

NIKE INC.: DEVELOPING AN EFFECTIVE PUBLIC RELATIONS STRATEGY

Donna Everatt prepared this case under the supervision of Professor Kathleen Slaughter solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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Nike is a company of people rooted in our responsibility to be good corporate citizens. We have improved labor practice throughout Southeast Asia by paying decent wages, adhering to a Code of Conduct, and having it monitored by independent parties.

In many cases, critics will tell you that Nike is doing a good job, but people target Nike because it's the market leader, and they believe other companies will change their labor practices.

Vada Manager
Global Director of Issues Management

It had been almost a decade since the media first alleged that Nike-aligned factories in China and Indonesia were forcing employees to work long hours for low pay under harsh working conditions, and for utilizing physically and verbally abusive managers. At that time, these allegations seemed so absurd to Nike managers, no response was deemed necessary. The article however, would be the seed of a global media campaign that was to gather such momentum, that by the mid-1990s, it had created a public relations nightmare for the company. By 1998, after three years of record performance, the financial crisis in Asia (a region that accounted for one-quarter of Nike's sales) and intense competition in the domestic market (which accounted for one-half of their sales) had contributed to a decline in

Nike's revenue and market share. Though no direct correlation could be proven between the consumer's negative perceptions of Nike and the company's decline in market share and stock price, it certainly did not help in their efforts to more solidly establish themselves as the global leader in a hotly competitive industry.

THE ATHLETIC FOOTWEAR AND SPORTSWEAR APPAREL INDUSTRY

Nike Inc., based in Beaverton, Oregon, created authentic athletic footwear, apparel, equipment and accessories for sports and fitness enthusiasts. By 1998, Nike's revenue had exceeded US\$9 billion (see Exhibit 1). The company was the undisputed market leader in the athletic shoe market in the U.S., selling four out of every 10 pairs of athletic shoes sold in the world's largest athletic shoe market. Nike was also the world's number one athletic shoemaker — commanding the market leadership position in many of the 110 countries where Nike goods were sold. Reebok placed a distant second with sales of approximately US\$3.5 billion, followed by Adidas and Fila.

In 1997, the athletic shoe industry had been characterized by poor sales, lower gross margins brought about by greater close-out sales in the U.S. and Asia, and high inventory levels. Sales had declined in both Asia (attributable to the Asian financial crisis) and the U.S., partly due to a shift of consumer tastes away from traditional white sneakers to darker, all-purpose footwear. Though many of these issues would remain a challenge throughout 1998, there was more optimism throughout the industry for the remainder of the year, into the next millennium. Nike was keen to be well poised to ride the wave of increased market opportunities.

NIKE — COMPANY LEGENDS

Nike began as a venture between Nike's CEO, Phil Knight, a student at the University of Oregon (U of O) (widely regarded as the most prestigious university in the U.S. for track and field) and Bill Bowerman, a U of O track and field coach. Knight went on to do an MBA at Stanford, where he wrote a paper on how to break Germany's domination of the U.S. athletic shoe industry, identifying a niche for affordable, high-tech athletic shoes.

Upon graduation from Stanford in 1964, Knight and Bowerman founded Blue Ribbon Sports, Nike's predecessor. After a trip to Japan, to source a supplier of high-tech athletic shoes based on Bowerman's designs, which had helped U of O runners break track and field records, Knight began distributing shoes at local track meets (selling the first versions out of the trunk of his 1963 Plymouth Valiant). During these venturesome times, Knight practiced as a certified public accountant and taught at Portland State University until 1969. Three years later the "Cortez" — the first athletic shoe to appear under the Nike brand name — was launched,

and became an immediate success. Crowned with their first triumph, Knight took an increasingly active role in launching innovative products and implementing groundbreaking marketing strategies in the industry to promote brand awareness, including the use of sponsorships to reinforce ties between product performance and athletes (including such high profile names as John McEnroe and Michael Jordan). (See Exhibit 2 for a chronology of Nike's development.)

Other innovative ideas included futures-based ordering, substantial investment in research and development and a dynamic organizational culture. Another key success factor was Nike's use of offshore manufacturing. Though Nike had begun manufacturing athletic shoes in Japan, their international manufacturing focus shifted in a major way to Taiwan and Korea in the mid-1980s until the early 1990s, following the industry trend of shifting domestic production to Southeast Asia (see Exhibit 2). Instead of losing the management skills and partnerships that Nike had forged with Taiwanese and Korean factory managers and owners, those stakeholders moved with Nike and built factories in China from scratch when the manufacturing base shifted once again. With another shift of the global manufacturing base to Indonesia and Vietnam, Nike followed the same strategy of working with the Korean and Taiwanese owners and managers with whom they had forged relationships. According to Knight, the benefits of international trade had become apparent in all the regions where Nike had sub-contracted manufacturing — "economic advancement of impoverished people, better values for consumers in developed countries and increased cross-cultural understanding." Global expansion of Nike's manufacturing base, combined with their international marketing efforts, resulted in Nike becoming one of the world's most recognized brands, with millions of people around the world identifying the "Nike swoosh" as a highly sought-after label.

However, the globally recognized "swoosh" had become increasingly difficult to defend in the face of negative publicity that had become a big part of Nike's story throughout the 1990s. During that period, allegations of worker abuse and exploitation in Nike-aligned factories gained such momentum, that it had shaken the company to the core. Company spokespeople constantly reaffirmed that worker abuse occurred infrequently among Nike's global workforce, and that when it was apparent, quick and decisive action was taken to eradicate it. Nike had conscientiously drafted a corporate code of ethics and was highly committed to enforcing it; it was well understood that the risk of not backing up their promises to improve factory conditions was to add hypocrisy to the charges already mounted against them. However, credibility was not easily achieved — western consumers had more faith in the activists than in Nike. Adding to the challenge was the fact that detractors had seemingly endless access to the media who were keen to provide their readers with scandalous headlines and tantalizing soundbites.

GUILTY UNTIL PROVEN INNOCENT

Fair labor practices had been a core value at Nike since it was founded, and Nike prided itself in playing a leadership role around the globe in this respect. Though several incidents of improper labor practices had indeed occurred, the 450,000 workers employed at the 150 Nike-aligned factories throughout Southeast Asia were often the best treated in the region, according to Manager. Nevertheless, with hundreds of thousands of workers throughout the region, ensuring that individual plant managers strictly adhered to corporate standards regarding labor practices was a formidable challenge.¹ Additionally, an entrenched history of deep animosity between the Vietnamese workers and their Korean and Taiwanese managers added a layer of sensitivity to the entire issue.

In 1998, Nike's communications strategy in dealing with the negative publicity was marked by a distinct shift from their original approach. For a three-year period, from the beginning of the negative press that began as a trickle in 1989 and lasted until 1992, Nike's policy was to largely disregard the issues, saying that the subcontractors were in charge. In an early 1990 issue of *The Oregonian* (the local paper where Nike world headquarters was located) David Taylor, Nike's vice-president in charge of production was quoted as saying that "we don't pay anybody at the factories, and we don't set policy within the factories. It's their business to run."

However, with increasingly rapid speed, the trickle seen in 1989 had become a torrent, and the media began running weekly and even daily accounts describing supposedly harsh factory conditions, low pay and instances of management abuse. Watchdog groups, including such high-profile groups as the Washington, D.C.-based Campaign for Labor Rights and San Francisco's Global Exchange accused managers at Nike's subcontracted factories of forcing factory workers to work excessively long hours, in unsatisfactory working conditions, for below average wages. These and other activists groups authored numerous articles outlining several particular incidences of worker abuses throughout Southeast Asia, targeting Nike-aligned facilities specifically. Their articles included stories depicting alleged humiliation and intimidation, and physical abuse of workers (the vast majority of whom were female) by their (male, foreign) managers — in an environment of record profits for Nike and high-profile multimillion dollar endorsement contracts. Watchdog groups accused Nike of worker exploitation through low pay, stating that a worker's pay was not only inadequate, but was spent mainly on feeding and housing themselves and their families, leaving them no chance to save money. Yet other accusations involved excess levels of toxic fumes in the workplace and forced overtime.

¹ In Vietnam alone for example, Nike employed 38,000 Vietnamese in their five factories — more than any other foreign business, and accounted for five per cent of the total exports for the country.

Specific incidents of abuse circulating on the international newswires included several incidents in Nike-aligned factories in Vietnam. Allegedly, as punishment for not wearing regulation (Nike) shoes to work, workers were forced to run laps in the 100-degree heat, causing several of them to faint. At another Nike plant, there were reports that 125 assembly-line workers were lined up and slapped with the sole of a Nike sneaker. At a third Nike-aligned facility, workers were allegedly forced to lick the factory floor for misdemeanors.

The media seemed only too willing to disseminate anti-Nike stories to aid the activist's campaigns. Numerous watchdog groups pursued Nike with a dogged determination, seemingly endless zeal and caustic, well-organized, media campaigns. And it did not end there. Several events were organized by unrelated groups that were not designed in collusion, but nonetheless served to synergistically fuel the attack on Nike.

The group Campaign Labor for Rights organized "National Days of Consciousness," which involved the distribution of leaflets outside Nike stores across the U.S. Activists met with officials at various universities throughout the country, attempting to persuade them of Nike's alleged unfair labor practices.² The irony of such a campaign did not escape Manager. Nike's competitors, who were also using off-shore manufacturing in Asia, were not subjected to the extent that Nike was, as an industry leader, and, thus, were often less circumspect in the monitoring and enforcement of the labor practices of their subcontracted factories. Nonetheless, by mid-1997, the campaign had rallied the participation of Nike's key target markets and had gone mainstream.

New Jersey schoolchildren staged an anti-Nike play on Broadway in October 1997. More than 40 members of Congress signed a letter — which circulated through the Capitol — calling on the company to improve conditions in the factories. Earlier that month, an "International Nike Day of Protest" was organized to "educate people on the deplorable working conditions in Nike's Asian manufacturing plants, and to get more people involved in global employment issues" according to organizers. Demonstrators in 28 states and 12 countries including Canada, Switzerland, Australia and Malaysia gathered to "encourage Nike to clean up its Asian sweatshops and to pay workers decent salaries." Admitting that Nike was not the only company accused of allowing poor working conditions in subcontracted factories, organizers said they had valid reasons for targeting Nike:

² One example occurred when Campaign for Labor Rights issued a statement that they had successfully lobbied team officials of the University of California at Irvine's women's basketball team to switch to Converse athletic products. A UC spokesman consequently issued a statement saying that the switch was due to personal ties that the new coach had with Converse. The spokesperson continued saying that "while we were sympathetic to the issues, it was purely a business decision" and "our men's basketball and track and field teams continue to wear Nike products."

Nike is one of the few companies that has great influence over the entire industry. If they changed and raised their human rights standards, it could set a precedent for the entire apparel and garment industries. We didn't call them a leader — they did. And they're not doing what a leader would do.

Medea Benjamin, director of Global Exchange,³ and one of Nike's harshest critics, constantly denounced Nike for ineffective monitoring of the working conditions in their subcontracted factories, and for not exerting more control over the conditions in those factories. Almost daily, damning statements such as "the only reason that Nike started to show any desire to clean up labor abuses is the media exposure generated by watchdog groups such as ours (Global Exchange)" were printed in national and international editions of the *New York Times*, the *Wall Street Journal*, and the *International Herald Tribune*.

High-profile critics included the iconoclastic filmmaker Michael Moore, who gained fame by satirizing General Motors in his film *Roger & Me*, and for his irreverent style of ambushing CEOs while filming documentary-style. In his book, *Downsize This*, Moore labelled Knight "Corporate Crook No. 3." While promoting his film *The Big One* on CNBC, Moore stated that Nike had "14-year-old girls in Indonesia making shoes for 40 cents an hour." Knight — the only CEO to respond to Moore when accosted by him — did so in a genuine attempt to answer some of Moore's accusations with facts regarding Nike's labor initiatives. However, this move backfired, as much of Moore's arguments never made it on released film (see Exhibit 3). From the perspective of Nike's senior management, statements such as these were just a few examples among hundreds of how Nike's critics distorted or ignored the facts and the complexity of Nike's human resources, wage policy and labor practices.

Despite the company's persistent efforts to clear the record on this, and many other contentious issues, facts were being lost in activists' rhetoric, and it was becoming increasingly challenging for Nike to defend their commitment to workers' rights in their subcontracted factories. In light of the importance to Nike to resolve these issues, a separate division — the Corporate Responsibility Division — was formed.

NIKE'S CORPORATE RESPONSIBILITY DIVISION

In 1998, Nike consolidated their community affairs, labor practices, environmental action groups into the Corporate Responsibility Division. One of the key players was Maria Eitel, Nike's vice-president of corporate responsibility. Reporting directly to Knight, Eitel was responsible for ensuring compliance of Nike's labor

³ Based in San Francisco, Global Exchange was a human rights organization (and the only one that had a full-time staff person devoted to the Nike anti-sweatshop campaign).

practices and environmental affairs, according to a Code of Conduct developed in 1992, as well as deepening the company's global community involvement. Though only 38, Eitel had gained valuable experience in public relations before joining Nike. She had behind-the-scenes experience as a reporter and producer for several large news stations, had been the White House deputy director of Media Relations and special assistant to past president George Bush from 1989 to 1992. Eitel had also held several top management positions in public and corporate affairs departments of various multinationals, including MCI Communications and Microsoft.

Eitel had been hired as part of Nike's efforts to improve their image as a good corporate citizen through real and tangible improvements in their labor, human resource and environmental practices. The use of a so-called "ethics manager" was an increasingly popular strategic move for corporations facing similar challenges. For example, Reebok International Ltd. had hired Sharon Cohen to act in the same capacity as Eitel. However, according to Benjamin:

Yes, Cohen has been more effective in crafting a corporate image than Nike; however, she's had less to deal with. The only reason Reebok has escaped such extensive international criticism is because the focus has been on Nike. Also, though Cohen is effective on the PR front, I consider her less successful in making real changes on the ground.

In response to Nike's detractors, who remained either cautiously optimistic or overtly cynical, stating that Eitel had been hired as a public relations move as opposed to an instrument of true change (referring to her as "more of a lapdog than a watch dog") Eitel responded:

I'm really being given responsibility, and Nike is really very committed to these issues and doing the right thing. This is in no way a public relations exercise. I'm here to look at programs and policies and to work with our critics. I wouldn't have taken the job if the desire to do the right thing wasn't there.

Another key player in the implementation of Nike's commitment to fair labor practice and corporate communications strategy was Dusty Kidd, Nike's director of labor practices. Kidd's mandate was one of tremendous importance and enormous scope. Specifically, he was responsible for the management and training of contract labor managers, trainers and inspectors in key production countries including China, Vietnam and Indonesia. To manage information on Nike's initiatives on this front, and for any other potentially contentious issues, Vada Manager was hired in 1997 in the capacity of Senior Manager, Corporate Communication. Manager had come directly from another market leader of the apparel industry, Levi Strauss, where he acted in a similar capacity. Within a short

time, Manager was promoted to Director, Issues Management, Global. Despite Manager's determined efforts to educate the public on Nike's efforts, and resultant successes, in improving the conditions at their subcontracted factories abroad, the media's relentless attack on Nike seemed to be gathering momentum — both externally and internally.

EMPLOYEE MORALE

Simon Pestridge, Nike's labor practices manager, was responsible for managing corporate programs at post-secondary institutions throughout the US. Pestridge explained that over the years, he had seen a change in the type of interaction he had with students that he encountered on campus. For years, Pestridge would often be approached by students who were very interested in working at Nike. However, he was now more frequently questioned (and often reproached) for Nike's perceived labor practices in developing countries, finding that he had to defend Nike's position on such issues. In order to do so, he felt that it was critical that he visit some of the factories in Asia, and witness the conditions there first-hand.

During his tour of several Asian factories, Pestridge was encouraged by what he saw. After speaking with several workers on an informal basis, his pride to be associated with Nike was reaffirmed, and he was eager to correct erroneous perceptions of Nike's labor policies — both externally and internally. He explained:

Several of my colleagues explained that they had been repeatedly put in the difficult position among their peer group, friends and relatives of defending their employment at Nike in light of the perceptions of Nike's labor policies in subcontracted factories in Southeast Asia.

I heard stories that at parties, when our employees began small talk about their hobbies and careers, lively discussions would ensue. Soon, many employees began to demand our position on various moral issues. We saw emotional discussions emerge on our intranet.

Nike has always encouraged questioning and freedom of speech, because we had nothing to hide. Over time, we have discovered that we need to address this issue internally in a systematic way to ensure that our employees are aware of the extent of our efforts to safeguard the well being of our employees everywhere.

Defending the brand internally, and externally, was becoming an increasingly difficult mandate for the Corporate Responsibility team. A major thrust toward this end was the establishment of Corporate Standards and Practices programs.

NIKE CORPORATE STANDARDS AND PRACTICES

To ensure that Nike's partners "shared their commitment to the promotion of best practices and continuous improvement in occupational safety and health, compensation, hours of work and benefits standards," Nike implemented their Corporate Standards programs, which included MESH (Manufacturing-Environment-Safety-Health), Manufacturing Leadership Standards, and a Code of Conduct and Corporate Practices, including outside monitoring and a compliance system (ensuring compliance to the Code of Conduct).

A key component of their Corporate Standards was Nike's Code of Conduct, drafted in 1992. The Code of Conduct was designed as a quantifiable way to ensure Nike's responsibility to their workers and to demonstrate their commitment to this responsibility (see Exhibit 4). According to a Nike press release, the Code of Conduct was universal in its application:

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

When press reports and watchdog groups continued to fervently accuse Nike of allowing poor conditions in their subcontracted factories, senior management continually referred to the Code to substantiate their serious commitment to improving the situation. Another key component of Nike's corporate standards was their MESH program.

Launched in June 1998, MESH was designed to ensure best practices in human resource management, protection of the environment and compliance on health and safety policies. Moreover, every Nike subcontracted manufacturing facility was obligated to adhere to these Manufacturing Leadership Standards, which included:

- Nike's stance against fines for disciplinary shortcomings and deposits as a condition of employment
- Protection from discrimination against pregnant workers, to ensure equal opportunity for female workers

- The strict requirement for all contractors to have a “simple, clear, written and mandatory Personal Protective Equipment (PPE) policy” and all applicable PPE available where appropriate
- The provision of annual leave at the worker’s request (accompanied by an encouragement of taking the time off versus working for additional bonus pay)
- Strict monitoring of time-keeping, through the use of time clocks, and pay documentation through clear payment records, which must accompany a worker’s wage
- The compensation of workers during their training period and a fair wage structure
- The agreement of the subcontracted factory to undergo a Price Waterhouse Coopers Labor Practices Assessment Audit, and a Nike SHAPE (Safety-Health-Attitude of Management-Environment) inspection before approval

Manager explained that Nike was committed to ensuring that the principles behind their Corporate Standards programs were applied in reality. When deficiencies were found, Nike and the factory in question worked together on plans of action to bring the factory into compliance. If the factory management team was unwilling or unable to meet Nike’s standards, the contractor was “formally fined, put on probation and given specific time lines and target actions to accomplish, or face losing the business,” according to a Nike corporate document outlining their policy on enforcement of the Code of Conduct. If that failed, the relationship would be terminated — a move Nike had resorted to only 10 times since 1996, given the adverse impact such a step would have on the workers and their dependents.

According to Manager, Nike’s Corporate Standards and Practices programs ensured a comprehensive and groundbreaking crusade for a deepening commitment to improved conditions at subcontracted factories. Manager pointed out the irony did not escape him or his colleagues in the Social Responsibility Department of having to constantly defend labor practices when the company had led labor responsible practice throughout its history. Nonetheless, given the growing public protests and stories in the press depicting Nike in a negative light, it was clear that Nike was not perceived to be a responsible corporate citizen.

However, despite the breadth and scope of Nike’s Standards and Practices programs, they were ultimately ineffective in persuading the public that Nike was serious in eradicating poor labor conditions in their subcontracted factories throughout Southeast Asia. Critics relentlessly contended that the Code actually meant little, if anything, to the average factory worker, and remained highly cynical that the Code was making any real impact on the working environment. The deluge of damaging press continued. If anything, perceived shortcomings in Nike’s plan to improve conditions had increased the anti-Nike sentiment among watchdog groups and consumers. Nike consistently drew their critic’s attention back to the Code of Conduct, as well as their extensive use of independent monitoring.

NIKE'S AUDITING AND INDEPENDENT MONITORING

According to Manager, Nike had been the first company in the apparel industry to use ongoing independent monitoring. With a view to improving corporate practices where necessary, Nike commissioned Dartmouth College's Tuck School of Business and the former U.N. Ambassador Andrew Young to visit 15 Nike factories and to subjectively report on conditions. The Tuck students reported that "workers earned above the local minimum wage, and with special allowances such as meals, housing and health care, as well as the opportunity to work overtime, the workers were earning more than enough to cover their basic needs."

The Young report, released by Nike in the summer of 1997, was similarly encouraging and Nike felt that it presented an accurate appraisal of factory conditions. Young's conclusion; "Nike is doing a good job — but can do better." Young went on to say that "though Nike's performance was positive overall, the Code of Conduct is not visible on the factory floors and (is) not well understood by the factory workers." In response, Nike issued each worker with a laminated pocket-sized card, printed in the local language, which outlined acceptable corporate labor practices. Nike also launched training programs in factories to ensure the Code was well understood by all workers at every level. In the report, Young also stated that it was his "sincere belief that Nike is doing a good job in the application of its Code of Conduct, but Nike can — and should — do better."

The study was widely criticized by human rights groups as lacking objectivity. Benjamin was quoted as saying, "Nike has spent millions of dollars buying off major athletes — now it's bought off Andrew Young." In response, Nike printed a full-page ad in seven major newspapers, including the *New York Times* (see Exhibit 5); however, the negative press was relentless — within a matter of hours, national newswires had nine headlines on Nike, and Garry Trudeau had created a whole series of *Doonesbury* comic strip⁴ ridiculing Nike for its labor practices. It seemed that despite Nike's well-organized and genuine efforts to improve conditions, their actions were misconstrued by their critics' well-oiled anti-Nike machine. According to Manager, there were innumerable examples of how Nike's detractors ignored the larger, far-reaching implications of many issues.

NIKE'S POSITION

Wages at Nike subcontracted factories, for example, were a hotly debated issue. According to a Nike press release, many activists chose to "disregard the growing body of data regarding our contribution to workers in developing countries." Nike's position on wages was clear — Manager found it illogical to draw a comparison between factory wages in Vietnam, China or Indonesia and the U.S. where the cost of living was exponentially higher. Complicating the issue was the

⁴ A popular political satire in the form of a comic strip with national circulation in hundreds of American dailies and with wide reproduction in leading local papers in countries around the world.

fact that often wages were described as “below-sustenance”; however, the “facts” would vary.

Wage figures from approximately US\$30 per month, to over US\$45 monthly for Vietnamese factory workers, were available depending on the source and date of the study, as well as the factory surveyed (see Exhibit 6). Often, these wages would be directly contrasted to Knight’s standing as the sixth richest man in America, noting his net worth of more than US\$5 billion, or for dramatic effect Michael Jordan’s US\$40 million sponsorship deal.

Manager stated that information distributed by various watchdog groups, even if correct, presented Nike in the harshest light, often with an isolated statistic presented out of context, ignoring the larger issues. Activists would state that “a factory worker’s wages, accounting for just US\$5 for a shoe selling for over US\$100, could be doubled resulting in only marginally increased costs for Nike.” However, though roughly accurate, this figure ignored all other factors in the cost structure of Nike products, including design, research and development, duties and shipping, personnel as well as the sales and marketing expenses, overhead and profit margins of both Nike and the retailer.

Other critics stated that a “mere 10 per cent of Nike’s US\$650 million marketing campaign would be enough to double the wages of 100,000 young women in Indonesia, putting them over the poverty line.” This argument however, disregarded the macroeconomic consequences of such a move. Stephen Parker, chief economist at the Asia Foundation in San Francisco told the Boston Globe in an September, 1988 article, “A lot of economists believe wages shouldn’t be set higher than the local market.” The article also added: “Parker, who hasn’t studied Nike specifically, said that although Asian workers might not live well on their salaries, they usually won’t work for starvation wages. The fact that Nike’s contractors can find people willing to work for the wages they offer now is proof enough that the pay is in line with the going rate in the local market.

This perspective about the correlation of wages to the local market was also reflected by James Rockwell, president of Vatico, the first American company licensed to do business in Vietnam by the U.S. and Vietnamese governments. In an article, Rockwell wrote, “if Nike were to double its salary as suggested, those in the employment line at Nike will include surgeons, teachers, engineers and key government officials. But does not Vietnam need her surgeons, engineers and teachers?”

Nike’s position on the issue of wages was that multinational factories had a responsibility to pay competitive wages but not to change the living standards of a nation. Newspaper articles would quote human rights activists who said that “Nike workers made a *whopping* \$2.46 a day as mandated by minimum-wage law.” Manager argued that implicit comparison of the wage in a developing country to that of a worker in the U.S. ignored that often a worker in a Nike-

aligned factory made at least minimum wage, and often more, surpassing wages in many other factories in the region. In their press releases, Nike officials would often reiterate their commitment to offering workers in their subcontracted plants a “living wage” — a salary that afforded them a minimum standard of living, based on the cost of living in that particular region.

Nike consistently reinforced in all their media communications that in each and every developing country, the wage that workers at Nike subcontracted factories received was at least the minimum wage as dictated by the regional governments. According to Manager, “activist groups have spread false statements that obscure Nike’s commitment to human rights.” Nike’s commitment to their workers and sanctified in their Code of Conduct was lost: a worker would be guaranteed “the prevailing or legal minimum wage, whichever was higher”. Manager continued, saying “the fact that Nike is the only shoe manufacturer in the Far East paying more than minimum wage, for instance, is lost in their rhetoric.”

Manager further explained that with little or no social security programs, factory jobs were highly valued throughout developing countries in Southeast Asia. For millions of unskilled workers and their families, a factory job was a valuable prize — a chance to send money back to their home to support an entire family, and to “retire” after several years with enough money to begin their own business in their village. Manager pointed to the fact that average annual employee turnover in Vietnam was around one per cent.

Nike officials claimed that Global Exchange, as well as other activist groups, had been extreme in their approach. He insisted that Nike had taken several key steps in ensuring fair wages and in improving the conditions at their subcontracted factories; however, consumers had not received this message, which was obscured by a savvy, well-organized, global anti-Nike campaign. The labor issues Nike faced were to come to a head in late 1997.

MERRY CHRISTMAS

In December of 1997, Nike managers didn’t even need to open the morning edition of the *New York Times* to discover yet another story on Nike. On the front page were some strategically chosen excerpts of an internal audit that Nike had commissioned Ernst & Young to conduct on a subcontracted plant near Ho Chi Minh City in Vietnam. The article had been leaked by a former Nike employee to Dara O’Rourke,⁵ a research associate with the Transnational Resource and Action Centre (TRAC). The audit reported various factory conditions and violations in Nike’s stated overtime policies, and that:

⁵ O’Rourke was also a consultant to the United Nations Industrial Development Organization. His research focused on strategies for preventing adverse environmental and social impacts on industrial activities in Vietnam.

more than half the employees in several departments who use chemicals do not wear protective equipment (mask and gloves) — even in highly hazardous places where the concentration of chemical dust and fumes exceeded the standard frequently.

According to a New York Times article on November 8, 1997,

The Ernst & Young report painted a dismal picture of thousands of young women, most under age 25, laboring 10½ hours a day, six-days-a-week, in excessive heat and noise and in foul air, for slightly more than \$10 a week.

The leak and the ensuing media coverage prompted Nike to take immediate action.

A press conference was called — a response rarely taken but deemed necessary at this juncture. Manager reiterated that the audit was conducted so that Nike could “make meaningful changes to factory conditions, and the very fact that it was conducted pointed to our determination to improve practices.” Manager continued:

This audit demonstrated the integrity and stringency of our third-party monitoring process. A select few have criticized us for not paying them to conduct our monitoring, and challenged the independence of auditing firms like Ernst & Young and Price Waterhouse. Clearly, this report is not a whitewash. By the recommendations cited in this audit and the steps that Nike has taken to improve the working conditions, it is clear that our system works.

Within several days, Nike had also released details of the audit to the media — a departure from past policy. Since the audit had already been released, however, senior management decided to take the opportunity to fully detail its monitoring process, the results of this particular audit, and importantly, the steps they had taken to ensure a safe, comfortable workplace and sufficient wages for their employees.

According to Nike, the audit reported that the factory was “generally in compliance with Vietnamese law and applicable health and safety standards.” The audit examined the factory’s compliance with Vietnamese labor requirements and practices, production facility compliance and waste tracking system, chemical storage, and employee and safety measures. Some of the highlights included:

- the average wage exceeded the local minimum wage by US\$5
- chemicals were stored in isolated positions away from working places that were well ventilated, and

- health and safety measures were adequate (including clearly posted instructions on machines and general safety policies).

And where actual practices fell short of acceptable standards, Nike also outlined in their press release the immediate steps they had taken based on the results of the audit. For example, upon receiving the Ernst & Young report, Nike immediately:

- reduced overtime hours and restricted the maximum work week to 60 hours
- materially upgraded the ventilation system
- increased worker access to protective equipment (e.g. safety goggles, gloves, earplugs and masks), and
- tripled the capacity of the medical facility, doubled the size of the medical staff, and instituted health-care training

According to Manager, the development of this action plan “showed that the system of monitoring really worked,” stating that Nike “uncovered these issues clearly before anyone else, and have moved fairly expeditiously to correct them.”

However, according to a critique of the audit by TRAC

Though the Ernst & Young report was flawed in a number of ways, it reports continuing violations of labor laws on maximum working hours, unprotected chemical exposure, poor treatment of workers, and management control of the trade union.

In an increasingly open-door policy, Knight invited congressional critics to visit Nike factories. Also, Nike announced that they would fly several students from the University of North Carolina — where students were particularly vocal about Nike’s labor practices — to inspect overseas working conditions first-hand. Nonetheless, critics remained highly skeptical, accusing Nike of cherry-picking those factories that were to be monitored and audited.

By 1998, beyond independent auditing, Nike had taken several other pro-active measures to manage their brand image, including:

- purchasing full-page ads in the U.S. major newspapers
- conducting press conferences and press releases outlining the steps that Nike had taken to ensure compliance around the world with its Code of Conduct
- posting progress on improving labor conditions on the corporate Web site
- responding to each inquiry from the media or watchdog groups and trying to openly communicate with them
- establishing of an extensive Web site specifically addressing labor issues

The last initiative was a particularly integral part of Nike’s communication strategy. With the increased adoption of the Internet in the 1990s came the ability — for virtuous and less than virtuous ends — to reach mass audiences and to disseminate information instantly around the globe, regardless of its accuracy or

source. Indeed, a well-designed Web site could be perceived as an authoritative source of information.

Nike's detractors had deftly used the World Wide Web to instantly disseminate information to thousands of users visiting chat rooms and Web sites devoted to challenging Nike's labor practices. Within seconds, thousands of people around the globe could instantly become aware of defamatory statements and criticisms of Nike's policies and actions — regardless of the truth of the material. In an effort to combat this and to use the Internet to their advantage, Nike created a corporate Web site to disseminate facts regarding the improved working conditions in their subcontracted factories, their labor Standards and Practices programs, and the myriad of initiatives they had undertaken to improve conditions. The site also invited response from visitors and addressed each of their e-mailed concerns with a response.

Nonetheless, despite Nike's extensive efforts at informing the public of the improvements in the conditions at their subcontracted factories, Nike's own surveys demonstrated that the company's image continued to be tarnished through a seemingly endless barrage of negative publicity. However, Manager had the irrefutable results of several other surveys that implicitly confirmed that consumers' purchasing decisions were not affected by their views of Nike's labor practices. Manager however, felt that though there was little adverse effect to consumers' brand loyalty at present, there was a danger of erosion of Nike's brand equity among younger consumers if the issue was not dealt with deftly and swiftly.

THE \$9.2 BILLION QUESTION

Manager remained adamant that there was no proven correlation between Nike's decline in stock price in 1997 and the adverse publicity that they had received over the past several years. However, though it was clear that the publicity had not yet affected Nike's stock price, a key question was the degree to which it could adversely impact future revenue streams.

Manager attributed a recent decline in revenue to several external factors, including the hyper-competitive industry, various changes in consumer purchasing patterns, and the Asian financial crisis. Revenue from Nike's Asian operations had soared from almost US\$300 million in 1994 to US\$1.2 billion in 1997; however, the Asian economic crisis had adversely affected revenues, and regional layoffs were inevitable. Nike's market position, firmly established over the last six years or so, was sure to be a competitive advantage once the region rebounded (and in 1998 there were increasing signs that Asian economic conditions were gradually improving). Moreover, Nike's success in other regions meant that they were well positioned to ride out the economic storm in Asia, to emerge once again to capitalize on the lucrative opportunities there.

Though Nike was the market leader in most countries throughout the world, they competed with highly talented, resourceful and powerful companies that had not been subjected to negative press to the extent Nike had. In 1998, the company had performed well in the European market (accounting for about US\$2 billion in sales) and good growth momentum was expected; however, parts of Europe were only slowly recovering from an economic downturn. The Americas (Canada and Latin America), accounting for approximately half a billion in revenue, had experienced a growth period of several quarters, although the Latin American market was exposed to economic volatility of late. Nonetheless, Nike saw Latin America as another market with “great potential for the future” and was well positioned to capitalize on that growth. Nike’s largest market by far was the U.S., which accounted for approximately US\$5 billion in sales. If Nike were to remain the world’s leading supplier of athletic footwear and apparel, the company would have to actualize the full market potential of the U.S. and other regions around the globe. To do so, they would need to address their public profile and design an effective and comprehensive public relations strategy.

Manager explained:

There is a growing recognition that issues, left unchecked and unanswered, can have a long-term negative connotation. We need to be more aggressive communicating the positive things that Nike has done over the last few years.

The question that remained was how would Manager and the Corporate Responsibility team accomplish this goal?

The Richard Ivey School of Business gratefully acknowledges the generous support of The Richard and Jean Ivey Fund in the development of this case as part of the RICHARD AND JEAN IVEY FUND ASIAN CASE SERIES.

Exhibit 1

NIKE'S FINANCIAL DATA
(in millions, except per share data and financial ratios)

YEAR ENDED MAY 31	1998*	1997	1996	1995	1994	1993	1992	1991	1990	1989
Revenues	\$9,553.1	\$9,186.5	\$6,470.6	4,760.8	\$3,789.7	\$3,931.0	\$3,405.2	\$3,003.6	\$2,235.2	\$1,710.8
Gross Margin	3,487.6	3,683.5	2,563.9	1,895.6	1,488.2	1,544.0	1,316.1	1,153.1	851.1	636.0
Gross margin %	36.5%	40.1%	39.6%	39.8%	39.3%	39.3%	38.7%	38.4%	38.1%	37.2%
Net income	399.6	795.8	553.2	399.7	298.8	365.0	329.2	287.0	243.0	167.0
Year-end stock price	46.000	57.500	50.188	19.719	14.750	18.125	14.500	9.938	9.813	4.750
Market capitalization	13,201.1	16,633.0	14,416.8	5,635.2	4,318.8	5,499.3	4,379.6	2,993.0	2,942.7	1,417.4
FINANCIAL RATIOS										
Return on equity	12.5%	28.5%	25.2%	21.6%	17.7%	24.5%	27.9%	31.7%	36.3%	34.5%
GEOGRAPHIC REVENUES										
United States	\$5,452.5	\$5,529.1	\$3,964.7	\$2,997.9	\$2,432.7	\$2,528.8	\$2,270.9	\$2,141.5	\$1,755.5	\$1,362.2
Europe	2,143.7	1,833.7	1,334.3	980.4	927.3	1,085.7	919.8	664.7	334.3	241.4
Asia-Pacific	1,255.7	1,245.2	735.1	515.6	283.4	178.2	75.7	56.2	29.3	32.0
Canada, Latin America, and other	701.2	578.5	436.5	266.9	146.3	138.3	138.8	141.2	116.1	75.2
Total Revenues	\$9,553.1	\$9,186.5	\$6,470.6	\$4,760.8	\$3,789.7	\$3,931.0	\$3,405.2	\$3,003.6	\$2,235.2	\$1,710.8

* = forecasted

Source: Nike website: www.nike.com., October 2, 1999.

Exhibit 2

A CHRONOLOGY OF NIKE'S DEVELOPMENT AND MAJOR MILESTONES

1998	Corporate Responsibility Division formed (Labor, NEAT, Community Affairs)
1997	- Nike Asia takes off, pushing revenues from \$300 million in 1996 to \$800 million in 1997. - China becomes both a source country and a vital market for Nike. - Nike revenues reach more than \$9 billion.
1996	- Nike footwear production expands to the Philippines. - Nike begins working with non-governmental organizations to develop factory/worker programs. First project: improved worker health/factory clinics. - NEAT begins first factory environmental/indoor air quality screening. - Nike joins the White House Apparel Industry Partnership anti-sweatshop coalition. - Nike Labor Practices division established.
1995	Nike footwear production expands to Vietnam and Italy.
1992	International revenues increase 32 per cent to more than \$1 billion for the first time, making up 33 per cent of total Nike revenues.
1990	- The burgeoning international market helps Nike surpass \$2 billion in consolidated revenue. - Employees number 5,300 worldwide.
1989	- The Just Do It campaign enters its second year. - Nike sales grow through athlete endorsements. - Nike's net income reaches a high of \$167 million.
1986	Revenues pass the landmark billion-dollar mark, reaching \$1.07 billion.
1982	The apparel line grows to nearly 200 styles and \$70 million as Nike undergoes massive growth.
1981	Nike footwear sourcing expands to China and Thailand.
1980	Nike offers two million shares of common stock to the public.
1979	- The Tailwind shoe introduces Nike-Air cushioning. The first Nike apparel line appears. - With nearly 50 per cent of the U.S. market revenues, Nike is the No. 1 running shoe. Nike-shod runners hold every record from 800 to 10,000 metres.
1978	Nike begins to produce apparel in the Far East. Nike begins producing shoes in own factories in New Hampshire and Maine.
1969	- Knight quits his day job. - With 20 employees and several retail outlets, BRS approaches \$300,000 in revenues.
1964	Knight and Bowerman each contribute \$500 to BRS.

Source: www.nike.com, April 28, 1999.

Exhibit 3

NIKE AND MICHAEL MOORE — ANSWERS ABOUT *THE BIG ONE*

As a heralded maverick athletic company, we thought *Roger & Me* was both funny and entertaining when it came out years ago.

So when New York City resident filmmaker Michael Moore came to Portland, Ore., we invited him out to meet with Nike founder and chief executive officer Phil Knight. Why? Moore had undeservedly labelled Knight “Corporate Crook #3” in his book *Downsize This*. We wanted a chance to change his point of view.

We honestly thought that during our two meetings we found some common ground. You wouldn’t know it from watching this documentary.

But Moore, in promoting his new documentary, was using Nike to garner publicity for himself and to sell movie tickets.

In the interest of feeding the viewer what he thought was funny, Moore left out the facts, even facts he acknowledged when he spoke with Phil Knight. As a result, a huge pile of film for this documentary was left on the editing room floor. For example, you miss:

- The part where Michael states, “I honestly think you’re the good guy. I honestly think that Nike is the good guy here; you’re not General Motors...”
- Phil’s comments from the second interview on the minimum age of workers in Indonesian factories where our shoes are made. A shame. Moore could have enlightened the viewing audience.
- Phil’s offer to join him on a tour of our Indonesian factories. Although Phil couldn’t accept Moore’s invitation to accompany him that weekend following the first interview, Phil did go to Indonesia in January. Michael declined the invitation to join Phil. Too bad. He might have learned something.
- Moore, in promoting his film on CNBC’s *Equal Time* program on September 22, stated that Nike had “14-year-old girls in Indonesia making these shoes for 40 cents an hour.” Moore was wrong. And he knew it. Nike’s standard on this issue was unequivocal. The legal age in Indonesia was 14, an age at which compulsory schooling has ended. The factories we worked with assured us that no person under their voluntary age limit of 16 years old worked at a factory in any capacity, and Nike worked with local governments to ensure compliance.

Source: Nike Press Release, 1997

Exhibit 4

NIKE'S 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.

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

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

1. **Forced Labor:** The manufacturer does not use forced labor in any form — prison, indentured, bonded or otherwise.
2. **Child Labor:** The manufacturer does not employ any person below the age of 18 to produce footwear. The manufacturer does not employ any person below the age of 16 to produce apparel, accessories or equipment. Where local standards are higher, no person under the legal minimum age will be employed.
3. **Compensation:** The manufacturer provides each employee at least the minimum wage, or the prevailing industry wage, whichever is higher; provides each employee a clear, written accounting for every pay period; and does not deduct from worker pay for disciplinary infractions, in accordance with the Nike Manufacturing Leadership Standard on financial penalties.
4. **Benefits:** The manufacturer provides each employee all legally mandated benefits. Benefits vary by country, but may include meals or meal subsidies; transportation or transportation subsidies; other cash allowances; health care; child care; emergency, pregnancy or sick leave; vacation, religious, bereavement or holiday leave; and contributions for social security and other insurance, including life, health and workers' compensation.
5. **Hours of Work/Overtime:** The manufacturer complies with legally mandated work hours; uses overtime only when each employee is fully compensated according to local law; informs each employee at the time of hiring if mandatory overtime is a condition of employment; and, on a regularly scheduled basis, provides one day off in seven, and requires no more than 60 hours of work per week, or complies with local limits if they are lower.

Exhibit 4 (continued)

6. Management of Environment, Safety and Health (MESH): The manufacturer has written health and safety guidelines, including those applying to employee residential facilities, where applicable; has a factory safety committee; complies with Nike's environmental, safety and health standards; limits organic vapor concentrations at or below the Permissible Exposure Limits mandated by the U.S. Occupational Safety and Health Administration (OSHA); provides Personal Protective Equipment (PPE) free of charge, and mandates its use; and complies with all applicable local environmental, safety and health regulations.
7. Documentation and Inspection: The manufacturer maintains on file all documentation needed to demonstrate compliance with this Code of Conduct; agrees to make these documents available for Nike or its designated auditor to inspect upon request; and agrees to submit to labor practices audits or inspections with or without prior notice.

Minimum Age Requirements

"Nike has zero tolerance for under-age labor."

Nike CEO Phil Knight

Source: www.nike.com, October 7, 1999.

Exhibit 5

NIKE'S FULL-PAGE AD IN THE NEW YORK TIMES — A RESPONSE TO THE ANDREW YOUNG
REPORT JUNE 25, 1997

*"It is my sincere belief that Nike is doing
a good job... but Nike can and should do better."*

Ambassador Andrew Young
GoodWorks International, LLC

*After six months of investigation,
visiting twelve Asian factories and interviewing
hundreds of workers in Indonesia, China, and
Vietnam about Nike's overseas labor practices,
this was how Andrew Young concluded his
independent 75-page report, released yesterday.*

*Nike agrees. Good isn't good enough in
anything we do. We can and will do better.*

*For details on exactly how—and for a
complete copy of Ambassador Young's report and
recommendations—please call 1-800-501-6295,
go to www.nike.com/report, or go directly to
GoodWorks at www.digitalrelease.com and
enter the keyword: GoodWorks*



Source: Nike

Exhibit 6

COMPARISONS OF REPORTED ANNUAL WAGE FOR NIKE WORKERS IN VIETNAM

Source	Reported Wage	Comments
Ernst & Young Audit	• “Over US\$40/month” • basic salary was US\$45 / month.	• Nike-sponsored study • Random selection of 50 workers (by payroll) at one Nike-subcontracted factory in Vietnam
Tuck School of Business, Dartmouth report	• Average monthly income — US\$32/month	• Nike-sponsored study
Transnational Resource and Action Centre (TRAC)	• One-third of the workforce at one Nike factory reported pay below legal minimum wage (US\$35/month)	• Survey conducted in early 1998 • Interviews with Nike workers outside factories (many of whom remained anonymous)
Vietnam Labor Watch	• Average monthly income — US\$32/month	• March 1997 • Interviews with Nike workers outside factories (many of whom remained anonymous)
Ministry of Planning and Investment, Vietnam	• Nike subcontracted factories pay “competitive wages” as compared to foreign shoemakers in the country • US\$3 per month over minimum wage	• Government sponsored survey conducted in early 1998