



Procedure

Version

02

Page: 1 / 4

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**Social & Environmental Affairs
Factory Termination Standard Operating Procedure**

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Departments Affected:

GOPS, Local Sourcing Business Units, Global Legal, Licensees and Agents

Date	Modifications	Page
October 2017	Added 6 months' notification as requirement for termination	2
October 2021	Added SEA <i>Guidance Note of Handling Redundancy and Layoffs</i> as a reference (hyperlink)	1, 2
	Added request of supporting document of Severance Plan	3
	Added Grievance Mechanism as one of the expectations	3
	Added "other brands, civil society/other local stakeholders" to the list of stakeholders SEA might approach when necessary	4

1 Purpose

The purpose of this SOP is to describe the key requirements to be followed when terminating a business relationship and to ensure that the actions are undertaken in a transparent and ethical manner.

The Social & Environmental Affairs (SEA) department's work is remedial in nature. SEA does not use punitive action as the first step for non-compliance. Many opportunities are given to a supplier to remedy compliance issues before SEA recommends to a Sourcing entity to terminate a business relationship. The termination of a supplier solely for poor compliance is therefore infrequent and is usually the result of long-term non-performance or the breach of specific Zero Tolerance issues.

Most decisions to significantly reduce or cancel orders, or terminate a business relationship, are due to actions taken directly by adidas Sourcing entities.

No matter what the reason for the termination of a supplier relationship, or however it is phrased (i.e., downsizing the supply chain, phasing out, or consolidation), SEA should always be notified in advance as it may result in substantial layoffs or the closure of a factory. SEA's [Guidance Note of Handling Redundancy and Layoffs](#) should be followed by a supplier to mitigate the negative impact on their workforce.

Poorly managed closures may trigger worker protests or trade union action. Poorly handled closures or downsizing may lead to complaints to government agencies, to international bodies such as the ILO or the OECD, or trigger Non-Governmental Organisations (NGO) or activist campaigns all of which will lead to adverse publicity and impact the reputation of adidas. Responsible planning and close engagement with SEA will minimise this risk.

**Social & Environmental Affairs
Factory Termination Standard Operating Procedure**

2 Scope

This procedure is applicable to all adidas Sourcing entities, licensees and agents (hereafter referred to as 'Sourcing Entities') that hold direct business relationships with suppliers.

3 Procedure

3.1 Early Notification to SEA

Termination or Closure

Whenever Sourcing Entities terminate a factory relationship or are notified by a supplier that they are closing a factory for business or financial reasons, SEA should be notified immediately.

It is recommended that suppliers are notified 6 months in advance of the business relationship ending, unless an alternate notification timeline is specified in the Manufacturing Agreement. This timeline helps diminish any negative repercussions to the workers in the factories and allows suppliers enough time to identify new customers.

The responsible Sourcing Entity should then work with SEA to identify the potential impact on the factory's workforce, and take appropriate action to minimise any negative impacts on workers.

Downsizing Orders

Where a supplier is not directly being terminated, but orders are significantly reduced in a supplier with a high degree of dependence on adidas orders, SEA should also be consulted.

As a rule of thumb, annual order volumes that exceed 15 to 20% of a factory's annual capacity indicate a high level of dependence.

3.2 Letter of Expectations

If the planned termination or downsizing is likely to result in worker layoffs or factory closure, SEA will normally communicate directly with the supplier, asking them to investigate all possible alternatives to layoffs or closure, and detailing both our expectations and legal requirements for the ethical treatment of workers. Our expectations from suppliers include:

1. Ensure laid off workers are selected objectively. Refer to common criteria section of SEA's [Guidance Note of Handling Redundancy and Layoffs](#).
2. Ensure workers receive full and timely payment of all monies owed to them (wages, unused leaves, social security, severance, retirement, etc.) by the date of termination, in accordance with contract terms and local law.
3. Notify workers in advance of the factory closure, both orally and in writing. Communication must include the anticipated closure date and relevant factory policies and procedures surrounding the closure, as well as worker rights and responsibilities under the process.

**Social & Environmental Affairs
Factory Termination Standard Operating Procedure**

4. Maintain all required and relevant documentation necessary to demonstrate and verify compliance with contract terms and local law for worker wages, worker benefits and termination practices.
5. Where relevant, consult union and worker representatives on all aspects of the factory closure.
6. While the factory continues to operate, meet all the compliance requirements outlined in adidas Workplace Standards.

The above expectations may also be written into the formal termination notices which are prepared and issued by adidas' Legal teams, when notifying a supplier of the termination of a business relationship.

3.3 Proper Management of a Closure

When a supplier is terminated, important SEA considerations are:

1. Proper internal communication and consultation with the workers and trade union, if one exists.
2. Legal obligations under existing contracts and collective bargaining agreements.
3. Termination pay (severance) and other benefits due to the workers.
4. The schedule for the layoffs.
5. Remediation of the items in SEA's Corrective Action Plan

Whatever the cause for a factory closure, we expect the factory management to act responsibly and fully comply with the local labour law with respect to the notification and payment of severance to the workers and other employees, e.g., administration staff and management personnel. We would also expect that they consider other possible steps or actions to ease the situation for the workers who are being made redundant. An example would be to extend medical care or medical insurance or other benefits for workers and their families for a period after the closure or downsizing.

3.4 Information to be Submitted to SEA

Where a factory closure or worker layoffs are unavoidable, SEA expects the following information to be prepared by the supplier and shared with SEA.

1. **Employee Details:** A full list of the permanent employees and/or contract workers who will be affected. These lists should detail the age and marital status of the workers and their length of service with the factory. In addition, we would like to know whether there are any employees whose income is the only source of income for an extended group of people (ex. single parents; both partners in a relationship work at the same factory, etc.) If they lose their jobs, they or others who depend on the employee's income as their sole source of income may face special hardships.
2. **Severance Plan:** A calculation of the pay and benefits to be paid to each employee or contract worker based on their length of service at the proposed date of closure. Factory retrenchment policy and procedures in supporting the calculation should be provided at the same time.
3. **Communication Plan:** Describing when and how the workers will be notified of their redundancy. How will the message be delivered – by letter, following an announcement and a meeting? Who will counsel the workers and answer their questions?
4. **Grievance Mechanism:** Describing how appeals raised from laid off workers will be managed.
5. **Crisis Plan:** Outlining the actions the management would take, for example, if the workers protest about the closure or approach the media.

	Procedure	Version	Page: 4 / 4
		02	Approval Date: December 2021
	Social & Environmental Affairs Factory Termination Standard Operating Procedure		Effective Date: December 2021
			Effective Until Replaced

SEA will monitor the closure and verify the actions taken by the factory management through a review of documents and interviews with workers and worker representatives. When necessary and where agreed to by SEA, the monitoring of the closure and impact on workers may also be undertaken by a third-party monitor or NGO.

3.5 Engagement with Government, NGOs and Others

Where large-scale factory closures take place, the SEA team may work with the relevant Sourcing Entity to develop specific communication plans and media strategies, with support from adidas Corporate Communications. In complex cases, an internal Crisis Management Team may be formed with the Sourcing Entity and external PR consultants retained to support and advise on local media relations in the country affected by the closures.

Based on assessment of the risks, SEA may directly engage with the local government, trade unions, NGOs, other brands, and local stakeholders and seek the support from the US and German Embassies or the expertise of the ILO or other international agencies.

In most if not all instances, we will engage with, or report to, the Fair Labor Association (FLA) and complete the obligations of FLA Participating Companies.

3.6 Other Special Measures

When a factory closes, or where workers are to be laid off, it is the individual supplier which is responsible for the payment of severance and for any other legal benefits owed to their workers. In exceptional circumstances, however, SEA may recommend that a Sourcing Entity provide emergency relief, medical care, or other forms of humanitarian aid to workers and their families and allocate resources for finding new employment. In such cases, SEA will work with the Sourcing Entity and local NGOs to design and deliver such aid.

4 Related Policies and Procedures

This procedure describes the SEA protocol for terminating a supplier and should be read in conjunction with the SEA Enforcement Guideline which defines the ground for SEA-recommended terminations.

5 Definitions and Abbreviations

Abbreviation	Full Name
FLA	Fair Labor Association
ILO	International Labour Organisation
NGO	Non-Governmental Organisation
OECD	Organization for Economic Cooperation and Development

6 Appendices

None.