



**Please VOTE FOR resolution 19 to commission an independent review of Sports Direct International plc's human capital management strategy and report back to shareholders within six months of the Annual General Meeting on the 7<sup>th</sup> September 2016.**

15<sup>th</sup> August 2016

Dear Sports Direct Shareholder,

Trade Union Share Owners (TUSO) is a group of investors representing the financial assets of the labour movement and committed to long-term responsible investment. We collectively have over £1.5bn in assets under management and our membership includes affiliated unions that represent workers at Sports Direct. TUSO members TUC and UNISON staff pension funds are among the co-filers of the resolution, alongside other organisations such as the Borough of Islington staff pension fund and the Prospect general fund.

**We are writing to urge you to VOTE FOR resolution 19 to commission an independent review of Sports Direct International plc's human capital management strategy and report back to shareholders within six months of the Annual General Meeting on the 7<sup>th</sup> September 2016 for the following reasons:**

- The company's questionable corporate governance and employment practices are long-standing issues that pose serious and ongoing risks to investors. Taking immediate steps to address these issues is now essential and the commissioning of an independent review is the first step towards both ensuring a complete understanding of the issues concerning stakeholders and the necessary actions to address them. A failure to conduct such an independent review will leave the company open to continued actions and public scrutiny while failing to address a deepening crisis in confidence amongst investors. A crisis that has seen the company recently fall out of the FTSE 100 and its share price plummet by 60% from £7.75 at the last AGM on 9<sup>th</sup> September 2015 to £3.09 on 15<sup>th</sup> August 2016.
- We believe that voting for an independent review of Sports Direct International plc's human capital management strategy and reporting back to shareholders within six months of the Annual General Meeting is both appropriate and necessary in order to deal with well-documented unfit management and employment practices and weak corporate governance at Sports Direct.
- The company's proposed review outlined in its explanatory note on its opposition to resolution 19 is to be carried out by an organisation that is not independent of Sports Direct and lacks relevant expertise in employment and industrial relations practice. No deadline for the review has been made public and there has been no commitment to make the findings public or report them to shareholders. This is wholly inadequate and will do nothing to restore trust in Sports Direct management.
- Voting for an independent review of Sports Direct International plc's human capital management strategy and reporting back to shareholders within six months of the Annual General Meeting would communicate that shareholders' concerns can no longer be ignored and that Sports Direct has to change the way it does business if the long term reputation and success of the company are to be fostered.

#### **Business, Innovation and Skills (BIS) Select Committee Report on Employment practices at Sports Direct**

The Business, Innovation and Skills (BIS) Select Committee reported on the 22<sup>nd</sup> July 2016 that Mike Ashley, Deputy Executive Chairman, founder of, and majority shareholder in Sports Direct must be held accountable for the appalling working conditions and practices at the retailer's shops and at the Shirebrook warehouse in Derbyshire.<sup>1</sup>

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<sup>1</sup> [www.parliament.uk/business/committees/committees-a-z/commons-select/business-innovation-and-skills/news-parliament-2015/working-practices-at-sports-direct-report-published-16-17/](http://www.parliament.uk/business/committees/committees-a-z/commons-select/business-innovation-and-skills/news-parliament-2015/working-practices-at-sports-direct-report-published-16-17/)

The BIS Committee was presented with a disturbing picture of the working practices and business model at Sports Direct. In evidence to the BIS Committee, Mr Ashley admitted for the first time that workers had been paid below the national minimum wage and that Sports Direct had become too big for him to control.

The Committee also heard a series of accounts of worker mistreatment, including staff being penalised for matters such as taking a short break to drink water and for taking time off work when ill – the ‘six strikes and you’re out’ policy. Allegations also surfaced of workers being promised permanent contracts in exchange for sexual favours. Other evidence pointed to serious health and safety breaches, with repeated ambulance calls to the Shirebrook warehouse, including in one case for a woman who gave birth in the toilet.

Iain Wright MP, Chair of the Business, Innovation and Skills Committee, said:

"Whistleblowers, parts of the media and a trade union shone a light on work practices at Sports Direct and what they revealed was extremely disturbing. The evidence we heard points to a business whose working practices are closer to that of a Victorian workhouse than that of a modern, reputable High Street retailer. For this to occur in the UK in 2016 is a serious indictment of the management at Sports Direct and Mike Ashley, as the face of Sports Direct, must be held accountable for these failings.

It seems incredible that Mike Ashley, who visits the Shirebrook warehouse at least once a week, was unaware of these appalling practices. This suggests Mr Ashley was turning a blind eye to conditions at Sports Direct in the interests of maximising profits or that there are serious corporate governance failings which left him out of the loop in spite of all the evidence.

Mike Ashley had to be brought kicking and screaming to answer the Committee’s questions about working practices at Sports Direct. To Mr Ashley’s credit, when he gave evidence he was open and willing to engage and he is now setting out some of the steps which Sports Direct needs to take to stop these practices recurring. The continual refusal to appear before our Committee is regrettable, because his public pledges whilst before the Committee to improve working conditions could have been made so much sooner.

The Business Committee will visit Shirebrook and will continue to hold Mr Ashley’s feet to the fire, in as constructive a manner as possible, checking on the progress he makes on improving working conditions for workers at his premises."

### **Sports Direct’s response to resolution 19**

Sports Direct has urged shareholders not to support resolution 19 and given three reasons for this: firstly, that the company has commissioned RPC to carry out a Working Practices Review; secondly, that the company has informed the BIS Committee that it has contacted the Unite union ‘with a view to opening a constructive dialogue’ regarding the review; and thirdly that the supporting statement ‘relies on previous media comment about subjects likely to be covered in the review’, or matters that have already been addressed by the company. We will deal with each of these points in turn.

#### **1. The RPC Working Practices Review**

We believe the proposed review by RPC to be wholly inadequate for the reasons set out below.

#### **RPC are not independent**

The legal firm RPC (of St Katherine’s Way, London, EC1A 1AA) that Sports Direct have invited to compile a Working Practices Report has an existing relationship with Sports Direct and has acted for Sports Direct on several occasions. RPC cannot therefore be regarded as independent of Sports Direct.

We do not have confidence in a review carried out by an organisation that is not fully independent of the company and we are aware that other shareholders share our concern.

The review should be carried out by an individual or organisation that is independent of the company and has no financial, commercial or personal relationship with any board member. If the review is to command confidence, it is essential that the individual or organisation appointed to undertake the review is mutually acceptable to both the company and Sports Direct workers and their representatives.

A fully independent review is the only way to make sure that in future Sports Direct delivers fairness for staff, and decent returns for shareholders.

## **RPC lacks the necessary expertise to carry out a review of employment practices**

We do not believe that a legal firm with no specialist employment expertise is equipped to understand or address employee and industrial relations issues or the extent of cultural change needed at Sports Direct for the retailer to even begin to repair its battered reputation. For example, the complex presenteeism that workers have been forced to endure needs to be analysed by professional labour relations and health and safety experts if it is to be addressed effectively. The firm RPC (see <https://www.rpc.co.uk/services/rpc-legal>) makes no claim on its website to have any expertise in the area of employment. The areas of expertise of its main contact for its legal services are listed as mergers and acquisitions and corporate transactions.

## **No commitment to findings being reported publicly or to shareholders**

There is no commitment for the findings of the company's Working Practices Report to be reported publicly or to shareholders. Again this is a major oversight by the company and does nothing to engender confidence that the company is taking the well-documented concerns about its practices seriously.

In contrast, resolution 19 is asking for the results of an independent review to be reported to the Board of Directors and shareholders within six months of the AGM.

## **2. The company's recent approach to the Unite Union**

Trade Union Share Owners strongly believes that the quality of the dialogue between the company and the union will be stronger if shareholders show that they share our concerns by supporting resolution 19.

Unite has been requesting a meeting with Sports Direct management to discuss the many problems with the company's employment practices for over a year. Since the BIS Committee hearing, Sports Direct have now met with Unite for initial talks that are at an early stage but it is unclear whether any agreements can be reached. Further, no discussions have taken place with the two agencies supplying labour to the company's Shirebrook warehouse, and both agencies remain hostile to meeting with the union. Unite and the co-filers of the resolution believe that support for resolution 19 will encourage the company to take seriously its responsibility to engage with its workforce and their representatives going forwards and urge you to support the resolution on this basis.

## **3. Information in the Supporting Statement**

Sports Direct implies that the information provided in our supporting statement is outdated or has been overtaken by events. Unfortunately, the poor employment practices detailed in the supporting statement are still the norm at Sports Direct.

Since our supporting statement was written, the BIS Committee has reported its findings as set out above, calling the company's working practices 'closer to that of a Victorian workhouse than that of a modern, reputable High Street retailer'. The Committee's report sets out in detail the ongoing and serious problems in Sports Direct's employment practices which have not been addressed.

The Sports Direct Annual Report 2016 published in August contains further information demonstrating poor management of human capital that should be of concern to investors. The company reports that turnover of its salaried staff has increased from 19% in financial year 2015 to 22% in 2016, almost three times higher than the average turnover of 8% found by the Chartered Institute of Personnel and Development in a survey last year<sup>2</sup>. The company's turnover figures have been described as "incredibly worrying" by one retail analyst.<sup>3</sup> Turnover for the whole workforce could be even higher than this, because it is unclear whether the figures include "zero hours" and agency workers.

In addition, the company's already poor health and safety record has worsened; health and safety incidents involving the company's warehouse workforce and its store, office and distribution workforce have both increased, as have accidents involving customers. The injury rates reported are deeply worrying; while the average frequency rate for injuries in retail/wholesale is 1.42 per 100,000 hours worked, the Sports Direct injury rate is 2.7. This is even higher than the worst sector, which is agriculture at 2.52.<sup>4</sup> At 6.6, the injury rate for Sports Direct warehouse staff is truly shocking and shows the urgent need for union health and safety representatives to help the company address it.

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<sup>2</sup> [https://www.cjpd.co.uk/binaries/labour-market-outlook\\_2015-summer-2015.pdf](https://www.cjpd.co.uk/binaries/labour-market-outlook_2015-summer-2015.pdf)

<sup>3</sup> <http://www.bloomberg.com/news/articles/2016-08-11/sports-direct-worker-exodus-adds-to-woes-for-billionaire-ashley>

<sup>4</sup> <http://www.hse.gov.uk/statistics/adhoc-analysis/injury-frequency-rates.pdf>

#### SALARIED STAFF TURNOVER SINCE FY11



In conclusion, the Sports Direct board has missed an opportunity to give investors and stakeholders the reassurance that they are 100 per cent committed to dealing with well-documented workplace abuses and corporate governance failures by not supporting this resolution.

**Taking account of the issues listed above, we believe it is clear that the Sports Direct board should commission an independent review of the company's human capital management strategy and report back to shareholders within six months of the Annual General Meeting.**

**Please VOTE FOR resolution 19 to commission an independent review of Sports Direct International plc's human capital management strategy and report back to shareholders within six months of the Annual General Meeting on the 7<sup>th</sup> September 2016.**

If you need additional information, please contact John Neal at [John.Neal@unitetheunion.org](mailto:John.Neal@unitetheunion.org) or Janet Williamson at [jwilliamson@tuc.org.UK](mailto:jwilliamson@tuc.org.UK).

Yours sincerely,

Janet Williamson  
**Chair, Trade Union Share Owners**