CASE 31

Nike: Sweatshops and Business Ethics

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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 and apparel on the planet. The company has $10 billion in annual revenues and sells its products in some 140 countries. Nike does not do any manufacturing. Rather, it designs and markets its products, while contracting for their manufacture from a global network of 600 factories scattered around the globe that employ nearly 550,000 people.[1] This huge corporation has made founder Phil Knight one of the richest people in America. Nike's marketing phrase "Just do it!" and "swoosh" logo have become as recognizable in popular culture as the faces of its celebrity sponsors, such as Michael Jordan and Tiger Woods.

For all of its successes, the company has been dogged for more than a decade by repeated and persistent accusations that its products are made in "sweatshops" where workers, many of them children, slave away in hazardous conditions for below-subsistence wages. Nike's wealth, its detractors claim, has been built upon the backs of the world's poor. To many, Nike has 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. Nike's Niketown stores have become standard targets for anti-globalization protestors. Nike has been the target of repeated criticism and protests from several nongovernmental organizations, such as San Fransisco–based Global Exchange, a human-rights organization dedicated to promoting environmental, political, and social justice around the world.[2] News media have run exposés on working conditions in foreign factories that supply Nike. Students on the campuses of several major U.S. universities with which Nike has lucrative sponsorship deals have protested against the ties, citing Nike's use of sweatshop labor.

For its part, Nike has taken many steps to counter the protests. Yes, it admits, there have been problems in some overseas factories. But the company has signaled a commitment to improving working conditions. It requires that foreign subcontractors meet minimum thresholds for working conditions and pay. It has arranged for factories to be examined by independent auditors and terminated contracts with factories that do not comply with its standards. But for all this effort, the company continues to be a target of protests.

The Case Against Nike

CBS 48 Hours aired a news report on October 17, 1996 depicting a typical exposé against Nike.[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 Niketown near what used to be called Saigon, one of 4 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 6 days a week for only $40 a month, just $0.20 an hour.*

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

> *Her basic wage, even as a sewing team leader, still doesn't amount to the minimum wage. . . . She's down to 85 lbs. 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.*

This case is intended to be used as a basis for class discussion rather than as an illustration of either effective or ineffective handling of the situation. Reprinted by permission of Charles W. L. Hill.

Baskin then asks Lap what would happen if she wanted to leave, if she was sick or had to take care of 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 for allowing such working conditions to persist in the Vietnamese factory (which, incidentally, was owned by a Korean company).

Another example of an attack on Nike's subcontracting practices occurred in June 1996. It was launched by 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 put together by 11-year-olds in Indonesia making $0.14 per hour. A Nike spokeswoman, Donna Gibbs, countered that this was false. According to Gibbs, the average worker made 240,000 *rupiah* ($103) a month working a maximum 54-hour week, or about $0.45 per hour. Moreover, Gibbs noted, 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 extracts 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—$0.20 an hour, or a mere $1.60 a day. But in urban Vietnam, 3 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, Global Exchange published a report in September 1997 on working conditions in 4 Nike and Reebok subcontractor's factories 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 $0.10 an hour and toiled up to 17 hours daily in enforced silence. Talking during work was not allowed, and violators were fined $1.20 to $3.60, according to the report. The practices were in violation of 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," charging that it 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 per month. The Ernst & Young report painted a dismal picture of thousands of young women, most under age 25, laboring 10 1/2 hours a day, 6 days a week, in excessive heat, noise, and 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 that 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 Nike's 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."

Nike's Responses

Unaccustomed to playing defense, Nike formulated a number of strategies and tactics over the years to deal with the problems of working conditions and pay in subcontractor facilities. In 1996, Nike hired one-time U.S. ambassador to the United Nations, representative, and former Atlanta mayor Andrew Young to assess working conditions in subcontractors' plants around the world. The following year, after a 2-week tour of 3 countries that included inspections of 15 factories, Young released a mildly critical report. He informed Nike it was doing a good job in its treatment of 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 2 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, 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 work week 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 were abiding by the code.[10]

The FLA now includes among its members the Lawyers Committee for Human Rights, the National Council of Churches, the International Labor Rights Fund, 135 universities (universities have extensive licensing agreements with sports-apparel companies), 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 4 Indonesian subcontractors, stating that they had refused to comply with the company's standards for wage levels and working conditions. Nike identified one of the subcontractors, Seyon, which manufactured specialty sports gloves for Nike, saying that Seyon refused to meet a 10.7% increase in the monthly wage, to \$70.30, required 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 subcontractor facilities.[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 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 3 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 that:

Mr. Knight's child labor initiative is . . . a smokescreen. 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's the headline.

Mr. Knight is like a 3-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 quality of Nike's auditors, PricewaterhouseCoopers (PwC). 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 for setting 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]

Continued Controversy

Fueled perhaps by the unforgiving criticisms of Nike that continued after Phil Knight's May 1998 speech, a wave of protests against Nike occurred on many university campuses from 1998 to 2001. 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 (under which Nike is a high-profile supplier of products). 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, including all 9 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 northwest university, the University of Washington, announced that 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 that 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]

Endnotes

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7 S. Greenhouse, "Nike Shoeplant in Vietnam is Called Unsafe for Workers," *New York Times*, November 8, 1997.
8 Ibid.
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