Fran Allen, Vice-President of sales at New Balance Athletic Shoe Inc., put it as follows:

"I think for the average Joe and even now the kids, when we see these overpaid, arrogant ballplayers, there's definitely a backlash. The average consumer is saying: 'I'm not going to be influenced by this. I'm beyond that.'

New Balance does, however, sponsor events such as the Komen Race for the Cure Series, the Chicago Marathon, the Vierdaagse March in the Netherlands, and the Gus Macker Basketball Tournament. The company spends an estimated 15% of revenues on marketing.

Code of Conduct

New Balance's "Supplier Code of Conduct" covers most of the ILO core conventions implicitly but does not explicitly refer to a living wage. Freedom of association is only mentioned under the section on Discrimination (see below).

The Code also includes the environmental conditions for suppliers: "All facilities shall comply with all local environmental law. Manufacturers, subcontractors, and suppliers must certify compliance with all applicable environmental regulations in their country".

The people responsible for the implementation and monitoring of the CoC are the Executive Vice-President of Operations and the Corporate Manager of Sourcing & Purchasing. A company spokesman, in a reply to Stock at Stake noted that New Balance "employs a full-time staff that is focused on issues, initiatives and factory efforts in 'Social Responsibility', including working conditions and labour standards, in the supply chain. Verité, a non-profit organisation, is hired as a third-party auditor. No information is disclosed about the number of suppliers that are audited.

New Balance Code of Conduct

The New Balance Mission is "To be Recognized as the World's Leading Manufacturer of High Performance Footwear and Apparel." We support this mission by conducting our internal and external relationships according to these Core Values: Teamwork, Total Customer Satisfaction, Integrity.

The Code of Conduct defines our minimum expectations. We expect our suppliers to ensure that no exploitative conditions or unsafe working conditions exist at the facilities where our merchandise is manufactured.

This Supplier Code of Conduct expresses the commitment of New Balance Athletic Shoe, Inc. to do business only with those manufacturers and suppliers that share its commitment to fair and safe labor practices.

EMPLOYMENT PRACTICES

Compliance with Local Laws

- All Standards set forth in this Code of Conduct are subject to compliance with applicable national and local laws. All vendors shall operate in full compliance with laws of their respective country of manufacture.

Child Labor

- No person shall be employed at an age younger than 16 (or 15 where the governing law allows such employment), or younger than the age for completing compulsory education if that age in the country of manufacture is greater than 16.

- All facilities are required to maintain official documentation allowing for verification of each worker's date of birth.

- All facilities must be in compliance with all local regulations regarding the employment of young workers. These regulations shall include types of work, work schedules, and labor intensity as applicable under local labor law.

Harassment or Abuse

- Workers shall be treated with respect and dignity. Workers shall not be subject to any physical, verbal, sexual or psychological harassment or abuse in connection with their employment.

- There shall be no corporal punishment.

- Behavior that is sexually coercive, threatening, abusive or exploitative shall not be permitted.

Health and Safety

- Employers shall provide a safe and sanitary working environment using OSHA standards as a benchmark, in order to avoid preventable work-related accidents and injuries.

Nondiscrimination

- All employment decisions must be made in a nondiscriminatory manner.
- Workers shall be employed, promoted, and compensated based upon their ability to perform their job, rather than on the basis of gender, race, caste, sexual orientation, religious, or cultural beliefs.
- There shall be no pre-employment or during-employment screening for pregnancy.
- There shall be no discrimination against workers based on political affiliation or union membership.

Wages and Benefits

- Employers shall pay workers for all work completed and shall pay at least the minimum wage required by law or the prevailing industry wage, consistent with the local area statistics, whichever is higher, and shall provide legally mandated benefits.
- There shall be no deductions of wages for disciplinary purposes.
- The employer shall not engage in false apprenticeship practices that are used to avoid payment of compensation.

Work Hours

- As part of normal business operations including those countries where domestic law does not limit work hours, suppliers shall not require an excess of a 60-hour work week on a regularly scheduled basis.
- Workers shall be entitled to one full day off out of each seven-day week.

- Workers shall not be asked or required to take work home or off premises.
- All hours worked must be documented in writing and made available to New Balance staff, upon request.

Overtime

- Exceptional business circumstances requiring a workweek in excess of the local official workweek (or a 48-hour workweek, whichever is lower) shall be subject to the laws regarding the payment of overtime in addition to compensation for regular hours of work.
 - In countries where there is no legal standard regarding overtime premiums, industry standards shall be the model. In no event shall this be at a rate less than the regular hourly rate.
 - Factories shall carry out operations in ways that limit overtime to a level that complies with national labor laws and ensures productive and humane working conditions.

Forced Labor

- There shall not be any use of forced labor, whether in the form of prison labor, indentured labor, bonded labor, or otherwise. There shall be no penalties or fines for declining overtime.
 - Workers shall not be locked inside of factory premises for any reason.

Environmental Conditions

All facilities shall comply with all local environmental laws. Manufacturers, subcontractors and suppliers must certify compliance with all applicable environmental regulations in their country.

Subcontractors

- This Code of Conduct applies to all subcontractors utilized by New Balance suppliers.
- All Suppliers are required to take all necessary steps to ensure that its subcontractors adhere to this Code of Conduct. No subcontractors will be used without New Balance's prior approval.

In the event of any willful, non-compliance with the Code of Conduct, New Balance may terminate or refuse to renew our supply agreements with suppliers based on the suppliers' awareness of the Code of Conduct.

(Source: <http://www.newbalance.com/aboutus/media/kitresults.html?gclid=ISO-8859-1&page=topic11>)

Sites of Production

New Balance, like all the other branded athletic footwear companies, relocated a significant part of its shoe production to low-wage countries during the 1980s. Having said this, New Balance remains one of the very few companies that still produces some of its shoes in the US. CEO Jim Davis stated: “We consider ourselves manufacturers when none of our competitors are anymore.... Nobody makes shoes here. They have the other guys make the shoes for them. We want to employ Americans.”⁹⁴

Herbert Spivak, Executive Vice-President of Operations has argued that American factories can be profitable as long as the cost of making shoes here doesn't exceed the cost of imports by more than 15%. New Balance can make up some the difference by offering faster delivery times to retailers, by being closer to its research and development team, and by encouraging employees to devise ways to produce shoes more efficiently. Spivak observed that “If you just relied on a Harvard Business School study of this business, we'd make more money by importing 100 percent. We can only do this here if we can get close to the imported cost. That's what drives our workers.”⁹⁵

Nonetheless, New Balance and the Federal Trade Commission (US) have been in protracted disagreement over New Balance's “Made in the USA” labeling standards. New Balance claimed that 75% of each of these labeled products was domestically produced, but the FTC standard is 100%. New Balance claims that it is impossible to have 100% domestically manufactured and sourced shoes since some materials like foam midsoles are not produced by US factories any more.

The company claims that its target is to manufacture 50% in the US because local suppliers can often not meet demand. Another source cited in Stock at Stake claims that New Balance has a goal of producing 70% of its shoes in the US, but this might only be a

percentage of shoes produced for the US market. However, according to *The Independent on Sunday* (15 September 2002), as much as 80% of New Balance's shoes are made in low-wage countries like China, Vietnam, and Mexico.

CEO James Davis, in the same *Independent* article, argues that New Balance was unable to meet consumer demand without diversifying its production sites. He also argues that in-house production offers it the flexibility to respond quickly to market shifts and that New Balance will continue to hold on to first-hand trainer-making opportunities (Ibid.).

Neil Kearney, General Secretary of the International Textile, Garment and Leather Workers' Federation (ITGLWF) writes that New Balance is "cynically milking its 'made in the US' image while importing a significant part of its shoes. Moreover, the company has put much effort and money into changing the US government's labeling rules."⁹⁶ Kearney further criticises New Balance for sourcing from [Yue Yuen](#) factories.

Kearney also denounces the way the company treats workers in the US where the Union of Needletrades, Industrial and Textile Employers (UNITE) tried for "nine months to negotiate a contract for workers at the company's distribution center in Massachusetts, many of whom are underpaid temporary workers forced to work compulsory overtime."⁹⁷

Kathleen Casavant, secretary-treasurer of the state AFL-CIO and a former UNITE official said: 'It is shameful that New Balance, a company right here in our backyard, is profiting on the backs of suffering sweatshop conditions in China and low-wage, no-benefit temporary workers in Massachusetts... It is time for New Balance to realize that nobody wants to buy products made with exploitation, and that growing public outrage at its exploitative practices won't end until New Balance cleans up its act'(cited in *The Boston Phoenix*, February 4-11, 1999).

The company currently operates five production sites in the US. A plant was recently opened in Norway, Maine. Four American sites do the basic cutting, stitching, lasting, and packing operations. One site serves as its worldwide design centre. These sites mainly service the domestic market. New Balance again argues that producing in the US and UK makes it possible to react more quickly to market demand.

A sixth plant is owned by [Yue Yuen](#), but it produces shoes exclusively for New Balance.⁹⁸ This small Yue Yuen-owned shoe factory in Ontario, California that produces some 200,000 pairs annually, and employs several hundred workers. The company also owns one plant in the northwestern part of England where it employs 220 workers. A New Balance company spokesperson told Stock at

Stake that New Balance sources products from China, Vietnam, and Taiwan. However, they do not disclose the percentage of total shoe production is not disclosed (see below).

The company also hires third parties to handle the manufacturing of its apparel line, most of which New Balance claims is manufactured in the United States using domestically sourced fabrics (Stock at Stake, 2003).

China

New Balance has been involved in a legal dispute with Horace Chang, a major long-time New Balance supplier, first in Taiwan and now in China. This Taiwanese-owned factory had belonged to one of New Balance's most important suppliers since 1995. New Balance accused this company of counterfeiting when suddenly lower-priced New Balance shoes began to appear all over the world.⁹⁹

Another source claims that New Balance has cut the number of its Chinese suppliers to six. About 35 million pairs of sport shoes are produced in these Chinese factories annually.¹⁰⁰

Taiwan

The Pou Chen factory in Taiwan has been identified as a New Balance supplier.

Working Conditions

Various reports have linked New Balance to bad workplace conditions in recent years. Although it may try to milk its "Made in the US" image, New Balance's working conditions in the US have received a lot of criticism. Not only does it increasingly depend on hiring temporary workers, it also took a long time for UNITE to negotiate its first contract with the company. UNITE claims that New Balance has increasingly turned to low-wage factories in China and temporary workers in the United States to make its shoes (Source, 200). UNITE has initiated a campaign seeking justice for New Balance workers. The campaign focuses on New Balance's exploitation of workers in both the United States and China.

China

The Lizhan Footwear Factory, a Taiwanese-owned manufacturer operating in Dongguan City in Dongguan province, has been accused of fraud in its implementation of SA8000. The NLC found dormitory rooms packed with up to 28 people and normal work shifts of 12 hours. A strike in the polishing department led to the dismissal of all the workers in that department. Other complaints included illegal penalties and deductions, inadequate wages, and age discrimination. Social Accountability International revoked its certification of a Chinese factory that makes shoes for New Balance after auditors reinspected the plant following the NLC report. "The auditors found that indeed there were many violations they had not picked up the first time," notes SAI President Alice Tepper Marlin. New Balance, however, relocated its production to Likai Footwear, an uncertified factory owned by the same investor. According to the *Far Eastern Economic Review*, a production manager for New Balance responded to the fact that the factory was not certified by simply saying: "That was fine with us. We don't mind that the new factory is not SAI-certified."¹⁰¹



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www.puma.com

Product Categories

Athletic footwear — exercise, baseball/softball, basketball, running, track & field, volleyball, walking, wrestling, tennis, rugged sports

Apparel — tracksuits, football strips, and similar sportswear

Accessories — sports luggage, footballs, and gloves

History

Puma was established when the German brothers Rudi and Adi Dassler split their family company, the “Bebrüder Dassler Schuhfabrik”, into Adidas and Puma in 1948. Rudolf Dassler decided to set up a rival to his brother Adi’s sports shoe factory on the opposite bank of the Moselle River in Herzogenaurach, Germany. By the end of the 1950s, the company had become a limited partnership. It was the first company to use vulcanisation production techniques and the first to manufacture sports shoes with Velcro fasteners.

In 1986, the company went public. But Puma was already incapable of successfully competing with Nike or Reebok and so it showed losses from 1986 to 1993. In 1993, for instance, Puma lost US\$32 million on sales of just US\$190 million.¹⁰² It then opted for a radical reorganisation that would transform it into a marketing-oriented company, which was primarily concerned with how to “diversify the brand into a plethora of lifestyle and fashion options.”¹⁰³

Puma’s company focus thus drifted away from its traditionally centralised structure to “become the first truly virtual sports company” (Annual Report, 2000: 23). This decentralisation is best reflected by the fact that it has three headquarters, one in Germany; one in the US; and one Hong Kong.

Business Information

Puma’s 1993 reorganisation led the company to opt for a strategy of full outsourcing. 1994 saw the beginning of a comeback for Puma. Over the last few years, Puma is one of few branded sporting goods companies that regularly performs really well with several years showing record sales and profits. Between 1999 and 2002, sales increased by an average of 34.6 % per annum (Annual Report, 2002). Its stock quadrupled during that same period. In the summer of 2003, Monarchy Enterprise Holding sold its 40% stake in Puma.¹⁰⁴ This dramatic comeback — Puma is now the 6th largest sport shoe company in the world — is due in part to its successful strategy of targeting trendy consumers by combining fashion with performance.

Puma was one of the first shoe companies to successfully market sports apparel. Currently its major business activities include the design, manufacture, and distribution of sporting goods and actively operates in three sectors: footwear, apparel and accessories. Its apparel division produces tracksuits, football strips and similar sportswear, whereas Accessories makes sports luggage, footballs and gloves. In 2001, footwear accounted for 64% of total sales, apparel 28%, and accessories 8% (SD1). Puma products

are sold in more than 80 countries on six continents. Meanwhile, Puma also has major plans to open “brand concept stores. Its decentralised corporate management strategy allows it to react flexibly to market changes” (Puma Annual Report 2002).

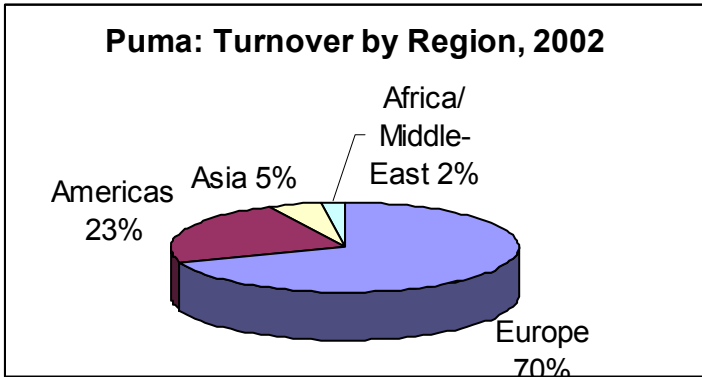
Fact Sheet

- ❖ Established in 1948
- ❖ Number of employees: 2,387
- ❖ 2002 Sales: \$953.5 million
- ❖ 2002 Net income: \$89.0 million

Staff

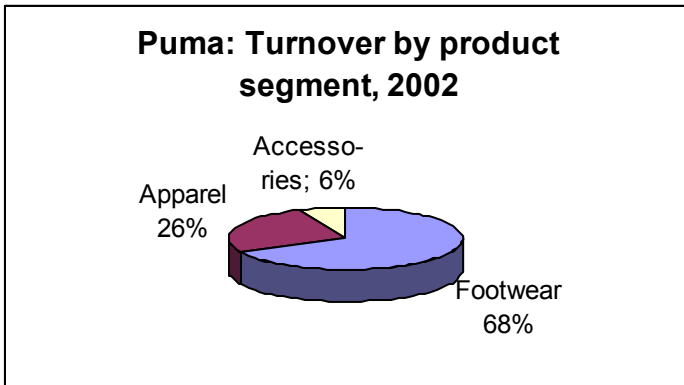
- ❖ Chairman: Jochen Zeitz
- ❖ Chairman, Supervisory Board: Werner Hofer
- ❖ Deputy Chairman: Martin Gaensler
- ❖ Head of Marketing: Antonio Bertone
- ❖ Director of Environmental and Social Affairs: Dr Reiner Hengstmann (as of July 2001)
- ❖ Public Relations Manager: David Williams

Figure 8



Puma, sustainability report, 2003

Figure 9



Puma, sustainability report 2003

Sound Bites

“To be one of the most desirable sports brands in the world” (Mission statement in relation to the brand)

“To be the first truly virtual sports company” (Mission statement in relation to product, Annual Report, 2002).

“The observance of human rights at all our global production sites is one of our fundamental requirements. Partnerships with our manufacturers are based on mutual cooperation — then, in turn, we can expect them to pass on this cooperative stance to their employees. Success and jointly formulated targets can only be achieved on the basis of trust and reliability. Such goals cannot and must not be realized on the grounds of exploitative activities such as child labor or forced overtime work” (Social and environmental report)

(The company considers many of its characteristics to be similar to the animal that inspired the logo, the puma, see Annual Report 1999, 2000).

“As a global enterprise, PUMA recognizes its responsibility towards the creation of human working conditions for all employees working directly or indirectly for PUMA” (Environmental and Social Report)

Marketing and Athlete Endorsements

Dassler shoes — forerunner of both Adidas and Puma — were already being represented in 1936 at the Olympics in Berlin, by none other than Jesse Owens who went on to win four gold medals.

Steven Grasse, president of Gyro Worldwide, Puma’s agency, in 1998 observed: “This year the tire went flat. The hype Nike spent years generating is gone and it has opened up room for a lot of brands like Puma to get in the game.”¹⁰⁵

Puma's brand department, led by Antoinio Betone, has sought to create a brand that "mixes the influences of sport, lifestyle, and fashion" (cited in *The Independent*, Sunday, October 19, 2002). This basically means that Puma's marketing strategy diverges from most of the other brands because it places far less emphasis on performance than on lifestyle.

And so Puma not only hires athletes to endorse its products but also pop stars and, particularly supermodels like Christy Turlington who endorses Puma's Nuala yoga collection. Puma also showcases its products in the entertainment world through product placements. The company has various arrangements with film and television producers like Fox Entertainment (*Friends*, *Will & Grace*, and *ER*) and Monarchy/Recency.

This was also why Puma sponsored the Jamaican Olympic team: "Jamaica is all about sports, music and lifestyle," according to Bertone, "and the good will of Jamaica is harmonious with Puma."¹⁰⁶

Some athletes endorsed by Puma

- Serena Williams (tennis)
- Wilson Kipketer (Danish runner)
- Barry Zito (baseball)
- Italian soccer team
- Jamaica olympic team
- Bulgarian soccer team
- Lazio, an Italian soccer club

At the Soccer World Cup in France in **1998**, 22% of the players were wearing Puma products including five entire national football teams (Marlies Filbri, 1999).

Code of Conduct

Puma introduced an internal code of conduct in 1993, but during those first few years little effort was made to enforce it. Basically, the company just informed suppliers by letter imploring them to implement its standards. This Code was revised in 1997. In 1999, a corporate social and environmental officer responsible for implementation was appointed. In 1999, the code was reviewed (the first

public version only became available in 2000) and its first social and environmental report was published. In 2002 and 2003, the code was revised and extended.

Puma established a Social Accountability and Fundamental Environmental Standards (S.A.F.E team), which is responsible for the implementation and monitoring of its code. The S.A.F.E team also screens new suppliers and are able to prevent orders from being placed if the production sites do not meet the Code's standards. According to their General Manager of Global Sourcing and Logistics, these standards are never compromised — “Never touch the rules fixed in the code of conduct” (source [193a](#)).

Its annual report states the following: “Additional procurement risks relate to the suppliers' compliance with social standards, or potentially dangerous or legally prohibited harmful substances concerning the product manufacturing environment. Puma is amongst the forerunners with respect to developing and monitoring strict international environmental and social standards. Compliance with these standards is guaranteed through regular product controls, continuous monitoring of contracted suppliers, recognized independent audit institutions and its internal control management. Image damage or major impairment in the earnings positions is thus largely avoided” (Annual Report 2000).

Puma's 2003 Sustainability Report notes that between January 2002 and July 2003, 381 supplier audits were conducted worldwide and 33 factories were removed from their suppliers list for failing to correct breaches. In its annual report, Puma states that the “observance of human rights at all our global production sites is one of our fundamental requirements. Partnerships with our manufacturers are based on mutual cooperation — then, in turn, we can expect them to pass on this cooperative stance to their employees. Success and highly formulated targets can only be achieved on the basis of trust and reliability. Such goals cannot and must not be realized on the grounds of exploitative activities such as child labor or forced overtime work” (Social and Environmental Report, 2002).

Puma distinguishes between three categories of factories. A-factories are those that comply with almost 100% of the code's standards and they are audited every two years; B-factories are those that do not comply on minor issues, but these particular issues can be rectified immediately. These factories are re-audited after six months. C-factories show serious non-compliance. The C-factory is expected to improve within 8 weeks when it is re-audited. If it fails, the contract will be terminated.¹⁰⁷

In a Chinese factory where the S.A.F.E team had apparently conducted an audit, workers reported that they were often forced to work between 120-180 hours of overtime per month during the peak seasons, far exceeding the 12 hours a week set by Puma's code, which is even more than the 36 hours per month allowed by Chinese law. Workers that refused to work overtime, were considered absent and fined as 'no-shows'. No premium overtime wages were paid for all this overtime work. Production line employees were paid piece rate and had no form of wage protection during low seasons. As such, approximately 15% of the workforce at the factory didn't even earn the minimum wage.¹⁰⁸

According to the company's Environmental and Social Report, the code standard is based on "the conventions of the International Labour Organization and is displayed and accessible at all our production sites". However their code (see below) makes no direct mention of the ILO standards or a living wage.

Puma joined the Fair Labor Association in 2004. Recently, Puma began working with Hong Kong based NGOs to offer workers training courses in Chinese footwear factories.

Puma: Code of Conduct

We at PUMA AG declare our strict adherence to the respect of Human Rights. As such, we share with our partners a commitment to high ethical standards and guarantee the following Code of Conduct

- No employment of minors. For this purpose, we consider a minor as one who is below 15 years of age, or the minimum age mandated by the applicable law, or the age for completing compulsory education, whichever of the three is higher.
- A workplace that promotes the health and safety of the workers as well as the protection and preservation of the environment.

- A normal workweek according to local labor law, up to a maximum of 48 hours, with a limit of 12 extra/overtime hours, including one day off for every seven days worked, as well as overtime compensation policies that are in accordance with local law.
- Compensation that is respectful of basic needs and all benefits mandated by law.
- Respect and equality, regardless of race, creed, age, sex, social origin, political views, sexual orientation, or position.
- A work place where there is dignity and respect, free from any form of forced labor, harassment, abuse or corporal punishment.
- Freedom of association and the right to join unions or other work or industry related associations as well as the right to collective bargaining in accordance with local law.

Location of Production

As mentioned earlier, Puma shifted to full outsourcing in 1993. This strategy allowed Puma to focus exclusively on what it considers to be its core strengths: design, branding, and marketing.

Puma operates as a holding company for three sourcing organisations: World Cat Europe (German-based), World Cat America (US-based), and World Cat Far East (Hong-Kong based). These three organisations plus various Puma Licensees place orders directly with suppliers worldwide (see figure 10).

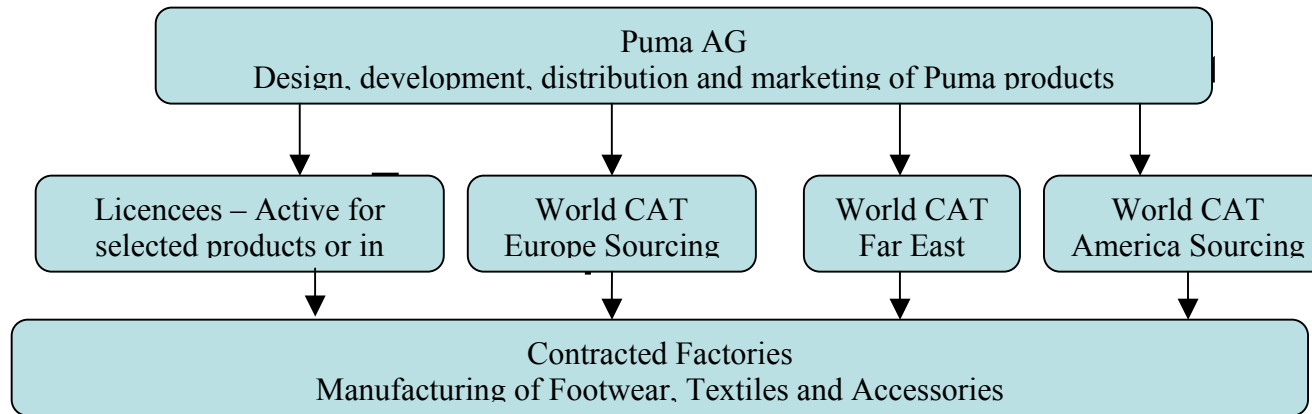


Figure 10
(Source; Sustainability Report, 2003)

Most of Puma’s footwear (90%) is produced in Asia, as well as 60% of its apparel. China, Thailand, Malaysia, Vietnam, and Cambodia are the main production countries. In its 2000 Annual Report, Puma claimed that 60% of its footwear came from China. But in Europe, Romania, Bulgaria and Turkey are the main sources of Puma products. Some Puma products even come from places like Portugal and Italy. In the Americas, Puma uses suppliers located in Paraguay and California (US).¹⁰⁹ However, according to Puma’s own social and environmental reports, 49.4% of its products are sourced in Asia, with Europe accounting for 33.7%, and the Middle East for 14.6%.

All Puma footwear and 98% of its apparel is sourced directly from manufacturers. According to Puma’s general manager of global sourcing and logistics, , Puma has long-term (5-10 year) partnerships with suppliers. According to research by Stock at Stake,¹¹⁰ Puma terminated 33 business relations due to non-compliance in 2002.

Production Sites

Indonesia, Botswana, Namibia, Vietnam, China, Pakistan, Bangladesh, Bulgaria, Turkey, Mexico, Cambodia.

Puma is also a known customer of Yue Yuen.

Labour and Working Conditions

In 2000, Puma became the target of a postcard campaign organised by the (German) Clean Clothes Campaign and Miseror (a German Catholic organisation). A demonstration as part of the Fit for Fair campaign was organised outside its German headquarters in Herzonaaurach to protest against poor working conditions.

Turkey

See Fila profile.

Bulgaria

September 1999, The *Sunday Times* (UK) in an article called “Top shops use Europe's '**gulag**' labour” tells the story of “Ruzkhova, who worked for 38 [pence] an hour in the Greek-owned Darios factory, was sacked after refusing to be strip-searched — what she describes as the management's demands for ‘sexual entertainment’ . For many of the 150 women still toiling at the firm’s new plant outside Sandanski the daily humiliation goes on.”¹¹¹

In 1998, at the CCC tribunal, Lambreta Siwanowa, shop steward at Orfei Ltd. in Kardjali, Bulgaria, testified that the workers had never heard of Puma’s codes of conduct.

Research conducted in 2003 in Turkey for the Play Fair at the Olympics report Puma’s activities in Bulgaria reveals various companies produce goods for sport brands such as Nike, Reebok, and Puma; and reported a.o. the following:

- In most cases, overtime is performed under the threat of dismissal. There are also cases where workers are forced to stay on the job until the order is completed. This kind of overtime usually means finishing work late at night and is not

compensated according at a higher overtime rate, according to terms provided for in the Labour Code. Workers often also complain about rude supervisors (both men and women) who shout offensive remarks or impose fines for refusing to work overtime, etc

- Salary payment has been erratic although some efforts to regulate have meant improvements. In general, wages remain insufficient and do not even approach the social minimum. This despite the fact, that other family members work and/or the family has other from other sources like homegrown produce and farm products. Even with these extra earnings, it's difficult for a family to earn a decent living. This large gap between living wage and actual wage has been confirmed. All of the interviewed workers complained about their wages but many were afraid to voice their demands or there is no management representative available. Until recently, insurance coverage was based on the minimum wage, but payments were never paid to the insurance companies, which meant that workers lost out on their health and social insurance coverage, while the state received less revenue for its social security funds.
- In one of the factories workers have complained about the extreme heat during the summer. The factories have no air conditioners. The dust level is also too high and masks and filters remain unavailable. There are reports of respiratory diseases. Suitable workplace lighting is not provided. The workers are not reimbursed for work clothes in violation of the labour code. One factory has a canteen although many workers still bring food from home despite the fact that the company is obligated to pay a lunch stipend.

El Salvador

A report by two Verité auditors noted that at the Formosa and Evergreen production facilities workers were afraid for possible reprisals for sharing information. The interviews revealed widespread complaints about incidents of harassment involving Bengali supervisors. The agreement that workers sign notes that they “accept the production bonus rather than the overtime pay when they stay past regular hours to reach a production goal.”¹¹²

In the year 2000, the Hermosa factory supplies baseball shirts for Puma. According to the National Labor Committee, workers are paid US\$ 0.27 for “every \$140 Puma New York Knicks basketball shirt they sew. Wages amount to just 2/10ths of one percent of the retail price.”¹¹³

Cambodia

In 1999, the CLO visited a factory (name unknown) owned by Singapore investors. It produces garments for Puma, Gap, Green Village, among others. The CLO reports that male security officers regularly body check employees, barred windows, and lunch breaks of half an hour instead of the one hour that the company had claimed.¹¹⁴

Thailand

A Belgian television crew reported that only a few workers of Nice Apparel (a garment producer) wanted to be interviewed. One worker, who has been working there for seven years, said that she basically works from 8 a.m. to 9 or 10 p.m. Overtime cannot be refused. Although she has heard about a code of conduct, but when asked more about its details, she could not offer anything further.¹¹⁵

In 2000, Lian Thai Textile Industrial Co. was supplying goods for Nike, the Gap, Next, Fila, Kangol, Gymboree, J. Crew, Express, Puma, Zutopia, Admiral, and US Polo. The factory was part of a pilot project initiated by Global Alliance.¹¹⁶

China

The Hong Kong Christian Industrial Committee, in May 2002, published a report on the working conditions of soccerball and football factory workers in China. At Tai Yang, a Taiwanese-controlled factory that produces for **Puma**, Adidas, Conti, and Wilson, 11-hour

workdays were the norm. Further problems reported included: restriction of personal freedom (workers prevented from leaving the factory), compulsory exercise, low wages, health and safety violations.

Tong Ji, produces caps for Puma, Nike, and Adidas. The HKCIC (Alice Kwan) notes that overtime has recently been reduced in this factory. Although overtime is not compulsory, workers note that they have to work overtime during peak seasons. In order to reduce turnover rates, two weeks wages are commonly withheld by management. Some workers are lucky and receive their back wages when they quit but most of them don't.¹¹⁷

Mexico

Workers at the Matamoros Garment factory that supplies Puma initiated a strike after working without pay for over three weeks, which is a violation of Mexican labour laws. Workers also complained of forced overtime and of being locked up in the factory. Further, workers had to sign a "protection contract" with a "sweatheart union" which basically denies them their freedom of association (source: <http://www.cleanclothes.org/urgent/03-01-22.htm>).

Puma sourced apparel from the Matamoros Garment factory in Mexico between July 2002 and January 2003. Working conditions here were bad and included wages under the minimum wage, forced overtime, and verbal abuse. Puma claimed that it terminated the contract on October 7, 2002 due "to the insolvency of one of Matamoros Garment factory's major customers, and the resulting financial limitations placed on the factory, PUMA refrained from placing new orders with Matamoros Garment" (cited at <http://www.cleanclothes.org/companies/puma03-02-27.htm>).

The contract termination, however, came just as workers were starting to organise an independent union. According to Puma, this was a direct reaction to factory's poor record on meeting production deadlines, but the factory owner told workers that Puma terminated the contract because the new union had organised a strike to improve wages and working conditions.¹¹⁸

Puma agreed - after a campaign of CCC and other organizations - to relocate orders to MG and to set up credible verification of the situation in MG in cooperation with the CCC. Unfortunately the factory is closed since end of March 2003.

Excerpts from the Play Fair at the Olympics Report

Indonesia: Job Insecurity

Fatima, a temporary worker in Indonesian factory D supplying **Fila**, Nike, Adidas, **Puma**, and **Lotto** stated: *“While the permanent workers get an unconditional standard monthly wage, my monthly wage is conditional upon completing my daily target. If I don’t complete my daily target within the regular work hours I have to work overtime without pay to finish my target. I don’t know when my contract will end...I don’t feel that I have job security...if we don’t reach our daily targets then we run the risk of getting a warning letter.”*

Indonesia: Union

Union representatives at Indonesian factory I, which produces for **Puma** and **Umbro** have been campaigning for temporary workers rights. They stated: *“The unfair system of employing workers on temporary contracts should be abolished. All workers at [our factory] should be permanent workers. Temporary workers at [our factory] are often fired, their jobs are most insecure. They have to then find another job themselves and they do not receive any severance pay. Once a month when the management holds meetings, a couple of contract workers wind up getting fired.”*

Indonesia: Gender and Sexual Harassment

At Indonesian factory D producing for **Fila**, **Puma**, **Lotto**, Nike, Adidas, and **Asics**, workers reported: *“Pretty girls in the factory are always harassed by the male managers. They come onto the girls, call them into their offices, whisper into their ears, touch them at the waist, arms, neck, buttocks and breasts, bribe the girls with money and threats of losing their jobs to have sex with them”.*

Indonesia: Health and Safety

The health toll among employees is high, thinks Fatima, a 22 year-old Indonesian woman worker employed in factory D that produces for Adidas, **Fila**, Nike, **Puma**, and **Lotto**: *“I have many health problems: headaches, diarrhoea, stomach flu, back pains and muscle cramps. All these are caused by the general situation in the factory – the bad air, having to stand all day and the long hours of work without sufficient rest, water or food.”* Meanwhile, an employee at another factory that produces for **Umbro** and **Puma** echoes these comments: *“Exhaustion is the main thing after overtime hours. We are too tired to do anything much after the overtime work.”*

Indonesia: Compulsory Overtime

Workers at Indonesian factory D reported that they were forced to work for as long as 24 consecutive hours during peak export periods. They complained to management that these overtime hours violate the law but management's response was that goods had to be delivered on schedule or the factory would be fined several million rupiah and as this would be the workers' fault, they would have to bear the cost. A contract worker reported: *"In the garment division, the usual target is a thousand pieces per lane, per day. But during export days, the target doubles to two-thousand pieces. This doubling is very stressful for us and we often cannot reach it. When we don't reach it we get yelled at by the management and sometimes we get warning letters."*

Bulgaria: Piece Rate

Workers in Bulgarian factory U producing for Puma said that the targets set by management were often unachievable. As they were paid piece rate, this adversely affected their wages.

Bulgaria: Union

Reports from factory V producing for Puma pointed out that management had an unfriendly attitude towards trade unions and consequently there was no form of democratic worker representation in the enterprise.

Turkey: Compulsory Overtime

Workers at four Turkish factories (W,X,Y, and Z) producing for **Lotto**, **Fila**, **Puma**, and **Kappa**, reported compulsory overtime

Turkey: Union

Workers in four sportswear factories (W,X,Y, and Z) in Turkey that produce goods for **Lotto**, **Fila**, **Puma**, and **Kappa** reported that unions were basically prohibited. Workers interviewed in all these factories thought that joining a union would lead to their dismissals.



UMBRO

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Product Categories

Umbro manufactures, markets, and sells football products including warm-up gear, uniforms, equipment, and footwear as well as active casual wear.

History

Umbro is short for “Humphreys Brothers”, established in 1924 by Harold and Wallace Humphrey.

In the 1980s, Umbro is turned into a football-only brand.

Umbro has since produced kits for various football teams, including Brazil’s national team. It also produces uniforms for England’s national team and several city football teams including Celtic and Chelsea.

Business Information

Umbro can be called a specialised brand with a focus on football. Umbro supplies branded and licensed soccer products and equipment.

In 1999, Stone Manufacturing Co., of Greenville, UK sold Umbro to the private equity company, Doughty Hanson & Co for £90 million. Doughty Hanson & Co radically restructured the company with the aim of selling it quickly.¹¹⁹

Between 1999 and 2003, Umbro achieved a near fourfold growth in earnings. Profits rose from £5 million to around £33 million. This was mainly achieved through outsourcing its manufacturing operations to China and broadening its range of products to include trainers and football boots. Umbro also brought in a new management team.

Chief executive Peter McGuigan had served as President of Reebok International and as Chief Operating Officer of the Pentland Group. In autumn 2003, Umbro was placed on the market for about £300 million.

One of Umbro's wholly-owned subsidiaries, Umbro Worldwide Ltd., currently owns 60% of the USISL (United Soccer Leagues) Inc. stock.

In 2003, Umbro was fined £6.64 million by the Office for Fair Trading for "fixing" the price of replica kits. (*The Scotsman*, 2 August 2003)

Galaxy Sports Inc. is Umbro's exclusive licensee in North America.

Umbro is currently marketing its products in India through a partnership with Royal Sporting House, which operates 19 retail outlets in India.

Fact Sheet

- ❖ Private company
- ❖ Global Sales: £252 million (including licences)
- ❖ Profits: (approximately) £33 million

Key People

- ❖ Chief Executive: Peter McGuigan
- ❖ Head of Marketing Martin Prothero
- ❖ Umbro Spokesman: Nick Crook
- ❖ Financial Director: Mark Monaghan

Sound bites

“Umbro complies with each manufacturing country's local labour laws.”¹²⁰

Athlete Endorsements

Michael Owen (paid £ 5 million)

Alan Shearer (Arsenal)

The St Etienne team of Larssen, Scotland

Supplies full uniforms to the England national football team, as well as Chelsea, Nottingham Forest, Celtic, Sao Paulo, and St Etienne, plus the national teams of Chile, Norway, Ireland, and Scotland.

Code of Conduct

The company has a code of conduct (see below), but it does not refer directly to ILO standards, although it does covers important areas emphasised by the ILO such as: No discrimination, health and safety, no forced labour, freedom of association, minimum wage standards, 48 hour maximum work week, plus maximum 12 hours overtime per month, minimum employment age of 14/15, and no child labour.

Suppliers are required to sign a Factory Agreement in which they agree that they “should take steps to ensure compliance with these standards in their own operations and those who supply them”. Further, “the Company should consider requiring suppliers to provide legally binding contractual assurances of their compliance with these standards and develop mechanisms to monitor their own performance and that of their suppliers”.

Implementation, however, remains a weak point; its very doubtful that Umbro puts much energy at all into making its code an effective one.

Until at least 2001, inspections were an internal affair carried out by Umbro’s own footwear department staff. Questions have been raised as to how qualified this staff was in checking conditions at the workplace. A report noted: “Nothing in what we heard suggested that the team would know what to look for in relation to child labour, sexual harassment, length of working week or appropriateness of wages.”¹²¹

In 2001, one the company’s agents, a Taiwanese company, was responsible not only for sourcing and product development, but also for quality control and some degree of monitoring.¹²² Umbro has in the past terminated contracts with suppliers because of what it considered to be unacceptable working conditions.

After the CCC Euro 2000 Soccer campaign, a meeting was organised between Umbro and Labour Behind the Label (CCC UK) to discuss a number of issues. The company revealed that it was looking at appointing external auditors. LBL drew Umbro's attention to the fact that one of the companies being considered had just been the subject of a report which concluded that the auditors had failed to devise effective and safe methodologies for the interviewing of workers. A proposal for further discussions on this was not followed up. A second proposal for LBL to organise monitoring of some of Umbro's Vietnamese footwear suppliers, was well received at the time and a list of suppliers promised - which did not materialise.

Umbro's Chief Executive Peter Mc Guigan told Labour Behind the Label: "Umbro takes its responsibilities regarding the manufacture of its products very seriously indeed. Umbro works with manufacturing partners who understand and can deliver our quality and social responsibility requirements. Umbro constantly monitors this process. All Umbro authorised manufacturers must comply with the Umbro code of conduct. This document sets out the standards to which we expect our suppliers to adhere including issues such as wages and benefits, working conditions and health and safety. Regular quality control visits are made to our suppliers in order to check that suppliers comply with the code of conduct. If we discover that a factory has failed to meet any of these standards, Umbro will work with that supplier to ensure that standards are raised to ensure compliance. In rare cases this can result in termination of a relationship." (http://www.labourbehindthelabel.org/campaigning/world_cup.htm)

Labour Behind the Label responded that it considered this statement too vague since it remains unclear who is responsible for the monitoring and what kind of training the monitors receive. It also remains unclear what percentage of Umbro's supply base is monitored annually, or how often suppliers are monitored. Further, are visits announced or unannounced? Are workers themselves consulted as part of the monitoring process? And, in what ways does Umbro set out to have working conditions independently verified? (http://www.labourbehindthelabel.org/campaigning/world_cup.htm)

UMBRO

SUPPLIERS CODE OF CONDUCT

WORKING CONDITIONS

1) Employers will provide safe working conditions for all employees and will not subject them to dangerous working practices. Where local industry standards are higher than the legal requirements then these should apply.

2) Employers shall not employ forced, bonded or prison labour in their operations.

Workers are not required to lodge "deposits" or their identity papers with their employer and are free to leave their employer after reasonable notice.

3) Employers should recruit, train and promote employees on equal terms on the basis of their ability to do their job.

4) Accommodation, where provided, shall be clean, safe and meet the basic needs of the workers.

5) There is no discrimination in hiring, compensation, access to training, promotion, termination or retirement based on race, caste, national origin, religion, age, disability, gender, marital status, sexual orientation, union membership or political affiliation.

6) Physical abuse or discipline, the threat of physical abuse, sexual or other harassment and verbal abuse or other forms of intimidation shall be prohibited.

7) Employers will respect the right of employees to join and organise associations of their own choosing. Employers adopt an open attitude towards the activities of trade unions and their organisational activities.

Workers representatives are not discriminated against and have access to carry out their representative functions in the workplace.

8) Employees will be paid at least the minimum legal wage or a wage that is consistent with local industry standards, whichever is the greater. In any event wages should always be enough to meet basic needs and to provide some discretionary income.

9) Wages will be paid directly to the employee. Information relating to wages will be available in an understandable form.

Deductions from wages as a disciplinary measure shall not be permitted nor shall any deductions from wages not provided for by national law be permitted without the expressed permission of the worker concerned. All disciplinary measures should be recorded.

10) Working hours comply with national laws and benchmark industry standards, whichever affords greater protection.

In any event, workers shall not on a regular basis be required to work in excess of 48 hours per week and shall be provided with at least one day off for every 7 day period on average.

Overtime shall be voluntary, shall not exceed 12 hours per week, shall not be demanded on a regular basis and shall always be compensated at a premium rate.

11) Children below the age of 15 (or 14 in countries with insufficiently developed economies and education facilities) will not be employed.

12) Children and young persons under 18 shall not be employed at night or in

hazardous conditions.

13) There shall be no new recruitment of child labour.

Companies shall develop or participate in and contribute to policies and programmes which provide for the transition of any child found to be performing child labour to enable her or him to attend and remain in quality education until no longer a child; "child" and "child labour" being defined in Appendix A.

14) Lighting, heating and ventilation systems should be adequate in the working environment, and clean sanitary facilities should be available at all times.

15) Obligations to employees under labour or social security laws and regulations arising from the regular employment relationship shall not be avoided through the use of labour-only contracting, sub-contracting, or home-working arrangements, or through apprenticeship schemes where there is no real intent to impart skills or provide regular employment, nor shall any such obligations be avoided through the excessive use of fixed-term contracts of employment.

Sites of Production

When Umbro was bought by Doughty Hanson & Co in 1999, they closed all of their UK production facilities, among them, Judron Clothing. According to marketing director Darryl Kroll, this was a good decision because, "Now we can pay attention to the brand and the game — and do not have to cope with the problems associated with manufacturing."¹²³

Most of Umbro's footwear is sourced in China and Vietnam, while a small percentage is also supplied by Indonesian producers. Both Vietnam and China try to hinder independent trade union activity. When Umbro was asked how they "reconcile the right to

organise clause with the absence of free unions in China, and, to a lesser extent Vietnam, they responded by saying “Nothing much we can do”.

Among their other sites of production we find Bulgaria, Romania, India, and Thailand.

Working Conditions

After a campaign by, among others, Save the Children, Christian Aid, and UNICEF in 1997, Umbro was one of a number of sporting goods manufacturers to sign an 18-month phase-out agreement concerning the phasing out of child labour in the production of footballs in Pakistan, at that time responsible for about 75% of total world production.

The Daily Telegraph in 1997, alleged that children in North Indian villages were being paid 14 pence for hand stitching Umbro footballs which sold for £14.99 in the UK.

Bulgaria

In 2000, it was revealed that the Pan factory, which produces garments for Umbro was underpaying its workers.¹²⁴ This factory also supplies goods to Wrangler and a few German labels such as TONI, La Vie, and Reuters. The Umbro and Wrangler products were clearly labeled with “Made in Greece” labels. Interviews reveal that employees work on a piece rate basis and that they work long work days and often do not have a day of rest. “Workers earn on a piece-rate basis. How many hours we have to work is never known at the beginning of the day — sometimes 24 hours in a row to finish up an order. I work at least 10 hours daily, sometimes 7 days a week. Physically this is not possible, but it is the only thing that we can do. Overtime is 'voluntary' but if I refuse I will be fired.”¹²⁵

Umbro responded by sending copies of faxes from its Greek supplier, Omega Sport, stating that Omega Sport had not been and would not again source from the Bulgarian factory. LBL's responded that, when a company was exposed as having sourced from suppliers violating workers' rights, “it should work with suppliers to raise standards rather than simply take its business elsewhere” and asked for details of Umbro's monitoring procedures and of its position on independent verification.¹²⁶

Vietnam

Labour Behind the Label identified two Vietnamese-controlled companies as producers of Umbro shoes: The Hai Thanh Company, which Umbro refers to as “Silver Star,” and the Hiep Hung Company. Vietnam is not where most athletic sports brands source from. Umbro shoes are relatively simple, making sourcing from Vietnamese factories possible. Vietnamese customs officers cannot easily identify where Umbro products come from because Umbro seems to use a variety of factories, and besides, the quantity remains low compared to larger brands as Nike.

While management-worker relations are better here, at least when compared to foreign-owned corporations, wages and environmental issues are worse than the average. Only foreign-owned companies are registered to pay at least \$45 a month of wages. “Environmental conditions — air quality and ventilation, lighting, and worker protection from physical hazards — must be assumed to be at a significantly lower level in these Vietnamese-operated factories”.¹²⁷

Thailand

Bed and Bath Prestige Company produced goods for Umbro. See Fila for more information. The Nan Yang Textile Group also produces for Umbro.

Argentina

Gatic, a large Argentinian footwear manufacturer and holder of licensing rights for companies like **Umbro**, Le Coq Sportif, Reef, and Adidas, threatened to relocate its operations if the Argentine government continued to not pay its debts. “The company’s 500 workers in the Anillaco and Chamental plants located in the La Rioja province have gone on strike over non-payment of wages. Gatic owes them an estimated US\$300,000.”¹²⁸

China

A report by the Hong Kong Christian Industrial Committee found poor working conditions in factories producing Umbro footballs. An investigation at the **Cheong Yip** factory, producing footballs for Amdame, Diadora, **Lotto**, and Umbro, has revealed that average working hours at peak season were 13-14 hours. Beside these extremely long hours, health and safety hazards, arbitrary penalties, pay delay, and low wages were observed. “Cheong Yip has two plants producing in Dongguan City. Plant one produces baseball and baseball gloves whereas plant two produces soccerballs and basketballs. The two plants employ approximately 1,000 workers

each. Both men and women workers have come from various inland provinces in China to work there. The majority of production line workers are between 20 to 25 years old.”¹²⁹

Table 10

| | | |
|---|--|---|
| Name of factory | Guan Ho | Cheong Yip |
| Country of owner | Taiwan | Hong Kong |
| Location | Dongguan City | Dongguan City |
| Brand names | Adidas | Umbro, Lotto |
| Products | Footballs, basketballs | Footballs, basketballs, gloves |
| Average number of working hours during peak season | 11–15 hours, Latest time: 2–3a.m. | 13–14 hours Latest time: midnight |
| Average salary for production line workers in low season | RMB300-400 | RMB300-400 |
| Average salary for production line workers in high season (food and lodgings not deducted) | RMB600-1000 plus Maximum RMB1400 | RMB800-900 |
| Legal minimum wage | RMB450 | RMB450 |
| Food and lodging deductions | RMB165 (was free before 1 February 2002). | RMB60-70 for food. |
| Major problems identified | Good facilities but workers often too tired to make use of them. Serious health and safety hazards, long working hours, illegal down-payments upon recruitment, low wages, workers with deformed hands observed. | Lodgings are free, some without hot water. Safety and health hazards, long working hours low wages, workers unclear as to how pay is calculated, arbitrary penalties. |

Source: Hong Kong Christian Industrial Committee [163](#)

Urgent Appeal or Protest

A World Cup leaflet was produced — 40,000 were printed — in 2000. Bulletin 16 of Labour Behind the Label focused on the World Cup, with details about working conditions in Indonesia, China, and India including a helpful “what you can do” section. Both can be viewed on the CCC website. 35,500 leaflets were distributed in a month (with the bulletin, via supporters, through unions and youth groups, and at the Glastonbury Festival). This campaign stimulated a lot of new support.

Umbro was bitterly condemned by Jewish groups for naming a training shoe Zyklon, the name of the gas used by the Nazis to exterminate millions during the Holocaust. The Simon Wiesenthal Centre demanded that the shoes be withdrawn immediately. **Umbro** spokesman Nick Crook noted that the name did not appear on the trainers but had been used in advertisements for three years. The company had already changed the shoe's name in Britain, he assured, and had planned to do the same in other countries. He stated that the company wished to “express our sincere regret”.¹³⁰

Excerpts from the Play Fair at the Olympics Report

Indonesia: Code of Conduct

A worker at one Indonesian factory H told researchers: “*Yes, there are Umbro and Reebok codes of conduct pasted on the walls but they are both in English. They are pasted high up on the wall. It used to be that these codes would only get pasted up when the buyer was around, but since August 2002, they have been up everyday. I have read a little bit of the code but I don't understand much of it.*” At another factory producing for Umbro, Puma, and goods bearing the Olympics emblem, interviewed workers were categorical: “*There are no codes of conduct on the walls of our factory. We have never read a code of conduct.*”

Indonesia: Compulsory Overtime

An Indonesian worker from factory I that makes goods bearing the logos of **Umbro**, **Puma** and the Olympics said: “*When there are stretches of overtime work, many workers who have children, especially contract workers, never get to see their children. When they come home from work, their children are already sleeping. And all of us have to come to work so early in the morning that the children are usually asleep in the morning too. Family life is cut short.*”

Factory I workers also told researchers that: *“Exhaustion is the main thing after overtime hours. We are too tired to do anything much after the overtime work. Flu is very common. Because many workers don’t eat regularly or don’t eat enough, stomach pains also result. Many women tend to miscarry pregnancies because of the continuous work that is caused by overtime work following immediately after the daily shift.”* Finally, a 21-year old worker stated that, *“If you don’t reach production targets, you are forced to do unpaid overtime... You have to reach a certain target to make the minimum wage. If you don’t there are two sanctions: working unpaid overtime or getting graded with a ‘zero’ on your production report. If you get graded ‘zero’ too many times, you get a warning letter. Too many warning letters, and you are demoted. If demoted the management will move the worker around the factory until she is so embarrassed that she resigns.”*

Indonesia: Temporary Workers and the Trade Union

Union representatives at factory I, which produces for **Puma** and **Umbro** have been campaigning for the rights of temporary workers. They stated: *“The unfair system of employing workers on temporary contracts should be abolished. All workers at [our factory] should be permanent workers. Temporary workers at [our factory] are often fired, their jobs are most insecure. They have to then find another job themselves and they do not receive any severance pay. Once a month when the management holds meetings, a couple of contract workers wind up getting fired.”*

China: Compulsory Overtime

In Chinese factories L and M, which produce for **Umbro**, workers complained that they were often forced to work a seven-day work week during the peak season. In one factory employees worked an average of 120 hours of overtime during the month of October 2003 — three times more than Chinese labour law allows. *“We have endless overtime in the peak season and we sit working non-stop for thirteen to fourteen hours a day. We sewing workers work like this everyday — we sew and sew without stopping until our arms feel sore and stiff”* noted one employee.

Workers at one Chinese factory that produces for **Umbro** and Diadora workers refused to work overtime and were fined RMB30 (US\$3.60).

In an extreme case, workers in three factories in China — two producing for **Umbro** (factories L and M) and one for **Mizuno** and **Kappa** (factory N) — reported were prevented from resigning during peak production periods. The management does this by withholding wages (ranging from two weeks to two months' pay).

China: Fines

At Chinese factory P that supplies goods for **Fila**, **Umbro**, Nike, and Reebok, the following case was reported to researchers: A female migrant worker was hired in October 2003. After eight days, she was informed that her child was seriously ill. Wanting to rush home to take care for her child, she tried to resign but her request was denied. She decided to leave anyway and was willing to sacrifice her eight days of wages. But upon reaching the factory gates, security guards prevented her from leaving. They declared that they would only release her if she paid them RMB50 (US\$6). She had no money to so begged them to let her go. One of the security guard said: *“You don't have the authorisation. You have to pay the RMB50 (US\$6) to get permission. If we allow you to go, we will be fined RMB150 (US\$18) for breaking the factory rules. Do you know that? It will cost us both RMB300 (US\$36)! Which is higher — RMB50 (US\$6) or RMB300(US\$36)? If you have no money, borrow some.”* The woman pleaded, *“I don't know anyone. I am new here. I must go back. My child is sick.”* The security guards refused. They said *“We don't have time to argue with you. There is no exception. This is the factory rule and our duty.”*

In China, workers at factory M went on a two-day strike when management imposed huge fines on them for mistakes made on the soles of **Umbro** shoes. The deductions from wages were also once done during a slow period when wages were already very low.

At factory L, which produces for **Umbro** as well as for **Fila** in China, management regularly demanded a RMB20 to 30 (US\$2.40 to US\$3.60) wage deduction as a “material replenishment fee” to supposedly cover the costs of materials needed to fix faulty machinery. In September 2003, each worker incurred a RMB100 (US\$12) fee, which caused great discontent and eventually led to a strike. Although in both cases management relented and paid back the deductions, management has yet to stop this practice of imposing fines for flawed products.

At factory L that also produces for **Umbro**, stitching workers report being fined a minimum of RMB50 (US\$6) each time the product they made was flawed. These same workers had a regular working day of 12 hours. Some of them worked night-shift from 7.30pm to 7.30am.

China: Low Order

In a number of Chinese factories where sportsbrand products are made, workers reported not receiving any wage protection often forcing them to cut back on basic needs or borrow money. A worker in the sole department of Factory L manufacturing **Umbro** products said “*We did not have many orders in September. Most of us received only RMB400(US\$48) – 500 (US\$60) (that month). Some received only RMB100 (US\$12). The lowest wage paid in our department was RM45(US\$5)! After deducting food and lodging, our wage was pathetic.*” At Chinese factory Q that produces for Umbro and Diadora, workers received only RMB200 (US\$24) – 300 (US\$36) per month even though the legal minimum wage in that city was RMB320 (US\$38) per month. In this way, factory owners shrink their labour costs when orders are low to compensate for the low unit prices they receive from the buyers.

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Product Categories

Yue Yuen produces footwear for over 30 brand-named corporations including: Nike, Adidas, Reebok, Puma, Asics, New Balance, Timberland, and Rockport.

The company has more recently become involved in the production of sports apparel.

The Group has also established a network of 495 wholesale distributors and 98 retail stores in Guangzhou, Shanghai, Beijing, Tianjin, Shenzhen, and Zhuhai to sell branded athletic footwear and apparel products.

History Pou Chen and Yue Yuen

The Pou Chen Group was founded by the Tsai family who established a family business in 1969 that produced rubber shoes including PVC sandals and indoor slippers. From the beginning, Pou Chen generated enough profits to ensure its rapid expansion. One member of the family recalls: "From slippers, we made sandals. From sandals we made shoes. From shoes we made sports shoes".¹³¹ During the 1970s and 1980s, it developed into a more diversified and technically advanced "original equipment manufacturer" (OEM) and eventually as an "original design manufacturer" (ODM). As a result, Pou Chen started to receive orders from Japanese and US companies such as Sears Roebuck and Mitsubishi. In 1979, Adidas started to order shoes from Pou Chen and their relationship continues even today. These kinds of contracts motivated Pou Chen to specialise even further in the production of athletic footwear. Reebok designated Pou Chen as its most important producer in 1985, Nike followed suit at the beginning of the 1990s.

In the 1980s, when the cost of labour and land in Taiwan began rising, production sites moved offshore toward China (1988). Despite an almost constant state of political tensions between China and Taiwan, Pou Chen boasted that it was able to maintain friendly relations with leaders from both countries. "The company's introduction videotape shows the group's chairman Tsai Chi-jui giving a pair of sneakers to Taiwan President Lee Teng-hui, followed by a warm handshake with China's President Jiang Zemin."¹³²

Having political and/or family connections — what the Chinese call *guanxi* — is an essential asset for doing business in China. Production sites were also established in Indonesia (1993) and Vietnam (1995). The Yue Yuen Corporation listed itself on the Hong Kong stock exchange in 1992. It is also worth noting that Yue Yuen also operates a few production lines in the US where it produces shoes for New Balance, a brand which proudly emblazons its shoes as "made in the USA".

In 2003, Yue Yuen announced its plans to invest in building a sportswear apparel factory in China's southern Dongguan province. It also bought a 73% stake in sportswear and casualwear maker Pro Kingtex Industrial Co. Ltd. that produces for Nike, Reebok, and Adidas. Managing Director David Tsai said at the time: "It complements our footwear business. We hope by this time next year, we would have some sportswear products coming out."¹³³

Business Information

Yue Yuen has become the largest (sport) shoe manufacturer in the world. The company is controlled by Taiwan's Pou Chen Corp., which has a 49.8% stake in the company, and the Tsai family, which has a 19.9% share.

Key People

- Chairman: TSAI Chi Neng Chan
- Executive Director: LU Min
- Executive Director: KU Y. Edward
- Executive Director: KUNG Sung Yen
- Executive Director: KUO Tai Yu LU Chin Chu
- Executive Director: LI I. Nan Steve
- Independent Non-Executive Director: SHIH Hung
- Independent Non-Executive Director: SY J.D. John
- Managing Director: TSAI N.F. David
- Vice Chairman (Non-Executive Director): CHOI Kwok Keung

Yue Yuen currently has an estimated 16% share of the world footwear market and not only receives orders from over 30 different sport shoe brands like Nike, Reebok, Adidas, Converse (including the right to license) New Balance, Asics, Lotto, and Puma, but also from important “brown” shoe brands like Timberland, Rockport, Clarks, and Dr Martens.

In 2001, the *Asian Wall Street Journal* rated Yue Yuen as one of the top five Hong Kong listed “value creators”. This rating was based on criteria such as cash returns, sales, and share price increase over a three-year period, and expected future returns. In the period 1995-2002, its annual turnover and profit more than doubled (see table 14).

Table 14: Turnover & Profit 1995-2002 in US\$ Millions

| Year | Turnover (in millions) | Net Profit (in millions) |
|------|------------------------|--------------------------|
| 1995 | 810 | 95 |
| 1996 | 1,023 | 120 |
| 1997 | 1,414 | 158 |
| 1998 | 1,430 | 171 |
| 1999 | 1,484 | 195 |

| | | |
|------|-------|-----|
| 2000 | 1,691 | 210 |
| 2001 | 1,780 | 213 |
| 2002 | 1,939 | 229 |

Yue Yuen: various annual reports

The number of shoes produced rose sharply from 57 million pairs in 1996 to 130 million pairs in 2002. Yue Yuen is taking over more and more of its competitors' business. For each of the last ten years, Yue Yuen's sales have grown an average of 19%, while expansion in the total (athletic) shoe market itself was less than half of that. Steve Li, a Yue Yuen manager, is quoted as saying that "Its is a virtuous circle... for by growing at a faster rate than the market, Yue Yuen has continued to wring ever greater economies of scale from its factories and so put ever more pressure on competitors."¹³⁴

Table 15 illustrates how Yue Yuen has expanded production lines in China, Indonesia and Vietnam during the period 1996-2002. The company runs immense production sites that employ up to 60,000 workers in several Asian countries. In 2002, a total of 205,000 workers were employed by Yue Yuen.

Its production sites look like fenced-in towns that include up to 50 factories, office buildings and dormitories. Table 16 shows how Yue Yuen has dispersed production capacity among several countries.

Table 15: Number of Production Lines

| | 1999 | 2000 | 2001 | 2002 | 2007* |
|--|------|------|------|------|-------|
| China | 136 | 144 | 148 | 148 | 148 |
| Vietnam | 19 | 32 | 36 | 50 | 92 |
| Indonesia | 27 | 39 | 43 | 53 | 85 |
| Total no. | 182 | 215 | 227 | 251 | 325 |
| Output volume: pairs of shoe (in millions) | 88 | 103 | 114 | 130 | 164 |

Yue Yuen: various annual reports
*expected

The dispersion of production across various countries has three major advantages related to the macro costs of production. First, Yue Yuen is less vulnerable to changes in quotas, tariff rates, or trade disputes. Second, Yue Yuen is less vulnerable to host-state policies or the growing power of trade unions. Control over macro-costs is also important because many of Yue Yuen's customers are concerned about issues like currency fluctuations, tariffs, and duties. For these reasons, few customers will therefore source in only one country, even if it has the lowest labour costs.

Using economies of scale, Yue Yuen has succeeded in its lowering average production costs. Direct costs are reduced by utilising a more detailed division of labour. Indirect costs are spread across a larger revenue base. Another source of comparative advantage is that Yue Yuen has more production capacity to react swiftly to rush orders or to speed up the time needed to change production line configurations, manufacture and deliver a new shoe. For example, in 2000 the inventory turnover was 40 days, down from 45 days in 1998.

While brand-named corporations externalise more and more business tasks, Yue Yuen internalises them, for example, through the in-house supply of shoe components (such as shoe pads, midsoles, counters, etc.) and raw materials (glue hardeners, rubber, coatings, chemical materials, etc.). This has provided Yue Yuen with control over quality standards and has reduced delivery and transport times. It has also served to increase the cost-effective procurement of raw materials. Again, this has helped shorten the inventory turnover time. This is particularly important since brand-named corporations (due to falling profit margins) have sought to reduce indirect costs related to production.

Compared to other manufacturers who are often dependent on only a few customers, Yue Yuen's customer portfolio is diversified, as it supplies goods to some 30 different brands. According to Felix Ho, an investment advisor, Nike, Reebok, and Adidas represent 60% of Yue Yuen's turnover, while the five largest customers accounted for a total of 68%. Still, in 2002, Yue Yuen sold 28% of its shoes to Nike, whereas Nike receives only about 15% of its shoes from Yue Yuen. Although this power-relation is unequal, it cannot be said that Yue Yuen is dependent on Nike. According to Daniel Chan, finance director of Kingmaker Footwear Holdings, a Hong Kong shoe supplier: "If Yue Yuen said today, 'I won't supply anymore to Nike,' then Nike would be scared".

Table 16 shows that Yue Yuen's net profits are not only higher than those of Reebok and Adidas, but its profit rate (net profit divided by turnover) is also better than Nike's. It cast some serious doubt over the assumption that manufacturers are always less profitable than branded corporations.

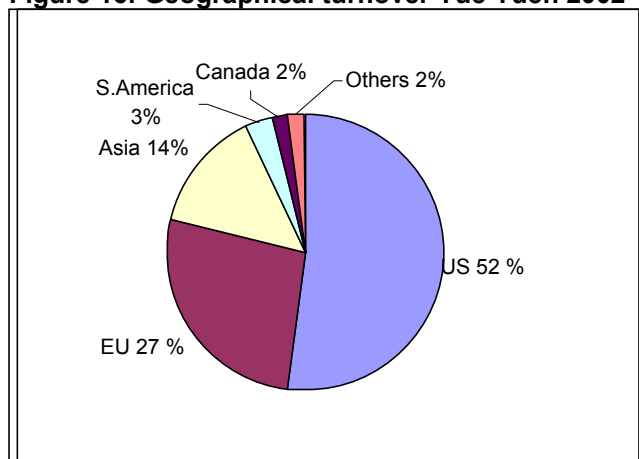
Table 16: Turnover and Profit for Nike, Reebok, Adidas in 2001, in US\$, unless otherwise indicated*

| Company | Turnover | Net Profit (in Millions) | Rate of profit |
|----------|-----------------|--------------------------|----------------|
| Nike | 9.49 billion | 589 | 6.2% |
| Reebok | 2.99 billion | 102 | 2.9% |
| Adidas | 6.1 billion (€) | 208(€) | 3.4% |
| Yue Yuen | 1.78 billion | 213 | 11.9% |

Source: various annual reports

In 2002, the company exported 52% of its output to the US. The EU accounted for 27% and Asia for 14%. In order to reduce its exposure to currency and demand fluctuations, Yue Yuen has reduced the portion of its revenue derived from the US market by 15% in the last six years, while it has increased that from the EU by 13% in the same period. Turnover in Asia has been stable for the past six years at about 14%.

Figure 16: Geographical turnover Yue Yuen 2002



Recently, Yue Yuen has also begun looking to expand downstream by acquiring retail outlets and distribution channels in China. Although this only accounted for 0.2% of total turnover in 2002, it might turn out to be an important strategic move if China's middle class continues to grow. It may also become even more important because of the fact that China is hosting the 2008 Olympic Games, which is expected to boost the sales of sportswear throughout China. It is also worth noting that Yue Yuen has acquired the exclusive right to distribute Converse products in China. This move might transform Yue Yuen from a supplier into a direct competitor for many of its customers.

In summing up, Yue Yuen has followed various strategies to strengthen its hold on the production of shoes. It has diversified its customer base, relocated production sites, improved the internal supply of raw materials, and reduced overall delivery time. This allows Yue Yuen to offer a fully integrated package of services related to shoe production. Cost saving that has been achieved in these areas has put Yue Yuen ahead of many of its direct competitors who concentrate solely on taking advantage of cheap labour resources. Nonetheless, as the next section will reveal, Yue Yuen combines its comparative advantages in these areas with access to cheap labour and strong-arm tactics to keep its workers docile.

Working Conditions

Numerous reports by NGOs and labour activists mainly during the 1990s, have revealed how in labour rights Yue Yuen factories were violated. Most of the accusations concern bad treatment (militaristic management styles), sexual harassment, forced overtime, low wages (that is, lower than national law allows), poor safety standards, unjust employment contracts, limited access to the toilet, intimidation and repression of (independent) labour unions.¹³⁵

Anita Chan (1996), a sociologist at the Australia National University who did research on labour conditions in Southern China, observed how Yue Yuen runs their factories in a militaristic style:

“New recruits are given three days of ‘training’. The first day, according to one of them, is largely spent marching around the compound, being barked at by a drill sergeant. At 6.30 p.m., commands could clearly be heard in the background: ‘Left! Right! Left! Right! About turn! March!’ Three formations, each of about 40 workers, were still being drilled....”¹³⁶

This “boot camp assembly method” is accompanied by shouting supervisors who humiliate workers by calling them ‘monkey’, ‘pig’, ‘dog’, ‘stupid’, ‘whore’, or ‘dumb’ when work proceeds too slowly or if targets are not met. “Almost every day, if we make a mistake or don’t make our quota”, a 24 year old female worker from Java reported in the *LA Weekly*, “we are called horrible words: You’re

dumb. You're stupid."¹³⁷ Timothy Connor's report, issued by the Australian-based Oxfam Community Aid-Aboard together with the Clean Clothes Campaign, stated that while verbal abuses seem to have recently decreased, in other Indonesian factories that supply Nike, such as the PT Nikomas Gemaling factory, it is "still not uncommon for them to be shouted at."¹³⁸

Employees are further punished by fines for errors such as spilling materials, mistakes, negligence, late arrival, falling asleep, or going more than twice to the toilet in a workday. Fines are also given for 'violations' of rules not related to production such as untidy dormitories or returning home late.

Although it is likely that the news of most workers' rights violations never gets beyond the factory walls, some violations have been widely reported in the international press. In 1996, a floor manager in one of the Vietnam factories forced 56 women to run a 4-km circuit around the plant as punishment for wearing non-regulation shoes. Twelve workers fainted and were taken to hospital. David Tsai, Pou Chen's group president, responded by saying that it was an isolated error of judgement that "could happen to any company in the process of internationalization."¹³⁹ The manager was sentenced to six months in jail.

A Pou Chen supervisor also in Vietnam was given a 6-month jail term when 100 workers were forced to stand in the sun because one worker had spilled a fruit tray on an altar. When one employee walked away after 18 minutes of standing in the heat, he was fired. After local union officials and Nike management intervened, the worker was reinstated. In 1998, an incident was reported in which a manager at the Pou Yuen factory in Vietnam poured paint over a worker's head for making a mistake. The worker was paid the equivalent of US\$15 in compensation.

None of Yue Yuen's factories have freely elected unions. It has been the corporation's policy to use strong-arm tactics to suppress any organising efforts by independent workers' organisations. Workers have reason to fear for their jobs, or that they may be physically assaulted or even jailed if they engage in independent union activity.¹⁴⁰

Yue Yuen's production lines are located in countries where independent trade unions are commonly suppressed or where they offer little legal protection (e.g., Indonesia). In China, a union can only operate legally if it has been approved by the All-China Federation of Trade Unions, which is controlled by the state. Strikes are illegal and have been considered a threat to social order since 1982. Workers are represented by unelected state union officials who have been criticised for doing little to improve their working conditions or protecting workers' rights. Labour disputes in China are not well documented but from interviews with workers it is known that (wildcat) strikes and work stoppages have occurred in factories located in Dongguan. Alice Kwan reports that in 1999 a small-scale strike was organised in the GaoBu Dongguan factory. The supervisor, who mobilised the strike, was demoted, while all the strikers were fired.¹⁴¹

Nevertheless, Yue Yuen has not been immune to outside pressure from brand-named companies who fear “reputational risk”. The company itself, in its 2000 Annual Report, writes that:

“Staff costs as a percentage of turnover increased just over 1%, in line with the increase in minimum wage in the Dongguan Province. Also contributing to this increase was a rise in headcount attributable to the hiring of additional workers to compensate for stricter restriction limiting employees’ working hours”.

Yue Yuen, having had to deal with the pressure applied by brand-named corporations, agreed to participate in a workers’ training programmes involving health and safety issues.

The interest which brand-name corporations like Nike and Reebok now show in labour and employment conditions is a trend that first surfaced some ten years ago. “In the past”, Thomas Shih, a deputy Yue Yuen manager in a Chinese factory told a *Financial Times* journalist: “it was all about whether you could hit the workers or slap them. Now we talk about how we celebrate their birthdays.”¹⁴²

This suggests that consumer pressure on brand-name corporations has had some positive effects on working conditions and might have alleviated the worst kinds of exploitation. Allen Lee, a manager in Pou Chen’s Yue Yuen factory in Southern China commented to a journalist: “People are always talking about human rights and welfare. In 1989, people never did that. That was my golden time. No one squeezed me”.

Codes of Conduct

As a manufacturer, Yue Yuen does have an employment policy, although the company has no formal code of conduct. None of its factories are SA8000 certificated.

Since they manufacture for various brands, Yue Yuen has also been working with various brands on their codes of conduct, including those of Puma and New Balance.

In recent years, Yue Yuen has also participated in various multi-stakeholder projects concerning health and safety standards. In this regard, Yue Yuen has co-operated with NGOs like HKCIC.¹⁴³



Li & Fung Limited

Li & Fung

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History

Li & Fung Limited (member of the Li & Fung Group) started in Guangzhou in 1906 as an export trading business. In 1937, Li & Fung Ltd. established a presence in Hong Kong, where it is still headquartered.

Since the 1970s, the management of Li & Fung has been headed by members of the third generation of the Gung family: Dr. Victor Fung and Dr. William Fung. They own approximately 48% of Li & Fung Ltd., most of it through their holding company, Li & Fung 1937. South Africa's Oppenheimer family has a 26% stake in the company.

Business Information

Li & Fung Limited has been listed on the Hong Kong Exchange (Stock Code: 0494) since 1992. Shares are traded in Hong Kong dollars.

Li & Fung is the largest export trading company in Hong Kong. It functions as a supply chain manager for Western brands and retailers. The business of Li & Fung has evolved from an apparel buying agent to a value-added service provider.

In their own words, Li & Fung is a supply chain manager: “across many producers and countries, Li & Fung provides the convenience of a one-stop shop for customers through a Total Value-Added Package: from product design and development, through raw material and factory sourcing, production planning and management, quality assurance and export documentation to shipping consolidation” (2002 Annual Report: 3).

The company functions as a one-stop shop (or supply chain manager and logistics handler). After buyers have communicated their requirements and specifications, Li & Fung takes care of the rest (everything from product development, raw material sourcing, production planning and management, quality assurance, export documentation to shipping consolidation). In short, their core speciality lies in understanding its customers' requirements and its knowledge of manufacturing facilities across the world.

The company has two primary product categories: soft goods (apparel) and hard goods (porcelain, toys etc.) For a long time Li & Fung focused on fashion and sportswear as their main business. More recently it began refocusing more on hard goods which carry higher commission rates.

One investment report argues that by shifting its focus the company would be more able to minimise another potential round of price deflation in soft goods when export quotas are abolished in 2005. Therefore, in the long run, it is expected to maintain a 50:50 split between soft and hard goods (UBS, 2003).

Li & Fung's business model was based on navigating through the maze of quota availabilities around the world in order to find the most cost-effective sourcing for its customers (UBS, 2003). Since the company earns its margins and commissions from these complex trade relationships, Li & Fung was afraid that "once the quota restriction is totally lifted, manufacturing activities will aggregate in China."¹⁴⁴

Therefore, it wasn't very odd that William Fung, Li & Fung's managing director, to underline the importance of diversification for its customers: "You don't need to abandon China — that would be crazy... but you shouldn't put all your eggs in one basket. Split your orders between two or three factories so that if one is hit by SARS you have other production possibilities".¹⁴⁵

Gordon Yen, manager of a Hong Kong textile manufacturer, confirms this. He argues that countries such as Indonesia, Malaysia, and Cambodia rather than China may end up the winners after 2005, since "many players in our industry anticipate there may be the activation of an anti-surge mechanism by the US that will limit imports from China."¹⁴⁶

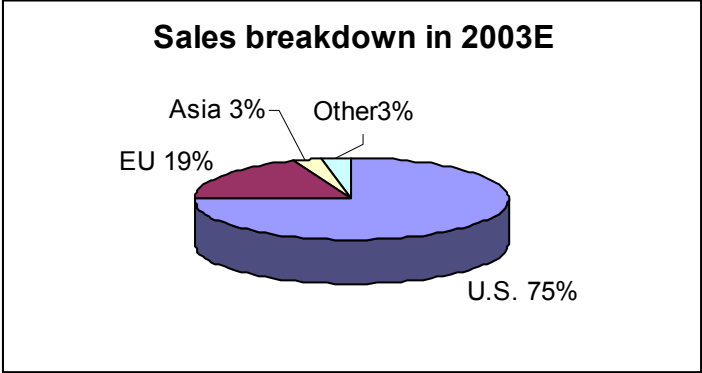
Li & Fung currently has a joint venture with BasicNet, the company behind Kappa.

In 2002, turnover was over US\$4.7 billion, with a profit of just over US\$1.2 billion.

In 2002, Li & Fung sourced US\$2 billion of goods in China, 70% of it in the Pearl River Delta alone.

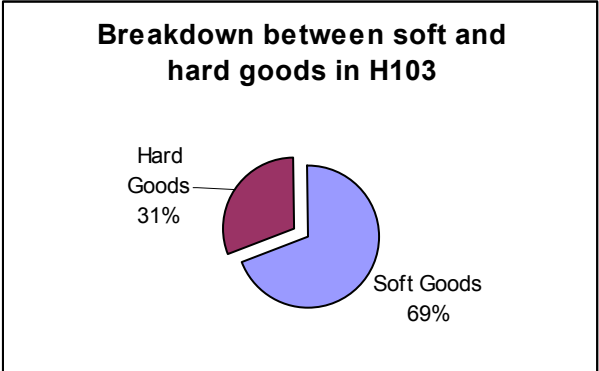
The company is negotiating a licensing contract for parts of the *Levi Strauss Signature Line*, which would be sold in Wal-Mart. This kind of deal would increase Li & Fung's presence in the US market. In October 2003, Levi's Chief Executive, Phil Marineau, stated that "the exact categories hadn't yet been finalized" but that it will license the areas where it believes that Li & Fung "has the cost structuring to better meet Wal-Mart's requirements"¹⁴⁷

Figure 17



Source: UBS, 7 November 2003

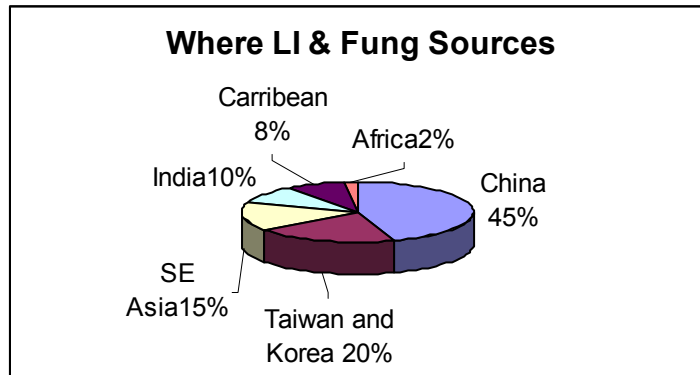
Figure 18



Source: UBS, 7 November 2003

It is constantly searching for quality-conscious, cost-effective producers that meet deadlines.

Figure 19



Source: UBS, 7 November 2003

Within China, a great deal of the production has been relocated from the Pearl River Delta near Hong Kong and towards the Yangtze River Delta. It is expected that if transportation within China continues to improve, production will move even further inland in search of lower fixed costs such as land and energy). According to CEO **William** Fung there “will be less need to move people as China’s infrastructure get better.”¹⁴⁸

In 2002, Li & Fung sourced goods worth US\$180 million in Vietnam. It has been mostly low-end sourcing businesses that have relocated from China to cheaper manufacturing bases such as Vietnam.¹⁴⁹

Fact Sheet

- CEO: William Fung Kwok Lun

- Headquarters: Hong Kong
- Turnover: HK\$37.281 billion (approximately US\$4.8 billion).
- Operating profit: HK\$1.134 billion
- Employees: 5,313
- 65 sourcing offices in 38 countries
- World's largest sourcing company
- Member of Global Compact

Major Mergers and Acquisitions since 1992

1994: Acquires Inchcape Buying Serves. IBS is a group of companies that engages in the same export trading business as Li & Fung.

1996: The IBS acquisition is renamed Dodwell.

1997: Acquires Standard Fireworks Limited (UK's largest fireworks distributor).

1999: Acquires Swire & Aclaine and Camberley.

2001: Establishes a business alliance with Nichimen Corporation (a Japanese trading company).

2002: Acquires the entire share capital of Janco Overseas Limited (trading company in hard goods). (Source: UBS Investment Research, November 7, 2003)

2003: Buys the sourcing business of both Firstworld Garment Ltd and International Porcelain Inc.

Li & Fung's Main Customers¹⁵⁰

Major Customers

| | |
|-----------------------------------|--------|
| Abercrombie & Fitch | 3-4% |
| American Eagle Outfitters | 4-5% |
| The Limited | 5-6% |
| Goody's family Clothing Catalogue | 1% |
| Gymboree | 4% |
| Kohl's | 16-17% |

Other Customers

Reebok
Coca Cola
Tesco
Levi-Strauss
Nike

Code of Conduct

Li & Fung has developed a Supplier Code of Conduct that applies to all its approved vendors around the globe. According to its website, the "Code is a set of rigorous labor, health, and environmental standards based on national labor laws, International Labor Organisation (ILO)'s conventions and treaties, and international best practices. For example, vendors are prohibited from hiring child or involuntary labor. They are also prohibited from practicing corporal punishment or any form of discrimination. The importance of environmental protection, occupational health and safety standards, as well as compliance with the law are also highlighted in the Code".¹⁵¹

KAPPA's Code of Conduct is almost certainly copied from Li & Fung's code. Although no copy of Li & Fung's can be found on its website.

Li & Fung is also member of Business for Social Responsibility (BSR). An international organisation based in the US that promotes respect for ethical values, people, community, and the environment. In conjunction with a BSR labour rights project in 2002, Li &

Fung, together with several other US branded companies, created a labour rights pocket guide along with a labour law protection and aid poster specifically for migrant factory workers of Guangdong, China.

Li & Fung is also a participant in the United Nation's Global Compact initiative that creates a platform for the promotion of human rights, labour welfare, and the environment through the dissemination of good practices based on certain universal principles called the Nine Principles. These cover the respect and support for the protection of human rights, abstinence from human rights abuses, freedom of association, elimination of all forms of forced and child labour, elimination of discrimination in employment, and the promotion of environmental responsibility.

Li & Fung promotes itself as a socially responsible company:

“We understand that our customers today face an increasingly discerning group of consumers who are not only looking for quality and value, but are also concerned about how the goods are made. Compliance is a key element along all the steps of our supply chain. Through systematic inspection, audit and vendor education we help customers enforce their high standards throughout the factory base” (Li & Fung website).

When asked what the big issues will be for sourcing over the next few years, CEO Willian Fung responded: “Social and environmental compliance. If you look at phases in the development of sourcing, the first phases focused on price and quality. The second phase is supply chain management: timely production and inventory control. Now we’re entering the third phase, which is looking at how the product is made. I bought into this very early. We’re members of Business for Social Responsibility which also has members like Levi’s and Disney. Most consumers are so affluent now, they can afford to ask about how a product is made. And it’s a real issue because nobody will buy anything that has a stigma attached to it. We’re making sure that wherever we produce, there is compliance in this area.”¹⁵²

Organisation of Production

Li & Fung is headquartered in Hong Kong from where it co-ordinates the manufacture of goods through a network of offices in close to 40 countries. Most of the manufacturing takes place in Asia, but in recent years Li & Fung has also established operations in areas like the Mediterranean, Eastern Europe, and Central America, sites that are closer to customers both in Europe and the US.

Its database contains information about thousands of suppliers located on several continents and over 40 countries. For instance, it owns the largest Turkish trading company.

About one million workers are said to be at least involved in the orders Li & Fung organises and manages for Western retailers. As a full-service (or one-stop) supplier it organises the entire value-added package as described earlier.

CEO William Fung explains how this process looks when the company gets an order to organise the production of 10,000 garments for a European retailer:

“For this customer, we might decide to buy yarn from a Korean producer but have it woven and dyed in Taiwan. So we pick the yarn and ship it to Taiwan. The Japanese have the best zippers and buttons but they manufacture them mostly in China. So we go to YKK in Japan but we order the right zippers from their Chinese plants. Then we determine that, because of quotas and labour conditions, the best place to make the garments is Thailand. So we ship everything from there. And because the customer needs quick delivery, we may divide the order across five factories in Thailand. Effectively, we are customizing the value chain to best meet the customer’s needs. Five weeks after we have received the order, 10,000 garments arrive on the shelves in Europe, all looking like they came from one factory.”

Figure 20



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Titel:
Onderwerp:
Auteur: Jeroen
Trefwoorden:
Opmerkingen:
Aanmaakdatum: 02-03-2004 14:23
Wijzigingsnummer: 24
Laatst opgeslagen op: 03-06-2004 15:43
Laatst opgeslagen door: ccc
Totale bewerkingstijd: 165 minuten
Laatst afgedrukt op: 03-06-2004 15:45
Vanaf laatste volledige afdruk
Aantal pagina's: 163
Aantal woorden: 38.330 (ong.)
Aantal tekens: 218.482 (ong.)