



2016

# STEPPING UP TO THE PLATE

THE WORLD FEDERATION OF THE SPORTING  
GOODS INDUSTRY AND FACTORY CLOSURES  
AND DOWNSIZING





# INTRODUCTION

The World Federation of the Sporting Goods Industry (WFSGI) is the global authoritative body for the sporting goods industry. Our members include sporting goods brands, manufacturers, suppliers, retailers, national/regional federations, industry and trade associations and other sporting goods industry related businesses.

The WFSGI plays an important role as a resource for its members and as a platform for sharing best practice. We work to understand emerging and ongoing issues of relevance, assist our members to stay current with those developments, and advocate for appropriate laws and practices.

## EXECUTIVE SUMMARY

Both brands and manufacturers seek stability, reliability, cooperation and mutual benefit in their business relationships. However, any number of changes – in the market, in corporate strategy or in technology – can lead to conditions where a supplier factory needs to be downsized or closed. Downsizing and closure events disrupt workers' lives and can have adverse impacts both on communities and the companies involved. Whenever possible, they should be avoided, or at least planned for in good time.

The key responsibilities for brands are to follow responsible purchasing practices and to maintain regular and open communication with suppliers. Manufacturers, meanwhile, should follow responsible HR and labour management laws and guidelines at all times, and especially during downsizing or closures.

This paper provides WFSGI members and others with an overview of considerations for managing supply chain relationships through a downsizing or factory closure, as well as suggestions for increasing the likelihood that these events can be prevented.

It also covers relevant standards and processes, the benefits and challenges of current best practices, and an explanation of how we support our members of all sizes to respond to these situations carefully and thoughtfully. It includes examples of policy and procedure from some of our member companies, and references a range of other resources.

## CONTEXT

Factory closures and downsizing take place in a context of complex relationships and for a variety of reasons, which permit different degrees of foresight. There is thus a need for brands and manufacturers to take proactive steps to prevent such events where possible, but also to build their capacity to react in an appropriate and responsible way when they are unavoidable.

### DIVERSE RELATIONSHIPS

Diverse types and scales of supply chain relationships exist within the sporting goods industry. These include large dedicated suppliers for the leading brands, intermediaries that consolidate smaller order volumes from multiple brands across a range of factories – and who may occupy an influential position in the supply chain – and buying agents who may specialise in specific types of product. While most of our members – whether on the purchase or supply side – are invested in maintaining long-term, stable, cooperative relationships, the longer the supply chain the harder this is to achieve.

Furthermore, any number of changes – in the market, in corporate strategy or in technology – can lead to conditions where a brand chooses to shift orders away from a supplier, or a supplier changes the size and location of their operations, which may adversely impact its workforce.

The size and regularity of the orders placed with a supplier is an important determining factor in how relationship changes are negotiated, and the degree of leverage a brand may hold. For example, brands that fill the major part of a supplier's annual production capacity may have more influence over supplier operations and be better placed to encourage adherence to standards and best practices. Conversely, any shift in long term or committed order volumes may have profound impact on the supplier's business stability and its manpower levels.

Open, honest and transparent relationships between brands and manufacturers are therefore vital to fostering an environment where financial, operational or other issues that may lead to downsizing or closure – as well as potential impacts from brands' sourcing decisions – can be identified, discussed and, ideally, pre-empted.

### REASONS FOR CLOSURES & DOWNSIZING

Against this backdrop, the specific reasons for closures or downsizing are many and complex, and may be internally or externally driven. External factors may include migration-driven labour shortages that impact performance and delivery, government changes in regulation or policy, shifting trade relations, the termination of available subsidies and tax incentives, and the realisation of land value as more profitable than manufacturing operations. Internal reasons include the illegal flight of owners, sudden changes in orders by brands, poor fiscal or operational management by the manufacturer, outdated technology or other inefficiencies.

Smaller factories may be particularly susceptible to the risks of closures and downsizing. This is due predominantly to weaker financials and their lack of management capacity to consider workload and plan ahead – as well as their greater vulnerability to some aspects of fast fashion, such as less predictable retail cycles, shorter order lead times and scarcer long-term volume guarantees.

It is also worth noting that, when they do occur, closures and downsizings are not always managed as effectively and appropriately as they could be, with the result that affected workers do not always receive their full entitlements.



## DRIVERS AND CHALLENGES

Factory closures and downsizing are, by nature, disruptive and damaging events. It is therefore in the interests of all stakeholders – brands, manufacturers and communities – for them to be prevented in the first place wherever possible and, when they are unavoidable, for their adverse impacts to be minimised.

Crucially, any factory closure or downsizing event has a very real and significant impact both on the individuals affected and on worker communities more broadly. This creates a strong moral imperative for members to make every effort to prevent such situations and, when they do take place, to handle them in a responsible and compassionate manner.

There is also a clear reputational risk for companies who are perceived to handle factory closures and resulting redundancies badly, especially as our members are subject to intense scrutiny from NGOs and the public. Moreover – regardless of a brand's actual level of influence in the lead-up to a factory closure or downsizing event – the impacts of badly handled closures and redundancies can escalate quickly into prolonged labour unrest, popular protests and, in the worst cases, human rights violations.

Both brands and manufacturers seek positive and mutually beneficial relationships, and share a growing recognition that fostering such relationships will lead to longer-term value for all parties.

### CHALLENGES FOR OUR MEMBERS

Nonetheless, this is a complex and multi-faceted issue that gives rise to a range of challenges for our members. Firstly, there is the issue that some of the factors that lead to closures and downsizing are changes in the overall business landscape that are beyond the control of either brands or manufacturers. The increasing fragmentation and opacity of the supply chain is another contributing factor.

While in an ideal world closures would be preventable, the next best scenario is that they can be predicted, planned for, and their impacts mitigated. It is sometimes the case, however, that a closure or downsizing is unforeseeable, and yet it is still important that members are in a position to react responsibly in such circumstances.

The key consideration for our members is that people are losing their jobs. Closure and downsizing events are not always well managed, and workers may not receive the due process, representation and/or remuneration to which they are entitled. These problems may be caused, or exacerbated, by poor communication, poor regulatory oversight, or both. In such cases, brands may need to intervene and offer close support and guidance to their manufacturing business partners.



## WHAT WE THINK

The WFSGI encourages its members to follow best practices in supplier relationship management and to strive towards long-term, stable and transparent value chains. All members have a role to play, and maintaining engagement throughout the supply chain is of the utmost importance.

Downsizing and factory closures affect workers' livelihoods and their communities. Brands need to understand the root causes of these events and adopt responsible purchasing practices that minimise adverse impacts. This includes regular, effective communication with suppliers and giving early notice of changes in orders. In particular, brands should adhere to a responsible factory exit policy when ending orders at a factory. This is especially important for brands that command a high percentage of a factory's output where a shift in long-term order volumes may impact the supplier's business stability and its workforce.

Brands should encourage their suppliers to be well prepared for closure or downsizing and to adhere to best practices. These may include asking (and possibly supporting) manufacturers to develop redundancy, severance and communications plans in the case of layoffs or closure. Brands can also mitigate the impacts of downsizing by helping the factory to secure other orders or assisting the laid-off workers to gain employment in nearby factories.

Manufacturers should also seek 'prevention first' by assessing alternatives to downsizing or closure, including reducing overtime, ceasing recruitment, reviewing staffing levels and withdrawing contracted-out work.

Manufacturers' main obligation is to uphold their legal responsibilities and exercise good HR practice. The key principles in international labour law are:

- 1. Organizing rights:** Members will respect and promote Freedom of Association and Collective Bargaining.
- 2. Valid reason:** Valid criteria for allocating redundancies include length of service, skills and qualifications.
- 3. Notice periods and consultation:** Workers and their representatives should be notified, orally and in writing, in advance of a closure or downsizing; advised of the anticipated effective date, policies and procedures, and their rights and responsibilities; and consulted on all aspects of the event.

**4. Wages and benefits:** Full and timely payment of all wages, severance or other benefits, unused leave, and other contractually obligated monies should be made.

**5. Documentation and accountability:** Members should retain all relevant documentation to demonstrate compliance with contract terms and local law. Transparency is a critical factor in achieving a satisfactory outcome.

### BENEFITS OF ADDRESSING THE CHALLENGE

Effectively managing the risks inherent in factory closure and downsizing isn't always straightforward, but doing so is beneficial to all parties.

The chief benefits are a higher chance of preventing factory closures in the first place and – when they are unavoidable – minimising the impact on workers and the reputational and operational risk of a closure or downsizing event “gone wrong”.

Given the complex nature of supply chain relationships, the best approach to addressing the risks of factory closure and downsizing is long-term, pro-active, strategic, and collaborative.

### SUPPORTING OUR MEMBERS

We are keen to assist our members to navigate this and other challenging topics and are discussing with our members how we can further support them to operate according to best practice in this area.

The WFSGI already provides a range of valuable information and advisory services to assist all its members with CR challenges. These include:

- Ad-hoc support to members through the CR Helpdesk;
- Alerting members on important legal developments and regulatory changes;
- Guidance and direction on CR developments and best practices.

A further benefit of WFSGI membership is the support available from other members. The network offers the scope for smaller forums of member companies to support each other on common challenges, and for larger organisations to mentor comparable smaller companies.

## CASE STUDY: BUILDING LONG-TERM RELATIONSHIPS – NEW BALANCE

Sports footwear, equipment and apparel retailer New Balance sources directly from approximately 190 factories. The company invests in long-term relationships with factories to ensure quality, improve upon lean manufacturing, and establish a reliable supply chain. Especially in the area of athletic footwear, where manufacturing processes require specific expertise and technical capacity, long-term relationships are critical to the business.

The partnership approach has helped to create and sustain policies and best practice guidelines: New Balance has a Supplier Code of Conduct, accompanied by a Standards Manual, and a compliance system to audit factory performance against this Code. New Balance is also an accredited member of the Fair Labor Association and aims to follow best practice guidelines established by FLA, including the FLA Retrenchment Guidelines.

The New Balance supply chain compliance team works closely with factory management on various topics including occupational health and safety, environment, employee wellbeing, and community engagement. This partnership helps New Balance create a safe forum for open discussions about business challenges such as production volume, costing, and employee retention/termination.

In part due to New Balance's strategy to maintain long-term supplier relationships, factory closures or downsizing are rare. Supplier turnover varies between product lines (e.g. shoes, apparel, equipment) and is sometimes triggered by vendors changing factories. However, in the event that a factory is not performing financially or has undergone bankruptcy, New Balance has employed the following three approaches to work with factories through a closure or downsizing situation:

### 1. Engagement with factories

- Sourcing and factory top management explore other solutions before resorting to factory closure.
- The New Balance Compliance team meets with the factory CSR and human resource teams to review the negative impacts of the potential factory closure.
- The factory is encouraged to engage with the local

government and seek the government's perspective during the decision-making process.

### 2. Phase out factory operations slowly

- Once the decision to close the factory is made, the New Balance Compliance team reviews the factory's redundancy/closure plan according to the New Balance Standards on employee retrenchment.
- In some complicated cases, a suitable consultant service is recommended for the factory to conduct risk assessments, check loopholes, and improve on the action plan.
- New Balance and the factory try where possible to give six-months notice in advance for both sides to implement the whole process of phase out.

### 3. Ensure that factories comply with local labour laws

- New Balance requires a weekly progress reports from factories.
- The New Balance Compliance team reviews factory employee attendance, payroll and compensation records to ensure compliance.
- The New Balance Compliance team submits an official written report to New Balance senior management once the case is completely closed.

Supporting and engaging factories throughout a closure process helps New Balance maintain its commitment to workers. The company's investment in the factory workforce is not only when it starts a new factory relationship, but also when one ends, regardless of the reason.

Ensuring the factory closes slowly gives factory employees more time to understand the process, their rights, and make transition plans. In due course, affected workers may have the opportunity to work at another facility that produces for New Balance.

New Balance also wants to maintain its reputation locally and internationally as a business partner that supports local factories to comply with local laws and international best practice. Working in the global marketplace, New Balance can use its position as a respected company to push for fair treatment of workers, respect for human rights, and implementation of international labour standards at the local level. New Balance demonstrates the value of investing in long-term relationships and how continued engagement can help to navigate complex downsizing and restructuring events.

## ONGOING DEVELOPMENTS & NEXT STEPS

In the future we expect to see a continuing increase in stakeholder interest in this and other issues involving the welfare of workers in the sporting goods supply chain. We also expect that more and more members will recognise the business benefits of taking a proactive approach, and take measures to prevent factory closures and downsizing. In the case of brands this will principally involve improving their purchasing practices and giving early notification of order changes. For manufacturers it will mean improving their resource planning and HR management practices.

While external factors may still give rise to changes to factory locations and resulting redundancies, we expect that members will become increasingly prepared to handle these events responsibly and compassionately.

Overall, we anticipate a growing appreciation of the benefits of strong, regular communication between brands and manufacturers, in particular in terms of fostering a secure and stable supply chain. We therefore expect to see an increased focus on – and investment in – cultivating long-term, cooperative supply chain relationships on the part of both brands and manufacturers.

### SUMMARY AND CONCLUSION

The WFSGI provides a platform for sharing best practices and actively engages members in realising a CR vision grounded in shared values and principles. As an association, WFSGI is both a voice for the industry and a trusted advisor on CR and strategy issues for its members. We believe that members that take up and act on the advice and resources WFSGI offers will be the best positioned to respond and thrive in the face of emerging trends and evolving regulation over the coming years.

We respect the challenges of complexity, diversity and evolving context in which our members operate. That said, we believe that investing in long-term supplier relationships, ensuring open lines of communication and having procedures in place to prevent and if necessary manage the effects of factory closures will mitigate risks and create opportunities for members.

To this end, we will continue to monitor trends and build our understanding of emerging best practice and continue to help and support our members to meet today's challenges in managing changing business relationships.

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### FURTHER INFORMATION

**WFSGI Code of Conduct** (provides what we consider to be set of minimum criteria for working conditions in member factories, and factories that supply our members):

<http://www.wfsgi.org/about-us/organisation/code-of-conduct>

**UN Guiding Principles on Business and Human Rights** (sector-specific implementation resources for companies in manufacturing, footwear, textiles, and apparel sectors):

<http://business-humanrights.org/en/sectors/apparel-textile>

**Fair Labour Association (FLA) Retrenchment Guidelines** (suggestions for FLA-affiliated companies whose suppliers or facilities may be involved in retrenchment and closures for operational reasons):

<http://www.fairlabor.org/blog/entry/fla-retrenchment-guidelines>

**Ethical Trading Initiative (ETI)** (resources and training on ethical and sustainable sourcing, with additional guidance specifically for small businesses):

<http://www.ethicaltrade.org/resources/key-eti-resources>

**adidas Group supply chain standards and policies** (in particular adidas Group's "Guidelines on Redundancy and Layoffs", which is part of their standard operating procedure):

<http://www.adidas-group.com/en/sustainability/supply-chain/standards-and-policies/>



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