

# Nike's suppliers



**ASSIGN  
BUSTER**

## **EXECUTIVE SUMMARY**

This report aims to examine the controversies that Nike face and the solutions for those issues. Phil Knight is the founder of Nike who made Nike to be the leading industry in shoe and apparel market. They design and market the products where manufacturing are done by its supplier industries in many developing countries. But those supplier industries are not meeting the labour working standards. So many organizations in the world consider Nike is the reason for the sweatshop conditions in its supplier industries. Nike is constantly taking serious measures to eradicate these issues but still it has problems with the sweatshop issues in its supplier industries.

The findings reveal the actual reasons for the sweatshop conditions. Nike cannot inspect each and every condition in the factories. Nike can reduce its price pressure on its supplier factories to a certain level. But suppliers demand a huge price from Nike to improve the working conditions. The main purpose for Nike to choose those countries is the low cost labours. If it increases the price there is no use of contracting suppliers. Also many corrupted countries can show fake wage certificates to the auditors. So Nike cannot be completely claimed for the low wages. Instead it should have many monitoring programs done by legal experts. The negative publicity may hinder its profit potential. Nike should design or change its existing policies to avoid criticisms and to retain its position in the competitive market. Since Nike is a global corporation, it should consider sweatshop as a global problem and take measures to eradicate.

Nike cannot be the only reason for the sweatshop conditions in its supplier industries. But it is a duty for Nike to minimize the sweatshop conditions in <https://assignbuster.com/nikes-suppliers/>

the developing countries. To improve the working conditions Nike should follow some of the policies of United States and some from the local countries. Policies of United States will enhance the life style and the working conditions of the workers. From these discussions it can be said that Nike's existing policies served poorly so in order to improve the conditions it should change its policies in a better way. They should also make some changes in their commitments as Labour rights group demanded. Thus Nike can reduce the sweatshop issues globally.

The following recommendations have been made:

Nike should reduce the price pressures on its supplier industries.

## **1. 0 INTRODUCTION:**

### **1. 1 BACKGROUND:**

Nike is a global industry which designs and markets shoes and apparels. It contracts many industries for manufacturing its products especially in countries like China, India, Vietnam, Indonesia and Korea. There is a long time controversy for Nike that its products are manufactured in industries where working conditions are not up to standards and that are not following the labour laws. Nike faced many criticisms and negative publicity from numerous organisations that claim that the labours are not getting minimum wage and safety working conditions. Though Nike initiated many policies it was not able to overcome these critics. Many consultants monitored those industries to collect the data about the status of the working conditions.

**1. 2 AIMS:**

The main purpose of the report is to analyze the issues that Nike faces from different organisation and how Nike should respond to those issues. It also tells whether Nike or its subcontractors are responsible for the sweatshop issues.

**1. 3 SCOPE:**

The report explains the controversies that Nike faces and the policies which Nike has to adopt in order to avoid the negative publicity, criticisms and to improve the working conditions of the Nike factory workers.

**2. 0 HISTORY OF NIKE:**

Philip H. Knight is the founder of Nike, under graduate from Oregon University and business graduate from Stanford University. Initially Knight imported running shoes to United States from Onitsuka Tiger Co., a Japanese firm. He felt that the products from Japanese firm will be good competition for the German products which dominated in those periods. Nike brand emerged in the year 1972 which produced innovative sports shoes and played a major role in athletics shoe market in United States. Its head quarters is located at Beaverton, Portland. They are operating in 160 countries and employing one million people directly or indirectly. The mission for Nike tells about its business strategy which read as follows:

‘ To bring inspiration and innovation to every athlete in the world’

The first year sales were U. S \$8000 with a profit of \$250 and now it had record revenue of US \$19. 2 billion. Thus Nike was a successful global corporation in the past three decades.

### **3. 0 IS NIKE EXPLOITING THE WORKERS?**

All global industries must be responsible for the working conditions in foreign countries. Most of the things that are sold in developed countries are manufactured from the developing countries. Cotton from India, mobile phone components from China, fruits from Mexico is sold all over the world. People from developed countries are enjoying the low cost products which were manufactured from the developing countries. Sub contractors from the developing countries produce at low cost by exploiting the working conditions. The workers are forced to work overtime but not paid minimum wage. Also they were exposed to dangerous chemicals and machineries. According to Viederman D, sweat shops should be avoided for a good business. Companies are not aware of the cost of reputation repair and they have a chance of loosing their brand names that do not put values in practices. They should constantly monitor their sub-contractors to maintain a minimum pay and working hours.

Nike is responsible for working conditions in foreign factories to a certain extent. But it is not possible for Nike to monitor each and every working conditions of their sub-contractor. It is Nike's duty to reduce the exploitation in the manufacturing industries. They should not put too much price pressure which makes the sub-contractors to exploit working conditions for making profits. Zhi Qiao, a sub-contractor of Nike was once caught for exploiting working conditions. But the general manager of that company, Peter Wang claims that any improvement in the working conditions costs more money. They should reduce the profit margins in order to meet the improvement cost as Nike is not going to increase its price. Chang, general manager of

Shoetown Foot wear Co., had reduced profit margins from 30% to 5% in order to improve the working standards and to stay in business with Nike. Reducing the working hours also made skilled workers to move to their rival competitors because many workers over time income to cover their living expense. Only the price hike by Nike will make Shoetown to compete in the emerging markets.

Thus Nike should pay more to their sub-contractors in order to improve working conditions and should have a separate team who monitors the human rights regularly.

#### **4. 0 NIKE'S STRATEGIES:**

Nike should follow a combination strategy for its own benefit and also for its sub-contractor. The main purpose of off shoring is to enjoy the cost advantage, but this is possible only if Nike followed the wage rates of the manufacturing country. Also Nike cannot maintain the global human right policy if they follow the standards of the manufacturing country. It should bring some of the United State's human rights policies to that country. It is possible for Nike to make the suppliers to hold those conditions. If it was insisted to follow the conditions of United States, there is no use for Nike to choose suppliers from foreign countries. The only thing Nike can do is to improvise the working conditions in the supplying industries, so Nike may receive some public relations benefit instead of spending money and effort for developing defensive working conditions.

Therefore it is necessary for Nike to implement combination standards which is benefit to both Nike and the workers in supplying industries. Nike should

assure three main things to the workers that the workers get the minimum pay in the supplying country, the working conditions should be fine enough for the workers to work and minimum age limit should be maintained for the workers.

### **5.0 WHY LOW WAGES FOR NIKE WORKERS?**

Nike should not be criticized if their supplier industries are abiding the labour laws in that country. Nike can only take steps to monitor the supplier industries if they are not abiding the labour laws. Labour laws assign the daily wages for the workers in the respective country. The wage rate varies according to the skill of the workers, daily living expenses in the city where the worker lives or works in. So the daily wages for the Nike workers are higher than the other workers and farmers in Indonesia and no way can their wages be compared.

Nike can monitor these supplier industries to find the wages that the workers get from the supplying industries. But it is difficult for countries like India, Indonesia and China where the corruption rate is high. Business week reviewed many Chinese industry documents, where factories kept double sets of documents to fool auditors. Many new Chinese consultants are assisting companies to evade audits by distributing their own scripts for workers if they are questioned. Even when workers are getting pay less than the minimum wage, records will be showing that the workers are getting the standard pay assigned by the labour law. It is not necessary for Nike to intervene in these corruptions and to find the exact pay what the workers are getting.

Therefore Nike cannot be criticized if the supplier industries are not paying the exact pay to their workers which were assigned by the labour laws of that country. Low cost goods and worker wages are the main reason for Nike to choose foreign countries. Thousands of people are getting jobs because of Nike, if Nike was criticized and were to move out of that country, workers would suffer greatly because of unemployment. Also it is irrelevant to compare the wage rate of Nike workers with other workers.

#### **6. 0 NIKE'S POLICIES TO OVERCOME NEGATIVE PUBLICITY:**

It is very essential for Nike to handle the negative publicity. Negative publicity may affect the profit potential of the company. Nike should have handled the negative publicity in a better way. Nike has certain rules for the labours in the Asian countries which is called the code of conduct. One of the reasons for the negative publicity may be in implementing these codes of conducts. The suppliers are not properly following the code of conducts with correct procedures. Else the present code of conduct may not be suitable for the countries like China, Indonesia, Vietnam and Korea.

Nike could have designed more new policies for all its suppliers which enforce them to abide to local rules. The other reason for negative publicity is that Nike is not addressing all its criticisms. For example, Labour Rights Group had made six set of demands which Nike has ignored. Its main concentration is improving the wage standards, but child labour, over time issues, sexual harassment of female workers, safety factors and workers freedom are also a major problems for Nike. All the issues should be given equal importance and there should be a constant monitoring process to improve the standards in order to avoid the negative publicity. Monitoring



process should be more severe by making the local labour inspector to audit the supplying industries in a frequent manner. They should maintain a set of documents regularly about the working conditions of that industry. They should make the company not to hire child worker, and limit the working hours.

Therefore from a policy perspective, Nike can handle the negative publicity better. Knight, founder of Nike said about the policy change at functions. Instead he should address the criticisms that responsible for the negative publicity and take measures to neglect that. He should also design some programs for the workers, change of sub contractors and overall improvement in the working conditions.

#### **7.0 NIKE'S COMMITTEMENTS AND CHANGES:**

Nike should change its current policies in order to neglect all the criticisms and negative publicity. However the main reason for changing the policy should protect the working conditions of Nike workers throughout the world. The report taken by the labour inspector should be reviewed by the legal officials to check whether the suppliers are following the rules of Nike. Necessary steps should be taken by Nike authorities if the sub-contractors failed to follow the rules. They should also take measures to terminate the contractors and certain changes in its policies or the commitments made by Nike which is stated below.

Nike stated that all its supplier industries will meet OSHA standards for safety of the workers. But Labour Rights Group claimed that Nike is giving advance notice to the factories to minimize the emissions on the day of test

and Nike is not willing to show the results of those tests to the public. So Nike should change its policy to transparent monitoring working conditions in the factory and visits to the industries without any advance notice.

Life magazine depicted a picture of young Pakistani child working in one of the Nike factories. This made Nike to rise the working age of 16 in apparel factories and 18 in shoe factories. The result is unemployment of many children in the developing countries which make those children to work in a different factory with same or much worse working conditions. Nike has two options to eradicate this problem. One is Nike should open many schools in the regions where its supplier industries are located to give educations to unemployed children and the second is Nike should provide living expense to the workers so that they avoid sending their child to work.

Nike has stated that monitoring programs will be done by non profit organizations and the reports of those monitoring programs will be released. Also it will discuss with other NGO's to improve the monitoring programs. After three years Nike made a non-government organization (NGO) to monitor its factories. But Labour Right Groups claims that Nike is not able to tell the NGO which monitors the supplying industries and the time for releasing the audit reports. So Nike should make necessary steps to reveal which NGO audit the factories and release the summary statements.

Nike stated that it will make free high school education courses for all the workers in Nike shoe factories. Nike did the same but workers are not willing to take the courses as it would affect their overtime income. If they are paid

more in regular working hours, they would cover their living expense which neglect overtime working and spend those times for education.

Nike announced that it will provide loan program for four thousand families in the countries like Pakistan, Indonesia, Vietnam and Thailand. Right group was against this policy. They said it is cheaper for Nike to provide loans to few families instead of increasing the wage for millions of Nike factory workers. So Nike should change this policy such that it benefits for all the workers in the production chain. It should provide wages such that it covers the living expense instead of funding few families to seek public relation status.

Nike announced to spend on researches on business practices at four universities. But these researches did not increase academic knowledge. They should have separate committee in order to determine the researches that should be funded.

Nike's policies should increase the working standards. The above discussions clearly show that the policies served Nike poorly and there must be major changes. Changes should be made even if it results in the termination of contracts with those companies which are not meeting the standards. But the policies made should not make the company uncompetitive. Nike is not a non profit organisation to make the working standards high by causing its business to go under. Definitely the policies opted should make the company to operate in a competitive market as well as it makes the working standards to comply with the labour laws.

**8.0 FAIR LABOUR ASSOCIATION:**

FLA is the fair labour association formed to end the sweatshop conditions in the industries throughout the world and has improved the lives of many workers. They make a tracking chart after each inspection to provide information about the audit to the public. FLA has joined with many responsible organisations and enhanced the working conditions, labour rights in different parts of the world. But WRC argued that FLA failed to do its work on Nike industries.

FLA worked on Nike industries and gathered information on working condition and Labour rights for the workers in Nike factories. But the tracking chart of FLA concluded that all the sub contractors of Nike were compliant to the labour laws of that country. But WRC found certain evidence that were not followed in Nike industries where the FLA audited. This made WRC to claim FLA as a tool of Nike industries. But before concluding that FLA is the tool of the industry, WRC should give time for FLA to inspect all of the Nike industries whether they are compliant with the labour laws.

It takes time for the change of management in Nike industries for making the working conditions to comply with the labour laws. Therefore at present WRC has no right to claim that FLA is the tool of Nike industries. If FLA failed in the second time then WRC can conclude FLA as the tool of that industry.

**9.0 SWEATSHOP- A GLOBAL PROBLEM:**

Most of the industries are working globally. Industries of the developed nations setup their manufacturing plant in developing countries where they get low cost labours. But when low costs occur due to illegal and inferior working conditions, then it is a major global problem. This is the initial stage

<https://assignbuster.com/nikes-suppliers/>

for sweatshop as the industries in developing nations failed to comply with the local labour laws. In order to make huge profit margins the factories exploit the workers by paying less than the minimum wages, not aware of the health factors with many more issues. Thus sweat shops are the global problems.

There is a big difference in the wages for the labours in developing and developed countries. It should be lessened so that many global industries will stop searching low cost labours. Else there should be constant monitor programs to make those industries comply with the laws and provide their workers with decent working conditions.

#### **10.0 CONCLUSIONS:**

Nike was a successful global corporation operating in the past three decades. Though it faced many controversies it was able to be at the top position in the competitive market.

- Nike is responsible for working conditions in foreign factories to a certain extent.
- Nike should follow a combination strategy for the labour standards.
- It is inappropriate to criticize Nike for low pay rates in its supplier industries.
- Nike should have handled the negative publicity in a better manner.
- Nike should make changes in its current policy by not reducing the profit margins.
- WRC has no rights to argue that the FLA is a tool of Nike industries.

- Standardize the labour wages throughout the world to eradicate sweatshop problems.

Many organisations claimed that Nike is exploiting the working conditions in the supplier industries. As a result Nike has taken serious measures to reduce the sweatshop conditions in its supplier industries. It is more expensive for Nike to monitor all the working conditions in its factories. So Nike ordered all its supplier industries to improve the standards and they warned that the contract will be ended if they fail to comply with the labour laws. But the suppliers claim that they have to reduce the profit margins in order to improve the standards which they asked Nike to bear.

The target for both Nike and supplier industries is the profit, so it is difficult for them to increase the working standards by reducing the profit margins. So Nike should change its current policy by following a mixed strategy which comprises of United States policies and that of local country. Thus Nike can minimize the sweatshop problems in its supplier industries.