

CASE 20

NIKE: THE SWEATSHOP DEBATE 20 YEARS ON

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C20-1 INTRODUCTION

Nike is in many ways the quintessential global corporation. Established in 1972 by former University of Oregon track star Phil Knight, Nike is now one of the leading marketers of athletic shoes, apparel, and athletic equipment. For fiscal 2018, the company had \$36 billion in annual revenues and sold its products in almost every country of the world. Nike does no manufacturing. Rather, it designs, markets, and sells its products, while contracting for their production from a global network of independent contract manufacturers who often operate multiple factories. Currently Nike's products are made in over 500 contract factories located in 42 countries. Around a million people work at factories that supply Nike. Factories in Vietnam, China, and Indonesia produce over 90% of all Nike shoes, while factories located in China, Vietnam, and Thailand make over 50% of all Nike branded apparel.¹ This huge corporation has made Phil Knight into one of the richest people in America.

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Nike's marketing phrase, "Just Do It!," has become as recognizable in popular culture as its "swoosh" logo or the faces of its celebrity sponsors such as Michael Jordan, Tiger Woods, Cristiano Ronaldo, and LeBron James.

For all its successes, the company was dogged for years by persistent accusations that its products were made in "sweatshops" where workers, many of them children, slaved away in hazardous conditions for below-subsistence wages. Nike's wealth, its detractors claimed, was built upon the backs of the world's poor. For many, Nike had become a symbol of the evils of globalization—a rich, Western corporation exploiting the world's poor to provide expensive shoes and apparel to the pampered consumers of the developed world. Niketown stores became standard targets for antiglobalization protesters. Several nongovernmental organizations, such as San Francisco-based Global Exchange, a human rights organization dedicated to promoting environmental, political, and social justice around the world, targeted Nike for repeated criticism and protests.² News shows such as CBS-TV's *48 Hours* ran exposés on working conditions in foreign factories that supply Nike. Students on the campuses

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of several major U.S. universities with which Nike had lucrative sponsorship deals protested against the ties, citing Nike's use of sweatshop labor.

For its part, Nike took many steps to try to counter the protests. Yes, it admitted, there were problems in some overseas factories. But the company signaled a commitment to improving working conditions. It required that foreign subcontractors meet minimum thresholds for working conditions and pay. It arranged for factories to be examined by independent auditors. It terminated contracts with factories that did not comply with its standards. As a result of its efforts, by the early 2000s, Nike was being held up as an example of a company that had fixed problems related to working conditions in the network of factories used by its contract manufacturers. Nike, according to many observers, had solved its sweatshop problem and should be held up as a model for other corporations. Then, in 2016, reports of abuses popped up again, and Nike found itself once more in the firing line of protestors.

C20-2 THE CASE AGAINST NIKE IN THE 1990S

Typical of the exposés against Nike was a CBS-TV *48 Hours* news report that aired October 17, 1996.³ Reporter Roberta Basin visited a Nike factory in Vietnam. With a shot of the factory, her commentary began:

The signs are everywhere of an American invasion in search of cheap labor. Millions of people who are literate, disciplined, and desperate for jobs. This is Nike Town near what used to be called Saigon, one of four factories Nike doesn't own but subcontracts to make a million shoes a month. It takes 25,000 workers, mostly young women, to "Just Do It." But the workers here don't share in Nike's huge profits. They work six days a week for only \$40 a month, just 20 cents an hour.

Baskin interviewed one of the workers in the factory, a young woman named Lap. Baskin tells the listener:

Her basic wage, even as sewing team leader, still doesn't amount to the minimum wage . . . She's

down to 85 pounds. Like most of the young women who make shoes, she has little choice but to accept the low wages and long hours. Nike says that it requires all subcontractors to obey local laws; but Lap has already put in much more overtime than the annual legal limit: 200 hours.

Baskin then asks Lap what would happen if she wanted to leave. If she was sick or had something she needed to take care of such as a sick relative, could she leave the factory? Through a translator, Lap replies: "It is not possible if you haven't made enough shoes. You have to meet the quota before you can go home."

The clear implication of the story was that Nike was at fault here for allowing such working conditions to persist in the Vietnam factory, which was owned by a South Korean company.

Another attack on Nike's subcontracting practices came in June 1996 from Made in the USA, a foundation largely financed by labor unions and domestic apparel manufacturers that oppose free trade with low-wage countries. According to Joel Joseph, chairman of the foundation, a popular line of high-priced Nike sneakers, the Air Jordans, were produced by 11-year-olds in Indonesia making 14 cents per hour. Nike spokeswoman Donna Gibbs countered that this was not true. According to Gibbs, the average worker made 240,000 rupiah (\$103) a month working a maximum 54-hour week, or about 45 cents per hour. Moreover, Gibbs noted that Nike had staff members in each factory monitoring conditions to make sure that they obeyed local minimum wage and child labor laws.⁴

Another example of the criticism against Nike is the following extract from a newsletter published by Global Exchange:⁵

During the 1970s, most Nike shoes were made in South Korea and Taiwan. When workers there gained new freedom to organize and wages began to rise, Nike looked for "greener pastures." It found them in Indonesia and China, where Nike started producing in the 1980s, and most recently in Vietnam.

The majority of Nike shoes are made in Indonesia and China, countries with governments that prohibit independent unions and set the minimum wage at rock bottom. The Indonesian government admits that the minimum wage

there does not provide enough to supply the basic needs of one person, let alone a family. In early 1997 the entry-level wage was a miserable \$2.46 a day. Labor groups estimate that a livable wage in Indonesia is about \$4.00 a day.

In Vietnam the pay is even less—20 cents an hour, or a mere \$1.60 a day. But in urban Vietnam, three simple meals cost about \$2.10 a day, and then of course there is rent, transportation, clothing, health care, and much more. According to Thuyen Nguyen of Vietnam Labor Watch, a living wage in Vietnam is at least \$3 a day.

In another attack on Nike's practices in September 1997, Global Exchange published a report on working conditions in four Nike and Reebok subcontractors in southern China.⁶ Global Exchange, in conjunction with two Hong Kong human rights groups, had interviewed workers at the factories in 1995 and again in 1997. According to Global Exchange, in one factory, a Korean-owned subcontractor for Nike, workers as young as 13 earned as little as 10 cents an hour and toiled up to 17 hours daily in enforced silence. Talking during work was not allowed, with violators fined \$1.20 to \$3.60 according to the report. The practices violated Chinese labor law, which states that no child under 16 may work in a factory, and the Chinese minimum wage requirement of \$1.90 for an 8-hour day. Nike condemned the study as "erroneous," stating the report incorrectly stated the wages of workers and made irresponsible accusations.

Global Exchange, however, continued to be a major thorn in Nike's side. In November 1997, the organization obtained and then leaked a confidential report by Ernst & Young of an audit that Nike had commissioned of a factory in Vietnam owned by a Nike subcontractor.⁷ The factory had 9,200 workers and made 400,000 pairs of shoes a month. The Ernst & Young report painted a dismal picture of thousands of young women, most under age 25, laboring 10½ hours a day, 6 days a week, in excessive heat and noise and in foul air, for slightly more than \$10 a week. The report also found that workers with skin or breathing problems had not been transferred to departments free of chemicals, and that more than half the workers who dealt with dangerous chemicals did not wear protective masks or gloves. It claimed workers were exposed to carcinogens that

exceeded local legal standards by 177 times in parts of the plant, and that 77% of the employees suffered from respiratory problems.

Put on the defensive yet again, Nike called a news conference and pointed out that it had commissioned the report and had acted on it.⁸ The company stated it had formulated an action plan to deal with the problems cited in the report, and had slashed overtime, improved safety and ventilation, and reduced the use of toxic chemicals. The company also asserted that the report showed that its internal monitoring system had performed exactly as it should have. According to one spokesman: "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."

C20-3 NIKE RESPONDS

Unaccustomed to playing defense, Nike formulated over the years a number of strategies and tactics to deal with the problems of working conditions and pay in subcontractors. In 1996, Nike hired onetime U.S. Ambassador to the United Nations, U.S. congressman, and former Atlanta Mayor Andrew Young to assess working conditions in subcontractors' plants around the world. Young released a mildly critical report of Nike in mid-1997. After completing a 2-week tour that covered three countries and 15 factories, Young informed Nike it was doing a good job in treating workers, though it should do better. According to Young, he did not see ". . . sweatshops, or hostile conditions . . . I saw crowded dorms . . . but the workers were eating at least two meals a day on the job and making what I was told were subsistence wages in those cultures."⁹

Young was widely criticized by human rights and labor groups for not taking his own translators and for doing slipshod inspections, an assertion he repeatedly denied.

In 1996, Nike joined a presidential task force designed to find a way of banishing sweatshops in the shoe and clothing industries. The task force included industry leaders such as Nike, representatives from human rights groups, and labor leaders.

In April 1997, they announced an agreement for workers' rights that U.S. companies could agree to when manufacturing abroad. The accord limited the workweek to 60 hours and called for paying at least the local minimum wage in foreign factories. The task force also agreed to establish an independent monitoring association—later named the Fair Labor Association (FLA)—to assess whether companies are abiding by the code.¹⁰

The FLA included among its members the Lawyers Committee for Human Rights, the National Council of Churches, the International Labor Rights Fund, some 135 universities (universities have extensive licensing agreements with sports apparel companies such as Nike), and companies such as Nike, Reebok, and Levi Strauss.

In early 1997, Nike also began to commission independent organizations such as Ernst & Young to audit the factories of its subcontractors. In September 1997, Nike tried to show its critics that it was involved in more than just a public relations exercise when it terminated its relationship with four Indonesia subcontractors, stating they had refused to comply with the company's standard for wage levels and working conditions. One subcontractor, Seyon, which manufactured specialty sports gloves for Nike, refused to meet a 10.7% increase in the monthly wage, to \$70.30, declared by the Indonesian government in April 1997.¹¹

On May 12, 1998, in a speech given at the National Press Club, Phil Knight spelled out in detail a series of initiatives designed to improve working conditions for the 500,000 people that make products for Nike at subcontractors.¹² Among the initiatives, Knight highlighted were the following:

We have effectively changed our minimum age limits from the ILO (International Labor Organization) standards of 15 in most countries and 14 in developing countries to 18 in all footwear manufacturing and 16 in all other types of manufacturing (apparel, accessories, and equipment.). Existing workers legally employed under the former limits were grandfathered into the new requirements.

During the past 13 months we have moved to a 100 percent factory audit scheme, where every Nike contract factory will receive an annual check by PricewaterhouseCoopers (PwC) teams who are

specially trained on our Code of Conduct Owner's Manual and audit/monitoring procedures. To date they have performed about 300 such monitoring visits. In a few instances in apparel factories they have found workers under our age standards. Those factories have been required to raise their standards to 17 years of age, to require three documents certifying age, and to redouble their efforts to ensure workers meet those standards through interviews and records checks.

Our goal was to ensure workers around the globe are protected by requiring factories to have no workers exposed to levels above those mandated by the permissible exposure limits (PELs) for chemicals prescribed in the OSHA indoor air quality standards.¹³

These moves were applauded in the business press, but they were greeted with a skeptical response from Nike's long-term adversaries in the debate over the use of foreign labor. While conceding that Nike's policies were an improvement, one critic writing in the *New York Times* noted:

Mr. Knight's child labor initiative is . . . a smoke-screen. Child labor has not been a big problem with Nike, and Philip Knight knows that better than anyone. But public relations is public relations. So he announces that he's not going to let the factories hire kids, and suddenly that is the headline.

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. Most of the workers in Nike factories in China and Vietnam make less than \$2 a day, well below the subsistence levels in those countries. In Indonesia the pay is less than \$1 a day.

The company's current strategy is to reshape its public image while doing as little as possible for the workers. Does anyone think it was an accident that Nike set up shop in human rights sinkholes, where labor organizing was viewed as a criminal activity and deeply impoverished workers were willing, even eager, to take their places on assembly lines and work for next to nothing?¹⁴

Other critics question the value of Nike's auditors, PricewaterhouseCoopers. Dara O'Rourke, an assistant professor at MIT, followed the PwC auditors around several factories in China, Korea, and Vietnam. He concluded that although the auditors found minor violations of labor laws and codes of conduct, they missed major labor practice issues including hazardous working conditions, violations of overtime laws, and violation of wage laws. The problem, according to O'Rourke, was that the auditors had limited training and relied on factory managers for data and to set up interviews with workers, all of which were performed in the factories. The auditors, in other words, were getting an incomplete and somewhat sanitized view of conditions in the factory.¹⁵

Fueled perhaps by the unforgiving criticisms of Nike that continued after Phil Knight's May 1998 speech, beginning in 1998 and continuing into 2001, a wave of protests against Nike occurred on many university campuses. The moving force behind the protests was the United Students Against Sweatshops (USAS). The USAS argued that the Fair Labor Association (FLA), which grew out of the presidential task force on sweatshops, was an industry tool and not a truly independent auditor of foreign factories. The USAS set up an alternative independent auditing organization, the Workers' Rights Consortium (WRC), which they charged with auditing factories that produce products under collegiate licensing programs (Nike is a high-profile supplier of products under these programs). The WRC is backed, and partly funded, by labor unions and refuses to cooperate with companies, arguing that doing so would jeopardize its independence.

By mid-2000, the WRC had persuaded some 48 universities to join the WRC, including all nine campuses of the University of California systems, the University of Michigan, and the University of Oregon, Phil Knight's alma mater. When Knight heard that the University of Oregon would join the WRC, as opposed to the FLA, he withdrew a planned \$30-million donation to the university.¹⁶ Despite this, in November 2000, another major northwestern university, the University of Washington, announced it too would join the WRC, although it would also retain its membership in the FLA.¹⁷

Nike continued to push forward with its own initiatives, updating progress on its website. In April 2000,

in response to accusations that it was still hiding conditions, it announced it would release the complete reports of all independent audits of its subcontractors' plants. Global Exchange continued to criticize the company, arguing in mid-2001 that the company was not living up to Phil Knight's 1998 promises, and that it was intimidating workers from speaking out about abuses.¹⁸ For its part, between 2002 and 2004, Nike performed some 600 factory audits, including repeat visits to problematic factories. In 2005, Nike became the first company in the apparel industry to publish a complete list of the factories it contracted with. Also in 2005, the company published a detailed report revealing conditions and pay in its factories and acknowledging issues, particularly in its southern Asian factories.

By 2005, the company's steady progress was starting to gain grudging respect from some campaign groups. Then came a sudden crisis that could have set things back but ended up having the opposite effect. In the runup to the 2006 World Cup, photos were presented to the company of Pakistani children hand stitching Nike footballs, raising concerns that the company was once again using child labor. It turned out that the Pakistani supplier, Saga Sports, had become overwhelmed with orders linked to the approaching World Cup. The company had gone against Nike's rules for contractors and sent the balls out to be made at local homes. After an investigation that confirmed the allegations, Nike responded by cancelling its contract with Saga and recalling the balls, an action that reportedly cost Nike millions of dollars. While pulling the contract resulted in a short-term financial hit, it sent a strong signal to the company's suppliers and customers that it was committed to upholding its supplier code of conduct. The impact on Saga was enormous, helping to drive the company into bankruptcy. Other suppliers based in Pakistan took note.¹⁹

C20-4 THE CONTROVERSY RESURFACES

By 2015, articles were being written in the business press holding up Nike as model for how to solve problems related to working conditions in

developing-world suppliers. Nike itself continued to raise the bar on compliance with its extensive code of conduct for suppliers.²⁰ The code—which was revised in 2011—was designed to protect the rights of workers, create a safe working environment, and safeguard the communities and areas where they operate. Nike regularly audits the factories in its supplier network, sometimes in collaboration with independent third-party organizations such as Better Work (a joint program between the United Nations and the World Bank) and the Fair Labor Association (FLA). In 2016, Nike audited 576 out of 663 factories in its supplier network, Better Work audited 31, and the FLA audited 7.

In 2011, Nike set a goal that by 2020 100% of the factories in its supplier network should comply with its code of conduct, which would earn them a “bronze rating.” Nike reserved silver and gold ratings for companies that exceeded the code of conduct, and red and yellow ratings for companies that did not meet the code of conduct. In 2011, some 48.8% of factories had a bronze rating or better. By 2015, 86% of factories had a bronze rating or better, and by 2017 the figure was 90.9%.²¹

Factories that get a yellow rating must develop plans to meet compliance, and those with a red rating are placed under review and may be cut out of the supplier network. In 2017, some 6 footwear factories (out of 127) and 14 apparel factories (out of 363) were given a red rating and placed under review. Typically, factories get a red rating when they fail to develop or act on plans to achieve compliance after receiving a yellow rating. In 2017, there were 4 footwear factories and 18 apparel factories with a yellow rating. The most common issues identified in noncompliance audits in 2017 were excessive working hours (found in 43% cases of noncompliance) and substandard wages and benefits (found in 36% cases of noncompliance cases).

These efforts have not been enough to stop issues arising that have a negative PR impact on the company. In 2015, workers at the Hansae Vietnam factory, which produces university-branded Nike clothes, held a pair of walkouts over working conditions.

The Workers’ Rights Consortium (WRC) got wind of this walkout and said that it wanted to inspect the factory on behalf of its now nearly 200-member schools, some 184 of which were in the United States. According to the WRC, Nike rebuffed the request. For its part, Nike stated that it could not control who inspects a supplier’s factory, but that it would not normally assist an outside group like the WRC. The WRC pointed out that Nike had helped facilitate its factory audits in the past, so it was surprised and concerned when the company did not do so this time around.

Nike countered that its stance towards the WRC has not changed. With regard to the WRC, a Nike spokesperson said

We respect the Worker Rights Consortium’s (WRC) commitment to workers’ rights while recognizing that the WRC was co-created by United Students Against Sweatshops, a campaigning organization that does not represent the multi-stakeholder approach that we believe provides valuable, long-lasting change.²²

In response, several colleagues that are WRC affiliates, including Georgetown, Northeastern, and Rutgers, either cut ties with Nike or said they would allow their contracts to expire due to the company’s stance on factory inspections. The University of Washington also put their contract renewal with Nike on hold as they awaited the results of negotiations between Nike and Georgetown. The hit to Nike was potentially significant since the company dominates the estimated \$4 billion market in university logo athletic ware.

In August 2017, Nike and Georgetown announced a new retail licensing contract. As part of that contract, Nike agreed to establish a new protocol with the WRC which provided the WRC with formal access to Nike supplier factories that manufacture WRC-affiliated collegiate products, to investigate working conditions and strengthen coordination regarding any remediation efforts.²³ With this agreement, which is a template for others, the potential for another round of protests seems to have faded.

NOTES

¹Data from Nike's 2017 and 2018 10K reports.

²www.globalexchange.org.

³"Boycott Nike," CBS News 48 Hours, October 17, 1996.

⁴D. Jones, "Critics Tie Sweatshop Sneakers to Air Jordan," *USA Today*, June 6, 1996, p. 1B.

⁵Global Exchange Special Report: "Nike Just Don't Do It," <http://www.globalexchange.org/education/publications/newsltr6.97p2.html#nike>.

⁶V. Dobnik, "Chinese Workers Abused Making Nikes, Reeboks," *Seattle Times*, September 21, 1997, p. A4.

⁷S. Greenhouse, "Nike Shoe Plant in Vietnam Is Called Unsafe for Workers," *New York Times*, November 8, 1997.

⁸*Ibid.*

⁹Quoted in Dobnik, "Chinese Workers Abused Making Nikes, Reeboks."

¹⁰W. Bounds and H. Stout, "Sweatshop Pact: Good Fit or Threadbare?" *The Wall Street Journal*, April 10, 1997, p. A2.

¹¹"Nike Gives Four Factories the Boot," *Los Angeles Times*, September 23, 1997, p. 20.

¹²Archived at www.nikebiz.com/labor/speech_trans.shtml.

¹³OSHA is the United States Occupational Safety and Health Agency.

¹⁴B. Herbet, "Nike Blinks," *New York Times*, May 21, 1998.

¹⁵D. O'Rourke, "Monitoring the Monitors: A Critique of the Price-waterhouseCoopers (PwC) Labor Monitoring," Department of Urban Studies and Planning, MIT.

¹⁶L. Lee and A. Bernstein, "Who Says Student Protests Don't Matter?," *BusinessWeek*, June 12, 2000, pp. 94–96.

¹⁷R. Deen, "UW to Join Anti-Sweatshop Group," *Seattle Post Intelligencer*, November 20, 2000, p. B2.

¹⁸"Rights Group Says Nike Isn't Fulfilling Promises," *The Wall Street Journal*, May 16, 2001.

¹⁹A. Clark, "Nike Sacks Pakistani Supplier over Child Labour Row," *The Guardian*, November 20, 2006.

²⁰Archived at <https://sustainability.nike.com/code-of-conduct>.

²¹Nike Inc., Sustainable Business Report, FY 16/17.

²²M. Bain, "Nike Is Facing a New Wave of Anti-Sweatshop Protests," *Quartz*, August 1, 2017.

²³<https://news.nike.com/news/nike-labor-protocol>Nike.