

# Fast Retailing

Fast Retailing has made significant improvements in managing human rights risks in its supply chain and on other sustainability risks following investor engagement. This case study details how EOS has engaged with the company since 2016 on the challenges the company is facing as a casual clothing retailer.

## Background

The Rana Plaza building containing five clothing factories which collapsed in Dhaka, Bangladesh in 2013 and killed more than 1,000 workers, focused investors' attention on working conditions of supply chain factories in the international garment industry. NGOs quoted Fast Retailing as one of the garment manufacturers in Dhaka.

Fast Retailing was able to show that it had no connection to the incident. However, it sought to demonstrate its commitment to international best practices in a number of ways, including: signing the agreement to the Accord on Fire and Building Safety in Bangladesh in 2013, joining the Sustainable Apparel Coalition in 2014 and joining the Fair Labor Association in 2015. Despite this, NGOs continued raise concerns over labour conditions in the company's supply chain.

As the company began dedicating resources to monitoring the working conditions of its fabric suppliers and sewing factories for UNIQLO, we supported its efforts by providing best practice examples and highlighting key risk areas in our engagement. As the largest casual clothing manufacturer in Japan, the working conditions in its supply chain form an essential part of its reputation management, important to investors, as well as ensuring the firm's success that is sustainable for the long term.

## Our engagement

In November 2016, EOS at Federated Hermes began face-to-face meetings with the company at its headquarters in Tokyo with the director of investor relations, who directly reports to

## Sustainable Development Goals



Engagement objective  
**Environment:** Plastic use



Engagement objective  
**Social:** Labour conditions at its manufacturers' sites



Engagement objective  
**Governance:** Board structure

**Fast Retailing is a Japanese company which sells casual clothing in domestic and overseas markets. UNIQLO, GU and Theory are its three major group companies. The company designs and retails its clothing at its stores, while using fabric suppliers and manufacturing partners in Asia.**

the CEO. We pressed for increased disclosure of ESG risks, focusing on global investors' concerns with regard to its supply chain management. We recommended the company improve communication with investors and publish a sustainability policy. We also suggested it become a signatory of the UN Global Compact and respond to the CDP climate change questionnaire.

In particular, we voiced concerns over the labour risks of its suppliers in China and the lack of disclosure on its supply chain management. This was in response to reports on excessive working hours released by an advocacy group in Hong Kong and a registered charity in London in October 2016 regarding

## Engagement timeline

- 2016** EOS pressed for improvements to supply chain labour management and ESG risk disclosures.
- 2017** Continued engagement on supply chain labour management, and recommended board structure improvements.
- 2018** Continued to press for improved disclosure on supply chain labour management, increased board diversity, disclosure of nomination process and succession planning for the CEO.
- 2019** EOS satisfied progress made with regard to working environment of supplier factories.



one of its factories in China, a subsidiary of a Japanese fabric supplier, Toray Industries. The company also faced strikes in its suppliers' factories in Shenzhen, China and Cambodia so we continued to ask for disclosure around the progress made on these disputes.

We continued our engagement by recommending a more engaged board, not only for oversight of its supply chain where the key risks lie, but also to strengthen the board by improving gender diversity given the nature of its retail business. We further engaged on the independence of directors given their long tenure.

## Changes at the company

The investor relations director informed EOS that its engagements in 2016 triggered the company to engage with other investors on ESG issues and report these meeting outcomes to the CEO.

The company accepted our suggestion to respond to the CDP questionnaire as the first step to disclose its climate-change-related efforts and began achieving a rating through the submission process the same year.

On supply chain issues, we continued to present our rationale around the need for the company to explain its management process. Pleasingly, the company started implementing a group sustainability policy in February 2017, focused on responsible supply chain management, responsible products, responsible stores and responsibility toward its employees. It also disclosed its core factory partner list to increase the transparency of its supply chain.

In the following year, the company started an ESG project which asks divisions of the company to clarify their sustainability tasks, and it accelerated its engagement on sustainable issues. In

October 2018 it became a signatory of the UN Global Compact. In February 2019, it publicly committed to set a science-based target for greenhouse gas emissions. It later announced plans to eliminate unnecessary plastic usage throughout its supply chain.

Regarding working hours, in March 2018 and in January 2019, the company disclosed progress reports relating to both of the suppliers in question. At the sewing supplier, all workers had been working no more than 60 hours a week, while at the fabric supplier, over 90% of employees worked less than 60 hours per week, achieving Fast Retailing's weekly target of no more than 60 hours for July-December 2018. In September 2019, it announced its plan to partner with the International Labour Organization to promote decent working environments for its employees in Asia, including its suppliers' factories.

Regarding its board structure, the company established a nomination and remuneration advisory committee in August 2019. It nominated a second who was the only internal female statutory auditor at the shareholder meeting in November 2019, who was internally promoted. On increasing diversity, it signed a partnership with UN Women in June 2019, the first alliance with a clothing company based in Asia.



Our engagement with EOS has been fundamental to improving our understanding of ESG issues and our work towards global best practice in managing human rights issues in the supply chain.

**– En Imai, Head of Investor Relations, Fast Retailing**

## Next steps

We continue to engage with the company to improve its board structure, in particular pressing for the appointment of non-Japanese members, given that the company's overseas sales have recently exceeded domestic sales. We also recommend that the newly established nomination and remuneration advisory committee set up a succession plan for the CEO.

We have concerns over the founding family's influence, as they own around 45% of the company's shares. Two sons of the CEO joined the board in 2018, although the CEO publicly said that they sit on the board to learn about the business and would not be lined up in the running for the CEO positions, we will continue to recommend increased independence.

On climate change, we will follow up on the progress of its science-based target for greenhouse gas emissions and the reduction plan for plastic use at its stores and in its supply chain.



**Masaru Arai**  
Engagement  
EOS

## Federated Hermes

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Guided by our conviction that responsible investing is the best way to create long-term wealth, we provide specialised capabilities across equity, fixed income and private markets, multi-asset and liquidity management strategies, and world-leading stewardship.

Our goals are to help people invest and retire better, to help clients achieve better risk-adjusted returns, and to contribute to positive outcomes that benefit the wider world.

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## Our investment and stewardship capabilities:

- **Active equities:** global and regional
- **Fixed income:** across regions, sectors and the yield curve
- **Liquidity:** solutions driven by four decades of experience
- **Private markets:** real estate, infrastructure, private equity and debt
- **Stewardship:** corporate engagement, proxy voting, policy advocacy

## Why EOS?

EOS enables institutional shareholders around the world to meet their fiduciary responsibilities and become active owners of public companies. EOS is based on the premise that companies with informed and involved shareholders are more likely to achieve superior long-term performance than those without.

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