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Hitting the Wall: Nike and International Labor Practices

Moore: Twelve year olds working in [Indonesian] factories? That's O.K. with you?
Knight: They're not 12-year-olds working in factories... the minimum age is 14.
Moore: How about 14 then? Does that bother you?
Knight: No.

— Phil Knight, Nike CEO, talking to Director Michael Moore in a scene from documentary film *The Big One*, 1997.

Nike is raising the minimum age of footwear factory workers to 18… Nike has zero tolerance for underage workers. [1]

— Phil Knight, 1998

In 1997, Nguyen Thi Thu Phuong died while making sneakers. As she was trimming synthetic soles in a Nike contracting factory, a co-worker's machine broke, spraying metal parts across the factory floor and into Phuong's heart. The 23 year-old Vietnamese woman died instantly.[2]

Although it may have been the most dramatic, Phuong's death was hardly the first misfortune to hit Nike's far-flung manufacturing empire. Indeed, in the 1980s and 1990s, the corporation had been plagued by a series of labor incidents and public relations nightmares: underage workers in Indonesian plants, allegations of coerced overtime in China, dangerous working conditions in Vietnam. For a while, the stories had been largely confined to labor circles and activist publications. By the time of Phuong's death, however, labor conditions at Nike had hit the mainstream. Stories of reported abuse at Nike plants had been carried in publications such as *Time* and *Business Week* and students from major universities such as Duke and Brown had organized boycotts of Nike products. Even Doonesbury had joined the fray, with a series of cartoons that linked the company to underage

[1] "Nike CEO Phil Knight Announces New Labor Initiatives," *PR Newswire*, May 12, 1998.

[2] Tim Larimer, "Sneaker Gulag: Are Asian Workers Really Exploited?" *Time International*, May 11, 1998, p. 30.

Research Associate Jennifer L. Burns prepared this case under the supervision of Professor Debora L. Spar. This case was developed from published sources. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

and exploited Asian workers. Before these attacks, Nike had been widely regarded as one of the world's coolest and most successful companies. Now Nike, the company of Michael Jordan and Tiger Woods; Nike, the sign of the swoosh and athletic prowess, was increasingly becoming known as the company of labor abuse. And its initial response — "We don't make shoes" — was becoming harder and harder to sustain.[3]

Nike, Inc.

Based in Beaverton, Oregon, Nike had been a corporate success story for more than three decades. It was a sneaker company, but one armed with an inimitable attitude, phenomenal growth, and the apparent ability to dictate fashion trends to some of the world's most influential consumers. In the 1970s, Nike had first begun to capture the attention of both trend-setting teenagers and financial observers. Selling a combination of basic footwear and street-smart athleticism, Nike pushed its revenues from a 1972 level of $60,000 to a startling $49 million in just ten years.[4] It went public in 1980 and then astounded Wall Street in the mid-1990s as annual growth stayed resolutely in the double digits and revenues soared to over $9 billion. By 1998, Nike controlled over 40% of the $14.7 billion U.S. athletic footwear market. It was also a growing force in the $64 billion sports apparel market, selling a wide range of sport-inspired gear to consumers around the globe.[5]

What differentiated Nike from its competitors was not so much its shoes as its strategy. Like Reebok and adidas and New Balance, Nike sold a fairly wide range of athletic footwear to a fairly wide range of consumers: men and women, athletes and non-athletes, in markets around the world. Its strategy, though, was path breaking, the product of a relatively simple idea that CEO Phil Knight had first concocted in 1962 while still a student at Stanford Business School. The formula had two main prongs. First, the company would shave costs by outsourcing *all* manufacturing. There would be no in-house production, no dedicated manufacturing lines. Rather all product would be made by independent contracting factories, creating one of the world's first "virtual" corporations — a manufacturing firm with no physical assets. Then, the money saved through outsourcing would be poured into marketing. In particular, Knight focussed from the start on celebrity endorsements, using high-profile athletes to establish an invincible brand identity around the Nike name. While other firms had used celebrity endorsements in the past, Nike took the practice to new heights, emblazoning the Nike logo across athletes such as Michael Jordan and Tiger Woods, and letting their very celebrity represent the Nike image. "To see name athletes wearing Nike shoes," Knight insisted, "was more convincing than anything we could say about them."[6] With the help of the "swoosh," a distinctive and instantly recognizable logo, Nike became by the 1990s one of the world's best known brands, as well as a global symbol of athleticism and urban cool.

But within this success story lay a central irony that would only become apparent in the late 1990s. While the *marketing* of Nike's products was based on selling a high profile fashion item to affluent Americans who only wished they could "Just Do It" as well as Woods or Jordan, the *manufacture* of these sneakers was based on an arms-length and often uneasy relationship with low-paid, non-

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[3] The quote is from Martha Benson, Nike's regional spokeswoman in Asia. See Larimer, p. 30.

[4] David B. Yoffie, *Nike: A (Condensed),* HBS Case 391-238 (Boston: HBS Press, 1991), p. 1.

[5] Both figures are for retail sales. *Footwear 1999,* (North Palm Beach; Athletic Footwear Association, 1999), introduction; Dana Eisman Cohen and Sabina McBride, *Athletic Footwear Outlook 1999,* (New York: Donaldson, Lufkin & Jenrette, 1998), p. 3.

[6] Yoffie, p. 6.

American workers. For according to Knight's original plan, not only would Nike outsource, but it would outsource specifically to low cost parts of the world.

Nike signed its first contracts with Japanese manufacturers but eventually shifted its supply base to firms in South Korea and Taiwan, where costs were lower and production reliable. In 1982, 86% of Nike sneakers came from one of these two countries and Nike had established a large network of suppliers in both nations. But as South Korea and Taiwan grew richer, costs rose and Nike began to urge its suppliers to move their operations to new, lower cost regions. Eager to remain in the company's good graces, most manufacturers rapidly complied, moving their relatively inexpensive plants to China or Indonesia. By 1990, these countries had largely replaced South Korea and Taiwan as the core of Nike's global network. Indonesia, in particular, had become a critical location, with six factories that supplied Nike and a booming, enthusiastic footwear industry.[7]

Taking Care of Business

At first, Indonesia seemed an ideal location for Nike. Wages were low, the workforce was docile, and an authoritarian government was yearning for foreign direct investment. There were unions in the country and occasional hints of activism, but the Suharto government clearly was more interested in wooing investors than in acceding to any union demands. So wages stayed low and labor demands were minimal. In 1991, the daily minimum wage in Indonesia's capital city was barely $1, compared to a typical daily wage of $24.40 in South Korea[8] and a U.S. hourly wage in athletic shoe manufacturing of about $8.[9] For firms like Nike, this differential was key: according to a reporter for the *Far Eastern Economic Review*, shoes coming out of China and Indonesia cost roughly 50% less than those sourced from Taiwan and South Korea.[10]

Just as Nike was settling into its Indonesian operations, though, a rare wave of labor unrest swept across the country. Strikes, which had been virtually nonexistent in the 1980s, began to occur with increasing frequency; according to government figures, there were 112 strikes in 1991,[11] a sharp increase from the 19 reported in 1989.[12] A series of polemical articles about foreign companies' labor abuses also appeared in Indonesian newspapers, triggering unprecedented demands from factory workers and empowering a small but potent band of labor organizers.

The source of these strikes and articles was mysterious. Some claimed that the Indonesian government was itself behind the movement, trying to convince an increasingly suspicious international community of the country's commitment to freedom of speech and labor rights. Others saw the hand of outside organizers, who had come to Indonesia solely to unionize its work force and embarrass its foreign investors. And still others saw the outbursts as random eruptions, cracks in the authoritarian veneer which quickly took on a life of their own. In any case, though, the unrest occurred just around the time of Nike's expansion into Indonesia. In 1991 the Asian-American Free

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7 Philip M. Rosenzweig and Pam Woo, *International Sourcing in Footwear: Nike and Reebok,* HBS Case 394-189 (Boston: HBS Press, 1994), pp. 2 - 5.

8 Elliot B. Smith, "K-Swiss in Korea," *California Business,* October 1991, p. 77.

9 Rosenzweig and Woo, p. 3.

10 Mark Clifford, "Pain in Pusan," *Far Eastern Economic Review,* November 5, 1992, p. 59.

11 Suhaini Aznam, "The Toll of Low Wages," *Far Eastern Economic Review,* April 2, 1992, p. 50.

12 Margot Cohen, "Union of Problems: Government Faces Growing Criticism on Labour Relations," *Far Eastern Economic Review,* August 26, 1993, p. 23.

Labor Association (AAFLI, a branch of the AFL-CIO) published a highly critical report on foreign companies in Indonesia. Later that year, a group of Indonesian labor economists at the Institut Teknology Bandung (ITB), issued a similar report, documenting abusive practices in Indonesian factories and tracing them to foreign owners. In the midst of this stream of criticism was a labor organizer with a deep-seated dislike for Nike and a determination to shape its global practices. His name was Jeff Ballinger.

The Role of Jeff Ballinger

A labor activist since high school, Ballinger felt passionately that any company had a significant obligation towards even its lowliest workers. He was particularly concerned about the stubborn gap between wage rates in developed and developing worlds, and about the opportunities this gap created for rich Western companies to exploit low-wage, politically repressed labor pools. In 1988, Ballinger was assigned to run the AAFLI office in Indonesia, and was charged with investigating labor conditions in Indonesian plants and studying minimum wage compliance by overseas American companies. In the course of his research Ballinger interviewed workers at hundreds of factories and documented widespread worker dissatisfaction with labor conditions.

Before long, Nike emerged as a key target. Ballinger believed that Nike's policy of competing on the basis of cost fostered and even encouraged contractors to mistreat their workers in pursuit of unrealistic production quotas. Although Indonesia had worker protection legislation in place, widespread corruption made the laws essentially useless. While the government employed 700 labor inspectors, Ballinger found that out of 17,000 violations reported in 1988, only 12 prosecutions were ever made. Bribery took care of the rest.[13] Nike contractors, in particular, he believed, were regularly flouting Indonesian labor laws and paying below-subsistence wages that did not enable workers to meet their daily requirements for food and other necessities. And to top matters off, he found Nike's attitude in the face of these labor practices galling: "It was right around the time that the swoosh started appearing on everything and everyone," Ballinger remembered. "Maybe it was the swagger that did it."[14]

What also "did it," though, was Ballinger's own strategic calculation — a carefully crafted policy of "one country-one company." Ballinger knew that his work would be effective only if it was carefully focused. And if his goal was to draw worldwide attention to the exploitation of third-world factory workers by rich U.S. companies, then Nike made a nearly ideal target. The arithmetic was simple. The same marketing and branding power that drove Nike's bottom line could also be used to drive moral outrage against the exploitation of Asian workers. After the publication of his AAFLI report, Ballinger set out to transform Nike's competitive strength into a strategic vulnerability.

For several years he worked at the fringes of the activist world, operating out of his in-laws' basement and publishing his own newsletter on Nike's practices. For the most part, no one really noticed. But then, in the early 1990s Ballinger's arguments coincided with the strikes that swept across Indonesia and the newfound interest of media groups. Suddenly his stories were big news and both the Indonesian government and U.S. firms had begun to pay attention.

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[13] Interview with casewriter, Cambridge, MA, July 6, 1999.

[14] Ibid.

Early Changes

The first party to respond to criticism from Ballinger and other activists was the government itself. In January 1992 Indonesia raised the official minimum daily wage from 2100 rupiah to 2500 rupiah (US$1.24). According to outside observers, the new wage still was not nearly enough: it only provided 70% of a worker's required minimal physical need (as determined by the Indonesian government) and was further diluted by the way in which many factories distributed wages and benefits.[15] The increased wage also had no impact on "training wages," which were lower than the minimum wage and often paid long after the training period had expired. Many factories, moreover, either ignored the new wage regulations or successfully petitioned the government for exemption. Still, the government's actions at least demonstrated some willingness to respond. The critics took note of this movement and continued their strikes and media attacks.

Despite the criticism, Nike insisted that labor conditions in its contractors' factories were not — could not — be Nike's concern or its responsibility. And even if labor violations did exist in Nike's contracting factories, stated the company's general manager in Jakarta, "I don't know that I need to know."[16] Nike's company line on the issue was clear and stubborn: without an inhouse manufacturing facility, the company simply could not be held responsible for the actions of independent contractors.

Realizing the severity of the labor issue, though, Nike did ask Dusty Kidd, a newly-hired member of its public relations department, to draft a series of regulations for its contractors. In 1992, these regulations were composed into a Code of Conduct and Memorandum of Understanding and attached to the new contracts sent to Nike contractors. In the Memorandum, Nike addressed seven different aspects of working conditions, including safety standards, environmental regulation and worker insurance. It required its suppliers to certify they were following all applicable rules and regulations and outlined general principles of honesty, respect, and non-discrimination.

Meanwhile, other shoe companies had been facing similar problems. Reebok, a chief competitor of Nike, also sourced heavily from Indonesia and South Korea. Like Nike, it too had been the subject of activist pressure and unflattering media. But unlike Nike, Reebok had moved aggressively into the human rights arena. In 1988, it created the Reebok Human Rights Award, bestowed each year on youthful contributors to the cause of human rights, and in 1990 it adopted a formal human rights policy.[17] When activists accused the company of violating workers' rights in Indonesia, Reebok responded with a far-reaching set of guidelines, one that spoke the explicit language of human rights, set forth specific standards for the company's contractors and promised to audit these contractors to ensure their compliance.[18] It was a big step for an American manufacturer and considerably farther than Nike had been willing to go.

Into the Spotlight

By 1992, criticism of Nike's labor practices had begun to seep outside of Indonesia. In the August issue of *Harper's* magazine, Ballinger published an annotated pay-stub from an Indonesian factory,

[15] A factory, for example, could pay a base wage lower than 2500 rupiah, but bring total compensation up to legal levels by the addition of a food allowance and incentive payments (see Aznam, p. 50).

[16] Adam Schwarz, "Running a Business," *Far Eastern Economic Review,* June 20, 1991, p. 16.

[17] Rosenzweig and Woo, p. 7.

[18] Ibid., pp. 16-17.

making the soon-to-be famous comparison between workers' wages and Michael Jordan's endorsement contract. He noted that at the wage rates shown on the pay stub, it would take an Indonesian worker 44, 492 years to make the equivalent of Jordan's endorsement contract.[19] Then the Portland *Oregonian,* Nike's hometown newspaper, ran a series of critical articles during the course of the 1992 Barcelona Olympics. Also at the Olympics, a small band of protestors materialized and handed out leaflets that charged Nike with exploitation of factory workers. The first mainstream coverage of the issue came in July 1993, when CBS interviewed Indonesian workers who revealed that they were paid just 19¢ an hour. Women workers could only leave the company barracks on Sunday, and needed a special letter of permission from management to do so. Nike responded somewhat more forcefully to this next round of allegations, hiring accounting firm Ernst & Young to conduct formal audits of its overseas factories. However, because Ernst & Young was paid by Nike to perform these audits, activists questioned their objectivity from the start. Public criticism of Nike's labor practices continued to mount.

Then suddenly, in 1996, the issue of foreign labor abuse acquired a name and a face: it was Kathie Lee Gifford, a popular daytime talk show host. In April human rights activists revealed that a line of clothing endorsed by Gifford had been manufactured by child labor in Honduras. Rather than denying the connection Gifford instantly rallied to the cause. When she appeared on television, crying and apologetic, a wave of media coverage erupted. Or as Ballinger recalls, "That's when my phone really started ringing."[20] Although Nike was not directly involved in the Gifford scandal, it quickly emerged as a symbol of worker exploitation and a high-profile media scapegoat.

Child labor was the first area of concern. In July, *Life* magazine ran a story about child labor in Pakistan, and published a photo of a 12 year old boy stitching a Nike soccer ball.[21] Then Gifford herself publicly called upon fellow celebrities such as Michael Jordan to investigate the conditions under which their endorsed products were made and to take action if need be. Jordan brushed away suggestions that he was personally responsible for conditions in Nike factories, leaving responsibility to the company itself. When Nike refused to let Reverend Jesse Jackson tour one of its Indonesian factories the media jumped all over the story, noting by contrast that Reebok had recently flown an executive to Indonesia just to give Jackson a tour.

At this point, even some pro-business observers began to jump on the bandwagon. As an editorial in *Business Week* cautioned: "Too few executives understand that the clamor for ethical sourcing isn't going to disappear with the wave of a magic press release. They have protested, disingenuously, that conditions at factories run by subcontractors are beyond their control... Such attitudes won't wash anymore. As the industry gropes for solutions," the editorial concluded, "Nike will be a key company to watch."[22]

The View From Washington

Before long, the spotlight on the labor issue extended all the way to Washington. Sensing a hot issue, several senators and representatives jumped into the action and began to suggest legislative

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[19] Jeff Ballinger, "The New Free-Trade Heel," *Harper's Magazine,* August 1992, p. 64.

[20] Casewriter interview.

[21] Nike's vigorous protests stopped the magazine from running the photo on its cover. Nike convincingly argued that the photo was staged, because the ball was inflated so that the Nike "swoosh" was clearly visible. In fact, soccer balls are stitched while deflated. However, the company did admit it had inadvertently relied on child labor during its first months of production in Pakistan.

[22] Mark L. Clifford, "Commentary: Keep the Heat on Sweatshops," *Business Week*, December 23, 1996, p. 90.

solutions to the issue of overseas labor abuse. Representative George Miller (D-CA) launched a campaign aimed at retailers that would mandate the use of "No Sweat" labels to guarantee that no exploited or child labor had been employed in the production of a garment. "Parents," he proclaimed, "have a right to know that the toys and clothes they buy for their children are not made by exploited children." To enforce such guarantees, Miller added, "I think Congress is going to have to step in."[23]

On the heels of this public outcry, President Clinton convened a Presidential task force to study the issue, calling on leaders in the apparel and footwear industries to join and help develop acceptable labor standards for foreign factories. Known as the Apparel Industry Partnership (AIP), the coalition, which also included members of the activist, labor, and religious communities, was meant to be a model collaboration between industry and its most outspoken critics, brokered by the U.S. government. Nike was the first company to join.

In order to supplement its hiring of Ernst & Young, in October 1996 Nike also established a Labor Practices Department, headed by former public relations executive Dusty Kidd. In a press release, Knight announced the formation of the new department and praised Nike's recent initiatives regarding fair labor practices, such as participation in Clinton's AIP, membership in the organization Business for Social Responsibility, and an ongoing dialogue with concerned non-governmental organizations (NGOs). "Every year we continue to raise the bar," said Knight. "First by having Ernst & Young audits, and now with a group of Nike employees whose sole focus will be to help make things better for workers who make Nike products. In labor practices as in sport, we at Nike believe 'There is No Finish Line.'"[24] And indeed he was right, for the anti-Nike campaign was just getting started.

The Hotseat

As far as public relations were concerned, 1997 was even worse for Nike than 1996. Much as Ballinger had anticipated, Nike's giant marketing machine was easily turned against itself and in a climate awash with anti-Nike sentiment, any of Nike's attempts at self promotion became easy targets. In 1997 the company began expanding its chain of giant retail stores, only to find that each newly opened Niketown came with an instant protest rally, complete with shouting spectators, sign waving picketers, and police barricades. Knowing a good story when they saw it, reporters eagerly dragged Nike's celebrity endorsers into the fracas. Michael Jordan was pelted with questions about Nike at press conferences intended to celebrate his athletic performance, and football great Jerry Rice was hounded to the point of visible agitation when he arrived at the grand opening of a new Niketown in San Francisco.[25]

Perhaps one of the clearest indicators that Nike was in trouble came in May 1997, when Doonesbury, the popular comic strip, devoted a full week to Nike's labor issues. In 1,500 newspapers, millions of readers watched as Kim, Mike Doonesbury's wife, returned to Vietnam and found a long-lost cousin laboring in dismal conditions at a Nike factory. The strips traced Kim's growing involvement in the activist movement and the corrupt factory manager's attempts to deceive her about true working conditions in Nike contracting factories. In Doonesbury, Nike had reached an unfortunate cultural milestone. As one media critic noted: "It's sort of like getting in Jay Leno's monologue. It means your perceived flaws have reached a critical mass, and everyone feels free to

[23] "Honduran Child Labor Described," *The Boston Globe*, May 30, 1996, p. 13.

[24] "Nike Establishes Labor Practices Department," *PR Newswire*, October 2, 1996.

[25] "Protestors Swipe at the Swoosh, Catch Nike's Jerry Rice Off Guard," *The Portland Oregonian*, Feburary 21, 1997, p. C1.

pick on you."[26] The appearance of the Doonesbury strips also marked the movement of anti-Nike sentiment from the fringes of American life to the mainstream. Once the pet cause of leftist activists, Nike bashing had become America's newest spectator sport.

Even some of the company's natural friends took a dim view of its actions. The *Wall Street Journal* ran an opinion piece alleging that "Nike Lets Critics Kick it Around." The writer argued that Nike had been "its own worst enemy" and that its public relations efforts had only made the problem worse. According to the writer, had Nike acknowledged its wrongdoing early on and then presented economic facts that showed the true situation of the workers, the crisis would have fizzled.[27] Instead it had simply gathered steam. Even more trouble loomed ahead with the anticipated release of *The Big One*, a documentary film by Michael Moore that was widely expected to be highly critical of Nike's labor practices.

Damage Control

Late in 1996 the company decided to turn to outside sources, hiring Andrew Young, the respected civil rights leader and former mayor of Atlanta, to conduct an independent evaluation of its Code of Conduct. In January 1997, Knight granted Young's newly-formed GoodWorks International firm "blanket authority … to go anywhere, see anything, and talk with anybody in the Nike family about this issue."[28]

Shortly thereafter Young went to Asia, visited Nike suppliers and returned to issue a formal report. On the day the report was released, Nike took out full-page advertisements in major newspapers that highlighted one of Young's main conclusions: "It is my sincere belief that Nike is doing a good job... But Nike can and should do better."[29] Young did not give Nike carte blanche with regard to labor practices. Indeed, he made a number of recommendations, urging Nike to improve their systems for reporting workers' grievances, to publicize their Code more widely and explain it more clearly, and to implement cultural awareness and language training programs for expatriate managers. Young also stated that third party monitoring of factories was necessary, but agreed that it was not appropriate for Nike's NGO critics to fulfill that function.

Rather than calming Nike's critics, though, Young's report had precisely the opposite effect. Critics were outraged by the report's research methodology and conclusions, and unimpressed by Young's participation. They argued that Young had failed to address the issue of factory wages, which was for many observers the crux of the issue, and had spent only 10 days interviewing workers. During these interviews, moreover, Young had relied on translators provided by Nike, a major lapse in accepted human rights research technique. Finally, critics also noted that the report was filled with photos and used a large, showy typeface, an unusual format for a research report.

From the start, Nike executives had argued in vain that they were the target of an uninformed media campaign, pointing out that although Nike was being vigorously monitored by activists and the media, no one was monitoring the monitors. This point was forcefully made by the publication of a five page *New Republic* article in which writer Stephen Glass blasted the Young report for factual inaccuracies and deception, and summed up: "This was a public relations problem, and the world's

[26] Jeff Manning, "Doonesbury Could Put Legs on Nike Controversy," *The Portland Oregonian*, May 25, 1997, p. D01.

[27] Greg Rushford, "Nike Lets Critics Kick it Around," *The Wall Street Journal*, May 12, 1997, p. A14.

[28] Andrew Young, *Report: The Nike Code of Conduct*, (GoodWorks International, LLC, 1997) p. 27.

[29] Young, p. 59.

largest sneaker company did what it does best: it purchased a celebrity endorsement."[30] Glass's claims were echoed by several other media outlets that also decried Nike's disingenuousness and Young's ineptitude. However, within months a major scandal erupted at the *New Republic* when it was discovered that most of Glass's articles were nearly fictional. Apparently, Glass routinely quoted individuals with whom he had never spoken or who did not even exist, and relied upon statistics and information from organizations he invented himself.

The Issue of Wages

In the public debate, the question of labor conditions was largely couched in the language of human rights. It was about child labor, or slave labor, or workers who toiled in unsafe or inhumane environments. Buried beneath these already contentious issues, though, was an even more contentious one: wages. According to many labor activists, workers in the developing world were simply being paid too little — too little to compensate for their efforts, too little compared to the final price of the good they produced, too little, even, to live on. To many business economists, though, such arguments were moot at best and veiled protectionism at worst. Wages, they maintained, were simply set by market forces: by definition, wages could not be too low, and there was nothing firms could or should do to affect wage rates. As the debate over labor conditions evolved, the argument over wages had become progressively more heated.

Initially, Nike sought to defuse the wage issue simply by ignoring it, or by reiterating the argument that this piece of the labor situation was too far beyond their control. In the Young Report, therefore, the issue of wages was explicitly set aside. As Young explained in his introduction: "I was not asked by Nike to address compensation and 'cost of living' issues which some in the human rights and NGO community had hoped would be a part of this report." Then he went on: "Are workers in developing countries paid far less than U.S. workers? Of course they are. Are their standards of living painfully low by U.S. standards? Of course they are. This is a blanket criticism that can be leveled at almost every U.S. company that manufactures abroad... But it is not reasonable to argue that any one particular U.S. company should be forced to pay U.S. wages abroad while its direct competitors do not."[31] It was a standard argument, and one that found strong support even among many pro-labor economists. In the heat of public debate, however, it registered only as self-serving.

The issue of wages emerged again in the spring of 1997, when Nike arranged for students at Dartmouth's Amos Tuck School of Business to conduct a detailed survey on "the suitability of wages and benefits paid to its Vietnamese and Indonesian contract factory workers."[32] Completed in November 1997, the students' *Survey of Vietnamese and Indonesian Domestic Expenditure Levels* was a 45 page written study with approximately 50 pages of attached data. The authors surveyed both workers and residents of the areas in which the factories were located to determine typical spending patterns and the cost of basic necessities.

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[30] Stephen Glass, "The Young and the Feckless," *The New Republic,* September 8, 1997, p. 22.

[31] Young, p. 9-11.

[32] Derek Calzini, Shawna Huffman, Jake Odden, Steve Tran, and Jean Tsai, *Nike, Inc: Survey of Vietnamese and Indonesian Domestic Expenditure Levels,* November 3, 1997, Field Study in International Business (Dartmouth, NH: The Amos Tuck School, 1997), p. 5.

In Vietnam, the students found that "The factory workers, after incurring essential expenditures, can generate a significant amount of discretionary income."[33] This discretionary income was often used by workers to purchase special items such as bicycles or wedding gifts for family members. In Indonesia, results varied with worker demographics. While 91% of workers reported being able to support themselves individually, only 49% reported being able to also support their dependents. Regardless of demographic status, 82% of workers surveyed in Indonesia either saved wages or contributed each month to their families.[34]

Additionally, the survey found that most workers were not the primary wage earners in their households. Rather, in Vietnam at least, factory wages were generally earned by young men or women and served "to *augment* aggregate household income, with the primary occupation of the household parents being farming or shopkeeping."[35] The same was often true in Indonesia. For instance, in one Indonesian household the students visited, a family of six had used one daughter's minimum wage from a Nike factory to purchase luxury items such as leather couches and a king sized bed.[36] While workers in both countries managed to save wages for future expenditure, the authors found that Indonesians typically put their wages in a bank, while Vietnamese workers were more likely to hold their savings in the form of rice or cows.

Economically, data such as these supported the view that companies such as Nike were actually furthering progress in the developing countries, providing jobs and wages to people who formerly had neither. In the public view, however, the social comparison was unavoidable. According to the Tuck study, the average worker in a Vietnamese Nike factory made about $1.67 per day. A pair of Penny Hardaway basketball sneakers retailed at $150. The criticism continued to mount.

In November there was even more bad news. A disgruntled Nike employee leaked excerpts of an internal Ernst & Young report that uncovered serious health and safety issues in a factory outside of Ho Chi Minh City. According to the Ernst & Young report, a majority of workers suffered from a respiratory ailment caused by poor ventilation and exposure to toxic chemicals. The plant did not have proper safety equipment and training, and workers were forced to work 15 more hours than allowed by law. But according to spokesman Vada Manager the problems no longer existed: "This shows our system of monitoring works. We have uncovered these issues clearly before anyone else, and we have moved fairly expeditiously to correct them."[37] Once again, the denial only made the criticism worse.

Hitting the Wall

Fiscal Year 1998

Until the spring of 1997, Nike sneakers were still selling like hotcakes. The company's stock price had hit $76 and futures orders reached a record high. Despite the storm of criticism lobbied against it, Nike seemed invincible.

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[33] Ibid., p. 8.

[34] Ibid., p. 9.

[35] Ibid., p. 31.

[36] Ibid., p. 44.

[37] Tunku Varadarajan, "Nike Audit Uncovers Health Hazards at Factory," *The Times of London*, November 10, 1997, p. 52.

Just a year later, however, the situation was drastically different. As Knight admitted to stockholders, Nike's fiscal year 1998 "produced considerable pain." In the third quarter 1998, the company was beset by weak demand and retail oversupply, triggered in part by the Asian currency crisis. Earnings fell 69%, the company's first loss in 13 years. In response, Knight announced significant restructuring charges and the layoff of 1,600 workers.[38]

Much the same dynamic that drove labor criticism drove the 1998 downturn: Nike became a victim of its own popularity. Remarked one analyst: "When I was growing up, we used to say that rooting for the Yankees is like rooting for U.S. Steel. Today, rooting for Nike is like rooting for Microsoft."[39] The company asserted that criticism of Nike's labor practices had nothing to do with the downturn. But it was clear that Nike was suffering from a serious image problem. For whatever reasons, Americans were sick of the swoosh. Although Nike billed its shoes as high performance athletic gear, it was well known that 80% of its shoes were sold for fashion purposes. And fashion was a notoriously fickle patron. Competing sneaker manufacturers, particularly adidas, were quick to take advantage of the giant's woes. Adidas' three-stripe logo fast replaced Nike's swoosh among the teen trendsetter crowd; rival brands New Balance and Airwalk tripled their advertising budgets and saw sales surge.

To make matters worse, the anti-Nike headlines had trickled down to the nation's campuses, where a newly invigorated activist movement cast Nike as a symbol of corporate greed and exploitation. With its roots deep in the University of Oregon track team (Knight had been a long distance runner for the school), Nike had long treasured its position as supplier to the top athletic universities. Now, just as young consumers were choosing adidas over Nike at the cash register, campus activists rejected Nike's contracts with their schools and demanded all contracts cease until labor practices were rectified. In late 1997, Nike's $7.2 million endorsement deal with the University of North Carolina sparked protests and controversy on campus; in early 1998 an assistant soccer coach at St. John's University, James Keady, publicly quit his job rather than wear the swoosh. "I don't want to be a billboard for a company that would do these things," said Keady.[40]

Before long, the student protests spread to campuses where Nike had no merchandising contracts. Organized and trained by unions such as UNITE! and the AFL-CIO, previously apathetic college students stormed university buildings to protest sweatshop labor and the exploitation of foreign workers. In 1999, activists took over buildings at Duke, Georgetown, the University of Michigan and the University of Wisconsin, and staged sit-ins at countless other colleges and universities. The protests focused mostly on the conditions under which collegiate logo gear was manufactured. Declared Tom Wheatley, a Wisconsin student and national movement leader: "It really is quite sick. Fourteen-year-old girls are working 100-hour weeks and earning poverty-level wages to make my college T-shirts. That's unconscionable."[41] University administrators heeded the student protests, and many began to consider codes of conduct for contract manufacturers.

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[38] Nike Corporation, *Annual Report 1998,* (Nike, Inc.: Beaverton, OR) p. 1, 17-30.

[39] Quoted in Patricia Sellers, "Four Reasons Nike's Not Cool," *Fortune,* March 30, 1998, p. 26.

[40] William McCall, "Nike's Image Under Attack: Sweatshop Charges Begin to Take a Toll on the Brand's Cachet," *The Buffalo News*, October 23, 1998, p. 5E.

[41] Nancy Cleeland, "Students Give Sweatshop Fight the College Try," *Los Angeles Times*, April 22, 1999, p. C1.

Saving the Swoosh

Nike's fiscal woes did what hundreds of harsh articles had failed to do: they took some of the bravado out of Phil Knight. In a May 1998 speech to the National Press Club, a humbled Knight admitted that "the Nike product has become synonymous with slave wages, forced overtime, and arbitrary abuse."[42] Knight announced a series of sweeping reforms, including raising the minimum age of all sneaker workers to 18 and apparel workers to 16; adopting U.S. OSHA clean air standards in all its factories; expanding its monitoring program; expanding educational programs for workers; and making micro loans available to workers. Although Nike had been formally addressing labor issues since 1992, Knight's confession marked a turning point in Nike's stance towards its critics. For the first time, he and his company appeared ready to shed their defensive stance, admit labor violations did occur in Nike factories, and refashion themselves as leaders in the effort to reform third world working conditions.

Nike's second step was to get more involved with Washington-based reform efforts. In the summer of 1998, President Clinton's initial task force on labor, the Apparel Industry Partnership (AIP), lay deadlocked over the ever-delicate issues of factory monitoring and wages. Although the AIP had a tentative proposal, discussion ground to a halt when the task force's union, religious, and corporate members clashed.

While the AIP proclaimed itself as an exemplar of cooperative solution making, it soon became apparent that its members had very different views. One key concept — "independent monitoring" — was highly contentious. To Nike, the hiring of a separate and unrelated multinational firm like Ernst & Young fulfilled any call for independent monitoring. But activists and other critics alleged that if an independent monitor, such as an accounting firm, was hired by a corporation, it thereby automatically lost autonomy and independence. According to such critics, independent monitoring could only be done by an organization that was not on a corporate payroll, such as an NGO or a religious group. The corporations, by contrast, insisted that a combination of internal monitoring and audits by accounting firms was sufficient. Upset at what they saw as corporate intransigence, the task force's union and religious membership abruptly exited the coalition.

The remaining corporate members of the AIP were soon able to cobble together a more definitive agreement, complete with an oversight organization known as the Fair Labor Association (FLA). The FLA was to be a private entity controlled evenly by corporate members and human rights or labor representatives (if they chose to rejoin the coalition). It would support a code of conduct that required its members to pay workers the legal minimum wage or the prevailing local standard, whichever was higher. The minimum age of workers was set at 15, and employees could not be required to work more than 60 hours per week. Companies that joined the Association would be required to comply with these guidelines and to establish internal monitoring systems to enforce them; they would then be audited by certified independent inspectors, such as accounting firms. In the first three years after a company joined, auditors would inspect 30% of a company's factories; later they would inspect 10%. All audits would be confidential.

Nike worked tirelessly to bring other manufacturers into the FLA, but the going was tough. As of August 1999, the only other corporate members were adidas, Liz Claiborne, Reebok, Levi's, L.L. Bean, and Phillips Van Heusen. However, Nike's efforts to foster the FLA hit pay dirt with U.S. colleges and universities. The vocal student anti-sweatshop movement had many administrators scrambling to find a solution, and over 100 colleges and universities eventually signed on.

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[42] John H. Cushman Jr., "Nike to Step Forward on Plant Conditions," *The San-Diego Union-Tribune,* May 13, 1998, p. A1.

Participants ranged from the large state universities that held Nike contracts to the eight Ivy League schools. The FLA was scheduled to be fully operational by the fall of 2000.

Meanwhile, by 1999 Nike was running extensive training programs for its contractors' factory managers. All managers and supervisors were required to learn the native language of their workers, and received training in cultural differences and acceptable management styles. In addition to 25 employees who would focus solely on corporate responsibility, Nike's 1,000 production employees were explicitly required to devote part of their job to maintaining labor standards. In Vietnam, the company partnered with the National University of Vietnam in a program designed to identify and meet worker needs. It also helped found the Global Alliance, a partnership between the International Youth Foundation, the MacArthur Foundation, the World Bank, and Mattel, that was dedicated to improving the lives of workers in the developing world.

Although Nike's various concessions and new programs were welcomed as a victory by several human rights groups, other observers argued that Nike still failed to deal with the biggest problem, namely wages.[43] Wrote *New York Times* columnist Bob Herbert: "Mr. Knight is like a three-card monte player. You have to keep a close eye on him at all times. The biggest problem with Nike is that its overseas workers make wretched, below-subsistence wages. It's not the minimum age that needs raising, it's the minimum wage."[44] Similarly, while some labor leaders accepted the FLA as the best compromise possible, others decried it as sham agreement that simply provided cover for U.S. corporations. A main objection of these critics was that the FLA standards included notification of factories that were to be inspected, a move criticized by some as equivalent to notifying a restaurant when a critic was coming to dine. According to Jeff Ballinger, Nike's original critic, the company's reform record was mixed. Ballinger was confident that Nike had at least removed dangerous chemicals from factories, but otherwise he remained skeptical: "If you present yourself as a fitness company you can't very well go around the globe poisoning people. But on wages, they're still lying through their teeth."[45]

[43] John H. Cushman, Jr., "Nike Pledges to End Child Labor and Apply U.S. Rules Abroad," *The New York Times,* May 13, 1998, p. D1.

[44] Bob Herbert, "Nike Blinks," *The New York Times,* May 21, 1998, p. A33.

[45] Casewriter interview.

Exhibit 1 Nike Inc. Financial History, 1989 – 1999 (in millions of dollars)

Year Ended May 31	**1999**	**1998**	**1997**	**1996**	**1995**	**1994**	**1993**	**1992**	**1991**	**1990**	**1989**
Revenues	$8,776.9	$9,553.1	$9,186.5	$6,470.6	$4,760.8	$3,789.7	$3,931.0	$3,405.2	$3,003.6	$2,235.2	$1,710.8
Gross margin	3,283.4	3,487.6	3,683.5	2,563.9	1,895.6	1,488.2	1,544.0	1,316.1	1,153.1	851.1	636.0
Gross margin %	37.4	36.5	40.1	39.6	39.8	39.3	39.3	38.7	38.4	38.1	37.2
Restructuring charge, net	45.1	129.9	--	--	--	--	--	--	--	--	--
Net income	451.4	399.6	795.8	553.2	399.7	298.8	365.0	329.2	287.0	243.0	167.0
Cash flow from operations	961.0	517.5	323.1	339.7	254.9	576.5	265.3	435.8	11.1	127.1	169.4
Price range of common stock											
High	65.500	64.125	76.375	52.063	20.156	18.688	22.563	19.344	13.625	10.375	4.969
Low	31.750	37.750	47.875	19.531	14.063	10.781	13.750	8.781	6.500	4.750	2.891
Cash and equivalents	$ 198.1	$ 108.6	$ 445.4	$ 262.1	$ 216.1	$ 518.8	$ 291.3	$260.1	$119.8	$ 90.4	$85.7
Inventories	1,199.3	1,396.6	1,338.6	931.2	629.7	470.0	593.0	471.2	586.6	309.5	222.9
Working capital	1,818.0	1,828.8	1,964.0	1,259.9	938.4	1,208.4	1,165.2	964.3	662.6	561.6	419.6
Total assets	5,247.7	5,397.4	5,361.2	3,951.6	3,142.7	2,373.8	2,186.3	1,871.7	1,707.2	1,093.4	824.2
Long-term debt	386.1	379.4	296.0	9.6	10.6	12.4	15.0	69.5	30.0	25.9	34.1
Shareholders' equity	3,334.6	3,261.6	3,155.9	2,431.4	1,964.7	1,740.9	1,642.8	1,328.5	1,029.6	781.0	558.6
Year-end stock price	60.938	46.000	57.500	50.188	19.719	14.750	18.125	14.500	9.938	9.813	4.750
Market capitalization	17,202.2	13,201.1	16,633.0	14,416.8	5,635.2	4,318.8	5,499.3	4,379.6	2,993.0	2,942.7	1,417.4
Geographic Revenues:											
United States	$5,042.6	$5,460.0	$5,538.2	$3,964.7	$2,997.9	$2,432.7	$2,528.8	$2,270.9	$2,141.5	$1,755.5	$1,362.2
Europe	2,255.8	2,096.1	1,789.8	1,334.3	980.4	927.3	1,085.7	919.8	664.7	334.3	241.4
Asia/Pacific	844.5	1,253.9	1,241.9	735.1	515.6	283.4	178.2	75.7	56.2	29.3	32.0
Americas (exclusive of U.S.)	634.0	743.1	616.6	436.5	266.9	146.3	138.3	138.8	141.2	116.1	75.2
Total revenues	$8,776.9	$9,553.1	$9,186.5	$6,470.6	$4,760.8	$3,789.7	$3,931.0	$3,405.2	$3,003.6	$2,235.2	$1,710.8

All per common share data has been adjusted to reflect the 2-for-1 stock splits paid October 23, 1996, October 30, 1995 and October 5, 1990. The Company's Class B Common Stock is listed on the New York and Pacific Exchanges and traded under the symbol NKE. At May 31, 1999, there were approximately 170,000 shareholders.

Source: Nike, Inc., *Annual Report 1999*

Exhibit 2 Estimated Cost Breakdown of an Average Nike Shoe, 1999

$3.37	Labor costs
$3.41	Manufacturer's overhead
$14.60	Materials
$1.12	Profit to factory
$22.50	Factory price to Nike
$45	Wholesale price
$90	Retail price

Source: Jennifer Lin, "Vietnam Gives Nike a Run for Its Money," *The Philadelphia Enquirer*, March 23, 1998, p. 1.

Exhibit 3 Prices of Some Popular Running Shoe Styles in New York City, 1996

	Nike Air Max		**New Balance 999**		**Saucony Grid Shadow**	
	Men's	*Women's*	*Men's*	*Women's*	*Men's*	*Women's*
Foot Locker	$140	$135	$124	$105	$85	$85
Paragon Sports	140	135	135	109	70	70
Sports Authority	140	140	101	101	78	78
Super Runners Shop	140	130	125	110	85	85

Source: "Feet Don't Fail...," *The New York Times*, November 3, 1996, Section 13, p. 12.

Exhibit 4 Summary Revenue and Expense Profile of Minimum Wage Workers by Demographic Type (in Indonesian Rupiah)

	SH	SO	Dorm	MH	MO	Total (weighted)
Number of respondents	67	161	33	21	32	314
Base wages	172,812	172,071	172,197	173,905	172,650	172,424
Total wages	**225,378**	**238,656**	**239,071**	**248,794**	**244,458**	**236,893**
Rent	14,677	40,955	12,121[a]	24,775	56,050	32,838
Food	84,774	95,744	90,455	103,421	128,793	103,020
Transportation	48,984	24,189	7,219	17,471	38,200	28,560
Savings	38,369	41,783	70,303	29,412	49,185	44,154
Contribution to home	22,175	37,594	57,644	25,222	25,089	34,441
Total uses	**208,980**	**240,266**	**237,741**	**200,301**	**297,318**	**243,013**

[a]17 of the 33 respondents were provided free housing by the factory. The remaining 16 paid a subsidized monthly rent of Rp 25,000.

Note: Monthly Wages and Total Uses of wages may not match due to averaging.

Key to demographic type:

SH - Single workers living at home
SO - Single workers living away from home and paying rent
Dorm - Single workers living away from home and living in factory subsidized housing
MH - Married workers living at home
MO - Married workers living away from home

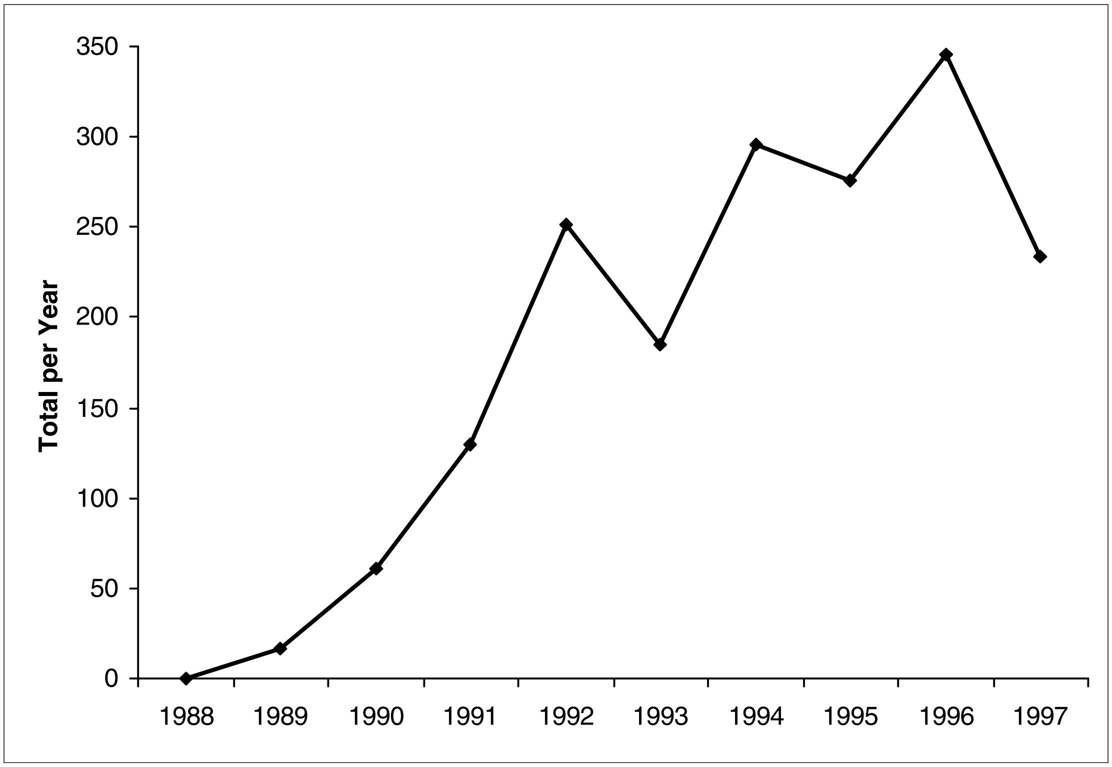
Source: Derek Calzini, Shawna Huffman, Jake Odden, Steve Tran, and Jean Tsai, *Nike, Inc: Survey of Vietnamese and Indonesian Domestic Expenditure Levels,* November 3, 1997, Field Study in International Business (Dartmouth, NH: The Amos Tuck School, 1997), pp. 9-10.

Exhibit 5 Typical "Basket" of Basic Food Expenditures for Indonesian workers (in rupiah)

Rice	800-1,300	per 5 servings
Instant Noodles	300-500	per serving
Eggs	2,800-3,000	per 18 eggs
Tofu	1,500	per 15 servings
Tempe	1,500	per 15 servings
Kancang Pangung	1,500	per 15 servings
Peanuts	2,600	per kilogram
Oil	2,300	per liter
Other "luxury" foods		
Fish	6,000	per kilogram
Chicken	4,500-5,000	per chicken

Source: Derek Calzini, Shawna Huffman, Jake Odden, Steve Tran, and Jean Tsai, *Nike, Inc: Survey of Vietnamese and Indonesian Domestic Expenditure Levels*, November 3, 1997, Field Study in International Business (Dartmouth, NH: The Amos Tuck School, 1997), p. 45.

Exhibit 6 Strikes and Lockouts in Indonesia, 1988 - 1997



Source: International Labour Office, *Yearbook of Labor Statistics 1998* (Geneva; ILO, 1999), p.1213.

Exhibit 7 Wages and Productivity in Industrialized and Developing Nations (figures in $ per year)

	Average Hours Worked Per Week		Yearly Minimum Wage		Labor Cost Per Worker in Manufacturing		Value Added Per Worker in Manufacturing	
	1980-84	1990-94	1980-84	1990-94	1980-84	1990-94	1980-84	1990-94
North America								
United States	35	34	6,006	8,056[b]	19,103	32,013[b]	47,276	81,353
Canada	32	33	4,974	7,897[b]	17,710	28,346[b]	36,903	60,712
Mexico	--	34	1,002	843	3,772	6,138	17,448	25,991
Europe								
Denmark	--	37	9,170	19,933[b]	16,169	35,615[b]	27,919	49,273
France	39	39	10,815	22,955[b]	16,060	38,900[b]	26,751	61,019[e]
Germany	41	40	[a]	[a]	21,846[d]	63,956[b,d]	--	--
Greece	--	41	--	5,246	6,461	15,899[b]	14,561	30,429
Ireland	41[c]	41[c]	--	--	10,190	25,414[b]	26,510	86,036
Netherlands	40	39	9,074	15,170[b]	18,891	39,865[b]	27,491	56,801
Asia								
China (PRC)	--	--	--	--	472	434[d]	3,061	2,885
Hong Kong	48	46	--	--	4,127	13,539[b]	7,886	19,533
India	48	48	--	408	1,035	1,192	2,108	3,118
Indonesia	--	--	--	241	898	1,008	3,807	5,139
Japan	47	46	3,920	8,327[b]	12,306	40,104[b]	34,456	92,582
South Korea	52	48	--	3,903[b]	3,153	15,819[b]	11,617	40,916
Malaysia	--	--	--	[a]	2,519	3,429	8,454	12,661
Philippines	--	43	--	1,067	1,240	2,459	5,266	9,339
Singapore	--	46	--	--	5,576	21,534[b]	16,442	40,674
Thailand	48	--	--	1,083	2,305	2,705	11,072	19,946

A.) Country has sectoral minimum wage but no minimum wage policy. B.) Data refer to 1995 – 1999. C.) Data refer to hours worked per week in manufacturing. D) Data refer to wage per worker in manufacturing. E.) International Labor Organisation data.

Source: World Bank, *World Development Indicators 1999* (Washington, D.C.; World Bank, 1999), pp.62-64.

Exhibit 8 Indonesia: Wages and Inflation, 1993-97

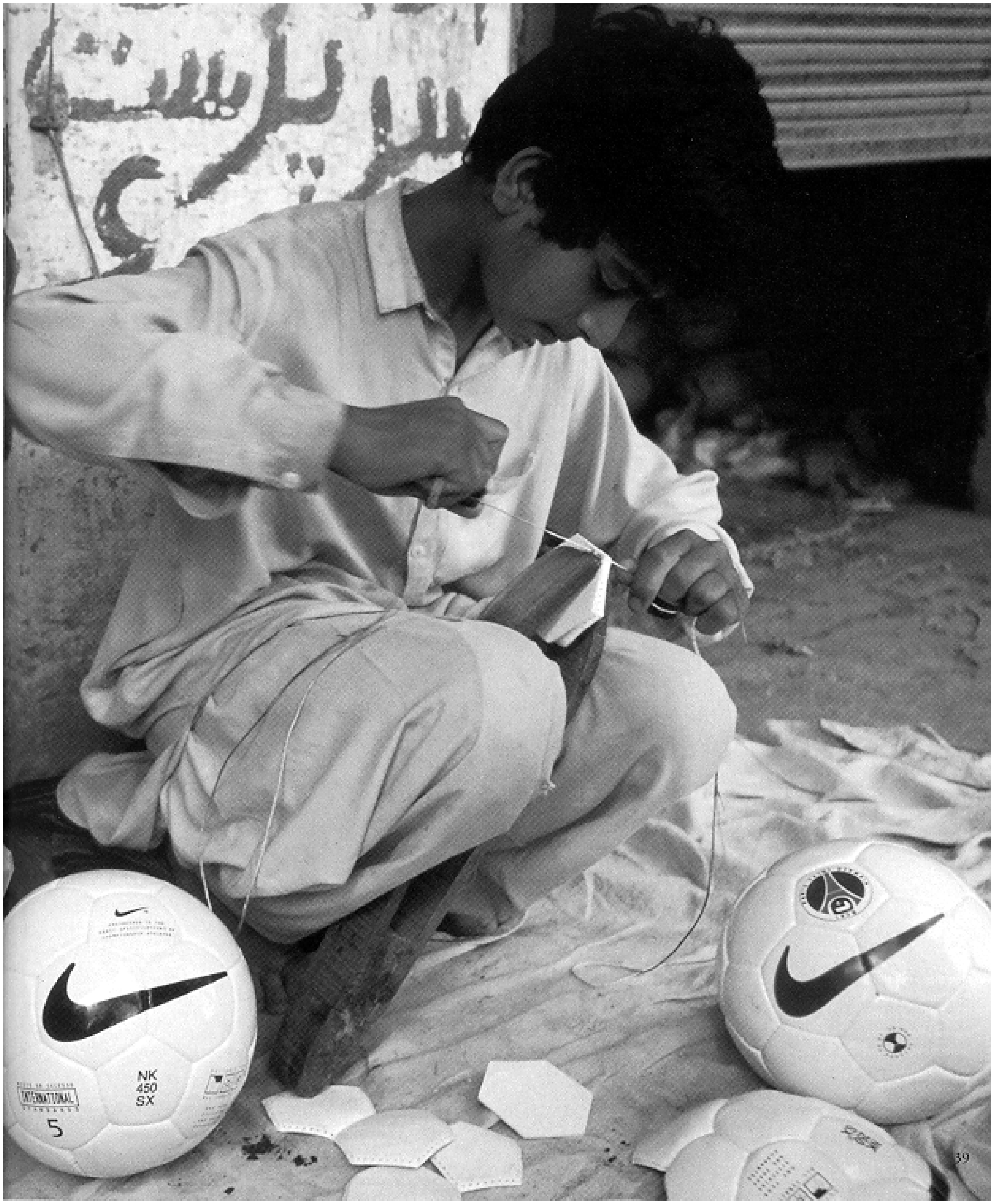
	1993 Minimum	1993 Maximum	1994 Minimum	1994 Maximum	1995 Minimum	1995 Maximum	1996 Minimum	1996 Maximum	1997 Minimum	1997 Maximum
Monthly wages in manufacturing industry (thousands of rupiah)	196	2,920	207	3,112	238	3,453	241	3,453	439	6,050
Minimum wage regional average[a] (thousands of rupiah)	72		94		112		118		130	
Annual percent change	17.7		30.8		19.5		5.4		10.2	
Consumer price inflation	8.5		9.4		8.0		6.7		57.6	
Exchange rates (average Rp:$)	2,161		2,249		2,342		2,909		10,014	

Source: International Monetary Fund, Economist Intelligence Unit.

Figures are based on periodic surveys of primarily urban-based business establishments and include transportation, meal, and attendance allowances.

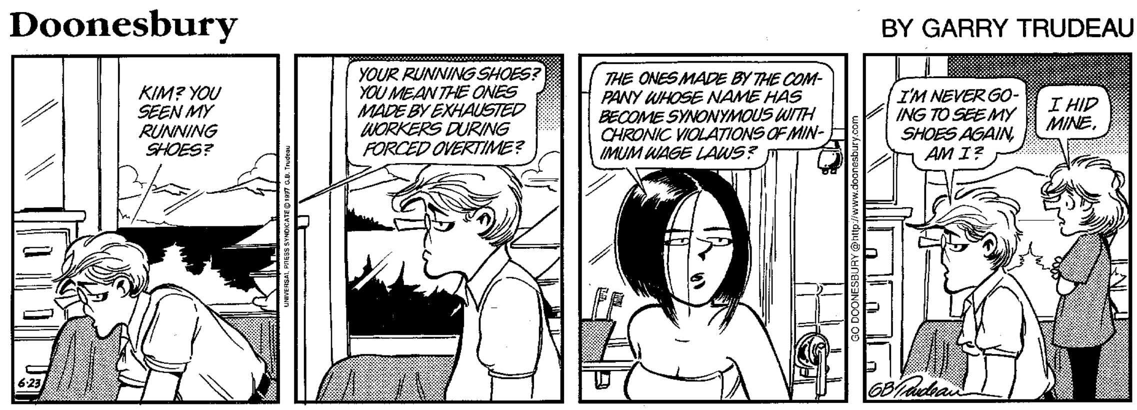
[a]Calculated from minimum daily figure for 30 days per month. Increased by 9% to Rp122,000 in 1996 and by 10% to Rp135,000 in 1997.

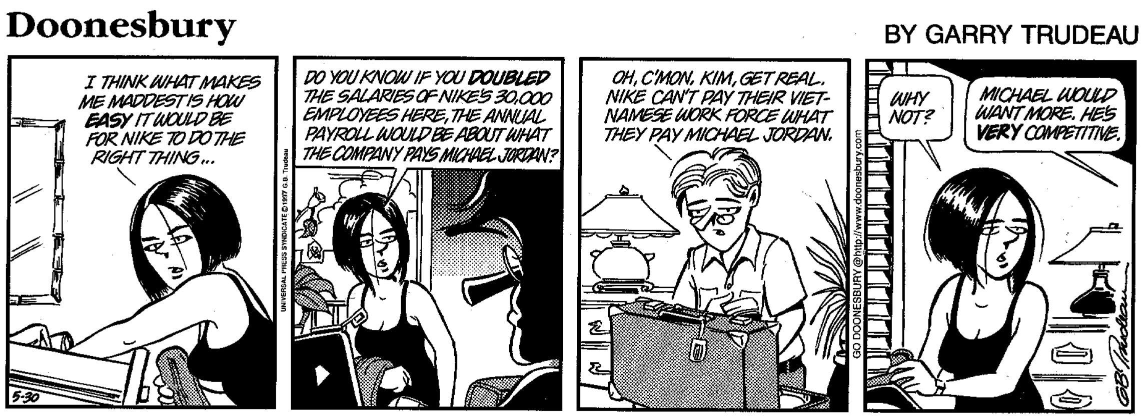
Exhibit 9 *Life* magazine photo of Pakistani child worker



Source: *Life* Magazine, June 1996, p. 39.

Exhibit 10 Doonesbury Cartoons About Nike





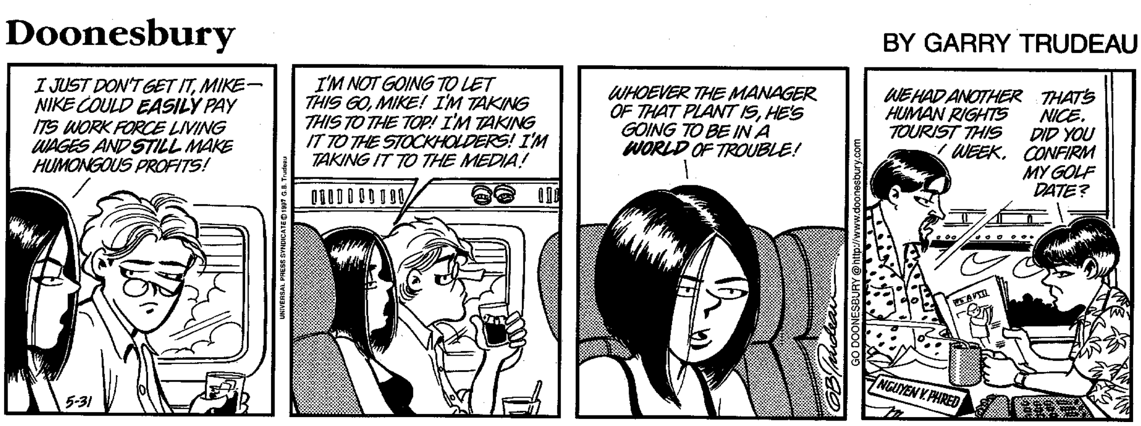
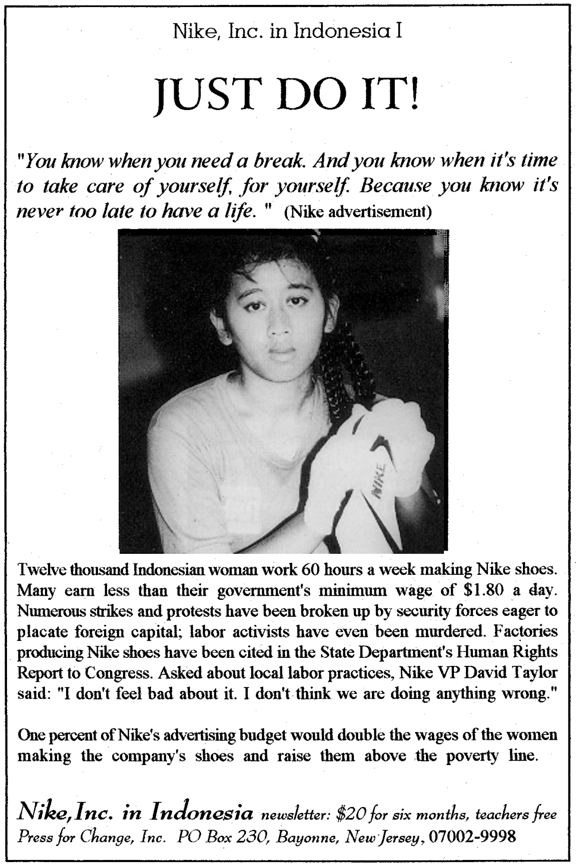


Exhibit 11 Anti-Nike Activist Materials


Nike, Inc. in Indonesia I

JUST DO IT!

"*You know when you need a break. And you know when it's time to take care of yourself, for yourself. Because you know it's never too late to have a life.* " (Nike advertisement)

Twelve thousand Indonesian woman work 60 hours a week making Nike shoes. Many earn less than their government's minimum wage of $1.80 a day. Numerous strikes and protests have been broken up by security forces eager to placate foreign capital; labor activists have even been murdered. Factories producing Nike shoes have been cited in the State Department's Human Rights Report to Congress. Asked about local labor practices, Nike VP David Taylor said: "I don't feel bad about it. I don't think we are doing anything wrong."

One percent of Nike's advertising budget would double the wages of the women making the company's shoes and raise them above the poverty line.

Nike, Inc. in Indonesia *newsletter: $20 for six months, teachers free*
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Source: Jeff Ballinger; http://www.nikeworkers.org [10/29/99]; http://www.corpwatch.org/nike/ [10/29/99].