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Nike and Global Labour Practices

A case study prepared for the New Academy of Business
Innovation Network for Socially Responsible Business

by David F. Murphy & David Mathew

The strategic concept for Nike entering the new century is to be an archetype of the responsible 21st century global company, in the sense that we are providing a sustainable footprint everywhere, not only with environmental performance, but with people performance as well. The triple bottom line of people, planet and profit is our goal.

Dusty Kidd, Vice President Corporate Responsibility, Nike Inc.

As we continue to engage in conversations and projects with NGOs around the world, one thing is certain: the better we become at outreach and communication, the more opportunity we'll have to improve our labor practices.

www.nikebiz.com

January 2001

Introduction

The following case study outlines Nike's experience in developing and implementing various labour practice initiatives in its footwear and apparel factories worldwide. Initially written as a working draft by the New Academy of Business for the members of its Innovation Network for Socially Responsible Business¹, the case study is based upon publicly-available material, information provided by Nike and interviews with selected Nike staff and external stakeholders. The working draft case formed the basis of a learning activity at a meeting of the Innovation Network in early 2000.² Based upon feedback from Nike and Innovation Network members, the case study has been re-drafted. This revised case study also incorporates additional information gathered during a research visit to China and the Philippines later in 2000. The field research included visits to 3 Nike contract factories in China and 3 in the Philippines, as well as interviews with Nike staff and external stakeholders in Guangzhou, Hong Kong and Manila.

The case study is not an attempt to 'put Nike on trial', nor were the field research and factory visits monitoring or auditing exercises. As a business school case study, its main purpose is to offer company managers and business students with insights into why and how Nike has developed policies, procedures and partnerships to improve working conditions in the factories where its products are manufactured. Although Nike has provided feedback on drafts, ultimate responsibility for the content and any inaccuracies lie with the New Academy of Business and not Nike.

The Power of the Swoosh

The Nike 'swoosh' is one of the world's best known corporate trademarks. Numerous sponsorship deals with major athletes from Michael Jordan (basketball) to Lindsay Davenport (tennis) to Tiger Woods (golf) have helped make Nike a leading brand of sports footwear and apparel worldwide. American Sociologists Robert Goldman and Stephen Papsan capture the pervasive cultural and commercial influence of Nike:

We live in a cultural economy of signs and Nike's swoosh is currently the most recognizable brand icon in that economy. The Nike swoosh is a commercial symbol that has come to stand for athletic excellence, hip authenticity, and playful self-awareness. While the logo carries the weight of currency, Nike's 'Just do it' slogan has become part of the language of everyday life.³

With echoes of 'the Artist formerly known as Prince', Nike's 1997 annual report notes that the "company has come to be known by a symbol — the swoosh."

The power of the *swoosh* has also made Nike a major target of labour, human rights and consumer groups which are campaigning globally on working conditions in the apparel and footwear industries. Nike critic Naomi Klein calls the "international anti-Nike movement – the most publicized and tenacious of the brand-based campaigns."⁴ While this has tarnished Nike's reputation in recent years, the company's appeal as a popular culture icon remains strong. Nike has even become the subject of graffiti humour as illustrated by the following message found on a bathroom wall in the Tastee Diner in Bethesda, Maryland: *Hey Nike, I Just Did It!*

Company and Industry Background

The Nike story began when athlete Phil Knight met track coach, Bill Bowerman, at the University of Oregon in 1957. They formed Blue Ribbon Sports (Nike's forerunner) in 1962 to import high-tech sports shoes from the Japanese company Onitsuka Tiger. Blue Ribbon Sports began to subcontract its own shoe line in 1971 and launched the Nike brand soon after in 1972. The company continued to produce innovative training shoes and became a major player in the American athletic shoe market. In 1978 it became officially known as Nike Inc. and sales of its product expanded to South America and Europe. Nike also developed a line of apparel to add to its footwear range. Nike offered 2 million shares of common stock to the public in 1980 and continued its rapid growth and expansion throughout the decade and into the 1990s. Despite a major economic recession in the early 1990s, Nike's turnover surged from US\$750 million in 1987 to \$4 billion in 1993. By the spring of 1997, Nike's stock had hit \$76 and futures orders reached record highs. However, in the aftermath of the Asian economic crisis the company's 1998 operating profits were down 37 percent.⁵ For the 2000 fiscal year (ending May 31, 2000) Nike had an annual turnover of \$9 billion with net profits of \$571 million. Nike directly employs more than 22,000 people worldwide including 5,200 based at its international headquarters in Beaverton, Oregon.

What is less well known is that Nike, like many other Northern-based apparel and footwear brands, is a virtual company in a sense that the vast majority of its supply chain is owned by other companies. Nike products are currently produced in more than 700 factories employing in excess of 550,000 people in over 50 countries. Third party manufacturers make almost all of these products. However, there are a few rare exceptions – a couple of screen print facilities in the United States located next to distribution centres, and the manufacturing of all the Nike Air bags contained in their athletic shoes, which is seen as a proprietary technology advantage.

The working conditions and labour practices that Nike specifies for its suppliers to meet, influence the lives of workers all over the world, as Dusty Kidd, Vice President Corporate Responsibility, explains:

That is our supply chain and so if we do a good job we've impacted a lot of people well, and if we do a bad job we've hurt a lot of people badly, so obviously we take seriously the responsibility to have absolutely the best impacts we can.

There are important differences between footwear and apparel suppliers, both in their geographical spread and their technology, and both of these have an impact on the specific conditions that factory workers experience. Of the more than 700 factories about 40 factories in 8 countries make Nike shoes, with the others involved in apparel and equipment manufacture. In the 1970s and 1980s, the US Government established footwear import quotas⁶ for each of the major exporting countries. As a result, US-based companies had to go further and further afield to get footwear as they reached the quotas. When footwear quotas were eliminated in the mid-late 1980s, footwear sourcing was consolidated. In 1984 Nike was present in 16 countries making footwear, and today it is present in only 8. Footwear sales, however, continue to bring in the largest amount of revenue.⁷

The situation is just the opposite in the apparel sector. Apparel constitutes only one-third of Nike's business, and yet more than 600 factories are required to produce its apparel needs because under current US legislation import quotas are imposed for most of the established production countries. If, for example, Nike sources knitwear from Mauritius and local manufacturers reach their quota, manufacturing shifts to Cambodia; once Cambodia reaches its

quota the company moves on to Thailand and so on. The quotas can usually be increased in some orderly way, based on bilateral discussions with the United States or with the European Commission, but never very quickly and certainly not as fast as the rapid shifts in demand. Dusty Kidd explains:

Today the most important item Nike may have on its inventory may be a knit sweater; tomorrow it might be a woven shirt. Tastes change. However, the factory that made our sweater, can't make our shirts. They're totally different processes, different equipment, different technology, different skills and so as fashions change that dictates to a large extent where we go to get our production done, hence we're in more than 50 countries to make apparel.

In 2005, this quota system is due to end under the WTO Agreement on Textiles and Clothing (ATC).

The inevitable consequence for Nike, and of relevance to global codes of labour practice, is that the company will move towards contracts with a decreasing number of larger suppliers. From a compliance-standards point of view, the company then may eventually have 300 rather than in excess of 600 points of concern on the ground.

Another important difference between footwear and apparel is that in footwear Nike tries, for commercial and leverage reasons, to develop long-term relationships and to become the exclusive customer of its suppliers – 37 out of its 40 current footwear suppliers manufacture 100% Nike product. This prevents competitors seeing new Nike shoes coming down the line, or learning how Nike makes its shoes.

In apparel, the manufacturers do not want majority buyers because fashion trends move so rapidly. They do not want to manufacture just Nike or Gap or Liz Claiborne items and therefore prefer to produce for a range of brands. Indeed, banks routinely will not lend to apparel manufacturers with an inordinate share of business with one brand. Nevertheless, Nike strives for labour practice compliance and commercial leverage reasons to have as much position, presence, and power in a factory as it can.

One of the difficulties this presents for Nike is that in apparel, the company frequently has less power to initiate change in sub-contractor factories than it would like, or than non-governmental organisations (NGOs) and the media think it has. Limited presence gives limited leverage.

It is often argued that globalisation of production means that the developing world is highly vulnerable to decisions in the developed world to shift production contracts from country to country in the search for ever cheaper labour rates and poorer conditions. This is the so-called race to the bottom.

Nike tells a different story. The company has consolidated its footwear manufacturing in eight countries, and remains the only major footwear brand with manufacturing in Japan, Korea and Taiwan, countries long since abandoned by other brands. Nike's Dusty Kidd says that it is a fallacy to suggest that the company is constantly moving its manufacturing around the globe. "The reality is we come and plant and then we expand and expand." Apparel manufacturing has brought Nike into new countries but this has been largely due to the quota system as opposed to the need to find lower labour costs. Nike also points to its growth - in the mid nineties it grew at a compound rate of 37% per year for three years, doubling turnover in three years, and tripling it in

four years. As a result, from 1994-97 the company's sourcing had to grow just as quickly to keep up with that growth.

As a developing country's economy expands, however, working in relatively low-paid employment in footwear or apparel manufacturing often becomes less attractive to factory workers. In 1997, the Singapore office of a major Hong Kong investment house, Jardine Fleming, published a study of economic development in Asia, and concluded that there was a relationship between a country's stage of economic development and Nike's presence there.⁸ Jardine Fleming described this as the "Nike Index":

In simplest terms, the Nike Index tracks a developing economy's economic development by Nike's activity in each country. Economic development starts when Nike products are starting to be manufactured there (Indonesia, 1989; Vietnam, 1996). The economy hits the second stage – development at a level where per capita income indicates labor flowing from basic industries like footwear and textiles to advanced industries like electronics and cars (Hong Kong, 1985; Korea, 1990); and an economy is fully developed when Nike has developed that country as a major market (Singapore, 1991; Japan, 1984; Korea, 1994).⁹

The common assumption is that Nike leaves a country when labour rates rise. Citing the Nike Index, Nike argues that the company's declining presence in any given country is often because workers are no longer interested in making shoes and apparel as better paid or more interesting work becomes available in other sectors.

A *Business Week* report on the Jardine Fleming Nike Index reveals additional factors that influence Nike's decision to enter or leave a product manufacturing country:

When choosing factory sites, Nike looks for cheap labor. However, it also picks countries with stable—usually authoritarian—leadership, decent infrastructure, a pro-business government, and a liberal trade regime. When it decides to leave, that doesn't signal the end of prosperity. It often means that countries are ready to move on to high-end manufacturing. And democracy.¹⁰

One final essential detail about Nike's approach to product manufacturing that helps the company to maintain control over labour standard compliance in its geographically spread supply chain is that Nike does not use wholesalers or agents for the vast majority of its business.¹¹ The company employs production staff – local Nike people – on a regional basis throughout the world to oversee and monitor production. Nike has more than 1,000 production management personnel covering global production and based outside of the United States. In addition, the company has a staff of more than 70 corporate responsibility managers and inspectors, about 40 of which are focused on compliance and based in production countries. In footwear factories in eight countries, Nike managers and inspectors are on-site on a daily basis. Their apparel counterparts are in factories on weekly or monthly rotations, depending on the size of the production runs and seasonal issues.

In Vietnam, for example, the Nike office employs one hundred people, while competitor Reebok has just four of its own people based in the country. The consequence of this is that Nike has a corporate responsibility team in Vietnam that is bigger than the headquarters teams of many global companies who also express interest in the social, ethical and environmental dimensions of business. The current Nike Vietnam corporate responsibility team includes an American labour manager who speaks Japanese, an American corporate responsibility manager with NGO

experience who speaks fluent Vietnamese, a Vietnamese environmental specialist and two Vietnamese inspectors. The first of Nike's labour practice managers in Vietnam remains there as a production manager, and continues to advise on corporate responsibility issues. He is a Vietnamese-American.

Development and Implementation of Nike's Code of Conduct

The development of Nike's Code of Conduct for labour practices arose out of a mixture of internal concerns and aspirations for improvement of labour conditions, and external media and activist pressure on the company.

The original idea came from a meeting at the end of 1991 between newly-appointed PR director Dusty Kidd and three of his colleagues: head of production Dave Taylor, head of communications Liz Dolan, and head of legal Lindsey Stewart. Kidd had recently joined the company from a background in journalism in Asia, and was given the job of developing the Code of Conduct in late 1991. First published in early 1992, Nike's code followed close on the heels of the first global sourcing and operating guidelines developed earlier in 1991 by Levi-Strauss. Improving global communications and increasing media and activist pressure meant that high-profile brands and retailers began to experience growing consumer interest in the conditions under which their products were made. Within such a context, companies with manufacturing sites in developing countries needed to ensure that their factories would survive journalistic scrutiny.

For its part, Nike had yet to experience much in the way of widespread criticism or external pressure about labour issues and its initial Code of Conduct was therefore largely a proactive company initiative. However, in mid-1992 American magazine *Harper's* ran a story, using a payslip from one Indonesian worker as the illustration, pointing to the massive difference between workers' wages in the Indonesian factories that make Nike shoes, and the fee that Michael Jordan earned for promoting them. The story was followed closely by others critical of sweatshop labour conditions. However, by the time the stories were published, Nike had already sent its new code to many of its manufacturers and attached it to manufacturer agreements requiring factories not only to sign it, but also to report back to the company that they were adhering to it every six months. The code was not fully implemented by all Nike factories until 1995-96.

The implementation of all of the controls to ensure compliance with the Code took a number of years to introduce for two main reasons. First, the process was being implemented through both the apparel and footwear production departments, whose primary focus was production. Second, during this time, Nike's business, and therefore its base of factories, was growing rapidly. The increase in the number and distribution of factories, according to Dusty Kidd, "far out-stripped the company's ability to ensure full implementation of standards oversight."

By 1994 Nike's major competitor Reebok had initiated a series of one-off factory audits by Ernst & Young, to enable the company to provide a fuller picture of conditions in its supplier factories. Soon after, Nike invited Ernst & Young to begin auditing its Asian factories on an ongoing basis. The first audits were in Indonesia and eventually locally-based Ernst & Young teams were auditing Nike factories in China, Thailand, Vietnam and elsewhere in Asia.

At that stage Nike's Code of Conduct had been promoted and implemented primarily through its production division with external specialists offering guidance and all monitoring done by Ernst & Young. Nike's production division was expected to ensure that suppliers signed the Code of

Conduct, posted it in the factories and so forth. In 1996 Nike set up a dedicated labour practices department headed by Dusty Kidd, to develop specialist expertise in the company.

The decision to set up the labour practices department came at a time when Nike was facing growing media and activist pressure about working conditions in its Asian footwear and apparel factories. Activist use of the Internet to disseminate critical reports about Nike was of particular concern.¹² According to Dusty Kidd, there was a lot of discussion within the company about how best to respond to the criticism:

Nike made a real mistake. I think we reacted negatively to the criticism. We said wait a minute, we've got the best corporate values in the world, so why aren't you yelling at the other folks? That was a stupid thing to do and didn't get us anywhere. If anything it raised the volume higher.

At the same time, Kidd and his colleagues discussed how Nike could get some independent feedback about how the company was actually performing on the ground in Asia. The company invited former UN Ambassador Andrew Young, in his new capacity as the founder of Good Works International, to visit Nike factories in China, Indonesia and Vietnam in mid-1997 and provide the company with confidential feedback. When a *New York Times* reporter found out about Young's planned visit, it suddenly became front-page news. Nike asked Young to undertake "an extensive study of the implementation of [Nike's] Code of Conduct."¹³ Young found no evidence of systematic abuse or mistreatment of workers. His overall assessment was that Nike was doing a good job but that more work was needed. For example, Young discovered that most workers knew little about their rights or Nike's Code of Conduct. He also called on the company to introduce a comprehensive third-party independent monitoring system because of the prevalence of absentee factory owners and limited Nike on-site supervisors. Fundamentally, Young felt that Nike needed to have more open dialogue with non-governmental organisations (NGOs) and other stakeholders. The headline of the *Business Week* report on Young's visit claimed that 'Nike Hasn't Scrubbed Its Image Yet' and quoted the US human rights group Global Exchange's dismissal of Young's report as "meaningless".¹⁴ Vietnam Labour Watch insisted that Young had glossed over problems.¹⁵

New People and Policies

In the aftermath of Andrew Young's Asian visit, Nike hired a new labour practices manager to work out of Nike's Hong Kong office. Former Body Shop campaigner Harsh Saini effectively became the company's Asia spokesperson on labour practices:

I started to build up a base of people who were starting to understand how we really did business. It was getting people to come and talk to us and tell us what their complaints are and then talk about those. Getting people into the factories showing them what the real situation was rather than what they had heard through third parties, or just anecdotal research that had been done.

One of Saini's key constituencies was the NGO community including some of the company's harshest critics. This new NGO engagement strategy would eventually lead to the establishment of formal partnerships with NGOs to address the educational, health and safety needs of Nike workers and socio-economic development issues in Nike manufacturing countries. Some of these initiatives and other examples of Nike-NGO relations are explored later.

Prior to Andrew Young's Asian visit, Nike had already decided to discontinue its existing auditing arrangement with Ernst & Young. In the months after the new labour practices department was established, Nike reviewed its independent monitoring concepts, and decided to consolidate with one monitoring group on a worldwide basis. Nike wanted to have in place a global system of independent labour practices auditing in anticipation of the day when a company's social performance would be reviewed and reported upon in the same manner that its financial performance is judged. To that end, Nike put out a request to the 'Big Six' auditing firms to find appropriate local auditors and to develop a standard set of concepts and training materials for use in Nike factories worldwide. Price Waterhouse was selected based upon its presentation and during 1997-98 helped Nike to develop a user's manual for the implementation Code of Conduct at the factory level. Details of current monitoring and auditing procedures are outlined later.

Another major development in the evolution of Nike's Code of Conduct and labour policies came in mid-1998 when the company launched a series of new initiatives. These included:

- introduction of new minimum age requirements (18 for footwear factories and 16 for light-manufacturing of apparel, accessories and equipment)
- adoption of US Occupational Safety and Health Administration (OSHA) indoor air quality permissible exposure limits for all footwear factories
- expansion of education programmes for footwear workers
- inclusion of NGOs and other stakeholders in current independent monitoring

In announcing the new initiatives, Nike's CEO Phil Knight recognised that NGO campaigns had made the Nike product "synonymous with slave wages, overtime and arbitrary abuse" and affirmed that "the American consumer does not want to buy products made in abusive conditions."¹⁶

As mentioned above, the company now has a group of more than 70 people working solely on corporate responsibility issues around the world. The new Corporate Responsibility division is an integrated group of departments that brings together Labour Practices, Nike Environmental Action Team (NEAT), the Nike Foundation and Global Community Affairs.¹⁷ The formation of the new Corporate Responsibility division was destined to ensure that Nike presents a consistent corporate responsibility face to communities around the world.

The Corporate Responsibility division was further developed in June 2000 by re-organising the labour and environmental groups into the Corporate Responsibility Compliance Department, focused on labour and environmental compliance for in-house and supply chain facilities, and a Corporate Responsibility Development Department, focused on stakeholder relations, sustainability integration and reporting. The Community Affairs Department remains in the division, unchanged, with a focus on philanthropy through the Nike Foundation, community involvement and employee volunteerism.

The division is managed by Dusty Kidd, Vice President for Corporate Responsibility, based at the company's Oregon headquarters campus, and receives strategic counsel and policy guidance from Maria Eitel, Vice President and Senior Advisor for Corporate Responsibility, based in Washington, D.C., who is also president of the Nike Foundation. Both report through Corporate Affairs to Nike Chairman and CEO Philip Knight.

Appointed in early 1998, Eitel's arrival was heralded as a signal of "Nike's commitment from the top to be a leader not only in developing innovative footwear, apparel and equipment, but in

global corporate citizenship.”¹⁸ Kidd was promoted to the VP position in mid-2000 after a decade of Nike experience in labour practices.

About half of Nike’s corporate responsibility team comprises labour and environmental compliance people based in 10 countries including those with the largest share of production – China, Indonesia, Vietnam and Thailand. For example, the staff of Nike’s Guangzhou Liaison Office includes a compliance manager and three inspectors for China, an administrative assistant and a senior compliance manager for North Asia. They work closely with the Nike China General Manager and Nike manufacturing managers who work at the factory level.

The general structure of the corporate responsibility division is outlined in the Appendix together with a copy of the current Nike Code of Conduct.

The basic philosophy at the company is to make corporate responsibility an essential part of the core business. Nike feels that the only way to achieve this is to make the people who are responsible for the business, “responsible for the responsibility”. Nike’s production people are therefore the primary point of ensuring compliance with the codes of conduct. This is essential when dealing with suppliers – a contractor is more likely to take Nike’s responsibility objectives seriously, if the person placing the order is also responsible for ensuring that labour standards are met.

Systems and Processes for Monitoring Labour Practices

Dusty Kidd notes that Nike is currently working towards the development of a universal monitoring programme with “one concept, one set of guidelines, and one market.” Nike has a global agreement with a division of Pricewaterhouse Coopers’ (PwC) Global Risk Management Solutions headed by Randy Rankin. Based in New York, Rankin is responsible for the Nike contract and other corporate social compliance contracts. PwC’s international social compliance team is part of larger grouping called compliance risk management services.

Over four years ago Nike developed and implemented a system for approving potential suppliers. The first stage in the decision to work with a new supplier is for the production people to undertake a SHAPE inspection (Safety, Health, Attitudes of management, People investment, Environment). It is a preliminary inspection of the factories to determine whether they meet basic parameters for a clean healthy workplace. It is primarily focused on safety and health, but also includes a first assessment of whether the management is in fact providing workers with a good work place. Although this assessment is neither sophisticated nor deeply analytical, it aims to ascertain whether the factory is using workers of the proper age and the level of overall satisfaction among the workers. This provides Nike with an initial basic assessment of whether it is worth proceeding further.

When a new factory is expected to be added to the Nike production group and the factory passes a preliminary SHAPE inspection, Nike requires a pre-production labour practices audit by a team from PwC. The factory pays for that pre-production audit. Nike may also send one of its labour specialists to the factory for further examinations.

The PwC pre-audit checks ages, wages, overtime and benefits and includes discussions with the workers. PwC tries to cross reference information from documentation provided by the factory with information received from workers to ascertain if there are any mismatches. This literally constitutes a detailed records-to-worker check to verify ages. The PwC teams are all based locally

and trained to certain standards by Nike. If these detailed checks match up Nike is ready to give the go-ahead for production.

If problems are identified, how they are dealt with depends on the case in question. Dusty Kidd describes one such situation:

We were looking to add a new footwear factory and the manufacturer had a fantastic reputation and was already manufacturing for some big name brands. Pricewaterhouse Coopers went in, did their audit, came back and said we have the following problems: workers aren't allowed to leave the factory at night, workers are under the age of 18, workers are not being paid properly on regular time. They're not being paid properly on overtime. They're working in an environment where fumes give off, what looks to be a dangerous level of exposure to organic compounds. In other words a nightmare, untenable from our point of view. But we needed a factory at that capability in order to reach a certain market with the product. So, we had a meeting, with all production people to go through the PwC audit in detail to see what we could do potentially to move this factory up to our level. I said it's real simple, if they're not in agreement to reach the standards on all those key indexes before we start production, we don't go. And nobody disagreed; there was no argument about it at all.

At this point Nike had several options. There were two other factories that might be potential suppliers who had already undergone SHAPE inspections. Nike decided to initiate audits at these two factories, and continued to negotiate with factory number one. Nike insisted that factory number one had to implement the required changes to labour practices or risk losing the contract to the other candidates. Dusty Kidd says, “the mere threat of lost business changes things very quickly.”

Nike also coordinates with other buyers to ensure compliance with the Nike Code of Conduct. An interesting recent example of this involved a factory that had passed an audit by another buyer's independent auditor. Nike's PwC auditing team visited the same factory and found a range of labour violations including age standards and wage payments. As a result, Nike required the factory to remove from the workplace anyone under the age standard, send them to school, and pay their school fees until they reached the age of 16. In this situation, the factory manager has agreed to comply because Nike was in a position to send its audit findings to the other buyers. This would have threatened the factory's other contracts and its commercial viability. Nike has set a deadline for the factory to make the required changes. If the factory is unable to meet the deadline, Nike has made it clear that it will go elsewhere.

Under Nike's current global contract with PwC, several dozen PwC teams located in various countries around the world undertake both the factory pre-audits and the ongoing social compliance monitoring. The teams are comprised of local monitors, who speak the language of the worker, are familiar with the local labour laws and conditions, and are specifically trained in the use of the Nike/PwC Code of Conduct Owner's Manual. For example, the Manila-based Joaquin Cunanan & Co, a member firm of PwC, audits Nike contract factories in the Philippines.

Nike and Global Labour Practices

For many members of the PwC social compliance team, however, this is a new area of work that requires different skills as a Philippines-based monitor notes:

You can do a financial audit without talking to anyone. Social compliance auditing means you have to listen. You ask: How much are you earning now? Is it enough for your food, clothing, shelter? It seems like everybody is confessing to me [his or her] problems.

At the same time, PwC's social compliance people have to win over the factory owners and managers:

They look at us as auditors. Although we carry the name social compliance monitors, they always see us as inspectors. Sometimes we are welcome; sometimes we are not.

The PwC monitors work closely with Nike labour practice managers at the country level both before and after their monitoring visits to ensure a smooth monitoring and reporting process. Nike's labour practices managers initially often have to convince factory owners of the value of social compliance auditing. Aileen Diaz de Rivera of Nike Philippines explains:

In the beginning it was very hard to get the factories to buy-in because a lot of them would be very defensive. Immediately they would say: 'Oh well are you going to increase our orders? What's in it for us?' But I think they have come along way from having that attitude to now they realise how important it is, the benefits to them. Because really they don't do it to please us. It's really they who reap the benefits. Now it's become a source of actual pride for them and now they realise that it does attract other buyers. And when other buyers do come in, they are already ahead of the game. Now they realise that it's a win/win situation for them.

Nike pays for all annual monitoring visits. Factory owners are expected to pay for any re-audits to ensure remediation of any areas of non-compliance with Nike's Code of Conduct. Inspection visits can be either announced or unannounced. Dusty Kidd outlines some of the drawbacks of unannounced visits:

The unannounced visit gets a lot of credit out there from people who've never done monitoring. They'll say unannounced visits are the only way you're going to catch people when they're least prepared. The reality is the guy who can answer your questions isn't there and the records aren't ready and it takes you a day to get your records together and meanwhile now they know you're there so they're going to pre-warn the workers anyway. They've done that, so you haven't really gained anything.

Initially PwC social compliance monitors were expected to inspect every Nike factory on an annual basis. Given that Nike products are manufactured in more than 700 factories, in practice this would have required PwC to audit two Nike factories a day year round.

After a one-year trial, Nike has decided to concentrate its external monitoring resources where there is greatest risk of non-compliance, as Dusty Kidd explains:

After having tried to do every factory once a year with PwC, we have drawn back to those monitoring visits where we know compliance issues are greatest. Ultimately universal auditing was an experiment that stretched our resources too thinly, and especially given that our own inspections of every workplace will continue to happen as before.... Universal auditing did not provide the return and was not as manageable as we had hoped.

Nike is currently reviewing its overall factory monitoring strategy. Given Nike's participation in the Fair Labor Association (a non-profit organisation established to protect worker rights), the company will be participating in the Association's accredited external monitoring programme. As part of this process, Nike hopes to increasingly use NGOs in providing oversight in monitoring compliance with both the Nike and Fair Labor Association codes of conduct. Nike's involvement in the Association is described later under 'Links with NGOs and Other External Stakeholders'.

As part of Nike's work on labour practices, the company has been doing a lot of work in the health and safety area. This is one of the company's biggest areas of concern in footwear manufacturing because of the industry's inherent health and safety issues (e.g., air quality, use of heavy equipment, etc.). Nike has brought in external experts from the USA to test all of its footwear factories for the presence of organic compounds and to measure any exposures against the Occupational Safety and Health Administration (OSHA) limit, Nike's 1998 revised policy guidance. The experts determined that the actual number of workers facing exposure issues was quite small – less than 2% of the combined workforce. Remedial steps for reducing solvent exposures were recommended, and the experts returned to re-test once those steps had been implemented.

A second health and safety priority has been worker nutrition and food safety. Nike has collaborated on nutrition and health issues with an American health NGO, Program for Appropriate Technology in Health (PATH) through its field offices in Indonesia, and with the Helen Keller Institute on anaemia.

Measuring and Communicating Performance

Nike analyses the results of the SHAPE inspections and PwC audits on a quarterly basis. If there are particular areas of concern, Nike strengthens resources in those areas. In a couple of areas, Nike is able to quantify improvements. For example, Nike has reduced the use of petroleum-based chemicals in footwear manufacturing by 87.6% in five years.

SHAPE results are quantified in percentage terms every quarter and are therefore readily monitored. Similarly the annual PwC audits provide Nike with ongoing worker feedback about working conditions. Nike's regional managers do not have specific performance targets related to SHAPE scores in their job descriptions.

However, all job descriptions – what Nike calls 'success profiles' – include a percentage of work on corporate responsibility issues. Production managers in the field who are responsible for managing Nike-factory relationships are judged at the end of the year on their performance against these responsibilities. One aspect of that performance is the degree to which each manager is successful in guiding improved labour practices performance from the factories he or she is responsible for managing. Poor performance in the corporate responsibility area can contribute to

lower financial rewards, because a manager's pay levels and bonuses are predicated on the performance indicators. This helps to make corporate responsibility a financial issue for Nike managers, and not just a moral issue.

SHAPE inspections are one of several tools that managers use to help factories to improve. There is a parallel production review process for factories, which are systematically evaluated every six months by Nike's production department on a range of performance issues, such as quality, flexibility, price, delivery, management talent and technical proficiency. Two of the grades in this system are for environmental and labour practices performance. Factories that score highest among their peers generally are rewarded with the best kinds of product and the highest level of orders.

Labour practices managers such as Philippines-based Aileen Diaz de Rivera play a key role in mobilising factory managers to take the SHAPE inspections and PwC auditing seriously.

I do a lot of training and explain to them why it's important to have fire safety, why you should have worker training. It was slow in the beginning, but it's just something that evolved and when factories could see that we were sincere about helping them, that it's not just all rhetoric it's not just all preaching and I don't do anything to help them. They could see that we were partners and that we were working together, it's not something that I just threw out at them and say you have to do it or else. So they could see there was a sincere effort on our part. I think that's what won them over. It took about a year, probably about three or four SHAPE inspections for them to finally get to where I would want them to be.

Labour practices managers also regularly interview workers to monitor progress on SHAPE the PwC auditing process as Diaz de Rivera explains:

The workers say oh yes we have noticed that the management has made investment in our facility, so we feel that the manager cares about us and the workplace is cleaner, the rest rooms are cleaner, the kitchen is a lot cleaner, better food, things like that. So the management also gets the feedback not only from me but also from their own workforce. Definitely it improves the morale so both management and the workers benefit from that.

At the same time, many challenges remain. Nike China's Labour Practice Manager Monica Mo has seen greater progress in the larger footwear factories. She has had to work much harder to convince smaller apparel factories of the importance of SHAPE inspections and training:

The apparel factories don't always have the sense to train their workers, or they don't have training materials. Generally when you go to an apparel factory they will tell you that they have safety training. They say oh yes we get our people together and tell them and that's all. When I ask them: Do you have work codes? Do you have training materials? – they always say no, no we don't need that, we only have like 100 people. So I need to provide them with the materials and show them other factories' material to let them know why they need to act. I deal with the factory managers or supervisors and ask them to train their workers. And then I will let them know what kind of record keeping we need to see.

When major concerns are raised by PwC factory audits, the country compliance manager may be joined by the regional compliance manager and Nike's country general manager to have a "very serious meeting" with factory management and local manufacturing people. After going through each concern item by item, corrective measures are identified, timelines for improvements are agreed and the factory is eventually re-audited. The country compliance manager monitors this process throughout.

In mid-2000, Nike launched 'Transparency 101' a new public reporting initiative on its website www.nikebiz.com. The website lists information about 53 North American factories that were monitored by PwC since June 1, 1999. Specific factory locations are not disclosed. The main issues identified to date are violations of health and safety standards. PwC found that 32 Nike contract factories (24 in USA; 8 in Mexico) failed to comply fully with the Nike code. Each factory has agreed an action plan with Nike to correct problems.

Follow-up inspections by Nike compliance managers – and by PwC monitors when required – will help to ensure compliance. Factories that fail to meet standards will receive warnings, and run the risk of losing their contracts with Nike. In December 2000, Nike posted audit reports on 22 South and Central American factories. Nike plans to expand Transparency 101 in the coming years with eventually Nike's entire contract factory audit results being published on its website.

Two sample country profiles below provide an overview of the scale and scope of Nike's presence in China and the Philippines.

Nike in China

Year of entry: 1981
Total Nike contract factories: 68
Breakdown by product: 17 footwear: 24 apparel: 27 equipment
Breakdown by market: 68 export: 0 domestic
Percentage of Nike global footwear production: 40%

Total workers in Nike contract factories: 130,000 (est.)
Average age: 21.5 years
Average length of employment: 3 years
Percentage of women workers: 80%
Total number of Nike-paid employees in China: 256¹⁹

Global Alliance project: scheduled launch Autumn 2000
Other NGO projects: Worker Enrichment in collaboration with a large global NGO

Nike in Philippines

Year of entry: 1983²⁰
Total Nike contract factories: 18
Breakdown by product: 16 Apparel: 2 Equipment
Breakdown by market: 10 Export: 8 Domestic
Percentage of Nike global apparel production: 2%²¹

Total workers in Nike contract factories: 10,000 (est.)
Average age: 23 years old
Average length of employment: 3 years
Percentage of women workers: 80%
Total number of Nike-paid employees in Philippines: 50

Global Alliance project: Currently on hold

Staff Training

All field personnel with responsibility for any aspect of production and/or factory inspection receive training on Nike's Code of Conduct. As noted above, this includes SHAPE training for contract factory managers. Nike has developed a *Labor Practices Training Guide* which is available in print and CD-ROM format and is complemented by a series of training videos. The guide covers the following topics:

- **Code of Conduct:** situates the code within the Nike business and places particular emphasis upon issues such as forced labour, child labour, compensation, benefits, hours of work/overtime, management of environment, health and safety, and documentation and inspection.

- **Footwear SHAPE:** covers safety health and environment policy and training related to safety practices for Nike footwear manufacturing, such as indoor air quality and protection, emergency medical procedures, fire and accident prevention, sanitation, food services, dormitories, cultural and people issues, and materials and waste handling, among others.
- **Apparel SHAPE:** covers the same policy and training issues outlined above for all Nike apparel, accessories and equipment manufacturing.
- **Basic Personal Protective Equipment:** offers a checklist on the use of such equipment to protect workers against various potential hazards in the workplace.

Training is one of the elements of the Nike labour practices programme that receives substantial financial and human resources, but limited public interest or attention. The training is performed by the labour practices department's internal cross-cultural/human resources trainer, Fukumi Hauser, an Asian-American with sixteen years of experience in the HR field, using tools such as the CD-ROM, role-playing concepts, video and interactive sessions. Depending on the topic and need, training may also be delivered by other labour practices managers, by outside experts such as the indoor air quality tester Reliance Assurance, environmental specialists such as the international consultancy Environmental Resources Management (ERM) and the Gauntlet Group of California, and others. Nike's initial training focus was on the highest levels of management, including factory owners and presidents. In 1998, the emphasis shifted to senior and middle management. In 1999, a series of programmes were aimed at first-year supervisors. In 2000, middle managers will once again be a focus for training. This will include tests administered by the labour practices department, as well as on-site confirmation that test results are borne out by factory performance.

Corporate Responsibility Reporting and Integration

Raising the company's performance in corporate responsibility is one of Nike's six corporate goals for 2000. This means that Nike's corporate responsibility objectives, including ensuring that the rights of all workers in Nike contract-manufacturers are protected, are the responsibility of all business units and employees of Nike. All strategic and business plans must address these issues because the corporate objectives are the six drivers of the business.

Members of Nike's corporate responsibility senior management team make regular board presentations at each quarterly meeting (i.e., two VPs Corporate Responsibility and three Directors: Corporate Responsibility Development, Corporate Responsibility Compliance and Community Affairs). Members of the team work closely with independent board member Jill Ker Conway on labour, environment and community issues. Team members and Conway also work directly with CEO Phil Knight.

The two VPs for Corporate Responsibility provides updates and think sessions for other vice presidents coinciding with regular VP meetings. Given that corporate responsibility is one of Nike's corporate objectives, it is on the agenda of all basic management meetings.

On a daily basis, the corporate responsibility team is integrated into Nike's business units through corporate responsibility-related managers and directors connected on a dotted line basis to the three corporate responsibility departments. In addition, Nike has a standing monthly meeting where the directors of all business units (footwear, apparel, equipment, Nike team sports, etc.) and the directors of all corporate responsibility departments sit down for two hours to review the objectives and successes or failures of programmes.

Integration of corporate responsibility into the business is Nike's number one organisational priority. Corporate responsibility senior managers do joint business planning with the business units. This ensures, for example, that elements of the corporate responsibility plans that relate to contract manufacturing are integrated into the business unit plans, with people assigned and judged on success or failure. Nike's overall performance parameters for corporate responsibility are therefore directly integrated into the business, and are measured and adjusted on a regular basis.

Nike and Human Rights

Although Nike states that its own global labour standards are largely based upon internationally-agreed core labour standards, the company's Code of Conduct does not make specific reference to the relevant ILO Conventions nor to the UN Declaration on Human Rights. Many human rights NGOs argue that businesses should use such international legal instruments as a basis for policy to ensure that the rights of workers and other affected stakeholders are fully protected. The Amnesty International (UK) Business Group and Prince of Wales Business Leaders Forum suggest that companies have four spheres of influence with respect to human rights: core operations, business partners, host communities and policy dialogue with governments. Their message is that companies should begin to work on human rights in their core operations and with their business partners. However, a commitment to the Universal Declaration on Human Rights and the core ILO conventions also implies eventual company action in relation to host communities and governments.

For the most part, Nike's human rights' focus to date has been upon its business partners and core operations. Nike generally refers to its 'human rights' work as corporate responsibility and generally does not make specific reference to human rights initiatives per se in its corporate literature. Nike's starting point is to define its responsibility to the workers in its virtual supply chain. The company also has proactive diversity policies for its own workforce.²² Nike ultimately seeks to ensure that it safeguards factory worker rights by first ensuring that their human rights are not violated in the context of forced, bonded or child labour. Nike also aims to provide workers with basic labour rights such as freedom of association and collective bargaining.

Dusty Kidd describes Nike's human rights focus as

first and foremost where we have direct influence – over the supply chain and the people in it. Because our focus lies squarely on the factory and its workers, the most important of the standards against which performance is judged are the core standards of the International Labour Organisation (ILO).

In some cases (minimum age, for example) Nike's basic minimum age of 18 for footwear manufacturing is arguably stricter than ILO Convention No. 138 which allows children as young as 14 in some developing countries to be employed.²³ In other areas (e.g., Freedom of Association and Collective Bargaining), these conventions have yet to be ratified in some countries. In such cases, Nike works to ensure some form of parallel process is in place to provide for some measure of those rights.

This is best illustrated by Nike's experience in China where government-approved labour unions operate in Nike contract factories. These unions have formal links to the China Union of Workers at the national level in Beijing and at the municipal level where the factories are situated. Chinese labour unions do not have the right of collective bargaining or the right to strike. The labour union may, however, address disputes between workers and supervisors/managers. For the most

part, Chinese labour unions act as a worker welfare association that meets monthly to disperse emergency funds to workers in difficulty. The union is also empowered to monitor food quality in factory canteens.

A key aspect of Nike's labour rights strategy in China is to enable workers to articulate their educational needs and to offer them improved access to a greater range of educational programmes. For example, Nike is currently working on a pilot Worker Enrichment project in Guangdong province with the assistance of one of the world's largest independent faith-based NGOs. The main aim of the project is to help factory workers develop skills that would benefit them in their current job and potentially to allow them to advance further within the factory. According to Nike's Director of Corporate Responsibility Compliance Todd McKean:

This is one way that staff turnover may be further reduced. As workers see increased opportunity for them in their existing role, they would stay on longer, as opposed to the typical practice of simply working a few years and then moving on.

The Worker Enrichment project also seeks "to provide educational opportunities for workers to develop skills which will be useful once they return to their home provinces."²⁴ The initial worker survey identified the following areas of interest for vocational training: computer skills, basic bookkeeping, introductory English language and supervisory skills. Other topics of interest included: first aid, female health, sex education and industrial safety. To date, this project has only been implemented in two Nike contract factories located at the same site in Dongguan. Project coordination is the responsibility of the NGO's Project Officer (a Taiwanese woman) and three Chinese assistants all of whom are based at the Dongguan factory education centre.²⁵

Two of Nike's strongest NGO critics, the Asia Monitor Resource Centre (AMRC) and the Hong Kong Christian Industrial Committee (HKCIC), are generally supportive of Nike's efforts to provide workers with improved educational services.²⁶ However, both NGOs feel that the Worker Enrichment project lacks a "worker rights focus" and fails to move beyond "human resource concerns". They believe that initiatives such as the Worker Enrichment project do not ultimately promote "the empowerment and participation of rank and file Chinese workers" to obtain improved labour rights.

Labour Rights in China (LARIC), a Hong Kong-based coalition of unions and NGOs (including AMRC and HKCIC) advocates worker training specifically about "basic labour rights [and] the content and contextual application" of corporate codes of conduct including implementation. LARIC suggests that such training "should form a basis for workers to exercise these rights in order to function as monitors of other workplace standards and practices." Furthermore, LARIC asserts that "these training activities should be conducted either by or in conjunction with" labour unions.²⁷

While Nike's human rights focus continues to lie in its contract factories, the company has recently begun to work more proactively at the international policy level. Nike is one of some 300 companies to announce their support for The Global Compact, an initiative of the UN Secretary-General to promote business responsibility for core standards in human rights, labour rights and environmental sustainability. At its July 2000 launch, Nike Chairman and CEO Phil Knight supported the need for "an internationally recognized set of generally accepted social accounting principles" with "monitoring organizations certified to measure performance."²⁸

Links with NGOs and Other External Stakeholders

Over the years, Nike has had a range of experiences in its relations with NGOs and other external stakeholder groups. According to Pamela Varley of the Investor Responsibility Research Centre, Jeff Ballinger of Press for Change has been a staunch Nike critic since 1987 when he was director of the Asian-American Free Labor Institute's (AAFLI) Indonesia branch.²⁹ Although Nike has developed new working relations with NGOs such as the pilot Worker Enrichment project in China, the company continues to face considerable criticism about working conditions and benefits from student groups in the USA and activist networks worldwide largely facilitated by the power of the Internet.³⁰ The intensification and expansion of the global anti-Nike campaign appears to be directly linked to the increased NGO and activist use of email and websites to share information and coordinate strategies.

In order to build more positive relationships with NGOs and other civil society groups, Nike has been involved in a number of partnership initiatives in recent years. Two recent examples are outlined below.

- **Fair Labor Association:** Nike was a founding member of the Apparel Industry Partnership, forerunner to the Fair Labor Association, a new American-based non-profit organisation that will oversee the monitoring of compliance with the Apparel Industry Partnership's Workplace Code of Conduct. Initiated by President Clinton in 1996, the Apparel Industry Partnership aims to protect workers worldwide and to give the American public information it needs to make informed purchasing decisions. Participants include apparel and footwear companies, a prominent university, human rights groups, labour and religious organisations, and consumer advocates. In late 1998, a working group of the Partnership agreed to establish the Fair Labor Association to provide companies in the apparel industry with an independent monitoring and verification mechanism to promote good working conditions in their factories worldwide. The Association will accredit independent monitors to determine whether companies are in compliance with the Workplace Code, and to issue public reports for consumers and other interested parties. Companies that wish to participate in the Association's monitoring process are expected to adopt the Workplace Code in the manufacture of their apparel and footwear products. Nike believes that the agreement provides a framework for dialogue between multinationals, NGOs and the US government and a means of ensuring that the agreed standards are upheld and continuously improved.³¹ The Fair Labor Association is in the process of accrediting external monitors, which means that factory monitoring should begin in the near future.³²
- **Global Alliance for Workers and Communities:** Nike is one of the founding members of this five-year partnership of private, public and non-profit organisations that seeks to improve the workplace and build the skills (life, vocational and academic) and confidence of young adult factory workers. Launched by the International Youth Foundation in 1999, the Global Alliance aims "to build a sustainable assessment, monitoring and development process and the infrastructure to ensure it lasts." More specifically, the Alliance is expected to improve workplace conditions; identify worker aspirations and workplace issues; assess worker and community needs; and disseminate regular company and country reports. The initial countries selected for programme implementations include: China, Indonesia, Thailand and Vietnam. Project teams have been established at each participating manufacturing site, which will bring together volunteers selected from workers and management. In addition to Nike and the International Youth Foundation, other members of the Alliance include: St John's University, Gap, the MacArthur Foundation and the World Bank. The Global Alliance engages local universities and NGOs in the target countries to identify worker aspirations and needs, and to

assist with the development and implementation of programmes. Nike believes that the Global Alliance complements its “existing independent monitoring activities and creates an excellent platform from which Nike can make significant investments to improve the quality of life for its young workers throughout the world.”³³ In its first two years, the Global Alliance initiative is expected to be launched in 30 Nike contract factories reaching about 170,000 workers.

In an effort to involve NGOs in the monitoring and auditing system, Nike has also asked PwC to help create partnerships with NGOs to strengthen the social component of the process. Although only a few small pilot projects have been tested to date, NGOs will begin to be integrated into the system in 2001. The range of assistance sought by Nike through PwC-NGO collaboration will include information exchange on local labour conditions; review and critique of the labour practices monitoring standards and process; training of monitors; and execution of some components of the monitoring visits. NGOs are also likely to be integrated into the oversight of health and safety aspects of labour performance. Nike also expects that NGOs will become active participants in factory monitoring through the Fair Labor Association.

As noted earlier, Nike’s efforts to collaborate with NGOs have not stopped criticism about the company’s labour practices. For example, some NGOs and labour groups have endorsed the Fair Labor Association whereas others have refused to participate at this time. Michael Posner of the Lawyers Committee for Human Rights sees the Association as “a first step in establishing accountability that will change how the industry operates.”³⁴ Critics argue that the Association’s guidelines do not require adequate monitoring and that they do not require companies to pay workers enough to meet a family’s basic needs. Concerns have also been expressed about the potential of such partnerships to divert “attention from the structural and legal changes that could eliminate sweatshops” such as reforms to trade agreements and new legislation.³⁵

Nike’s support for the Global Alliance is also beginning to face external scrutiny. For example, some NGOs have argued that proposed advisory councils could undermine existing forms of social organisation within the factories concerned, potentially creating increased conflict. They also argue that there is potential for the activities of the Global Alliance to adversely effect efforts to promote freedom of association at the factory level. Critics suggest that the project teams could further empower factory managers and prevent workers from forming an association of their choice for the purposes of seeking improvements to their working conditions.

Nike’s Harsh Saini challenges this assumption:

The facilitators that we have sent in to help project team meetings along have told us that it’s quite the contrary. Management has kept very quiet and the managers who are part of the project team are not your average production managers either. The labour practices managers or human resources managers are not your run of the mill business people. They are much more involved with the workers from the start and they really understand that this is really a vehicle for the workers. Nothing that I have seen would indicate otherwise. In fact we have been really, really happy with the way the project teams are working out and full kudos to the managers for keeping quiet. They have really gone out of their way and allowed the workers to be heard much more. It’s not going to work long-term if the workers don’t take part.

Despite ongoing criticism of Nike by various NGOs, the company remains committed to strengthening its relationship with various parts of the global NGO community and with other external stakeholders. Dusty Kidd reflects on the company's experience with NGOs to date:

I think we've learnt a lot in three years, the hard way maybe, but we've learned a lot and one of the things I have is a great deal of respect now for the NGO community. There are organisations out there who really do great work and really do care and are trying to make a difficult bridge between the private sector and their issue and their constituencies despite the great risks involved.

The ongoing onslaught from certain sections of the international NGO community has, however, prompted some re-thinking of Nike's NGO engagement strategy as Harsh Saini notes:

We have decided to put our energies where they are the most useful, which is benefiting the worker. We will address issues as they come up and we will continue to engage people who want to have a rational discussion. We have no intention of having programmes with every single NGO out there. We go to people we believe offer expertise, good experience, sound advice, for areas where we are trying to accomplish something. We are not experts in anything but making shoes and apparel, so we rely on other people to provide us with pertinent advice and will continue doing that. Most of our energies, time, effort are going to go into the programmes for workers.

For their part, Nike's opponents such as the AMRC and HKCIC are committed to keeping their "critical position" vis a vis Nike and other global footwear and apparel brands. According to AMRC's Apo Leong, "we don't have any formal engagement with Nike nor any multinationals." Eli Chan of HKCIC believes that many "fundamental differences" remain between Nike and civil society organisations advocating for labour rights. In a related vein, Naomi Klein insists that the "no logo" anti-Nike movement remains "tireless" in fuelling "news reports, labor studies and academic research documenting the sweat behind the swoosh."³⁶ In response, Nike argues that Klein "diminishes the progress that Nike has made by ... often failing to tell the whole story."³⁷

Nike's relations with NGOs and other external stakeholders nonetheless appear to be in a period of transition. Although Nike's recent efforts to partner with some NGOs appear to be raising new concerns and challenges for the company, Nike's participation in the Fair Labor Association, Global Alliance and The Global Compact³⁸ are indicative of the kinds of positive relationships with civil society groups that Nike aims to build increasingly in the years ahead.

Future Challenges

The Nike corporate mission remains firmly focused on its core business activities: "to be the world's leading sports and fitness company." At the same time, Nike seems to be embracing a broader vision for the company. Its new corporate responsibility mission adds another leadership dimension to the Nike ethos:

To lead in corporate citizenship through proactive programs that reflect caring for the world family of Nike, our teammates, our consumers, and those who provide services to Nike.

Since the introduction of its first Code of Conduct in 1992, Nike has made considerable progress in developing and implementing various policies, procedures and partnerships to improve working conditions in the factories where its products are manufactured worldwide. As this case study has demonstrated, many challenges lie ahead. The problematic relationship that Nike has with certain parts of international civil society remains a concern. The company continues to be seen rightly or wrongly as not doing enough to demonstrate its responsibility for human rights, labour rights and environmental sustainability. Nike's Code of Conduct still fails to make explicit support for the Universal Declaration on Human Rights and the core ILO conventions. With its new corporate responsibility mission and commitment to The Global Compact, however, Nike seems to be moving towards a more strategic and pro-active approach to global corporate citizenship. With two senior vice presidents now accountable for both operational and strategic aspects of corporate responsibility, there is evidence of growing prominence for labour and environmental issues at the top of the organisation.

Nike's new VP for Corporate Responsibility Dusty Kidd has identified three key challenges facing the company in its ongoing efforts to promote improved global labour practices and corporate responsibility:

- To have the best labour practices in the world. Nike wants to continue to improve and to ensure that its workers have a better work experience because of the company's efforts.
- To establish a level of dialogue with civil society that is sustainable and effective, enabling Nike to learn from the NGO community and trade unions. Nike also recognises that it needs to do a better job of communicating more generally about existing initiatives such as its Code of Conduct and monitoring and auditing procedures.
- To reach a point where factory owners have assumed responsibility for labour standards at such a level that Nike no longer needs to monitor them. Nike does not see this as merely an aspirational goal. The company is introducing an externally-verified labour certification programme for all factories. The programme aims to establish improved management systems related to environment, safety and health to determine whether the factories reach standards in all these areas.

These and other challenges remain daunting for Nike as it continues to face considerable media and civil society scrutiny about a range of corporate responsibility issues. Even as Nike strives to improve labour and environmental practices, activist websites, daily newspapers and mainstream television documentaries continue to identify problems, raise important questions and demand further improvements.³⁹ In many respects Nike has become the 'poster child' for anti-sweatshop activists. One of Nike's harshest critics Tim O'Connor of Nikewatch acknowledges that Nike has been "a useful target to make a wider point about globalisation."⁴⁰ Reviled as the leader of Naomi Klein's so-called brand bullies, Nike's corporate reputation continues to be threatened even as it continues to make substantial improvements to its global labour practices. The continued power and resonance of the Nike brand may ultimately depend on the company's ability to become more widely respected and recognised as a good global corporate citizen. This will require ongoing commitment to worker empowerment, factory improvements and stakeholder dialogue, as well as continued support from CEO Phil Knight, the Board, and all Nike employees and business partners for corporate responsibility compliance and development.

APPENDIX



Nike Code of Conduct

NIKE Inc. was founded on a handshake.

Implicit in that act was the determination that we would build our business with all of our partners based on trust, teamwork, honesty and mutual respect. We expect all of our business partners to operate on the same principles.

At the core of the NIKE corporate ethic is the belief that we are a company comprised of many different kinds of people, appreciating individual diversity, and dedicated to equal opportunity for each individual.

NIKE designs, manufactures and markets products for sports and fitness consumers. At every step in that process, we are driven to do not only what is required, but what is expected of a leader. We expect our business partners to do the same. Specifically, NIKE seeks partners that share our commitment to the promotion of best practices and continuous improvement in:

1. Occupational safety and health, compensation, hours of work and benefits.
2. Minimizing our impact on the environment.
3. Management practices that recognize the dignity of the individual, the rights of free association and collective bargaining, and the right to a work place free of harassment, abuse or corporal punishment.
4. The principle that decisions on hiring, salary, benefits, advancement, termination or retirement are based solely on the ability of an individual to do the job. There shall be no discrimination based on race, creed, gender, marital or maternity status, religious or political beliefs, age or sexual orientation.

Wherever NIKE operates around the globe, we are guided by this Code of Conduct. We bind our manufacturing partners to these principles. Our manufacturing partners must post this Code in all major workspaces, translated into the language of the worker, and must endeavor to train workers on their rights and obligations as defined by this Code and applicable labor laws.

While these principles establish the spirit of our partnerships, we also bind these partners to specific standards of conduct. These standards are set forth below.

1. **Forced Labor.** The manufacturer does not use forced labor in any form -- prison, indentured, bonded or otherwise.
2. **Child labor.** The manufacturer does not employ any person below the age of 18 to produce footwear. The manufacturer does not employ any person below the age of 16 to produce apparel, accessories or equipment. Where local standards are higher, no person under the legal minimum age will be employed.
3. **Compensation.** The manufacturer provides each employee at least the minimum wage, or the prevailing industry wage, whichever is higher; provides each employee a clear, written accounting for every pay period; and does not deduct from worker pay for disciplinary infractions, in accordance with the Nike Manufacturing Leadership Standard on financial penalties.
4. **Benefits.** The manufacturer provides each employee all legally mandated benefits. Benefits vary by country, but may include meals or meal subsidies; transportation or transportation subsidies; other cash allowances; health care; child care; emergency, pregnancy or sick leave; vacation, religious, bereavement or holiday leave; and contributions for social security and other insurance, including life, health and worker's compensation.
5. **Hours of Work/Overtime.** The manufacturer complies with legally mandated work hours; uses overtime only when each employee is fully compensated according to local law; informs each employee at the time of hiring if mandatory overtime is a condition of employment; and, on a regularly scheduled basis, provides one day off in seven, and requires no more than 60 hours of work per week, or complies with local limits if they are lower.
6. **Management of Environment, Safety and Health (MESH).** The manufacturer has written health and safety guidelines, including those applying to employee residential facilities, where applicable; has a factory safety committee; complies with Nike's environmental, safety and health standards; limits organic vapor concentrations at or below the Permissible Exposure Limits mandated by the U.S. Occupational Safety and Health Administration (OSHA); provides Personal Protective Equipment (PPE) free of charge, and mandates its use; and complies with all applicable local environmental, safety and health regulations.
7. **Documentation and Inspection.** The manufacturer maintains on file all documentation needed to demonstrate compliance with this Code of Conduct; agrees to make these documents available for Nike or its designated auditor to inspect upon request; and agrees to submit to labor practices audits or inspections with or without prior notice.

Code of Conduct Manufacturing Leadership Standards

FINES & DEPOSITS

Every worker should be fully compensated for all time worked. That earned income cannot be reduced due to performance or disciplinary shortcomings. Performance or behavior issues must be dealt with by standard management tools including counseling, warnings and/or ongoing training.

This policy does not prevent factory management from restricting or eliminating bonuses or other additional income opportunities based on performance issues. Employees found responsible for loss or damage of property may also be held financially responsible.

Deposits can not and should not be required as a condition of employment. Deposits are defined as any form of cash or other security owned by the worker and held by the employer as a bond against loss or damage of equipment; as a bond against the first month's pay; or as surety against damage to living spaces and furnishings.

PREGNANCY AND MATERNITY LEAVE

One of the governing principles of the Nike Code of Conduct is that of equal opportunity for each individual. In that spirit, Nike condemns management practices that discriminate against job seekers on the basis of gender, race, creed, political or religious beliefs, sexual orientation, or marital or maternity status.

It may be appropriate, for reasons of the health and well-being of the mother and unborn child, for factories managers to protect pregnant women from certain forms of work, and to restrict work to hours that are safe and healthy.

But no company should promote, encourage or allow hiring policies that discriminate against pregnant women.

To protect women's rights, and ensure pregnant women specifically are able to contribute to their families by earning a living under the proper conditions of employment, Nike's policy and requirement for all contractors shall be:

- **Pregnant Workers**

The factory shall not discriminate against pregnant workers. The factory must also comply with the local labor regulations regarding maternity leave. These might include, but are not limited to: all mandated days of leave before and after delivery, and all compensation, and provisions for return to the job. Factories are also required to provide adequate care for pregnant workers, including but not limited to all provisions mandated by law, and/or recommended by a licensed physician, such as light duty, temporary job rotation, exposure to potential work place hazards and limited hours of work.

PERSONAL PROTECTIVE EQUIPMENT

Contractors shall have a simple clear, written and mandatory PPE policy. This policy will include:

- All PPE will be provided free of charge and where applicable, maintained or updated according to manufacturer's specifications.
- Any worker required to use PPE will be given appropriate initial and ongoing training
- All training will be documented and a signed acknowledgment by the employee receiving PPE will be maintained in his or her employment file
- A provision that proper PPE use in designated areas is a condition of employment. Non-compliance with PPE policy should be followed up with written warning and additional training. Persistent non-compliance may result in termination of employment.
- Requirements that supervisors and managers comply with and enforce the mandatory PPE policy.
- Areas where PPE use is mandatory will be clearly demarcated by both signage and demarcation lines.
- PPE is a shared responsibility. PPE that must be replaced due to loss or damage caused by negligence will be the responsibility of the worker. The contractor agrees to provide replacement PPE to the worker at cost. Contractor further agrees to provide proper PPE storage where appropriate.

ANNUAL LEAVE

In order to maintain a work/family balance, contractors are required to provide annual leave as a part of an employee's compensation and benefits package. Employees should be encouraged to take annual leave and not to accept the practice of additional work for additional bonus pay.

Employees should be allowed to take leave at their chosen time provided adequate notice is given to management. Management should not discourage employees from taking leave for consecutive days.

PAY MANAGEMENT

Time Keeping. In order to ensure clarity and consistency, the contractor is required to use mechanical time-keeping clocks to track each worker's hours of work. The time-keeping system should be used for recording both start and stop times. The use of one time card is preferred. This practice ensures that no mistake in hours accounting, and consequently wage calculation, occurs.

Pay Documentation. At the time of receiving his or her wages, every employee must receive a personal printed copy of a clear, understandable payment record in the local language. Such records will ensure that there are no misunderstandings between management and workers regarding compensation and all relevant calculations. This practice protects the rights of both the factory and the worker, and should be accompanied by worker training, so that each employee fully understands the payment format. The record should include at least the following:

- all regular hours worked;
- all overtime hours worked;
- all compensation rates for hours of work;
- totals for regular and overtime compensation;
- all additional compensation such as individual/team bonuses;
- all additional cash benefits such as transportation or food allowances;
- all deductions for insurance and/or other legally mandated deductions.

TRAINING WAGES, PIECE RATES & OVERTIME PAY

1.) **Training wages**

- Newly-hired workers in training must be compensated at or above the country/region minimum wage level, regardless of local allowances for training wages.

2.) **Piece rate / Quota compensation**

- Workers must be compensated no less than the country / regional minimum wages, regardless of quota or piece rate agreements.
- Workers must be fully compensated at or above the legal requirements for overtime regardless of piece rate or quota targets.
- If a quota or piece rate system is in practice, targets must be established with documented input from worker representatives, including worker union representatives if applicable.
- Where required by law the unit price during the overtime period must follow the OT rate established by local law.

3.) **Basic wage structure**

- Each contract factory must consider the following when establishing a wage and salary structure.
 - job performance
 - type of work
 - years of service

If at any time it is found that a worker(s) has for any reason not received their justified compensation, including, but not limited to, erroneous accounting of base and/or overtime wages, the factory will be responsible for the back payment of those wages for at least a period of one year.

NEW FACTORIES AND LABOR PRACTICES AUDITS

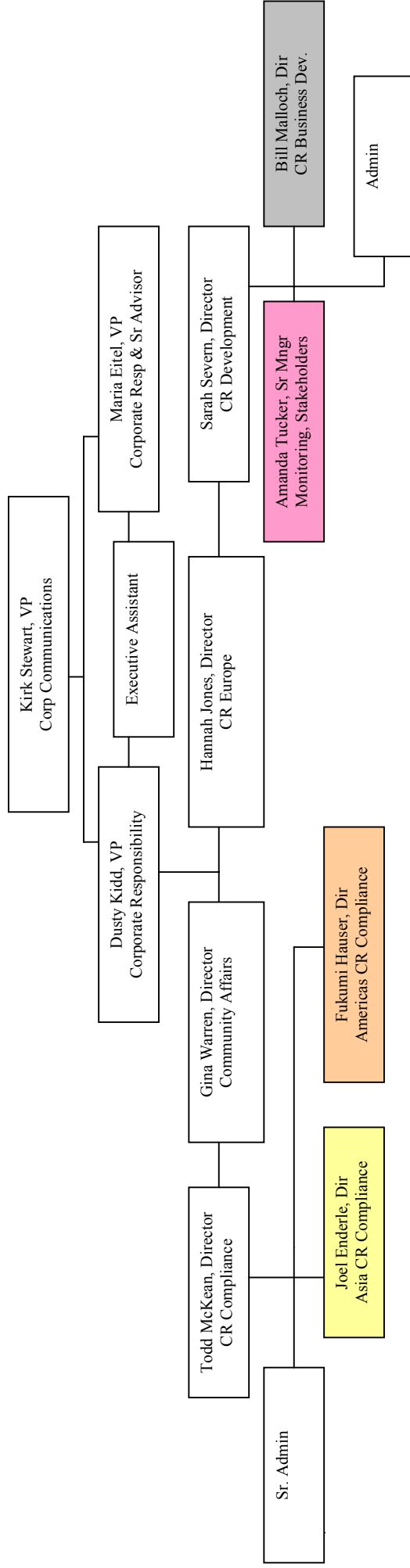
Before Nike manufacturing management approves any new factory for production, or places the initial product order, that factory must agreed to, pay for and undergo a Pricewaterhouse Coopers Labor Practices Assessment Audit, as well as a Nike SHAPE inspection.

The findings of both inspections must indicate that the factory is in substantial compliance with the Nike Code of Conduct.

If the factory is judged not to be in substantial compliance, it must make necessary corrections and submit to a re-audit, which it must pay for, and/or re-inspection.

Nike Corporate Responsibility Organisational Chart

Nike Corporate Responsibility Division



Endnotes

¹ Innovation Network members include: British Airways, British Telecom, The Big Issue, The Body Shop, The Co-operative Bank, Levi Strauss, New Look, Nike, and St Lukes Communications.

² The New Academy's Gill Coleman and David F. Murphy facilitated the meeting with Peter Frankental of the Amnesty International (UK) Business Group and Frances House of the Prince of Wales Business Leaders Forum participating as external resource people.

³ R. Goldman and S. Papson (1998) *Nike Culture: The Sign of the Swoosh*, London: Sage, p.1.

⁴ N. Klein (2000) *No Logo: Taking Aim at the Brand Bullies*, London: Flamingo (Harper Collins), pp. 365-66.

⁵ In the 1998 annual report, Nike Chairman and CEO Phil Knight attributed the decline to "soft markets, sagging futures orders, sliding economies" but also blamed changing fashions, concerns about labour practices, "boring ads", and staff resignations and layoffs. In the aftermath of the Asian crisis, 1600 direct Nike employees were laid off.

⁶ An import quota is a quantity control on imported merchandise for a certain period of time. Quotas are established by legislation, by directives, and by proclamations issued under the authority contained in specific legislation. In the USA, the Department of Commerce's Office of Textiles and Apparel is responsible for implementing textile and clothing agreements and instructs the Customs Service to undertake specific provisions of the agreements.

⁷ About 60% of Nike's revenue is from footwear sales with the 33% from apparel and 7% from sports equipment.

⁸ Jardine Fleming Securities (1997) *Tracking Nike's Footprints Across Asia*, Hong Kong: Jardine Fleming. The company is now known as JF Funds Limited.

⁹ Nike (1998) *Nike FAQ* <http://info.nike.com/faq/main.html>

¹⁰ *Business Week* (1997) 'The Swoosh Index for Emerging Markets' May 5, <http://www.businessweek.com/1997/18/b352523.htm>

¹¹ Nike has one licensee, Vanity Fair, which makes Nike swimwear, children's wear and women's sports foundations (e.g., sports bras). Nike also has four subsidiaries: Bauer (ice hockey equipment), Cole Haan (high-end fashion footwear), Jansen (swimwear) and Nike Team Sports.

¹² Examples include: the Clean Clothes Campaign (The Netherlands), Campaign for Labor Rights (USA), Transnational Resource and Action Centre (USA), Asia Monitor Resource Centre (Hong Kong), Global Exchange (USA), Fairwear and Nikewatch Campaigns (Australia) and Maquila Solidarity Network (Canada).

¹³ 'Andrew Young Assesses Nike Labor Practices' in *Nike News*, October, 1997.

¹⁴ *Business Week*, 7 July 1997.

¹⁵ John Cushman, Jr., 'Nike Pledges to End Child Labor and Increase Safety' *New York Times*, 13 May 1998.

¹⁶ John Cushman, Jr., 'Nike Pledges to End Child Labor and Increase Safety' *New York Times*, 13 May 1998.

- ¹⁷ The Community Affairs Department continues to be managed separately by Director Gina Warren.
- ¹⁸ Tom Clarke in 'Nike Names VP for Corporate and Social Responsibility', Nike press release, 13 January 1998.
- ¹⁹ Includes staff in Guangzhou liaison office and Shanghai marketing office.
- ²⁰ Nike left the Philippines in 1986 during a period of political unrest and returned in 1996 when the company's growth required expansion of manufacturing. When that growth stopped and rolled backward, the most recent factory base additions were generally those that were cut.
- ²¹ Nike stopped sourcing footwear from the Philippines in 2000. During 1996-2000 local footwear production accounted for less than 1% of Nike's total global orders.
- ²² According to Dusty Kidd, Nike sees its support for diversity as having "a direct and positive impact on the performance of the organization. We also believe diversity has to be viewed in its broadest sense. Diversity is not exclusively defined by the things that make us different, whether those are gender, ethnicity, creeds or orientations. But it should most certainly be defined by the things that are different about us that make us better." Employee profiles have recently been added to Nike's website (www.nikebiz.com/diversity/index.shtml) to offer outsiders a sense of the diversity of Nike's employees, and what the company seeks to build through diversity.
- ²³ ILO Minimum Age Convention, 1973 (No. 138) establishes that the minimum age should not be less than the age of completing compulsory schooling and in no event less than 15 years of age. It allows a developing country to specify initially a general minimum age of 14 instead of 15. A higher minimum age of at least 18 must be set for hazardous work: "employment or work which is by its nature or the circumstances in which it is carried out is likely to jeopardize the health, safety and morals of young persons." Nike's reason for establishing a higher age threshold for footwear over apparel was due to the greater health and safety risks involved, in effect defining footwear manufacturing as 'hazardous work'.
- ²⁴ The average length of service for Nike's Chinese contract factory workers is three years.
- ²⁵ Other examples of worker education can be found in Vietnam, Thailand and Indonesia, where Nike has worked with local ILO offices to conduct training for workers on labour standards.
- ²⁶ AMRC and HKCIC representatives first met with Nike officials in 1995-96.
- ²⁷ T. Leung (2000) 'Labour Rights Without Labour is not Acceptable' an article for HRIC publication.
- ²⁸ Phil Knight (2000) 'Opening Comments Before the Global Compact' July 26, http://www.nikebiz.com/media/n_compact.shtml
- ²⁹ Linked to the American Federation of Labor-Congress of Industrial Organizations (AFL-CIO), the voluntary federation of America's unions, representing more than 13 million workers. See Pamela Varley (1998) *The Sweatshop Quandry: Corporate Responsibility on the Global Frontier*, Washington, DC: Investor Responsibility Research Centre.
- ³⁰ For example, 'Nike on the Run As Sit-ins Spread Across the US' in *The Guardian*, 25 June 1999; and 'Open Letter to Nike: The Fear, Secrecy and Repression Must End' <http://www.maquilasolidarity.org/campaigns/nike/>, 22 September 1999.
- ³¹ Personal communication with Hannah Jones, Nike Director of European Government and Community Affairs, 10 November 1998.

³² Participating companies include: adidas-Salomon, Eddie Bauer, GEAR For Sports, Kathie Lee Gifford, Levi Strauss & Co., Liz Claiborne, LL Bean, Nicole Miller, Nike, Patagonia, Phillips Van Heusen and Reebok. Founding NGO members include: the International Labor Rights Fund, the Lawyers Committee for Human Rights, the National Consumers League, the National Council of Churches and the Robert F. Kennedy Memorial Center for Human Rights. A Board of Directors governs the Association and includes six industry members and six NGO/labour members. See <http://www.fairlabor.org/>

³³ Personal communication with Hannah Jones, 10 April 1999.

³⁴ See S. Greenhouse 'Two More Unions Reject Agreement for Curtailing Sweatshops' in *New York Times*, 6 November 1998.

³⁵ See A. Howard 'Partners in Sweat' editorial in *The Nation*, 29 December 1998.

³⁶ N. Klein (2000) *No Logo: Taking Aim at the Brand Bullies*, London: Flamingo (Harper Collins), p. 375.

³⁷ www.nikebiz.com

³⁸ NGO and trade union supporters of The Global Compact include the International Confederation of Free Trade Unions, Amnesty International, WWF-International, World Resources Institute, the Lawyers Committee for Human Rights, Human Rights Watch, and various others.

³⁹ See for example, Nikewatch <http://www.caa.org.au/campaigns/nike/>; T. McCawley (2000) 'Nike Races for Reputation' in *Financial Times*, 21 December; and E. Alden and A Mandel-Campbell (2001) 'Sackings Dispute Hits Nike' in *Financial Times*, 19 January. On 15 October 2000, the BBC Panorama programme 'Nike and Gap: No Sweat?' revealed the use of child labour at June Textiles, a garment factory in Cambodia, that was producing for Gap, Nike and other brands. Nike accounted for less than 9% of the total production in the factory. Nike has since cancelled its contract with the factory and Nike production ceased in December 2000. According to Dusty Kidd, "when child labour entered the picture, we decided this was not a factory we should continue production in."

⁴⁰ Quoted in T. McCawley (2000).