Nike: Managing Ethical Missteps—Sweatshops to Leadership in Employment Practices

INTRODUCTION

Phil Knight and his University of Oregon track coach Bill Bowerman founded Blue Ribbon Sports, later renamed Nike, in 1964. The idea, born as a result of a paper written by Knight during his Stanford MBA program, was to import athletic shoes from Japan into the U.S. market, which was otherwise dominated by German competitors Puma and Adidas. The company began as a distributor for a Japanese athletic shoe company, Onitsuka Tiger, but also developed its own brand of athletic footwear to promote in the American market. The company’s relationship with Onitsuka Tiger ended in 1971, and the Nike brand was created in 1972 (named “Nike” after the Greek goddess of victory). The company as a whole was renamed Nike in 1978, and has since grown to be the largest worldwide seller of athletic goods, with approximately 40,000 global employees and a presence in more than 160 countries.

Nike was publicized by celebrity athlete sponsors. As the popularity of the Nike product grew, so did the company’s manufacturing demands. In contrast to its meteoric rise in the 1980s after going public, the late 1990s began a period of combating allegations about labor and human rights violations in Third World countries in which manufacturing had been subcontracted. Nike’s response to this issue has been considered by critics to be more focused on damage control than on a sincere attempt at labor reform.

CRITICISMS OF NIKE’S MANUFACTURING PRACTICES

In order to remain competitive and keep manufacturing costs low, athletic footwear production has moved to areas of the world with low labor costs. Assembly of shoes (as well as low-cost apparel, footwear, radios, TVs, toys, sporting goods equipment, and consumer electronics) began shifting offshore in the 1960s, first to Japan, then to Korea and Taiwan, and then, beginning in the 1980s, to Southern China. By the mid-1980s Taiwan and Korea supplied 45 percent of the world’s footwear exports, and production has continually shifted to other Asian nations where the cost of manufacturing is lower still.

Because of its history and experience with Japanese manufacturing and production, Nike was a pioneer in overseas manufacturing as a way to cut costs on sports gear manufacturing. When Japan became too expensive, Nike shifted its contracts to Vietnam, Indonesia, and China. The working conditions in these factories have been a source of controversy. Allegations of poor conditions, child labor, widespread harassment, and abuse have all been issues for the company. Because the Asian factories have further

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subcontracted out the work, it has become increasingly difficult for Nike to keep track of and regulate the working conditions and wages in these factories.

Sweatshop labor is not merely an issue for Nike. It permeates the public consciousness across all manufacturing. Perhaps the incident that brought sweatshop labor to the forefront of American consciousness was the Kathy Lee Gifford debacle in 1996 when the human rights group the National Labor Committee uncovered that Gifford’s clothing line was made in Honduran sweatshops that used child labor. As an industry leader, Nike’s high visibility made it ripe for attack when labor rights violations were uncovered.

Since the mid-1990s, Nike has faced a barrage of criticism from labor rights activists, the mainstream media, and others for human and labor rights violations in its factories. The accusations have included deficiencies in health and safety conditions, extremely low wages, and indiscriminate hiring and firing practices. While much of the firestorm has died down as Nike and other athletic wear manufacturers have sought to clean up their images, the criticism has damaged the company's reputation.

In Indonesia, where Korean suppliers owned a majority of Nike factories, reports by labor activists and other nongovernmental organizations revealed several cases of human rights abuses and labor violations. These conditions came to the attention of the general public through stories such as Roberta Baskin’s CBS report on the conditions in Nike’s manufacturing facilities in Indonesia in 1993.

In 1996 Life magazine published an exposé complete with photos of Pakistani children stitching soccer balls for Nike, Adidas AG, and other companies. The images of these children had a devastating impact on Nike’s sales and corporate reputation. Customers who had previously held the American athletics brand in high regard began to develop a lower opinion of the company. Bob Herbert’s op-ed article in The New York Times in 1996 led to further public interest in this issue, and protests and demonstrations were held all over the United States. Several demonstrations occurred at “Nike Towns,” the Nike retail megastores.

Nike also experienced problems with factory conditions in Vietnam. A private report on one of its factories commissioned by Nike as part of an audit by Ernst and Young was leaked to the press, and The New York Times ran it as a front-page article. The audit reported unacceptable levels of exposure to chemicals in the factory and documented cases of resulting employee health problems, as well as other infringements of the established code of conduct.

In response to the criticisms raised during the 1990s, Nike had to take rapid measures not only to redeem its reputation, but also to rectify problematic policies and lack of international oversight of its operations. Nike’s new priorities became to make certain that its factories were not taking advantage of its workers and to ensure that each worker had a safe work environment and competitive wage.

**ENVIRONMENTAL PROBLEMS RELATED TO THE TEXTILE INDUSTRY**

Because of the nature of the textile industry, Nike faces numerous challenges and potentially critical problems. The textile industry negatively impacts the environment wherever
manufacturing is located. Problems generated by the textile industry in general, and Nike specifically, include increased water deficits; climate change; pollution of land, air, and waterways; and large fossil fuel and raw material consumption. In addition to these environmental hazards, today’s electronic textile plants expend significant amounts of energy. All of these issues are exacerbated by Western culture, where fashions are popular for only a few months before being discarded.

In addition to environmental considerations, textile manufacturers must consider their employees’ working conditions. The demand for cheap labor and lax labor laws in developing countries such as Vietnam, China, and Indonesia have led to an increased prevalence of child labor and abusive practices. In her book *No Logo*, Naomi Klein claims that Nike abandons manufacturing sites when countries begin to work toward developing better pay and employment rights. Nike’s critics believe the company should improve transparency measures in its factories, allow independent inspection to verify conditions, and disclose all audits to the public. Nike has complied with these demands to a limited extent. For example, audits of Nike generally have determined that Nike pays wages above the legal minimum. Critics are not satisfied, however, arguing that in most cases the wages still do not constitute a fair living wage.

In response, Nike claimed that sharing factory locations with independent third parties on a confidential basis enables the company to monitor its supply chain properly. It stated that disclosure of the factory names, plus details of audits of those factories, would be used by NGOs simply to make further attacks rather than as a way to help the company address and resolve problems. Nike also stated that establishing what constitutes a “fair” wage is difficult given the fact that costs of living and economic conditions vary from country to country.

**NIKE RESPONDS TO CHALLENGES**

Public protests against Nike took the form of boycotts and picketing of Nike stores. Universities cancelled their deals with Nike to produce branded athletic goods. In 1998 Nike revenues and stock prices decreased by approximately 50 percent, and the company laid off 1,600 workers. Nike launched a large public relations campaign to combat the damaging allegations of child labor, inhospitable working conditions, and low or nonexistent wages. In an effort to directly address the concerns of student activists, Nike visited several college campuses, opening dialog with students and university administrations about its manufacturing policies. Nike even invited teams of Dartmouth graduate students to tour the Indonesian and Vietnamese factories for three weeks at Nike’s expense.

The company has spent considerable resources focusing on improving the labor standards in each of its factories. It must weigh the expense of labor in nations where product manufacturing is available. However, because these factories subcontract out to the local workforce, it is difficult for Nike to regulate the working environment. Nike must take extra measures to ensure that the independent subcontractors used to supply the workforce in their factories do not engage in any illegal activities such as child labor, excessive work hours, hostile work environments, or inappropriate payments.
Nike also has implemented a code of conduct for all of its suppliers, and has been working with the Global Alliance to help review its factories. In August 1996 Nike Corporation joined the Apparel Industry Partnership, a coalition of companies and labor and human rights groups assembled by the Clinton administration, to draft an industry-wide code of conduct.

Since universities form a core segment of Nike’s market and the company felt the repercussions of its manufacturing practices in the form of several canceled university contracts, Nike sent letters detailing the acceptable conditions in its factories and stressing its commitment to corporate responsibility to universities around the country. Representatives from Nike also visited campuses and spoke to students, assuring them of Nike’s intention to be a responsible corporate citizen. Phil Knight himself visited the campus of the University of North Carolina at Chapel Hill. Nike also launched a public relations campaign that included writing op-ed pieces, letters to the editor, and press releases to defend its reputation and to refute critics’ claims.

However, Marc Kasky, a California activist, maintained that Nike’s claims were misleading and deceptive to the public. He filed a lawsuit claiming that Nike’s actions should be classified as commercial speech that violated California’s unfair competition and advertising laws. The legal controversy culminated in the California Supreme Court’s decision in Kasky v. Nike. The court determined that public relations communications may constitute “commercial speech” that can be interpreted as “false advertising.” As commercial speech is afforded less protection under the First Amendment, Nike would be liable for any claims under its public relations campaign that could be construed as misleading the public. After the ruling, Nike settled the lawsuit at approximately $2 million.

NIKE’S CORPORATE SOCIAL RESPONSIBILITY

Nike’s corporate social responsibility (CSR) practices have been evolving since 1991. At first, Nike’s approach to CSR could be characterized as insufficient and generally lacking in any true forms of regulation and implementation throughout its global supply chain. Manufacturers in foreign locations were simply trying to comply with the minimal contract requirements, while at times overlooking fair labor practices in order to perform as lowcost suppliers. Nike’s initial response to criticism was reputation management rather than wide-scale changes in its practices. However, as more issues have surfaced and been brought to the attention of the corporation and its consumers, Nike has increased its efforts to be more ethical in its manufacturing practices. In fact, it has become something of an industry leader in certain areas. This does not mean the company is totally free from criticism. For instance, in 2013 the company was criticized for releasing an online ad featuring Tiger Woods with the slogan “winning takes care of everything.” Many thought the advertisement was inappropriate considering the controversy surrounding Tiger Woods’ past behavior. Yet Nike has significantly altered its factory oversight and appears committed to its social responsibility initiatives.

According to Harvard University senior fellow Simon Zadek, corporate responsibility evolves through five stages:

1. Defensive: “It’s not our fault.”
Nike could be classified as having evolved from the defensive stage through the compliance stage to the managerial stage. The company’s first CSR report demonstrated how Nike had handled complaints from stakeholders who wanted to see better working conditions at Nike’s contract factories. In its 2005 report, the company provided the names and locations of factories that produced its products for the first time ever. In its third CSR report, Nike officials said they were moving away from using corporate responsibility as a crisis management tool and would instead be using it as an opportunity for innovation and growth.

Nike must now grow fully into the fourth and fifth CSR stages. The company must continue to develop its corporate responsibility strategies and increase enforcement of its policies in its factories to sustain its market share dominance in the footwear industry. With its new emphasis on corporate responsibility as an innovative tool, Nike is implementing further CSR initiatives to make the company an industry leader and thus give it a competitive edge in the footwear industry.

The following sections further discuss some of Nike’s CSR practices. The areas covered include environmental sustainability, audit tools used to evaluate Nike contractor practices, factory transparency, Nike’s corporate responsibility committee, and philanthropy.

ENVIRONMENTAL SUSTAINABILITY

In 1990 Nike began development of the Reuse-A-Shoe Program to reduce the company’s environmental footprint (so to speak) and decrease the amount of shoes that end up in landfills. The purpose of the program was to find an environmentally friendly way to dispose of worn-out shoes. The material made from the recycled shoes was called “Nike Grind.” In 1995 Reuse-A-Shoe began collecting old shoes in Nike retail stores. In 2002 Nike expanded Reuse-A-Shoe by partnering with the National Recycling Coalition and by beginning plans to go international with drop-off stations in Europe and Australia. Nike has collected more than 28 million pairs of used athletic shoes since 1990.

Nike has also crafted a sustainability philosophy called Considered Design in its step toward creating a closed-loop business. A closed-loop business occurs when waste at all levels of the operation can be recycled. According to Nike, Considered Design is “a companywide ethos built around designing the best products for the best athletes while using the most sustainable methods possible.” To make Considered Design a reality, Nike has set forth a variety of baseline standards that its products must meet or exceed. Its goal is to have all of its products from all over the world meet these standards by 2020.
AUDIT TOOLS

In 1998 Nike developed auditing tools to help provide increasing transparency and insight into the manner in which Nike contract factories are evaluated for compliance with company standards. Management Audit Verification (MAV) combines audit and verification into one tool. It helps to identify issues related to work hours, wages and benefits, freedom of association, and grievance systems, as well as to follow up on these issues and to create an action plan to correct them according to local law and Nike’s Code Leadership Standards. The Environment, Safety and Health (ESH) audit is an in-depth audit tool used by Nike compliance teams to determine compliance with Nike’s Code Leadership Standards. In addition to its own auditing tools, external organizations such as NGOs frequently audit Nike. Until recently, Nike also employed a Safety, Health, Attitude of Management, People and Environment (SHAPE) tool used quarterly by contract factories to determine their compliance with Nike’s Code Leadership Standards. In 2007 the tool was changed to a factory self-evaluation as Nike felt that a numeric score by itself was insufficient. Nike estimates that it visits its factories an average of 1.77 times per year.

FACTORY TRANSPARENCY

In 2000 Nike became the first company to respond to student requests to publicly disclose the names and locations of its contracted factories that produced licensed collegiate products. A contract factory making Nike products could be producing for as many as thirty different schools. By disclosing its supply chain, Nike believes it can be more successful at monitoring and making changes once issues have been uncovered not only in its own factories, but also on an industry-wide basis. The company hopes that by disclosing its own supply chain, it can encourage other companies to do the same. The company also feels that transparency should work as a motivator for contract factories. Those with high compliance rankings can be confident that business will come their way.

With multiple brands, and many universities represented, contract factories must decide which company’s code(s) of conduct to follow. This task is not an easy one, as standards for the varying corporate codes of conduct can contradict each other. Nike has attempted to make it easier for contract factories to comply with its code of conduct by guaranteeing that its code aligns with that of the Fair Labor Association. The company hopes that eventually a standardized code of conduct followed by all companies in the industry can be implemented, creating widespread compliance and better working conditions. Even as Nike has taken dramatic steps to increase its transparency and accountability, activists have continued to put pressure on the company to improve its standards and practices.

Nike also has implemented a program it calls the Balanced Scorecard for its suppliers. The Balanced Scorecard is a lettered grading system used to better assess factory compliance with the code of conduct. Rather than simply assessing financial factors, the Balanced Scorecard also measures labor, health, and environmental standards of factories. This system gives the company a reliable method for rewarding high-performance, compliant factories. The card measures cost, delivery, and quality, all of which need to be addressed equally for the work in factories to flow smoothly. The Balanced Scorecard gives factories incentives to improve working conditions, and Nike rewards those that show improvement.
CORPORATE RESPONSIBILITY COMMITTEE

In order to become a leader in corporate responsibility, Nike established a Corporate Responsibility (CR) Committee to review policies and activities and to make recommendations to the board of directors regarding labor and environmental practices, community affairs, philanthropy, diversity and equal opportunity, and environmental and sustainability initiatives. The board is actively involved on the committee; at least two committee members must be from the board of directors. Nike expects corporate responsibility to be integrated into the executive level as well. Nike’s Vice President of Corporate Responsibility, for example, reports directly to the CEO of Nike. These leaders help to ensure that corporate responsibility is considered at every level of the company.

PHILANTHROPY

One of Nike’s goals to increase its CSR is by building a social network “where innovations are shared, new funds are mobilized and human and social capital is exchanged in support of a global movement based on the power of sport to unleash human potential.” Nike wants to encourage the use of sports as a means of empowering individuals and building skills such as leadership, conflict resolution, equity, and trauma relief. Nike partners with various groups that work with low-income youth, minorities, and young women who live in conflict situations across the world. Because sports require access to safe spaces, good coaches, safe equipment, and education, Nike is forming partnerships in these areas. While contributing to the global community, the company also strives to invest in its own local communities of Portland, Oregon; Memphis, Tennessee; Hilversum, Holland; Laakdal, Belgium; and other places around the world where Nike corporate offices are located. For instance, it donated $300,000 to 26 local schools and nonprofits in Oregon as part of its Nike Employee Grant Fund of The Oregon Community Foundation in 2013. Another of Nike’s many goals is to begin making a community investment consisting of a minimum of 1.5 percent of its pre-tax income. Since 2007 the Nike Foundation has also committed more than $100 million to “the girl effect,” a movement that aims to end poverty, teen pregnancy, and HIV/AIDS among adolescent girls by improving access to education, healthcare, and social and economic resources. With a continued focus on corporate responsibility, Nike strives to build and improve its relationships with consumers, to achieve a high-quality supply chain, and to create top-quality, innovative products.

NEW CHALLENGES IN THE FUTURE

So far Nike’s efforts have seemed to pay off, as it has seen considerable improvement in its reputation and corporate image in the past few years. As a result of its positive changes, Nike appeared in Fortune’s 2013 list of “The World’s Most Admired Companies” as the number one most admired apparel company and was ranked 18 overall. Nike was also listed at number 22 in CR (Corporate Responsibility) magazine’s “Best Corporate Citizens” in 2013.

The news has not all been good for Nike, however. In 2010 several universities threatened to cancel their contracts with Nike over labor concerns among Honduran factory workers. A year earlier, two of Nike’s subcontractors had closed without notice, laying off 1,800 workers. Under Honduran labor law, the workers were owed over $2 million in severance
pay along with other unemployment aid. Although Nike agreed to provide the workers with
training and give them priority jobs at other factories, the company stated that the
responsibility for the situation rested with the suppliers, not Nike. One could argue that
Nike was reverting back to the defensive stage of corporate responsibility. Nike’s actions did
not go far enough to please the Worker Rights Consortium, who began urging universities to
cancel their contracts with Nike until the labor dispute was settled. Other labor watchdogs
staged demonstrations outside Nike shops, changing Nike’s slogan from “Just Do It” to “Just
Pay It.” The University of Wisconsin–Madison was the first to cancel its licensing agreement
with Nike, stating that its code of conduct requires companies that make products carrying
the university name to assume responsibility for their suppliers. Nike eventually capitulated
and set aside a $1.54 million fund to aid the laid-off Honduran workers. Although Nike
experienced bad publicity over the event, labor activists see its actions as a positive
deviation from industry standards. They hope that this step will set a precedent for other
companies to follow.

Nike also continues to face occasional problems at its factories. In 2011 Indonesian workers
claimed that they were physically and verbally abused at a Nike plant while making
Converse shoes. Nike confirmed the allegations through its own investigation, adding that
preventing such abuse at its contract factories is difficult. Indeed, Nike released an internal
report showing that a majority of its 168 factories that make Converse-branded clothing
failed Nike’s internal standards that apply to contract manufacturers.

These incidents reveal that there are still flaws in Nike’s supply chain, both in contract
negotiation and supplier oversight. Although some experts herald Nike as a leader in CSR,
its use of hundreds of international contractors makes detection and enforcement of abuses
incredibly difficult. Nike plans to pursue an accelerated growth strategy in foreign markets,
particularly in emerging economies, which makes increased oversight of its factories even
more of an imperative.

Nike sees international expansion as essential for its continued profitability. However, it has
struggled to stabilize operations in different countries. For instance, Nike faced troubles in
China due to rapid expansion and difficulties with IT and distribution capabilities. However,
after making improvements and controlling its rate of expansion, Nike’s growth prospects
have begun to rebound in China. Both China and Brazil offer high-growth opportunities for
Nike, particularly as Brazil is set to host two major global sporting events within the next
dw years. Nike is also taking steps to portray itself as a socially responsible company and
increase its visibility; during the 2010 World Cup, for example, Nike opened a facility in a
low-income South African township that doubled as both a football training center and a
clinic for AIDS testing and awareness.

Corporate and social responsibility are not only changing Nike’s image; they can also be
good for its bottom line in a highly competitive industry. Nike’s target audience has
broadened from mainly male athletes to female athletes and children as well. As Nike’s
target audience widens, being perceived as an ethical company will help attract and retain
new customers.

Such an approach is requiring Nike to undertake socially responsible initiatives and develop
more sustainable products. For instance, Nike celebrated the World Cup while
simultaneously embracing sustainability with a new product: World Cup shirts made from recycled bottles. According to Nike, each shirt required less material and consisted of recycled polyester and eight recycled bottles. It is estimated that Nike's recycled shirts kept over 550,000 pounds of polyester out of landfills. Nike is also creating innovative products to increase consumers' healthy living (as well as the bottom line). Its Nike’ shoes contain sensors that can communicate with the wearer's iPod to track the person's consumption of calories. Nike plans to develop more innovative and sustainable products in the future.

Nike itself admits that it has a long way to go in the area of corporate responsibility, including continuing to improve its monitoring systems. However, the company is being rewarded for its efforts toward improvement thus far.

QUESTIONS

1. Why did Nike fail to address corporate social responsibility early on?

2. Evaluate Nike’s response to societal and consumer concerns about its contract manufacturing.

3. What are the challenges facing Nike in the future?

Sources


Naomi Klein, No Logo (New York: Riemann Verlag, 2002).