



# Industrial Performance Center

Massachusetts Institute of Technology

Working Paper Series

## THE PROMISE AND PERILS OF GLOBALIZATION: THE CASE OF NIKE

RICHARD M. LOCKE

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## **The Promise and Perils of Globalization: The Case of Nike<sup>1</sup>**

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MIT IPC Working Paper 02-008

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<sup>1</sup> This case was prepared for the Sloan School of Management's 50<sup>th</sup> Anniversary celebration and should be read in conjunction with "A Note on Corporate Citizenship." This case was prepared with the active involvement and research assistance of the following Sloan MBA students: Vanessa Chammah, Brian Curtis, Elizabeth Fosnight, Archana Kalegaonkar, and Adnan Qadir. I would also like to thank Miguel Alexander, Maria Eitel, Dusty Kidd, Joseph Tomasselli, and Dara O'Rourke for their helpful comments and assistance during this project.

## 1. Introduction

How should global corporations behave in the new international world order? What constitutes good corporate citizenship in a world where the stakeholders are diverse and dispersed around the globe and where no clear or consensual rules and standards exist? These questions shape the behavior of most multinational corporations (MNCs) today. Although multinationals are eager to pursue the opportunities of increased global integration, they are increasingly aware of the reactions which their strategies induce – both at home and abroad. Thus, they tread warily, lacking clear and agreed-upon definitions of good corporate citizenship.

Through a case study of Nike, Inc. – a company that has come to symbolize both the benefits and the risks inherent in globalization – this paper examines the various difficulties and complexities companies face as they seek to balance both company performance and good corporate citizenship in today's global world.

### 1. The Athletic Footwear Industry

The athletic footwear industry experienced an explosive growth in the last two decades. In 1985, consumers in the United States alone spent \$5 billion and purchased 250 million pair of shoes.<sup>2</sup> In 2001, they spent over \$13 billion and bought over 335 million pair of shoes.<sup>3</sup> Although the industry is highly segmented – by different sports, models and price – the branded shoe segment is dominated by a few large companies (e.g., Nike, Reebok, Adidas). In fact, the top 10 footwear companies control over 70% of

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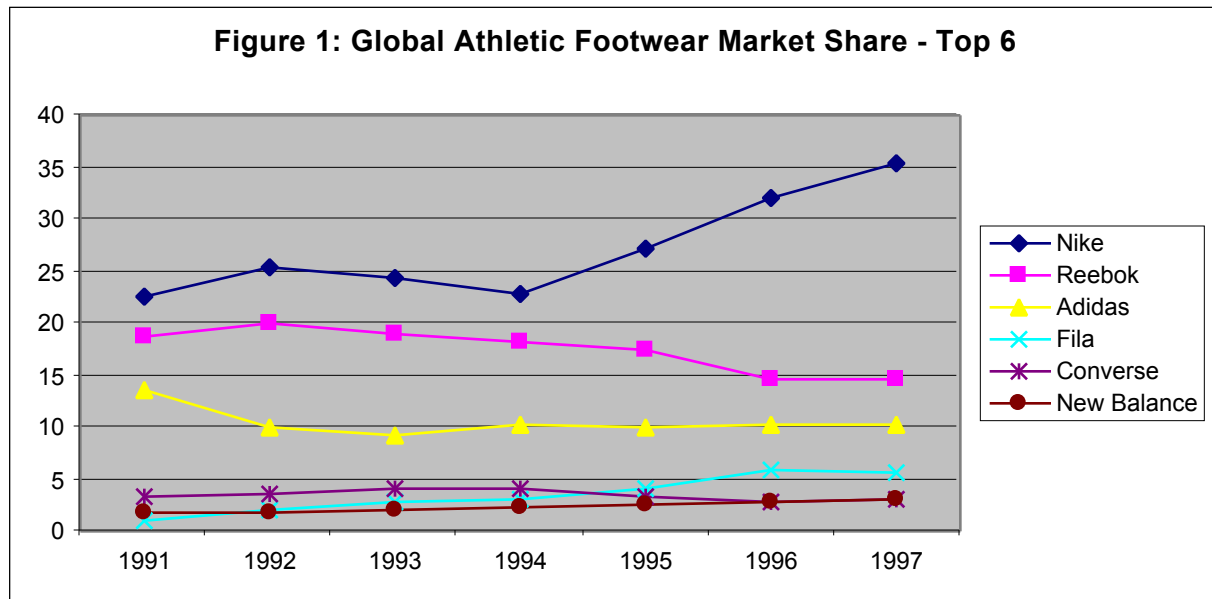
<sup>2</sup> Miguel Korzeniewicz, "Commodity Chains and Marketing Strategies: Nike and the Global Athletic Footwear Industry," in Gary Gereffi and Miguel Korzeniewicz, eds., Commodity Chains and Global Capitalism, (Greenwood Press, 1994): 248.

the global athletic footwear market. (See Table 1). Since displacing Adidas in the early 1980s and Reebok in the early 1990s, Nike has become the largest and most important athletic shoe company in the world. (See Figure 1).

**Table 1: Market Share**

Athletic Footwear Market Share	1991	1992	1993	1994	1995	1996	1997	1998	1999
Nike	22.5	25.4	24.4	22.7	27.1	32.1	35.3		30.4
Reebok	18.8	20.0	18.9	18.3	17.4	14.7	14.5		11.2
Adidas	13.6	10.0	9.3	10.3	9.9	10.2	10.3		15.5
Fila	0.9	2.1	2.7	3.0	4.1	6.0	5.7		3.9
Converse	3.4	3.5	4.0	4.2	3.3	2.7	3.2		2.2
New Balance	1.8	1.8	2.1	2.2	2.5	2.9	3.1		3.8
ASICS	4.7	5.4	5.2	4.7	4.2	3.5	3.0		2.5
Puma	4.6	3.8	4.3	3.1	2.4	2.4	2.1		2.1
Keds/Prokeds	3.0	3.9	3.9	3.0	2.4	1.9	1.5		0.0
Airwalk	0.0	0.0	0.4	1.1	1.2	1.4	1.1		0.0
<b>Top 10</b>	<b>73.3</b>	<b>75.9</b>	<b>75.2</b>	<b>72.6</b>	<b>74.5</b>	<b>77.8</b>	<b>79.8</b>	<b>0.0</b>	<b>71.6</b>
Others	26.7	24.1	24.8	27.4	25.5	22.2	20.2		28.4
<b>Totals</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>	<b>100.0</b>

Sources: HBS Case #9-299-084 "Nike, Inc.: Entering the Millennium, March 31,1999 and Footwear News, December 27, 1999.



Sources: HBS Case #9-299-084 "Nike, Inc.: Entering the Millennium, March 31,1999 and Footwear News, December 27, 1999.

<sup>3</sup> National Sporting Goods Association, 2002; www.sbrnet.com

## 2. The Promise of Globalization: Nike, Inc.

Founded in 1964 through an investment of \$500 each by Phil Knight and Bill Bowerman, the company (then called Blue Ribbon Sports--BLS) has evolved from being an importer and distributor of Japanese specialty running shoes to becoming the world leader in the design, distribution and marketing of athletic footwear.

Our business model in 1964 is essentially the same as our model today: We grow by investing our money in design, development, marketing and sales and then contract with other companies to manufacture our products.<sup>4</sup>

According to company legend, Nike's business model was developed by Knight while attending Stanford Business School in the early 1960s. Knight realized that while lower-cost, high-quality Japanese producers were beginning to take over the US consumer appliance and electronic markets, most leading footwear companies (e.g., Adidas) were still manufacturing their own shoes in higher-cost countries like the United States and Germany. By outsourcing shoe production to lower-cost Japanese producers, Knight believed that Blue Ribbon Sports could undersell its competitors and break into this market. As a result, Blue Ribbon Sports began to import high-tech sports shoes from Onitsuka Tiger of Japan. As sales increased to almost \$2 million in the early 1970s, BLS parted ways with Onitsuka and began to design and subcontract its own line of shoes. The Nike brand was launched in 1972, and the company officially changed its name to Nike, Inc. in 1978.

Nike developed a strong working relationship with two Japanese shoe manufacturers, Nippon Rubber and Nihon-Koyo, but as costs/prices increased in Japan over the course of the 1970s (due to a combination of a tighter labor market, the impact of the first Oil

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<sup>4</sup> As reported on Nike's web site, [nikebiz.com](http://nikebiz.com)

Crisis on Japan's economy, and a shift in the dollar/yen exchange rate as a result of the so-called "Nixon shock"),<sup>5</sup> Nike began to search for alternative, lower-cost producers. During these same years, Nike opened up its own shoe factories in Maine and New Hampshire, hoping to develop a reliable and high-quality source to supply its growing domestic market. At the same time, the company also began to cultivate potential suppliers in Korea, Thailand, China and Taiwan. By the early 1980s, as costs continued to increase in both Japan and the United States, and as the Korean government created a number of incentives to develop Korea's footwear industry,<sup>6</sup> Nike closed its US factories and sourced almost all of its production from Asia. In 1982, 86% of Nike's athletic footwear came from Korea and Taiwan.<sup>7</sup>

Over time, as Korea and Taiwan also began to develop, costs began to rise in these countries as well. As a result, Nike began to urge its suppliers to re-locate their operations to other, lower-cost countries. The company worked with its lead suppliers to open up manufacturing plants in Indonesia, China and Vietnam. By guaranteeing a significant number of orders and by placing Nike employees at these new factories to help monitor product quality and production processes, Nike was able to help its lead vendors establish an extensive network of footwear factories throughout Southeast Asia.<sup>8</sup>

Today, Nike's products are manufactured in more than 700 factories, employing over 500,000 workers in 51 countries. (See Table 2). Nike has only 22,658 direct employees,

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<sup>5</sup> For more on these years, see Yasusuke Murukami, "The Japanese Model of Political Economy," in The Political Economy of Japan: Volume 1, The Domestic Transformation, Kozo Yamamura and Yasukichi Yasuba, eds., (Stanford University Press, 1987).

<sup>6</sup> These and other government incentive programs are nicely described in Alice H. Amsden, Asia's Next Giant, (Oxford University Press, 1989).

<sup>7</sup> International Sourcing in Athletic Footwear: Nike and Reebok, HBS Case # 9-394-189: pp 2-5.

<sup>8</sup> For more on the evolution of Nike's strategy, see Nike (A), HBS Case # 9-385-025; International Sourcing in Athletic Footwear: Nike and Reebok, HBS Case # 9-394-189; and J.B. Strasser and Laurie



the vast majority working in the United States.<sup>9</sup> Over the years, Nike has broadened its product range. Whereas in 1980, Nike sold 175 different styles<sup>10</sup> of shoes, it offered 772 different styles in its Spring 1990 collection and almost 1200 different styles in its Spring 2000 collection.<sup>11</sup> Nike has also moved into other sectors (apparel and sports equipment) and expanded its sales beyond the United States into Europe, Latin America and Asia. (See Appendix A.) Last year, the company made about US\$9.5 billion in revenues, of which 59% came from footwear sales and 29% from apparel.

**Table 2 - Regional & Product Distribution of Suppliers**

Country	# of Factories	Apparel	Equipment	Footwear	# workers
Albania	1	1	0	0	200
Belarus	1	1	0	0	70
Argentina	4	3	0	1	436
Australia	11	9	2	0	400
Bangladesh	4	3	1	0	14,120
Brazil	9	3	1	5	5,488
Bulgaria	4	4	0	0	881
Cambodia	2	2	0	0	2,021
Canada	21	20	1	0	2,300
Chile	1	1	0	0	100
China	74	35	22	17	175,960
Dominican Rep	5	4	1	0	3,995
Ecuador	1	1	0	0	353
Egypt	3	3	0	0	600
El Salvador	8	8	0	0	4,044
Germany	2	2	0	0	30
Greece	19	19	0	0	5,300
Guatemala	2	2	0	0	816
Holland	3	3	0	0	81
Honduras	5	5	0	0	2,438
Hungary	1	1	0	0	1,650
India	23	19	1	3	16,071
Indonesia	30	16	3	11	104,514

Becklund, Swoosh: The Unauthorized Story of Nike and the Men Who Played There, (Harper Business 1991).

<sup>9</sup> Nike, Corporate Responsibility Report, FY 2001: p. 1

<sup>10</sup> This includes different color combinations of shoes.

<sup>11</sup> These figures come from various Nike catalogues. We would like to thank Jody McFarland for helping us obtain these data.

Israel	3	1	2	0	2,157
Italy	12	8	2	2	5,000
Japan	6	2	4	0	1,500
Korea	49	31	10	8	4,000
Laos	2	2	0	0	2,452
Lithuania	1	1	0	0	45
Macau	3	3	0	0	500
Macedonia	1	1	0	0	215
Malaysia	42	41	1	0	8,044
Micronesia	2	2	0	0	672
Mexico	41	39	0	2	12,258
Morocco	2	2	0	0	1,274
new Zealand	1	1	0	0	50
Pakistan	3	2	1	0	9,880
Peru	4	4	0	0	5,286
Phillippines	22	18	4	0	9,400
Portugal	23	23	0	0	1,872
Romania	3	3	0	0	2,900
Singapore	2	2	0	0	300
South Africa	2	2	0	0	660
Sri Lanka	16	16	0	0	10,286
Taiwan	35	24	7	4	15,600
Thailand	62	42	11	9	47,962
Turkey	16	15	1	0	7,944
UK	5	5	0	0	814
USA	131	117	14	0	13,369
Vietnam	12	7	0	5	43,414
Zimbabwe	1	0	0	1	7,000
<b>Total</b>	<b>736</b>	<b>579</b>	<b>89</b>	<b>68</b>	<b>556,722</b>

Source: Nike, Corporate Responsibility Report, FY 2001.

Important differences exist among the sectors in which Nike competes. Although still primarily known as a footwear company, only 68<sup>12</sup> out of its 736 suppliers are producing shoes. Most of these suppliers are located in Asia. (See Appendix B). In contrast, Nike apparel products are manufactured in 579 factories distributed throughout the world. These differences are due both to the rules governing international trade in the two industries and to the underlying nature of these industries (footwear factories are usually large, capital-intensive facilities, whereas garment factories are usually smaller, easy to set up, and extremely labor-intensive operations). Whereas footwear quotas were

<sup>12</sup> Twenty of these footwear suppliers manufacture shoes for Cole Hann, a Nike subsidiary. Thus, only about 50 suppliers and manufacturing Nike brand shoes.

eliminated by the mid-late 1980s (leading to a consolidation of the industry), trade in garments is still very much shaped by the existence of quotas (Multi-fiber Agreement).<sup>13</sup> In 2005, according to the World Trade Organization Agreement in Textile and Clothing, quotas in garments produced in WTO member states should also end. At present, neither Vietnam nor Cambodia are WTO members and thus quotas will remain in place after 2005.

These industry differences have a significant impact on the kinds of relationships that Nike can develop with its various suppliers. For example, in footwear, Nike has been able to develop long-term relations with several large Korean and Taiwanese firms. With some of these firms, Nike designers create and then relay via satellite new footwear designs and styles for upcoming seasons to suppliers, who in turn, develop the prototypes. Once these prototypes are approved, these lead suppliers fax the product specifications to their various plants throughout Southeast Asia, where production can take place almost immediately. This level of trust and coordination facilitates both production and (usually) compliance activities for Nike. In apparel, given short product cycles and volatile trends, the situation is completely different. Nike works with numerous suppliers, most of whom are also working for other (often competitor) companies. Given that different apparel suppliers specialize in particular products or market segments, shifts in consumer preferences or fashion trends could translate into very short-term contracts with and/or limited orders from Nike. This alters both the level of influence which Nike has with these suppliers as well as its ability to monitor on a regular basis the production processes and working conditions of these factories.

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<sup>13</sup> For a fascinating discussion of the impact of quotas on the international apparel industry, see David Birnbaum, Birnbaum's Global Guide to Winning the Great Garment War, (Hong Kong: Third Horizon

## 2. The Perils of Globalization: Wages, Working Conditions and the Rise of the Anti-Nike Movement

The same factors that permitted Nike to grow at an impressive rate over the last several decades – taking advantage of global sourcing opportunities to produce lower cost products and investing these savings into innovative designs and marketing campaigns – have also created serious problems for the company in recent years. Already in the 1980s, Nike had been criticized for sourcing its products in factories/countries where low wages, poor working conditions, and human rights problems were rampant. However, over the course of the 1990s, a series of public relations nightmares – involving underpaid workers in Indonesia, child labor in Cambodia and Pakistan, and poor working conditions in China and Vietnam – combined to tarnish Nike’s image. As Phil Knight lamented in a May 1998 speech to the National Press Club, “the Nike product has become synonymous with slave wages, forced overtime, and arbitrary abuse.”<sup>14</sup>

How Nike, a company associated with athleticism, health and fitness, and innovative marketing and design, came to become the poster child for the anti-globalization movement provides an interesting window into the potential risks and problems which globalization creates for all multinational corporations. In what follows, we provide not a comprehensive review of the various abuses of which Nike and its suppliers have been accused in recent years, but merely three anecdotal illustrations of the kinds of problems the company has confronted.

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Press, 2000).

<sup>14</sup> Quoted in “Hitting the Wall: Nike and International Labor Practices,” HBS Case # 9-700-047

## Low Wages in Indonesia<sup>15</sup>

In the early 1990s, Nike products were being manufactured in six Indonesian factories, employing more than 25,000 workers. Four of these factories were owned by Nike's Korean suppliers. As Nike's presence in Indonesia increased, the factories supplying its products (about six million pairs of shoes per year) came under greater scrutiny. Reports by a variety of NGOs and labor activists claimed that these plants were rife with exploitation, poor working conditions, and a range of human rights and labor abuses. Many Indonesian shoe factories did not even pay the minimum daily wage (at the time, 2,100 rupiah or about US\$1). They petitioned the Indonesian government for exemptions to the legal minimum wage, claiming it would cause them "hardship" to pay. According to official Indonesian government calculations, this minimum daily wage only covered 70% of the basic needs of one individual – let alone a family. Nike's Korean suppliers were seen as especially stingy with wages and abusive to local workers. "One worker at Nagasaki Para Shoes, a Nike contractor, said that she and other Indonesians were 'terrified' of their South Korean managers: 'They yell at us when we don't make the production quotas, and if we talk back they cut our wages.'"<sup>16</sup>

The plight of workers in these factories became publicized through the skillful use of media by several NGOs. Jeff Ballinger, founder of Press for Change, (but at the time employed by the Asian-American Free Labor Association, a branch of the AFL-CIO), spent nearly four years in Indonesia, exposing low wages and poor working conditions in factories producing Nike goods. In 1993, CBS aired a report about workers' struggles at

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<sup>15</sup> This section relies heavily on "International Sourcing in Athletic Footwear: Nike and Reebok," HBS Case #, 9-394-189, "Hitting the Wall: Nike and International Labor Practices," HBS Case # 9-700-047, and "Nike: What's it all about." Electronic memo, Global Exchange, 1999.

<sup>16</sup> "International Sourcing in Athletic Footwear," p. 5.

Nike's Indonesian suppliers, featuring Ballinger. In 1994, harsh criticism of the company's practices appeared in an array of different publications: The New Republic, Rolling Stone, The New York Times, Foreign Affairs, and The Economist.

At first, Nike managers sought to ignore and/or deflect these criticisms, arguing that the Indonesian factories were owned and operated by independent contractors, not by Nike. Nike's Vice President for Asia at the time claimed that Nike did not "know the first thing about manufacturing. We are marketers and designers."<sup>17</sup> The company's general manager in Jakarta argued, "They are our subcontractors. It's not within our scope to investigate [allegations of labor violations]."<sup>18</sup> But by the mid-1990s, Nike instructed its Indonesian contractors to stop applying for exemptions to the legal minimum wage. In April 1999, after the Indonesia government raised minimum wages to 231,000 rupiah/month (US\$26), Nike announced that it would raise wages for workers employed by its suppliers above the legal minimum wage, from between US\$30-37.50 per month.

### **Child Labor in Pakistan<sup>19</sup>**

The city of Sialkot, Pakistan, is home to a cluster of small- and medium-sized firms specializing in an array of labor-intensive, export-oriented goods, including hand-stitched soccer balls. About 70% of the world's high-quality soccer balls are produced in Sialkot – many of them for leading brands like Reebok, Nike, Mitre and Adidas. About a dozen local firms dominate the local sports good cluster, in terms of employment and

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<sup>17</sup> "International Sourcing in Athletic Footwear," p. 6.

<sup>18</sup> Ibid.

<sup>19</sup> This section draws heavily on Khalid Nadvi and Sajid Kazmi, "Global Standards and Local Responses," unpublished manuscript, Institute for Development Studies, Sussex, United Kingdom, February 2001.

production. Yet there exist a wide range of subcontractors and specialist input suppliers also working in the area. Home work is also common in this region.

In June 1996, Life magazine published an article on child labor in Pakistan, which included a photo of a 12 year old boy stitching a Nike soccer ball. This article and its accompanying photo unleashed another wave of criticism against Nike and a call by various consumer groups, trade unions, and NGOs to boycott Sialkot-produced soccer balls. According to Maria Eitel, Vice President and Senior Advisor for Corporate Responsibility at Nike, this represented a “critical event” for the company in terms of its understanding of globalization, international labor standards, and corporate responsibility.

According to Dusty Kidd, Vice President for Compliance at Nike, Nike was already working with Saga, its supplier, to eliminate homework and produce soccer balls in more centralized stitching centers. But the impact of the Life magazine article was nonetheless devastating for Nike’s brand image. Today, Nike sources soccer balls only from Saga’s 12 stitching centers. In response to the wave of criticisms generated by this episode, the Sialkot Chamber of Commerce and Industry signed the so-called Atlanta Agreement with the ILO, UNICEF and several leading sports goods associations to implement a program to eliminate child labor from the soccer ball sector. As a result of the Atlanta Agreement, the ILO’s International Program for the Elimination of Child Labor (IPEC) arrived in Sialkot to monitor local soccer ball producers and to provide various social protections, training and other income-generating activities for families whose children used to work in stitching plants. Nike insists that any of its contractors caught employing child workers must remove the child from the factory, continue to pay

the child's wages, and pay for the child's school fees until he/she reaches legal working age. Yet, notwithstanding the arrival of IPEC and Nike's new child labor policies, the ILO reports that many local employers continue to use children in their stitching centers and that in response to increased monitoring of standards in Sialkut, some soccer ball production has moved to other, nearby but less regulated areas of Pakistan.

### **Health and Safety Problems in Vietnam<sup>20</sup>**

In November 1997, an Ernst and Young audit of one of Nike's Korean subcontractors, the Tae Kwang Vina Company operating in Vietnam, was leaked to an NGO called Transnational Resource and Action Center (TRAC) — later renamed CorpWatch. At that time, Tae Kwang Vina employed over 9000 workers and produced more than 400,000 pairs of Nike shoes per month. The Ernst and Young audit, commissioned by Nike, reported serious health and safety problems at the Tae Kwang Vina plant. Toulene concentrations were said to exceed between 6 and 177 times acceptable standards in certain sections of the plant. (Toulene is a chemical solvent that is known to cause central nervous system depression, damage to the liver and kidney, and various skin and eye irritations). The report also claimed that chemical releases in the plant had caused numerous cases of skin and heart disease, and that respiratory ailments, due to excess dust, were rampant in other areas of the factory. According to the report, personal protective equipment was not provided at the factory and working conditions and work hours at the plant were in violation of Nike's code of conduct.

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<sup>20</sup> This section draws heavily on Dara O'Rourke, "Smoke From A Hired Gun: A Critique of Nike's Labor and Environmental Auditing in Vietnam as performed by Ernst and Young," CorpWatch, November 10, 1997.



News of this report, which appeared in the New York Times and other leading newspapers, ignited another wave of indignation over Nike's relations with its suppliers. This incident was particularly damaging for Nike since the report came from Ernst and Young, a leading accounting and consulting firm that Nike had hired to audit its suppliers' factories. In addition, the Tae Kwang Vina factory had been one of the factories former Ambassador to the UN Andrew Young had previously visited, as part of a study tour of Nike suppliers sponsored by the company. In his report of Nike's suppliers, Young did not mention the serious health and safety issues at the plant.<sup>21</sup> In short, more than simply another example of poor working conditions at one of Nike's supplier's plants, this episode called into question the company's honesty about and commitment to labor and environmental/health standards.

These three events, combined with the numerous others that were reported in the press, created a major public relations problem for Nike. (Appendix C traces the number of negative articles about Nike that appeared in major publications.) Increasingly, labor and environmental problems at Nike's suppliers' factories were becoming a major problem for Nike itself. These events made Nike a target for the anti-globalization and anti-sweatshop movements. Several NGOs decided to focus most of their attention on Nike and the various problems found among its suppliers. Web sites focusing solely on Nike and its alleged abuses appeared on the world wide web and were used by NGOs and various activist groups to share information, coordinate protests, and further embarrass the company.<sup>22</sup> Consumer and labor groups organized boycotts of Nike goods and pickets

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<sup>21</sup> The Young Report on Nike's suppliers has been severely criticized as "limited" and "biased" by an array of different NGOs.

<sup>22</sup> See, for example, Oxfam's NikeWatch Campaign, the Clean Clothes Campaign's "Nike Case," Press for Change's [nikewages.org](http://nikewages.org), and the Global Exchange's "Nike: What's it all about." All can be found on the

at Nike shops. Under pressure from several student groups, some universities cancelled their orders with Nike to produce collegiate athletic products. As a result of these various activities, the company's hard-earned image began to tarnish.

#### 4. Nike's Response: Learning to Become a Global Corporate Citizen<sup>23</sup>

As we saw earlier, at first, Nike managers refused to accept any responsibility for the various labor and environmental/health problems found at their suppliers' plants. Workers at these factories were not Nike employees, and thus Nike had no responsibility towards them. By 1992, this hands-off approach changed as Nike formulated a Code of Conduct for its suppliers that required them to observe some basic labor and environmental/health standards. Potential suppliers for Nike were obligated to sign this Code of Conduct and post it within their factories. Critics have charged that Nike's Code of Conduct is minimalist and not fully enforced, claiming that posting the Code in factories where most employees are functionally illiterate and/or do not possess the power to insist on its implementation is simply window dressing. Nonetheless, the evolution of this document indicates that Nike is seeking to address several of the most serious problems found in its suppliers' plants. (See Appendix D for the latest version of this code.) Since 1998, Nike has increased the minimum age of footwear factory workers to 18 and all other workers (in apparel, equipment) to 16. It has also insisted that all footwear suppliers adopt US Occupational Safety and Health Administration (OSHA) standards for indoor air quality. In fact, a quick review of some of Nike's recent efforts in

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various web sites of these organizations. B.J. Bullert, another anti-Nike activist, has written a fascinating memo on the anti-Nike campaign by various NGOs. See B.J. Bullert, "Strategic Public Relations, Sweatshops and the Making of a Global Movement."

<sup>23</sup> This section is based on interviews with several Nike managers in July 2002. See Appendix D for list of

the area of labor and environmental/health standards shows that the company is serious about doing the right thing.

### **New Staff and Training**

In response to the growing criticisms, Nike created several new departments (e.g., Labor Practices (1996), Nike Environmental Action Team (NEAT) (1993)) which, by June 2000, were organized under the Corporate Responsibility and Compliance Department. Last year, in an effort to strengthen the links between production and compliance decisions, the compliance department was moved into the apparel division. Today, Nike has 85 people specifically dedicated to labor and environmental compliance, all located in countries where Nike products are manufactured. These employees visit suppliers' footwear factories on a daily basis. In apparel, given the much larger numbers of suppliers, Nike managers conduct on-site inspections on a weekly or monthly basis, depending upon the size of the firm. In addition to its corporate responsibility and compliance managers, Nike has about 1000 production specialists working at/with its various global suppliers. All Nike personnel responsible for either production or compliance receive training in Nike's Code of Conduct, Labor Practices, Cross Cultural Awareness, and in the company's Safety, Health, Attitudes of Management, People Investment and Environment (SHAPE) program. The company is also developing a new incentive system to evaluate and reward its managers for improvements in labor and environmental standards among its supplier base.

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interviewees.

## **Increased Monitoring of Its Suppliers**

In recent years, Nike has pushed its suppliers to obey standards through increased monitoring and inspection efforts. For example, all potential Nike suppliers must undergo a SHAPE inspection, conducted by Nike's own production staff. The SHAPE inspection is a preliminary, pre-production inspection of factories to see if they meet Nike's standards for a clean and healthy workplace, respectful labor-management relations, fair wages and working conditions, and minimum working age. After this initial assessment, labor practices are more carefully audited by Nike's own labor specialists as well as by outside consultants like PriceWaterhouseCoopers (PWC). This second audit looks more carefully at the company's wages, use of overtime, availability of benefits, and age of its employees. In addition to the SHAPE and labor practices audits, all factories are evaluated by Nike's production personnel on a range of issues like quality, flexibility, price, delivery, technical proficiency, managerial talent and working conditions. The goal of these various inspections and audits is to sift through Nike's vendor base and retain only those who meet not only price, quality and delivery expectations but also labor and environmental health standards.

The company is currently developing a grading system for all of its suppliers, which it will use to determine future orders and thus create a strong incentive among its suppliers to improve working conditions. Nike is also exploring new incentive schemes that will reward good corporate citizenship among both its suppliers (again through increased and more value-added orders) and its own managers. Nike managers

responsible for supplier factories that show improvement in labor practices and health and environmental standards will be rewarded in still to be defined ways. In addition to its own internal inspections, Nike suppliers are regularly audited by external firms like Ernst and Young, PWC and various accredited non-profits that specialize in this work (e.g., Verite).

### **Relations with International and Non-Profit Organizations**

In addition to developing internal expertise and capacity in the area of standards and corporate responsibility and working with its own suppliers to improve their performance in these areas, Nike has been active in founding and/or supporting an array of different international and non-profit organizations, all aimed at improving standards for workers in various developing countries. For example, Nike is actively involved in the **United Nations Global Compact**. Launched in 2000 by UN Secretary General Kofi Annan, the Global Compact seeks to promote corporate citizenship among multinational companies. Companies seeking to join the Global Compact adhere to a set of core standards in human rights, labor rights and environmental sustainability. They engage in a variety of activities aimed at improving these standards in the countries where the MNCs operate. Nike is also a founding member of the **Global Alliance for Workers and Communities**, an alliance of private, public and non-profit organizations that seeks to improve workplace conditions and improve training opportunities for young workers in developing countries. Other members of the Global Alliance include The Gap, Inc., the MacArthur Foundation, and the World Bank. Finally, Nike is active in the **Fair Labor Association**, formerly the Apparel Industry Partnership. Initiated in 1996 by President

Clinton, the FLA is an American non-profit organization that seeks to bring together various industry stakeholders to develop a common set of standards and to monitor these standards around the world. Although the FLA has experienced controversy, including the defection of its union affiliates, it has recently begun to sponsor independent audits of the factories supplying its members.

The results of these various activities have begun to produce some significant changes among Nike suppliers. For example, as a result of its various inspections, audits and internal research, Nike has been able to virtually eliminate the use of petroleum-based chemicals in its footwear production. This is something even the company's critics acknowledge.<sup>24</sup> Nike has taken the initiative in organizing an industry-wide organic cotton consortium and is making major strides in improving working conditions among its various suppliers.<sup>25</sup> Of course, not all of Nike's critics are convinced. Many continue to complain about poor wages and working conditions at Nike's suppliers in Vietnam, China and Indonesia. Others argue that Nike's initiatives are simply not enough and that the company could do much more in the areas of wages, working conditions, human rights, and local socio-economic development. Yet the continuing controversy over Nike and its various activities are not in any way particular to Nike. Rather, they are reflective of much broader debates about the definition of corporate citizenship and the process of globalization.

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<sup>24</sup> Interview with Dara O'Rourke, formerly of CorpWatch and now an Assistant Professor of Planning at MIT.

<sup>25</sup> On the Organic Cotton Initiative, see Nike's Corporate Responsibility Report, FY 2001. For an example of improved working conditions and even relations with unions among Nike suppliers, see Verite's Comprehensive Factory Evaluation Report of the Kukdong International Mexico plant in Puebla, Mexico, March 2001. This report can be found on Nike's web site, [www.nikebiz.com](http://www.nikebiz.com).

In terms of corporate citizenship, there is significant debate over the responsibilities of corporations. Should companies behave solely to enhance shareholder wealth, or should they act to benefit other groups (both within and outside the firm) as well? Should corporate decision-making be driven solely by economic considerations, or are other (social) factors equally important? How does one measure and account for these other considerations? Are corporations responsible only to their own employees and shareholders, or are they also responsible for the employees of their suppliers and subcontractors? What are the boundaries or limits of any individual company's responsibilities? Given that there are no universal standards and that not all companies are promoting labor and environmental standards as rigorously as Nike is, how does one promote greater coordination and collective action among major producers? If some companies promote and monitor for higher standards and others do not, does this erode the competitive edge of the "good" corporate citizens?

A related set of questions and divergent views characterize debates over globalization and its consequences. Should multinational companies abide by so-called international labor and environmental standards, or is this simply regulatory imperialism and de facto protectionism in another guise? Will the imposition of these standards on developing countries diminish their competitive advantage and thus damage their economic development? Or will improved labor and environmental standards lead these local producers to upgrade their production processes and up-skill their workforces and thus enhance their long-term competitiveness? Who (which actors) should be responsible for developing these standards? National governments, international organizations,

transnational non-governmental organizations, local trade unions and civil society groups or even individual corporations (through their own Codes of Conduct)?

The standards (if any) which are implemented and the actors who set the standards will have dramatic consequences on the future trajectory – and the relative winners and losers – of globalization. Thus, it should come as no surprise that these issues have provoked so much controversy and debate in recent years. These questions – and how they are answered – will shape the future of international management for many years to come.



## Appendix A: Nike Sales and Revenue

[[[Note to Graphics Team: please orient this table sideways. Thanks!]]]

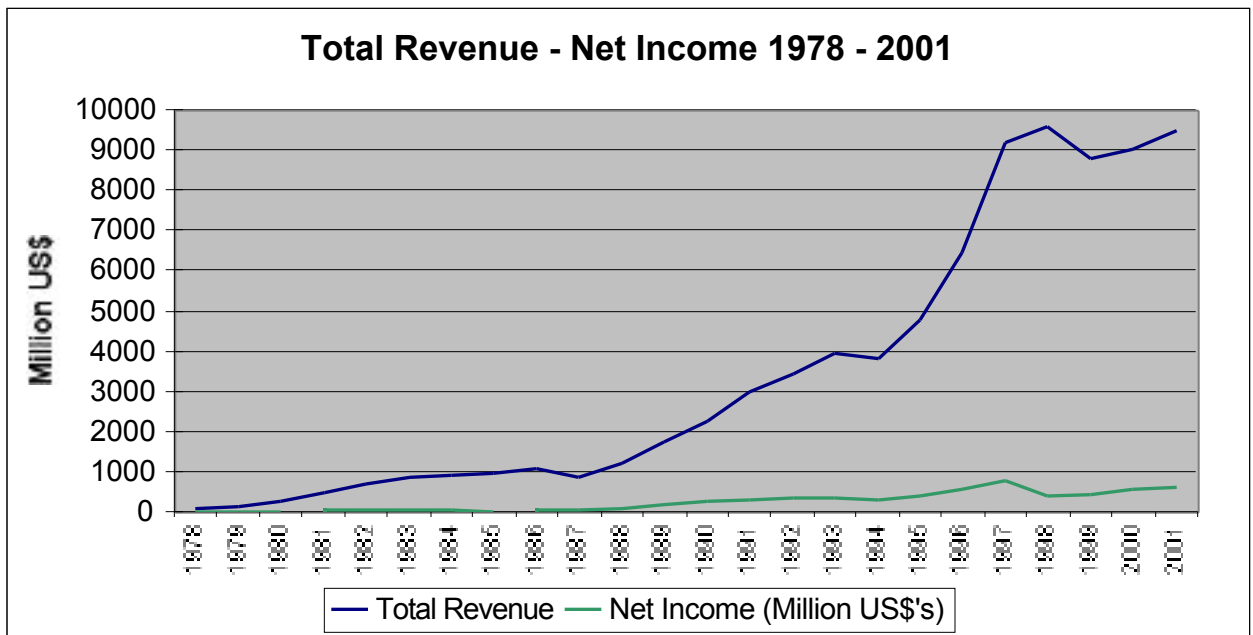
**Table 1 - Sales & Net Income**

Sales (Million US\$'s)	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	
US Footwear	69	144	239	581	666	640	567	650	510	758	1,058	1,369	1,680	1,744	1,969	1,869	2,309	2,772	3,754	3,4		
US Apparel	1	2	8	33	70	107	122	160	165	131	143	208	266	327	369	361	339	424	831	1,407	1,5	
US Athletic Equipment	-	-	-	-	-	-	-	2	3	1	-	-	-	-	-	-	-	-	-	-	-	
Non-US Footwear	-	-	-	-	-	-	-	-	-	-	-	-	-	652	868	1,049	998	1,244	1,682	2,391	2,4	
Non US footwear + Non-US Apparel	1	4	126	43	94	158	217	252	235	303	348	479	-	-	-	-	-	-	-	-	-	
Non-US Apparel	-	-	-	-	-	-	-	-	-	-	-	-	-	210	268	353	359	473	651	1,087	1,4	
Other	-	-	-	-	-	-	-	-	-	-	-	-	96	121	135	157	199	223	312	534	548	€
<b>Total Revenue</b>	<b>71</b>	<b>150</b>	<b>2458</b>	<b>694</b>	<b>867</b>	<b>920</b>	<b>946</b>	<b>1,070</b>	<b>877</b>	<b>1,204</b>	<b>1,710</b>	<b>2,235</b>	<b>3,004</b>	<b>3,406</b>	<b>3,931</b>	<b>3,788</b>	<b>4,762</b>	<b>6,470</b>	<b>9,187</b>	<b>9,5</b>		
<b>Net Income (Million US\$'s)</b>	<b>4</b>	<b>10</b>	<b>126</b>	<b>49</b>	<b>57</b>	<b>41</b>	<b>10</b>	<b>59</b>	<b>36</b>	<b>102</b>	<b>167</b>	<b>243</b>	<b>287</b>	<b>329</b>	<b>365</b>	<b>299</b>	<b>400</b>	<b>555</b>	<b>796</b>	<b>4</b>		

Sources: 1978-97: HBS Case #9-299-084 "Nike, Inc.: Entering the Millennium," March 31, 1999 and 1998-2001: Company financial information.

## Figure 1 - Net Income

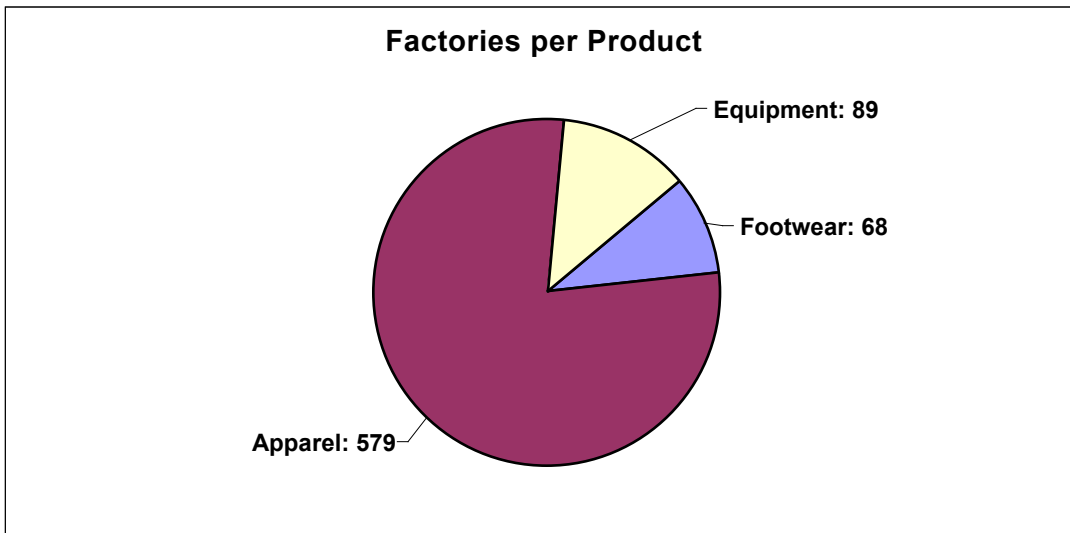
Sources: a) 1978-97: HBS Case #9-299-084 "Nike, Inc.: Entering the Millennium," March 31, 1999.  
b) 1998-2001: Company financial information



## Appendix B - Regional Product Distribution of Nike Suppliers

**Table 1 - Factories per Product**

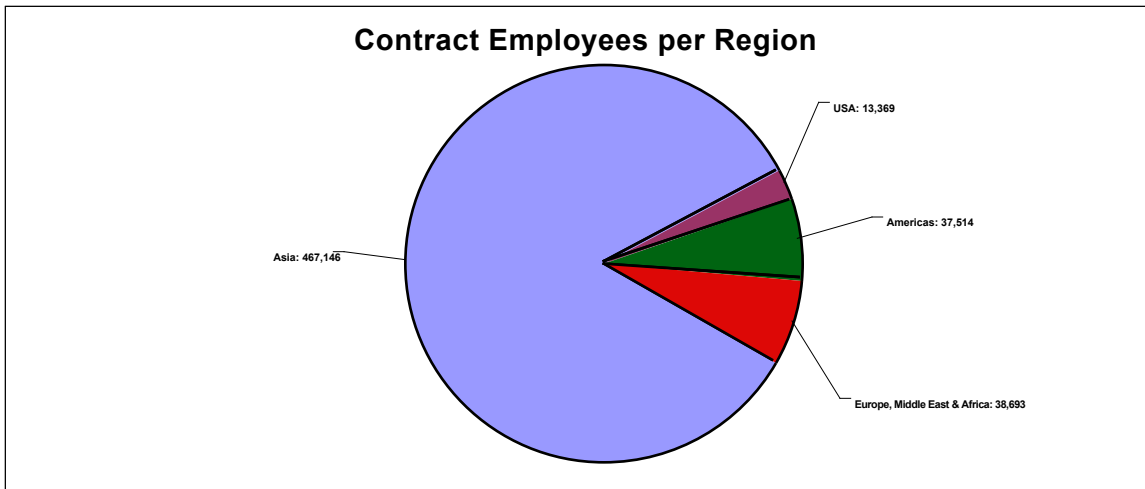
<b>Factories per Product</b>	<b># of Factories</b>
Footwear	68
Apparel	579
Equipment	89
<b>Total</b>	<b>736</b>



**Source:** Nike, Corporate Responsibility Report, FY 2001.

**Table 2 - Number of Contract Workers**

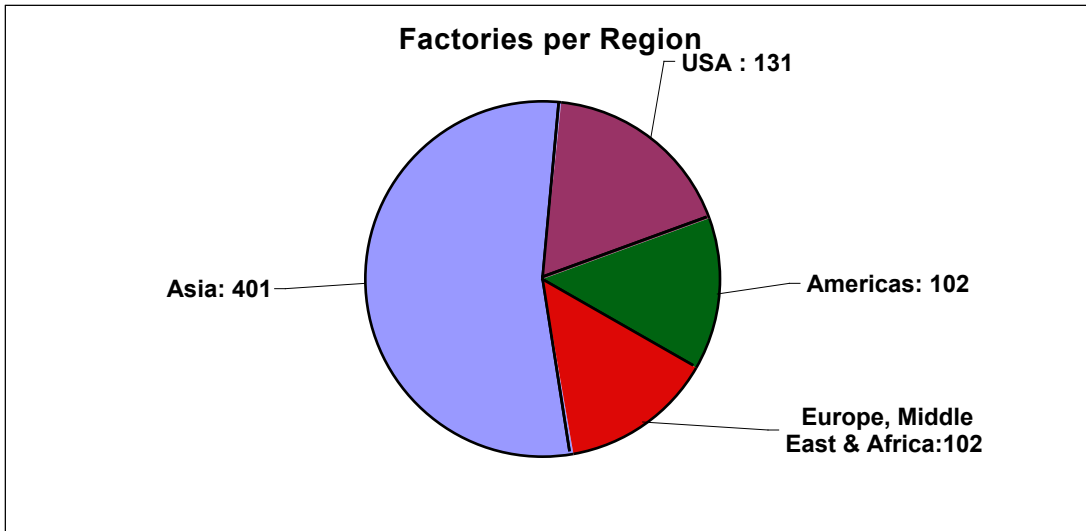
<b>Region</b>	<b>Contract Workers Yr 2001</b>
Asia	467,146
USA	13,369
Americas	37,514
Europe, Middle East & Africa	38,693
<b>Total</b>	<b>556,722</b>



**Source:** Nike, Corporate Responsibility Report, FY 2001.

**Table 3 - Factories per Region**

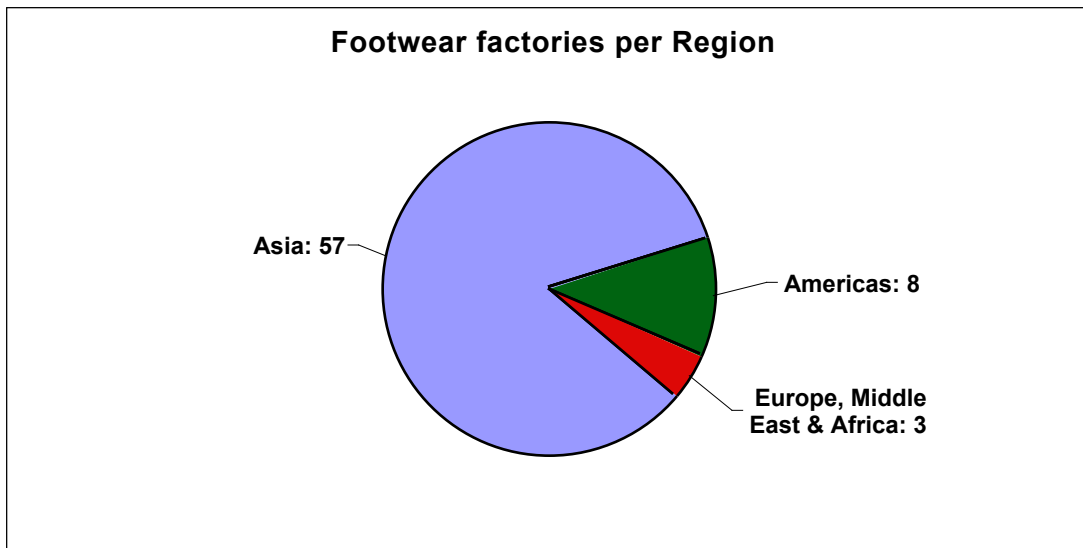
<b>Region</b>	<b># of Factories</b>
Asia	401
USA	131
Americas	102
Europe, Middle East & Africa	102
<b>Total</b>	<b>736</b>



**Source:** Nike, Corporate Responsibility Report, FY 2001.

**Table 4 - Footwear Factories by Region**

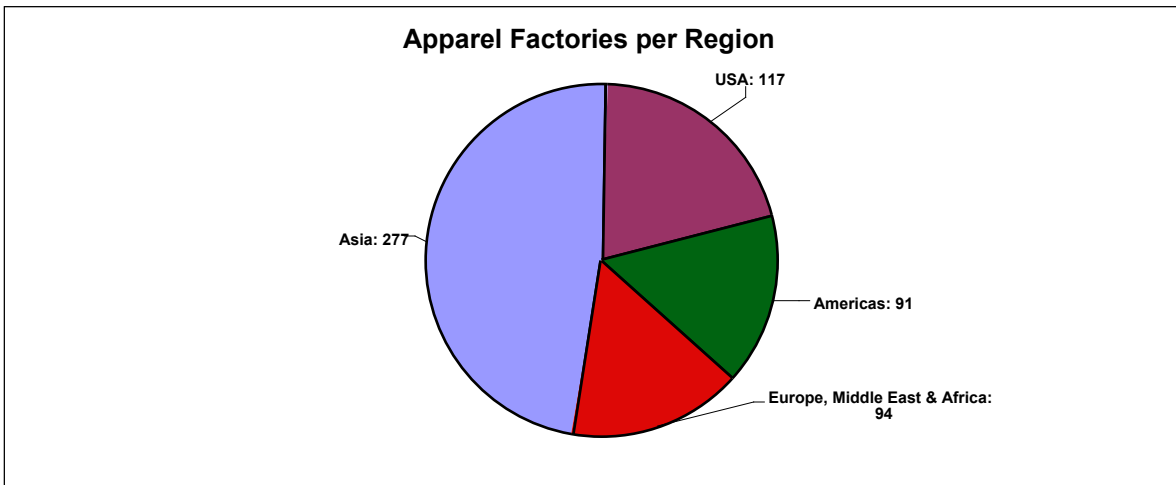
<b>Region</b>	<b># of Factories</b>
Asia	57
USA	0
Americas	8
Europe, Middle East & Africa	3
<b>Total</b>	<b>68</b>



**Source:** Nike, Corporate Responsibility Report, FY 2001.

**Table 5 - Apparel Factories per Region**

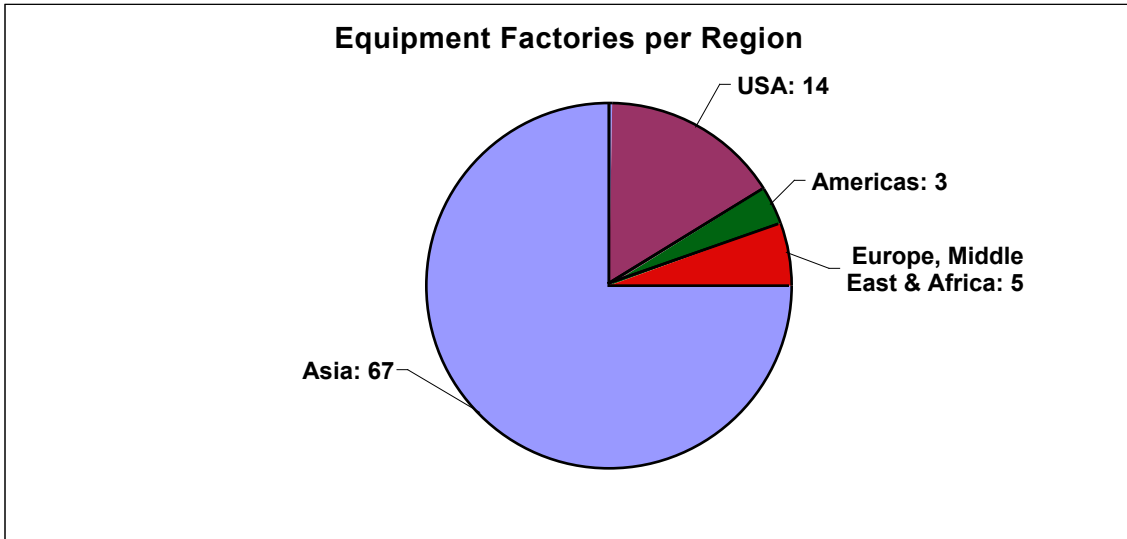
<b>Region</b>	<b># of Factories</b>
Asia	277
USA	117
Americas	91
Europe, Middle East & Africa	94
<b>Total</b>	<b>579</b>



**Source:** Nike, Corporate Responsibility Report, FY 2001.

**Table 6 - Equipment Factories per Region**

<b>Region</b>	<b># of Factories</b>
Asia	67
USA	14
Americas	3
Europe, Middle East & Africa	5
<b>Total</b>	<b>89</b>



**Source:** Nike, Corporate Responsibility Report, FY 2001.



## Appendix C - Nike Labor Relations Media Mentions

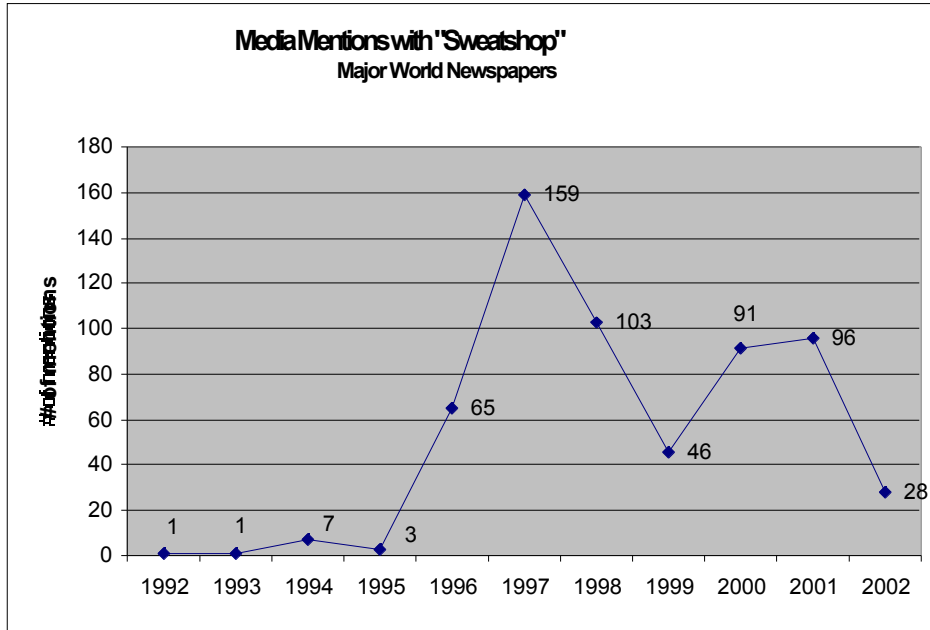
**Source:** Major World Newspapers through Lexis-Nexis database

**Search words:** Nike & Sweatshop

**Time frame:** previous ten years

**Number of documents containing both words:** 600

**Time distribution**



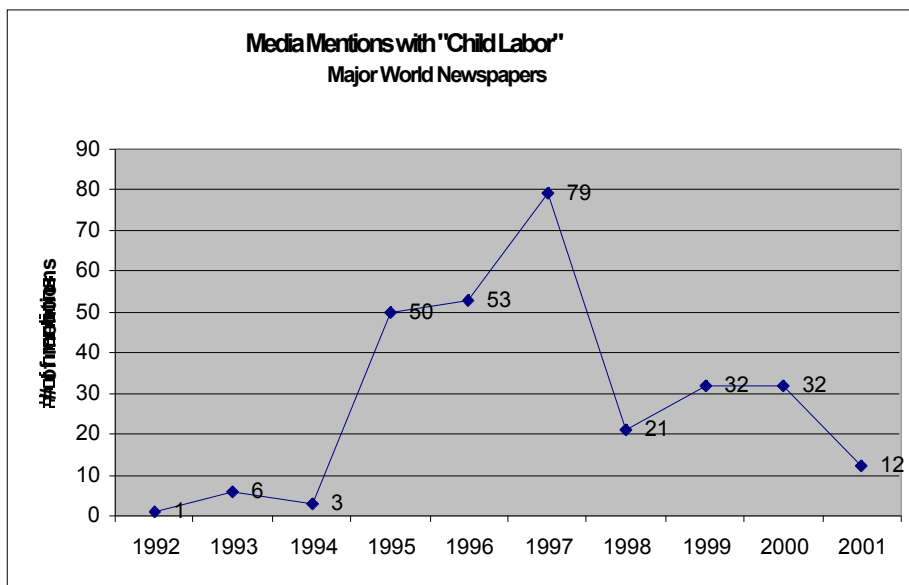
**Search**

**words:** Nike & Child Labor

**Time frame:** previous ten years

**Number of documents containing both words:** 289

**Time distribution**



**Search words:**  
&

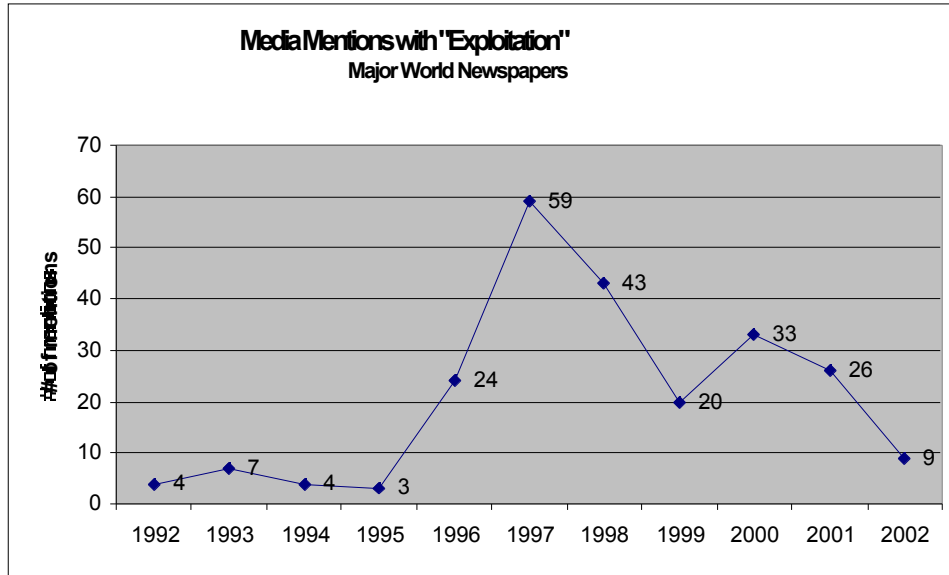
Nike

Exploitation

Time frame: previous ten years

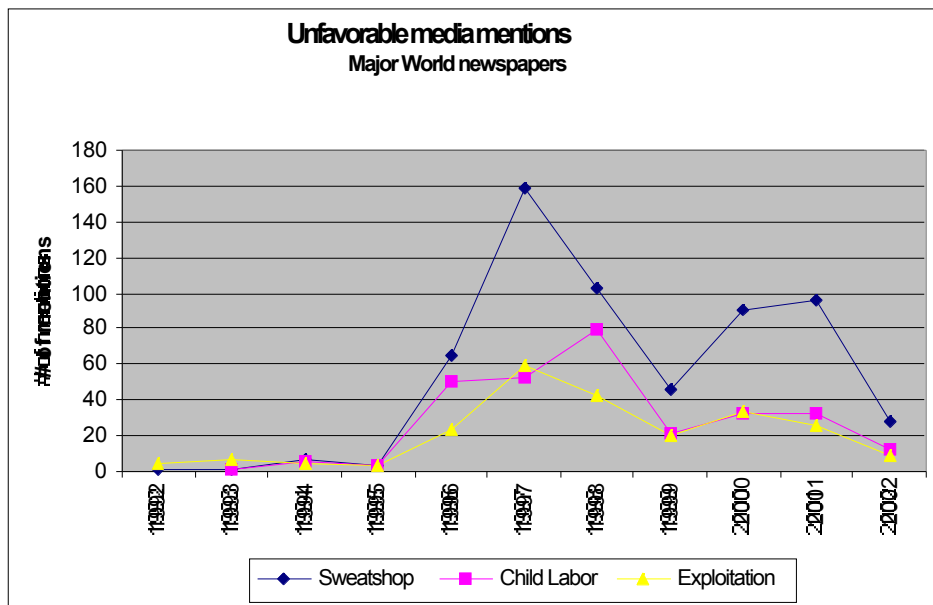
Number of documents containing both words: 232

Time distribution



### Combination of three searches

Note: Articles may be repeated and some may contain all three search words used.



## Source Newspapers used in search

- **Major Newspapers:** U.S. newspapers must be listed in the top 50 circulation in Editor & Publisher Year Book. Newspapers published outside the United States must be in English language and listed as a national newspaper in Benn's World Media Directory or one of the top 5% in circulation for the country.

Asian Wall Street Journal  
Atlanta Journal and Constitution, The  
Australian Financial Review  
Baltimore Sun, The  
Boston Globe, The  
Boston Herald, The  
Buffalo News, The  
Chicago Sun-Times  
Christian Science Monitor, The  
Columbus Dispatch, The  
Daily News (New York)  
Daily Yomiuri (Tokyo), The  
Daily/Sunday Telegraph (London), The  
Denver Post, The  
Dominion (Wellington), The  
Evening Post (Wellington), The  
Financial Times (London)  
Gazeta Mercantil Online  
Gazette (Montreal), The  
Guardian (London), The  
Herald (Glasgow), The  
Houston Chronicle, The  
Independent and Independent on Sunday  
(London), The  
Irish Times, The  
Jerusalem Post, The  
Journal of Commerce  
Los Angeles Times  
Miami Herald  
New Straits Times (Malaysia)  
New York Times, The  
Observer, The  
Omaha World Herald  
Ottawa Citizen  
Plain Dealer, The  
San Diego Union-Tribune  
San Francisco Chronicle, The  
Scotsman & Scotland on Sunday, The  
Seattle Times, The  
South China Morning Post  
Southland Times (New Zealand), The  
St. Louis Post-Dispatch  
St. Petersburg Times

Star Tribune (Minneapolis MN)  
Straits Times (Singapore), The  
Tampa Tribune, The  
Times and Sunday Times (London), The  
Times-Picayune, The  
Toronto Star, The  
Toronto Sun, The  
USA Today  
Washington Post, The

## Appendix D – The 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 by law, but what is expected of a leader. We expect our business partners to do the same. NIKE partners with contractors who share our commitment to best practices and continuous improvement in:

1. Management practices that respect the rights of all employees, including the right to free association and [collective bargaining](#)
2. Minimizing our impact on the environment
3. Providing a safe and healthy work place
4. Promoting the health and well-being of all employees

Contractors must recognize the dignity of each employee, and the right to a work place free of harassment, abuse or corporal punishment. Decisions on hiring, salary, benefits, advancement, termination or retirement must be based solely on the employee's ability 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 and we bind our contractors to these principles. Contractors must post this Code in all major workspaces, translated into the language of the employee, and must train employees on their rights and obligations as defined by this Code and applicable local laws.

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

1. Forced Labor. The contractor does not use forced labor in any form -- prison, indentured, bonded or otherwise.

2. [Child Labor](#). The contractor does not employ any person below the age of 18 to produce footwear. The contractor does not employ any person below the age of 16 to produce apparel, accessories or equipment. If at the time Nike production begins, the contractor employs people of the legal working age who are at least 15, that employment may continue, but the contractor will not hire any person going forward who is younger than the Nike or legal age limit, whichever is higher. To further ensure these age standards are complied with, the contractor does not use any form of homework for Nike production.

3. Compensation. The contractor 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 employee pay for disciplinary infractions.

4. Benefits. The contractor provides each employee all legally mandated benefits.

5. Hours of Work/Overtime. The contractor 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 on a regularly scheduled basis, or complies with local limits if they are lower.

6. [Environment, Safety and Health \(ES&H\)](#). From suppliers to factories to distributors and to retailers, Nike considers every member of our supply chain as partners in our business.

As such, we've worked with our Asian partners to achieve specific environmental, health and safety goals, beginning with a program called MESH (Management of Environment, Safety and Health).

7. Documentation and Inspection. The contractor maintains on file all documentation needed to demonstrate compliance with this Code of Conduct and required laws; agrees to make these documents available for Nike or its designated monitor; and agrees to submit to inspections with or without prior notice.

## **Appendix E - List of Nike Interviewees**

1. Oscar Cardona, Vice President, Human Resources, USA
2. Marie Eitel, Vice President and Senior Advisor, Corporate Responsibility
3. Fukumi Hawser, Director of Compliance
4. Jerry Hauth, Director, Corporate Responsibility, Equipment Division
5. Dusty Kidd, Vice President, Compliance
6. Heidi McCloskey, Global Sustainability Director, Nike Apparel
7. Mary Roney, Global Employee Involvement Manager, Global Community Affairs
8. Josh Tomaselli, Vice President, Apparel Sourcing
9. Patrick Werner, Director, Apparel Compliance
10. John Wilson, Director, Contact Manufacturing, Equipment Division