Nike’s Unethical Treatment of Overseas Factory Workers

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Abstract

This paper examines Nike Inc.’s treatment of employees working at factories contracted by Nike in foreign countries. Recent protests staged by employees at overseas factories who are under contract by Nike, have once again thrust the company back into the spotlight for its treatment of factory workers. The subsequent events lead one to ask the question; Is Nike morally and ethically responsible for the treatment of employees in factories under contract with Nike in foreign countries?. This paper will use the 5-Question Approach to Ethical Decision Making as a guide to reach an answer.
Nike is the largest athletic shoe company in the world. Nike still controls more than 36 per cent of the athletic shoe market in the United States and more than 33 per cent of the global athletic footwear market. Although still primarily known as a footwear company, Nike has also moved into apparel and sports equipment. In fact, only 70 out of its 830 suppliers produce shoes. In 2004, the company had about US$12.2 billion in revenues, of which US$6.5 billion came from footwear sales and US$3.5 billion from apparel. In 2004, Nike products were manufactured by more than 800 suppliers, employing over 600,000 workers in 51 countries. Nike employs only 24,291 direct employees, the vast majority working in the United States. All other workers are employed by independent suppliers. (Locke, Kochan, Romis, & Qin, 2007).

Despite the continued growth in sales Nike is still plagued by accusations of unethical treatment of its overseas employees. An article written in The New York Times states (Greenhouse, 1997) “Like many American apparel makers, Nike uses many subcontractors in Asia, with some 150 factories employing more than 450,000 workers. And like many, that tricky relationship is often offered as a reason why it is hard to impose American-style business practices on factories in that part of the world.” Nike does not own any overseas facilities. This enables the company to put the unethical treatment of employees squarely on the backs of the countries in which they are governed.

“In January of 1997, as Nike began aggressively assessing its own factories, one Ernst and Young audit of a Vietnamese facility returned horrific results. This particular factory had no drinkable water and toxic chemical concentrations up to 177 times the allowable safety limits. With respect to the laborers, 48 of the 50 worked longer than permitted hours, workers were punished for taking time off to attend weddings and funerals, and 80% had never read the code of conduct. Some workers did not know what ‘Nike’ was. The section of the audit report entitled ‘safety committee’ was merely stamped with the word, ‘non-existent’” (Bell DeTienne, 2005).
This article shows that Nike can implement changes in order to appease their customers in the United States but having all those rules and regulations mean nothing to their workers if Nike does not force its suppliers to assimilate to those changes.

There have been many protest and complaints against Nike for a slew of different unethical treatments against employees. “The company's pattern of operations follows a very simple theme: As wages and living standards increase, Nike looks elsewhere. Every time the company has moved its operations from one country to another it has been to a place with a lower wage scale.” (Herbert, 1996). In May, about 4,000 Cambodian laborers stood outside a Nike clothing factory in Kampong Speu Province, just outside the urban capital, Phnom Penh. Earning a monthly wage of $74, the workers wanted an additional $14 a month to help pay the costs of transportation, rent, and health care. They would not go back to work without it. Factory owners fired some 300 employees, claiming they didn’t follow labor union rules of protest. (Barber, 2013) In contrast to foreign employees the average yearly pay for the sales associates, the lowest paid US Nike employees is $18,750 (glassdoor.com)

“A Nike contractor in Indonesia allegedly went to extreme measures to bring some workers in line, according to a new report from the U.S. nonprofit Educating for Justice. The report claims a shoe factory in Sukabumi, Indonesia, which produces Nike products allegedly hired high-ranking Indonesian military officers to force workers to agree to work for less than the country's minimum wage, which had just gone up. The military officers allegedly intimidated reluctant workers into signing a petition saying that the Nike contractor did not have to pay the new minimum wage. Six Nike-contractor factories in Indonesia have applied for an exemption from the minimum wage law, the Australian Broadcasting Corporation reports; they needed consent from some workers in order to be eligible. If the factories get the exemption, they will be able to
pay their workers $3.70 per day instead of $4 per day. This is not the first time that Nike has come under fire for its labor practices in the country. A Nike shoe factory in Serang, Indonesia, failed to pay its workers for 600,000 hours of overtime work over two years.” (Kavossi, 2013) Even though Nike the factories are subcontractors to Nike, the company is and should be held responsible for the actions of the contractors they employ. Among other things Nike has been accused of breaking child labor laws. According to an article written in the *Seattle Times:* “At the Wellco plant in Dongguan County near Hong Kong, owned by a Korean subcontractor for Nike, people as young as 13 reportedly were doing sewing and cutting work, workers said. Chinese labor law says no child under 16 may work in a factory, the report said. Researchers said talking during work was not allowed, with violators fined $1.20 to $3.60, according to the report. It said that at the nearby Taiwanese-owned Nority plant that makes Reebok shoes, workers were paid only $1.20 to $1.45 a day, in violation of the minimum-wage requirement of about $1.90 for an eight-hour day. And Nority employees routinely worked 12 hours a day, six or seven days a week, the human-rights groups said. Besides the regular hours, they reportedly put in two to five hours of forced overtime, in violation of Chinese law mandating a 44-hour week. Anyone who refuses overtime could be fined, docked an entire day's pay or even fired” (Dobnik, 1997) Nike continues to do business with all the contractors who were accused unethical behaviors towards its employees, this leads to the question is Nike responsible for the unethical treatment of employees who work indirectly for them through their subcontractors in foreign countries. To answer this questions using the 5 question approach to ethical decision making in order to reach a final conclusion.

1. *Is the decision profitable?* Yes. According to its website “Fourth quarter revenues rose 12 percent, or 14 percent on a currency neutral basis, to $6.5 billion, the largest revenue
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quarter in NIKE, Inc.’s history.” (Nikeinc.com, 2012). Nike does not manufacture its own products. It only designs and markets them. About 550,000 workers are employed in 700 factories in 50 countries to make Nike products, the majority in Asia. (9) The contractors tend to pay close to the minimum wage.(10) This cheap labor enables Nike to spend a great deal on design and marketing, pay large executive salaries, maintain large profits, and still keep the cost of the shoes affordable to the middle classes in affluent countries (Beder, 2002). NIKE, long the vanguard of U.S. companies producing in Asia, is now leading Corporate America’s charge into Vietnam. Twenty-five thousand young Vietnamese workers currently churn out a million pairs of Nikes every month. The lure of Vietnam is obvious. The country's minimum wage is $42 a month. At that rate, labor for a pair of basketball shoes which retail for $149.50 costs Nike $1.50, 1 percent of the retail price. Vietnamese newspapers report that Nike contractors even cheat many workers out of the paltry minimum wage (Ballinger, 1997). According to the above numbers the people who make Nike sneakers would have to save 3.5 month’s paycheck in order to afford one pair of sneakers that they make.

2. Is the decision legal? Yes. Nikes decision to do business with companies who are known for cheap labor, unethical practices in the work place and human rights violations is legal. “Nike insisted that it had no legal or moral responsibility for the actions of its independent contract partners. Nike maintained a very ethnocentric attitude in its approach to its contractors. Profiting from the international community must carry some obligations as well. Above and beyond the responsibility of business to act legally and morally is this very prevalent, undeniable, and practical issue of the social responsibility of business. The law determines legal accountability; philosophical ethics determines
moral accountability; but ascertaining the definition, nature, and extent of social responsibility emerges as a serious challenge for today’s business leaders, executives, and managers, especially in a global context. standards for them” (Bahaudin G. Mujtaba, 2005)

3. Is the decision fair? No, Nike’s decision to continue doing business with these countries that treat employees unfairly is not fair to the employees. Nike is like any other business its main objective is to make a profit. Nike can afford to pay the workers who are making their products the equivalent of that countries minimum wage without cutting deep into the company’s bottom line. As a company that brings so many jobs to these foreign countries Nike has enough power to make sure the workers in the factories are treated fairly. They hire the firms who run their factories so they can regulate those firms and either reprimand the ones that run like sweat shops or stop doing business with them. Once they stop turning a blind eye, other factories would be forced to straighten up because they will see what can happen to them. Outsourcing labor is a cheap way to cut cost for Nike; they should have outsourced the same rights that their US employees have.

4. Is it Right? By turning a blind eye to the plight of employees working in the factories under contract with Nike, the company is essentially telling those employees they do not matter. As stated above Nike does not own the factories that make its products. The company defends itself by saying different countries are governed by different rules so its hands are tied. It is not right to do business with factory owners who mistreat employees. Even though those employees do not directly work for Nike they still work for the company indirectly which leaves Nike, bearing some responsibility for their working conditions. After all they are the ones making the Nike products.
5. *Is the decision going to further sustainable development?*  If Nike does not force the factories to make conditions better for its workers then they stand the chance to lose sales from consumers who are concerned about the mistreatment of foreign workers. The company also risks employees going on strike and interrupting the supply chain which can negatively impact Nike’s sales. The era of social responsibility is forcing business to answer for unethical treatment or employees as well as issues such as hazardous workplace environments. Businesses can no longer hide behind the legality of certain situations. They now have to be ethically and socially responsible. With social media bringing the world together, companies can no longer sweep things under the rug. US consumers as well as other wealthy countries who buy Nike products, can now turn on their phones, TV or computers and see what is going on around the world in real time. Nike stand’s to lose sales and tarnish its reputation if they do not address the problems in factories they have contracts with. The risk of losing business and consumer confidence can cost the company more than they save in cheap labor. Nike should include in their contracts with these factories an employee’s bill of rights. This would ensure that they factory owners will be obligated to treat employees better.

Based on the 5 question approach to ethical decision making, Nikes relationship with companies that mistreat employees though legal and profitable is and will always be unethical if they do not set up policies that ensure that the employees working in those factories get better working conditions.

Due to continued media and public scrutiny Nike began implementing changes that will ensure better working conditions and pay for factory workers. Nike without directly admitting that it
was unethical has changed its business practices overseas and has started to target the way factory owners treat their employees.

“An Indonesian factory that makes sneakers Nike Inc. has agreed to give its workers $1 million in back pay for unpaid overtime, employee representatives said. A national trade union representing nearly 4,500 employees at the PT Nikomas Gemilang IY shoe plant in Banten province said the plant's workers were owed for 600,000 hours over a two-year period. The $1 million settlement followed 11 months of negotiations. Nike said the plant is developing a task force to rectify labor grievances, creating a more robust grievance procedure and updating other human-resource practices where appropriate. The plant also has engaged a third party accredited by the Fair Labor Association to review plans, conduct employee satisfaction surveys, and report on the results.” (anonymous, 2012)

In an effort to head off attacks on its labor practices in Asia, Nike Inc. said it plans to boost the minimum age for its new Asian workers and implement a series of other labor changes. Nike Chairman Phil Knight, in a speech to the National Press Club, said

“The company will raise the minimum hiring age to 18 at its footwear plants and to 16 at its apparel plants. Mr. Knight said Nike also plans to tighten air-quality standards at all its 350 overseas plants, where it employs about 500,000 workers. Nike employs about 350,000 workers in 180 plants in Asia. All of Nike's clothing, shoes and sports gear are made in plants owned by third-party manufacturers. Mr. Knight said the changes would cost Nike "several million dollars" In Indonesia, where Nike has been heavily criticized for underage hiring, the minimum working age is 14. Nike has said it doesn't employ anyone in the country under the age of 16 but that its competitors are hiring younger workers. Mr. Knight said Nike will also require its contractors to conduct air-quality testing at all overseas footwear plants and to match U.S. air-quality standards. Nike plans to replace the use of petroleum-based solvents in the sneaker plants with less-toxic water-based adhesives. In addition, Nike said it will expand monitoring programs in the plants and will institute education and increase its small-business-loan program for workers' families in developing nations” (Richards, 1998).

Although Nike continues to work on the ethical issues pertaining to the treatment of factory employees in their supply chain the company still has a long way to go. According to Nike INC, (Nike Inc) the company states “Our ability to improve our own footprint and shape sustainability solutions at scale relies on fundamentally changing the nature of our relationships across the value chain, including – importantly – with the factories that make our products. Like many global companies that outsource production, our supply chain is complex, fragmented and often influenced by factors beyond our power and purview. That’s what makes our work so challenging. We do not own these factories, so we cannot simply mandate changes. At the same time, some problems persist. While some factories meet or beat all of our standards, certain issues continue to arise. Issues around working hours, overtime and associated wages have made up the vast majority of violations found by audits of footwear, apparel and equipment factories. We’ve found ourselves devoting a lot of time and resources to addressing these types of issues in the poorer-performing
factories, while having less time to engage with the higher-performing factories. Through this journey we have learned that monitoring does not bring about sustainable change. Often, it only reinforces a pattern of hiding problems. We have also recognized that one of the major barriers to factories embracing change is a lack of knowledge and relevant systems.”

The above statement show’s that Nike does acknowledge that the factories that the company has contracts with do mistreat its employees. Although Nike has implemented changes geared toward changing the way factory employees are treated according to the company’s statements it is almost impossible to maintain those standards with monitoring alone. That leaves other unanswered questions such as, why are these new policies making improvements in only certain factories? How effective is Nike’s monitoring of factories if managers can easily fix up the factories for a day in order to pass inspections? If Nike is aware of the factories who fake inspections, why doesn’t the company reprimand those factory owners? How does Nike expect to get accurate results when Factory owners know when they are getting an inspection? These are all questions that should be taken into consideration when implementing new codes of conduct to overseas factories. The bottom line is, it looks good for Nike as a company if the factories are passing their inspections so making those inspections more strenuous would be shooting Nike in the foot and making a mockery of their claims of corporate responsibility.

There are many ways to look at the issue with Nike. From an ethical standpoint the company should be held accountable for the horrendous work environments of overseas employees. On the other hand Nike is a business and all business’ have one thing in common, profit. Nike is in the business of making money. Labor in the United States is expensive compared to the countries Nike has their factories in. As a company Nike looks to cut cost and increase profits having cheap labor is a major way to cut the companies cost. Consumers face the same choices Nike faces every day. For example, when shopping for goods and services most consumers will not to an expensive hair salon over a cheaper one to get the exact same services; that is the same principle Nike is following on a larger scale. Information published shows that Nike has taken aggressive steps in changing its corporate image as well as the way employees are treated. Nike has reacted to the criticisms with a range of defensive measures designed to refute the claims while also protecting the company’s public image. It joined Apparel Industry Partnership, a new
group of clothing manufacturers that hopes to eradicate the use of sweatshops by enforcing an industry-wide code of conduct in their overseas factories. It also severed its relationship with some of its contractors in Indonesia because they did not adhere to Nike's code of conduct and introduced a system of penalties for other factories failing to meet all of the company's standards. It hired Andrew Young, the ex-diplomat, former Atlanta mayor and civil rights activist, to conduct a survey of conditions at some of its factories abroad. Nike has been lobbying legislators, and talking to pressure groups, consumers and students on college campuses where the company's brand is especially popular. Everywhere the message is the same: pay rates at Nike factories may be low by western standards, but they offer employees a chance to earn a good wage by local standards while working in a humane environment. (Corzine & Harverson, 1997)

Nike has taken responsibility in implementing changes in the way factory employees are treated. Although these changes have improved working conditions for employees in some factories Nike is still ethically responsible for making working conditions in all their factories up to par. The profits being made by Nike does not offset and cannot pay for the human suffering involved in manufacturing their products. The only way to rectify the situation is to continue to do surprise inspections on these factories and hold the owners accountable by fining them for not implementing code of conduct changes.
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