Beyond corporate codes of conduct: Work organization and labour standards at Nike’s suppliers

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Abstract: What role can corporate codes of conduct play in monitoring compliance with international labour standards and improving working conditions in global supply chains? Addressing this question, the authors first summarize the results of research on factory audits of working conditions in 800 of Nike’s suppliers in 51 countries and two intensive case studies. They then discuss how the codes fit into the broader array of institutions, policies and practices aimed at regulating and improving working conditions, suggesting an evolutionary and complementary approach to regulating working conditions in global supply chains. They outline additional research and institutional innovations needed to test these ideas.

Globalization and the dispersion of industry supply chains have provoked a fierce debate over how best to enforce labour standards and improve working conditions in these emerging centres of production. Child labour, hazardous working conditions, excessive working hours, and poor wages continue to plague many factories in developing countries, creating scandal and embarrassment for the global companies that source from them.1 In the absence of a strong system of global justice (Cohen and Sabel, 2006) and given the limited ability (or willingness, perhaps) of many developing country governments to enforce their own labour laws (Baccaro, 2001; Elliott and Freeman, 2003), pressures from trade unions, non-governmental organizations (NGOs) and consumer groups have led many global corporations to develop their own “codes of conduct” and a variety of monitoring mechanisms aimed at enforcing compliance with them (for good descriptions of this movement, see Schrage, 2004; Mamic, 2004). Yet relatively little is known about the effectiveness of

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Responsibility for opinions expressed in signed articles rests solely with their authors and publication does not constitute an endorsement by the ILO.

1 For recent reports on these conditions, see Verité (2004); Pruett (2005); Connor and Dent (2006); and Kernaghan (2006).
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these codes and monitoring systems or how they relate to other means of regu-
lating global labour standards and improving working conditions. This article
summarizes the results to date of a set of ongoing studies aimed at analysing
the role of codes of conduct and discusses their interactions with other man-
agement systems, national laws and enforcement regimes, and employee rep-
resentation by unions and/or other NGOs. To that end, the article draws on
historical, quantitative and case-study data on the code of conduct in effect at
Nike Inc.

The problem
Throughout most of the twentieth century, labour standards were regulated
largely on a national basis through a mixture of laws, union-management nego-
tiations and company policies. Internationally, the Conventions and technical
services of the International Labour Organization provided an additional
source of moral authority and advice but lacked significant enforcement
power. The emergence of global supply chains, however, has rendered these
national and international strategies inadequate since authority is dispersed
not only across national regimes but also among global buyers and their myriad
suppliers. It is in this context that corporate codes of conduct have emerged,
only in response to pressures from trade unions, consumer groups and NGOs.

Initially, these efforts focused primarily on corporate or supplier compli-
ance with national regulations and laws but, over time, they have become
increasingly concerned with compliance with private, voluntary codes of con-
duct, especially in regard to labour and environmental standards (for interest-
ing historical reviews, see Jenkins, 2001; Seidman, 2003). Information is central
to this model of “private voluntary regulation”. The underlying assumption is
that information collected through factory audits will be used both by labour
rights NGOs to exert pressure on global brands to reform their sourcing prac-
tices and by the brands themselves, who rely on this information to police and
pressure their suppliers into improving standards in their factories. Should
these factories fail to remedy various workplace problems, brands are
expected to switch their orders to supposedly more “ethical” producers.

This model of workplace regulation has provoked heated debates, either
over the particularities of the actual codes and efforts to secure compliance –
i.e. how inspections are conducted, by whom, for what purposes – or over their
relationship to other forms of regulation, especially state regulation. Critics of
codes of conduct and voluntary monitoring regimes argue that they displace
more thorough government and union intervention and are designed not to
protect labour rights or improve working conditions but instead to limit the
legal liability of global brands and prevent damage to their reputation (Esbens-
shade, 2004). Others, however, argue that private codes and monitoring are
not attempts to undermine the State but rather appropriately flexible
responses to the reality of global production networks and the low capacity of
developing countries to enforce labour laws and regulations in full (Nadvi and
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Wältring, 2004). According to the proponents of this second view, efforts to promote code compliance by brands, multi-stakeholder initiatives (MSIs) and NGOs can **under certain conditions** – though these conditions vary, depending on the author – help to improve labour standards, particularly when states lack the capacity or the resources to carry out systematic factory inspections (Fung, O’Rourke and Sabel, 2001; O’Rourke, 2003; Bartley, 2005; Rodriguez-Garavito, 2005).

A related debate over codes of conduct and monitoring focuses on whether those conducting the compliance audits can be trusted to make accurate and honest assessments of factory conditions and transparently report their findings. Critics identify a number of important conflicts of interest that exist among the key actors involved in this process (National Research Council, 2004; Esbenshade, 2004; Pruett, 2005; Rodriguez-Garavito, 2005). Given that brands and their suppliers may have an interest in hiding labour violations rather than reporting them, how trustworthy are these internal audits? Wouldn’t the incentives for moral hazard be too great for these interested parties? If these audits are, instead, contracted out to “third party” organizations, be they NGOs or private auditing companies, how competent are the NGOs in assessing certain technical issues (e.g. air quality) and how forthcoming will the private monitoring firms be if they hope to please their clients (the brands and their suppliers pay for these services) and generate future business?

In response to these criticisms, various procedures and policies have been established to promote greater transparency and oversight by “independent” organizations. Increasingly, external auditors, ranging from for-profit social auditing companies to local NGOs, are being certified by MSIs like the Fair Labor Association (FLA) and the Fair Wear Foundation. These institutional mechanisms are meant to bolster the credibility of monitors. Still, some (e.g. Worker Rights Consortium) argue that monitoring must be completely independent of brands and factories in order to be truly effective.

A third debate concerns the growing number and diversity of codes of conduct and auditing protocols as well as the uneven quality of the audits being performed (for a critique of existing auditing practices, see Pruett, 2005). The diversity of codes and monitoring schemes being applied to global suppliers is well documented (Brown, 2005; Jenkins, 2001; O’Rourke, 2003). Underlying these different codes and implementation systems are very different principles and goals. Whereas some codes emphasize freedom of association and anti-discrimination policies, others focus on “living” wages (as opposed to minimum wages), “excessive” hours of work, and health and safety issues instead. Some codes are monitored by internal, company staff while others are subject to audits conducted by third-party, external consultants or NGOs. Given this incredible diversity in inspection protocols and auditors, there is enormous scope for controversy over whose audit protocol is more thorough or more accurate or even truly independent.

While much of the literature on labour standards in global supply chains has revolved around these highly polarized debates, implicit in just about every
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contribution to these debates is an underlying assumption that codes of conduct and their various monitoring protocols are adequate as stand-alone compliance strategies. Our work suggests an alternative perspective, one that sees codes of conduct as one component in a larger integrated system for managing, regulating and enforcing labour standards and improving working conditions. Through an analysis of Nike’s factory inspection reports and a structured comparison of two factories supplying this global brand, we show that beyond the codes of conduct and various efforts to monitor compliance, interventions aimed at improving production, reorganizing work, and empowering workers on the shop floor complement codes and offer a means of further improving working conditions. Moreover, we show that codes are more effective in countries with stronger national laws and thus serve as complements to, not substitutes for, legal regulation. Finally, our case-study data suggest that employee voice at the workplace provides further impetus to improving working conditions and thus can serve as another means of complementing the role of company codes.

In the remainder of this article, we first review the evolution of Nike’s code of conduct and compliance programme. We then summarize findings from our analysis of Nike’s factory audits showing that variations in working conditions among Nike’s suppliers are the product not simply of factory policies and processes, but also of broader factors including the strength of national (legal/regulatory) institutions and the type of relationship that exists between global buyers and their suppliers. We then use a matched-pair case study of two supplier plants in Mexico to illustrate some of these results, in particular by showing how varying workplace conditions and labour rights reflect divergent patterns of work organization, production and human resource management practices. In the final section, we return to the larger question of where codes of conduct, monitoring systems and other internal firm management structures and processes fit into the larger constellation of societal pressures, industry structures, and national laws and institutions that serve as the architecture of the emerging system for regulating global labour standards and improving working conditions.

Evolution of Nike’s code of conduct

Nike is the largest athletic shoe company in the world. Even after the recent merger between Reebok International Ltd. and Adidas AG, 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 (Petrecca and Howard, 2005). 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 (TechnoServe). 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.

Over the course of the 1990s, Nike was criticized for sourcing its products in factories/countries where low wages, poor working conditions and human rights problems were rampant. This criticism was fed by a series of public relations nightmares – involving underpaid workers in Indonesia, child labour in Cambodia and Pakistan, and poor working conditions in China and Viet Nam – which combined to tarnish Nike’s image (for more on these scandals, see Locke, 2003). At first, Nike managers refused to accept any responsibility for the various labour and environmental/health problems found at their suppliers’ plants. Workers at these factories were not Nike employees, and thus Nike had no responsibility towards them. By 1992, this hands-off approach changed as Nike formulated a code of conduct that required its suppliers to observe some basic labour and environmental/health standards. Potential suppliers were obligated to sign this code of conduct and post it within their factories. Critics have charged that Nike’s code of conduct is minimalist and not fully enforced, claiming that posting the code in factories where most employees are functionally illiterate and/or do not possess the power to insist on its implementation is simply window dressing. Nonetheless, the evolution of this document indicates that Nike is seeking to address several of the most serious problems found in its suppliers’ plants (see Appendix 1 for the latest version of the code).

Since 1998, Nike has increased the minimum age for footwear factory workers to 18 and that for all other workers (in apparel and equipment) to 16. It has also insisted that all footwear suppliers adopt United States Occupational Safety and Health Administration (OSHA) standards for indoor air quality. In fact, a quick review of some of Nike’s recent efforts in the area of labour and environmental/health standards shows that the company is serious about doing the right thing. For example, in response to growing criticisms, Nike created several new departments – e.g. Labour Practices, Nike Environmental Action Team (NEAT) – which, by June 2000, were organized under the Corporate Responsibility and Compliance Department. In 2001, in an effort to strengthen the links between production and compliance decisions, the Compliance Department was moved into the apparel division. Today, Nike has about 80 corporate responsibility and compliance managers, over half of whom work in countries where Nike products are manufactured. These managers and inspectors visit suppliers’ footwear factories on a daily basis. In the apparel sector, given the much larger numbers of suppliers, Nike managers conduct on-site inspections on a weekly or monthly basis, depending upon the size of the firm. In addition to its corporate responsibility and compliance managers, Nike has about 1,000 production managers working at/with its various global suppliers. All Nike personnel responsible for production or compliance receive training in Nike’s code of conduct, labour practices, and cross cultural awareness, and in the company’s Safety, Health, Attitudes of Management, People Investment and Environment (SHAPE) programme. The company is
also developing a new incentive system to evaluate and reward its managers for improvements in labour and environmental standards among its suppliers.

In recent years, Nike has pushed its suppliers to observe standards through increased monitoring and inspection efforts. Launched in the summer of 2002, the M-Audit (management audit) is the most rigorous of Nike’s audits and is seen as the core of its compliance programme. The M-Audit provides in-depth assessment of the labour-management practices and working conditions at the factories. A typical M-Audit takes 48 hours to complete and is thus spread out over several days. These inspections are announced beforehand, and the M-Audit is always conducted by Nike’s in-house compliance specialists. Indeed, following several scandals involving “third party” audits of Nike suppliers in the late 1990s, the company decided to conduct its own, in-depth audit, thus guaranteeing a certain level of consistency and quality as to the information collected.2

In June 2001, Nike set up a Compliance Rating Programme using a grading system (from A to D) to evaluate all their suppliers. The grade, assigned by the local compliance manager, reflects all the information about a factory collected from the SHAPE inspections, M-Audits, FLA audits and factory visits. (See Appendix 2 for an explanation of the different grades assigned to the factories.) The purpose of the compliance rating system is to provide information to Nike sourcing and production managers and to assist them in their decision-making. The analyses reported below focus on data derived from the M-Audits and the Compliance Rating Programme. Nike also provided us with access to their sourcing database which allowed us to collect descriptive information on each factory producing goods for the company (e.g. age of facility, total number of employees working at the facility, nationality of the owners of the facilities, etc.).

Does monitoring work? A look at the data

A full report on our quantitative analyses of the data from the M-Audits and the Compliance Rating Programme is provided in Locke, Qin and Brase (forthcoming). For our purposes here, the findings of these analyses are summarized for three key questions: (1) How bad (or good) are working conditions among Nike’s suppliers? (2) What accounts for variation in working conditions among Nike’s suppliers? In other words, why are factories manufacturing more or less the same products for the same brand treating their workers so differently? and (3) Are working conditions improving over time in these factories?

2 Independent monitoring by the Fair Labor Association is also conducted on a sample (5 per cent) of Nike suppliers every year. The FLA is a multi-stakeholder initiative that brings together companies, universities and NGOs and supervises independent monitors to perform unannounced inspections of supplier factories. Nike is a member of the FLA and thus subject to these yearly inspections. Without revealing the identity of individual plants, all FLA reports are made public on the organization’s web site (www.fairlabor.org).
**M-Audit results**

To address the first of the foregoing questions, we present some descriptive data on Nike’s supply base, derived from the M-Audit database. Each M-Audit reports a numeric score (0–100) that represents a percentage of perfect compliance, i.e. a score of 100 means that the individual factory is in full compliance with Nike’s code of conduct. The M-Audit covers more than 80 items, with a focus on hiring practices, worker treatment, worker-management communications and compensation. Each item accounts for a specific weighting with respect to the overall score, and all together sum up to 100.\(^3\) Table 1 presents the mean scores and standard deviations for all factories (575) that underwent M-Audits in Nike’s three major lines of business (footwear, apparel and equipment). Because this programme was launched only in the summer of 2002 and because it is very time consuming, not all Nike suppliers have undergone an M-Audit. The mean performance of those audited is 65 per cent, with a standard deviation of 16 percentage points.

As shown in figure 1, there is considerable variation in performance on the M-Audit across Nike’s supply base. Factory scores range from 20 per cent to a near perfect 90 per cent. Moreover, the distribution is quite similar across footwear, apparel and equipment plants.

However, when analysing the data along geographic lines, to see how M-Audit performance may be affected by the region in which the factories are located, we find more pronounced variation. Factories in the Americas and the EMEA region (Europe, Middle East and Africa) almost always score above 50 per cent and often closer to 100 per cent. But, in the north Asia region (which includes China and Viet Nam) and the south Asia region (which includes Indonesia and India), the M-Audit scores are much more dispersed. Table 2 and figure 2 illustrate this greater variation across regions.

Thus, although Nike’s suppliers appear, overall, to be performing above average in terms of their M-Audit scores (65 per cent), there exists tremendous variation in M-Audit scores (hence working conditions) across factories in the world. Some factories appear to be almost in complete compliance with Nike’s code of conduct while others suffer from endemic problems with poor wages, excessive working time, harassment, etc. Even within regions – within individual countries, in fact – working conditions, as captured by the M-Audit scores, vary tremendously. How to explain this variation? In other words, why are factories that make more or less the same products for the same brand treating their workers so differently?

In order to explain the variations observed across factories and answer this second question, we carried out a regression analysis of M-Audit scores with workplace, management process, industry, and national laws as explanatory variables. The key findings from these analyses were that higher M-Audit

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\(^3\) For more on the M-Audit and its scoring system, see Nike (2005, pp. 35–36).
scores were observed in plants that (1) experienced more visits from Nike production specialists under the SHAPE programme, and (2) were located in countries with a stronger rule of law (as measured by perceptions of the incidence of crime, the effectiveness and predictability of the judiciary, and the enforceability of contracts). Smaller plants and those with stronger strategic ties to Nike (Tier-one suppliers) also exhibited marginally better M-Audit scores.

Our third question was whether or not working conditions among Nike’s suppliers had improved over time, as a result of the various factory inspections,
monitoring efforts, etc. Table 3 summarizes the mean and standard deviation of the first, second and third M-Audit scores: 117 factories underwent two M-Audits and five factories were audited a third time. The descriptive statistics show a five percentage-point improvement between the first and second audits and another 12 percentage-point improvement in the small number of plants that underwent a third audit.

<table>
<thead>
<tr>
<th>Region</th>
<th>Mean</th>
<th>Standard deviation</th>
<th>Number of observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Americas</td>
<td>0.77</td>
<td>(0.009)</td>
<td>134</td>
</tr>
<tr>
<td>North Asia</td>
<td>0.61</td>
<td>(0.01)</td>
<td>198</td>
</tr>
<tr>
<td>South Asia</td>
<td>0.58</td>
<td>(0.013)</td>
<td>181</td>
</tr>
<tr>
<td>EMEA§</td>
<td>0.71</td>
<td>(0.015)</td>
<td>62</td>
</tr>
<tr>
<td>Total</td>
<td>0.65</td>
<td>(0.0067)</td>
<td>575</td>
</tr>
</tbody>
</table>

F(3,570) = 56.307  Prob>F = 0.0000  Bartlett’s test for equal variances: $\chi^2 (3) = 38.01$  Prob>$\chi^2 = 0.000$

Notes: Standard errors are given in parentheses.  * EMEA = Europe, Middle East and Asia.
Compliance Rating results

While the M-Audit data suggest some modest improvements in suppliers’ compliance with Nike’s code, a very different picture emerged from the Compliance Rating (CR) data. Because these ratings are easier to understand and reflect Nike representatives’ evaluation of a broader array of objective and subjective features of each plant and its management processes and work environment, they are used more often by Nike managers to guide production and sourcing decisions. The purpose of the CR programme is to develop a tool that integrates compliance and sourcing decisions. A grade (from A to D) is given to each factory by the local compliance manager, based on all audits and factory visits by Nike staff and by the FLA. (See Appendix 2 for an explanation of the grading system.) The most recent Compliance Rating Database, in which over 700 factories have more than one CR grade, makes it possible to examine the change in workplace conditions over time. To assess CR change over time, we first describe the overall ratings of all Nike suppliers and how they have evolved over time for factories that have been given more than one CR grade. The first rating ever recorded is then compared with the very latest CR grade recorded.

Tables 4 and 5 present summary statistics for the CR grades assigned to Nike’s suppliers. There are 3,686 observations of CR grades in total, with half of the factories receiving a B grade. However, when examining the same factories over time – i.e. comparing their very first CR grade with their last grade

<table>
<thead>
<tr>
<th>Grade</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Counts</td>
<td>571</td>
<td>1,945</td>
<td>699</td>
<td>471</td>
<td>3,686</td>
</tr>
<tr>
<td>Percentage</td>
<td>15.49</td>
<td>52.77</td>
<td>18.96</td>
<td>12.78</td>
<td>100</td>
</tr>
</tbody>
</table>

Note: In order to translate the letter grades into numerical scores, we assigned values to each letter: A=4, B=3, C=2, D=1.
Beyond corporate codes of conduct

– a more pessimistic picture emerges. Almost half of the factories did not experience any change in their CR grade, and over 36 per cent of them experienced downgrading. In other words, according to Nike’s own CR system, workplace conditions in almost 80 per cent of its suppliers have either remained the same or worsened over time (see table 6).

Thus, on one measure, the M-Audit score, factory workplace conditions appear to be improving somewhat over time, while on the broader measure (also generated internally by Nike’s own staff), workplace conditions are either stagnant or getting worse. How to make sense of these seemingly contradictory findings? Why are working conditions improving in some factories while apparently stagnating or deteriorating in others? To understand these findings, we now turn to a detailed matched-pair case study of two Mexican factories which received nearly identical scores on the M-Audit (87 and 86) but very different CR grades (B and D).

### Table 6. Changes in Compliance Rating grades over time

<table>
<thead>
<tr>
<th>Change in CR grade</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>–3 (Down by 3 degrees)</td>
<td>20</td>
<td>2.62</td>
</tr>
<tr>
<td>–2 (Down by 2 degrees)</td>
<td>74</td>
<td>9.70</td>
</tr>
<tr>
<td>–1 (Down by 1 degree)</td>
<td>181</td>
<td>23.72</td>
</tr>
<tr>
<td>0 (No change)</td>
<td>323</td>
<td>42.33</td>
</tr>
<tr>
<td>1 (Up by 1 degree)</td>
<td>116</td>
<td>15.20</td>
</tr>
<tr>
<td>2 (Up by 2 degrees)</td>
<td>42</td>
<td>5.50</td>
</tr>
<tr>
<td>3 (Up by 3 degrees)</td>
<td>7</td>
<td>0.92</td>
</tr>
<tr>
<td>Total</td>
<td>763</td>
<td>100</td>
</tr>
</tbody>
</table>

Note: The change in CR is calculated as the score from the most recent audit minus the score from the earliest audit.

A tale of two practices

Because both factories – which will be referred to as Plant A and Plant B – manufacture the same product (T-shirts) and are located in the same country (Mexico), they operate in the same political and economic environment and are subject to the same labour regulations. Both plants interface with the same regional office of Nike (based in Mexico City) which is responsible for coordinating orders (sourcing) and compliance visits to the factories. In fact, the very same compliance specialists audit both factories. Moreover, on many of the objective indicators of labour standards, the two plants appear similar as suggested by their equivalent M-Audit scores. Unions are present in both plants; both of them pay at least the statutory minimum wage; training is provided; payroll records are maintained, etc. The similarities between the two plants are highlighted in table 7.
Two worlds of work

Notwithstanding their similarities, Plants A and B have dramatically different labour conditions in practice, as shown by a more detailed comparison of wages, employee satisfaction, worker participation in production-related issues, hours of work and overtime, and worker voice/representation at these two plants. Table 8 summarizes the differences between the two plants on these issues. In Plant A, workers are paid better, work within the statutory working time limits and have a choice of whether or not to work overtime, engage in decisions affecting the pace, target and mechanics of production, and participate in various forums that provide them with voice at work. Workers in Plant B are paid less well, often work longer hours, and have no voice in production decisions, let alone other aspects of life in the factory. Our interviews with workers in both plants found a higher level of employee satisfaction in Plant A than in Plant B.

Closer examination of the two Mexican plants reveals the importance of both work organization and employment practices in shaping workplace conditions. Table 9 summarizes differences in the production, human resources and work organization systems of the two plants and in their productivity and cost performance. In addition to introducing lean manufacturing, Plant A

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Table 7. Similarities between the plants

<table>
<thead>
<tr>
<th></th>
<th>Plant A</th>
<th>Plant B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country location</td>
<td>Mexico</td>
<td>Mexico</td>
</tr>
<tr>
<td>Statutory minimum wage</td>
<td>US$15/day</td>
<td>US$15/day</td>
</tr>
<tr>
<td>Structure</td>
<td>Part of a vertical group</td>
<td>Part of a vertical group</td>
</tr>
<tr>
<td>Product type</td>
<td>T-shirts, graphic T-shirts</td>
<td>T-shirts, seamless and high-tech T-shirts</td>
</tr>
<tr>
<td>Defect rate (%)</td>
<td>1</td>
<td>0.6</td>
</tr>
<tr>
<td>Turnover rates (%)</td>
<td>8–10</td>
<td>10</td>
</tr>
<tr>
<td>System of promotion</td>
<td>Informal, based on skills</td>
<td>Informal, based on skills</td>
</tr>
<tr>
<td>Training</td>
<td>2 months</td>
<td>1 month (subsidized by state government)</td>
</tr>
<tr>
<td>Union</td>
<td>Mexican Workers Confederation (CTM)</td>
<td>Mexican Workers Confederation (CTM)</td>
</tr>
</tbody>
</table>

Table 8. Workplace differences

<table>
<thead>
<tr>
<th></th>
<th>Plant A</th>
<th>Plant B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average weekly wage</td>
<td>US$86</td>
<td>US$67.8</td>
</tr>
<tr>
<td>Team work</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Job description</td>
<td>Multi-tasks</td>
<td>Single task</td>
</tr>
<tr>
<td>Job rotation</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Worker participation in work-related decisions</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Overtime</td>
<td>Voluntary and within limit</td>
<td>Mandatory and over limit</td>
</tr>
</tbody>
</table>
also employed various human resources management policies that provided workers with greater autonomy and power on the shop floor. In particular, Plant A invested heavily in the training of its workers – in part to implement lean manufacturing processes effectively – and thus became wary of mistreating these highly skilled workers for fear that it would lose its investment in their training. Skilled but dissatisfied workers could easily leave and work for a competitor. These workers were now trained to stop production when they saw defects and/or work in autonomous production cells in which they actively participate in decisions affecting production targets and techniques. They thus became more empowered to resist management abuses on the shop floor.

Plant B pursued an alternative approach to managing its workforce. Rather than invest in training and encourage worker autonomy/discretion, Plant B developed highly detailed work rules and maintained tight control over the shop floor. In contrast to Plant A, workers in Plant B are not seen as a resource for improving productivity and quality. Instead, management at Plant B considers workers as a (variable) cost that needs to be reduced as much as possible. According to the head of operations at Plant B, “It’s all about lowering the price of labour and increasing the quantity produced.”

Plant A enjoys higher productivity than Plant B; it pays wages that are higher than those paid to workers in Plant B; and it has lower unit labour costs than Plant B. Unit costs (along with quality and on-time delivery) are what buyers really care about, which suggests that Plant A possesses both better working conditions and better business performance than Plant B.

In sum, the differences in working conditions between Plants A and B seem to result not from geographic location, product mix or nationality of ownership but from the very different ways in which work is organized. In Plant A, work was reorganized along the lines of lean production, which relies on multi-skilled, autonomous work groups engaged in a variety of operations. This new system enhanced the plant’s efficiency and quality. It allowed to schedule its workload better (and thus, avoid excessive overtime) and increased the wages of its workforce (i.e. share efficiency gains). Plant B pursued a more scientific management approach, investing heavily in new plant and equipment. The goal of Plant B management is to increase productivity and quality through investment in new technology, strict control over the workforce, and various incentives (productivity bonuses) aimed at achieving ever greater economies of scale.

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Table 9. Comparison of production systems in plants A and B

<table>
<thead>
<tr>
<th></th>
<th>Plant A</th>
<th>Plant B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of workers in one line or cell</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>T-shirts per day per line or cell</td>
<td>900 T-shirts/day</td>
<td>800 T-shirts/day</td>
</tr>
<tr>
<td>Daily wage (fixed salary + bonuses) per worker</td>
<td>US$17.2</td>
<td>US$13.6</td>
</tr>
<tr>
<td>T-shirts per worker</td>
<td>150 T-shirts/worker</td>
<td>80 T-shirts/worker</td>
</tr>
<tr>
<td>Labour cost per T-shirt</td>
<td>US$0.11</td>
<td>US$0.18</td>
</tr>
</tbody>
</table>
Concluding remarks

In many ways, the differences in relationships between Nike and the managers of the two Mexican plants described above resemble what Frenkel and Scott found in their study of supplier-buyer relations in China (Frenkel and Scott, 2002). They argued that brands develop two distinct types of compliance relationships with their suppliers: a hands-on, cooperative relationship with some suppliers and an arms-length, more distrustful “compliance” relationship with others. According to Frenkel and Scott (2002), these differences can shape not just the style but also the substance of compliance programmes within factories. Our comparative study of two plants in Mexico appears to support their findings. More frequent visits and more open communication between Nike’s regional staff and Plant A management led to the development of greater trust and a better working relationship between these two actors. This, in turn, contributed to the upgrading of Plant A’s production system and its consequent positive impact on working conditions at the plant. Less frequent, more formal communication patterns between Nike’s local staff and Plant B management appear to have reinforced the arms-length nature of their relationship, in which Plant B seeks to deliver products to Nike at the lowest cost (highest margin) and Nike tries to ensure compliance with its technical and workplace standards through ever more sophisticated systems of policing and monitoring.

Taken together, our quantitative and qualitative findings suggest a multifaceted, evolutionary model for improving working conditions in global supply chain factories in which codes of conduct are only one, albeit important component. Nike’s code emerged out of pressures from consumer and NGO groups. And the corporation has put considerable organizational resources into monitoring its code by building up a sizable staff of compliance and production specialists and multiple auditing processes. The data generated by these processes show that on average its plants are rated above the mid-points on its rating scales but that there continues to be wide variations both in compliance and in the broader evaluations of operations and working conditions in its plants. Some of the variation in compliance reflects the intensity of management attention given the plants (numbers of visits) and the quality of legal regulation in the country in which a plant is located. Finally, our closer analysis based on case studies suggests that plants employing modern production, work organization and employee voice mechanisms may perform better on both production and employee-centred outcomes.

While we recognize the limits of generalizing from one company’s experience, these results suggest the value of thinking about how these multiple factors might fit together and complement each other in an integrated system for monitoring labour standards and improving working conditions in modern global supply chains. By way of conclusion, therefore, the following set of hypotheses is offered in the belief that it merits testing in future research.

4 Nike (2005) reports a similar conclusion in its publicly available FY04 Corporate Responsibility Report.
(1) External pressures are essential for generating internal corporate support and commitment to establishing and enforcing codes of conduct.

(2) Codes of conduct will lead to an improvement in general standards but, standing alone, they may not be stable. Some might decline over time while others may improve, depending on the presence of other complementary factors at the plant, corporate, and national levels.

(3) To be sustained and to continue to improve or maintain a high rate of compliance, firm specific codes of conduct and monitoring systems need to be:

(a) Integrated into management structures and processes governing production, quality improvement, human resources management, and other operational and strategic aspects of supply chain management;

(b) Complemented by effective enforcement of national laws that conform to internationally accepted labour standards and enforcement regimes that uphold high standards and support efforts by leading firms to upgrade production and human resources systems that contribute to compliance and organizational performance.

(c) Complemented by workplace unions or other institutions that provide employees with a voice in production and employment matters.

In many ways, our argument about the need to complement codes of conduct/monitoring programmes with more systemic interventions aimed at tackling the root causes of poor working conditions is precisely how other issues have been addressed in the past (i.e. promoting occupational health and safety, redressing problems of equal opportunity in employment and promotion decisions). In each of these cases, external pressures led to company-sponsored standards and compliance programmes. The limited results of this initial response eventually prompted companies to adopt new management systems that elevated and integrated these issues into their core business operations. Programmes aimed at ensuring basic compliance with the standards of the OSHA and EEOC (United States Equal Employment Opportunity Commission) were reinforced by the presence of trade unions and/or employee committees and supported by new forms of work organization and human resources management systems that sought to promote not only more healthy and equitable workplaces but also new sources of competitive advantage for the firms embracing these policies (for more on the evolution of these practices, see Dobbin and Sutton, 1998; Weil, 1996 and 1991). Our initial research suggests improving labour standards in global supply chain factories will require a parallel journey.

References


Brown, Dana L. 2005. Cooperation without Trust? Reflections on the FLA’s efforts to promote collaboration among its members and with other MSIs. Memo prepared under the supervision of Professor Richard Locke (Massachusetts Institute of Technology Sloan School of Management).


Appendix 1. 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.

At the core of the NIKE corporate ethic is the belief that we are a company comprised of many different kinds of people, appreciating individual diversity, and dedicated to equal opportunity for each individual.

NIKE designs, manufactures and markets products for sports and fitness consumers. At every step in that process, we are driven to do not only what is required by law, but what is expected of a leader. We expect our business partners to do the same. NIKE partners with contractors who share our commitment to best practices and continuous improvement in:

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

Contractors must recognize the dignity of each employee, and the right to a work place free of harassment, abuse or corporal punishment. Decisions on hiring, salary, benefits’ advancement, termination or retirement must be based solely on the employee’s ability to do the job. There shall be no discrimination based on race, creed, gender, marital or maternity status, religious or political beliefs, age or sexual orientation.

Wherever NIKE operates around the globe we are guided by this Code of Conduct and we bind our contractors to these principles. Contractors must post this Code in all major workspaces, translated into the language of the employee, and must train employees on their rights and obligations as defined by this Code and applicable local laws.

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

Forced Labor

The contractor does not use forced labor in any form – prison, indentured, bonded or otherwise.

Child Labor

The contractor does not employ any person below the age of 18 to produce footwear. The contractor does not employ any person below the age of 16 to produce apparel, accessories or equipment. If at the time Nike production begins, the contractor employs people of the legal working age who are at least 15, that employment may continue, but the contractor will not hire any person going forward who is younger than the Nike or legal age limit, whichever is higher. To further ensure these age standards are complied with, the contractor does not use any form of homework for Nike production.
Compensation
The contractor provides each employee at least the minimum wage, or the prevailing industry wage, whichever is higher; provides each employee a clear, written accounting for every pay period; and does not deduct from employee pay for disciplinary infractions.

Benefits
The contractor provides each employee all legally mandated benefits.

Hours of Work/Overtime
The contractor complies with legally mandated work hours; uses overtime only when each employee is fully compensated according to local law; informs each employee at the time of hiring if mandatory overtime is a condition of employment; and on a regularly scheduled basis provides one day off in seven, and requires no more than 60 hours of work per week on a regularly scheduled basis, or complies with local limits if they are lower.

Environment, Safety and Health (ES&H)
The contractor has written environmental, safety and health policies and standards, and implements a system to minimize negative impacts on the environment, reduce work-related injury and illness, and promote the general health of employees.

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

## Appendix 2: Nike’s Compliance Rating system

<table>
<thead>
<tr>
<th>Grade</th>
<th>Compliance Rating criteria</th>
<th>Description</th>
<th>Non-compliance issues that do not reach levels defined as C or D issues (see below).</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>No more than five minor issues outstanding on the Master Action Plan and no more than 20 per cent of MAP items past due.</td>
<td>Non-compliance issues that do not reach levels defined as C or D issues (see below).</td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>More than five minor issues, but no serious or critical issues outstanding on the MAP and no more than 30 per cent of MAP items past due.</td>
<td>Non-compliance issues that do not reach levels defined as C or D issues (see below).</td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>One or more C-level issues, but no D-level issues, outstanding on the MAP or more than 30 per cent of MAP items past due.</td>
<td>Lack of basic terms of employment (contracts, documented training on terms, equal pay, discriminatory screening)  &lt;br&gt; Non-compliance to local laws on treatment of migrant workers  &lt;br&gt; Less-than-legal benefits not related to income security (e.g. leave)  &lt;br&gt; Excessive hours of work: greater than 60 hours/week, but less than 72 hours/week  &lt;br&gt; Exceeding legal annual overtime limit for 10 per cent or more of the workforce  &lt;br&gt; Not providing one day off in seven  &lt;br&gt; Verbal or psychological harassment or abuse  &lt;br&gt; Conditions likely to lead to moderate injury or illness to workers  &lt;br&gt; Conditions likely to lead to moderate harm to the environment or community</td>
<td></td>
</tr>
<tr>
<td>D</td>
<td>One or more D-level issues outstanding on MAP or serious issues past due; or more than 40 per cent of open MAP items past due.</td>
<td>Unwillingness to comply with Code standards  &lt;br&gt; Denial of access to authorized Nike compliance inspectors  &lt;br&gt; Falsification of records and coaching of workers to falsify information  &lt;br&gt; Homework, or unauthorized sub-contracting  &lt;br&gt; Under-age workers  &lt;br&gt; Forced labor: bonded, indentured, prison  &lt;br&gt; Denial of worker rights to freedom of association where legal  &lt;br&gt; Pregnancy testing  &lt;br&gt; Confirmed physical or sexual abuse  &lt;br&gt; Paying below legal wage  &lt;br&gt; Denial of benefits tied to income security  &lt;br&gt; No verifiable time-keeping system  &lt;br&gt; Exceeding legal daily work hour limit or work in excess of 72 hours/week for 10 per cent or more of the workforce  &lt;br&gt; Not providing one day off in 14 days  &lt;br&gt; Conditions that can lead to death or serious injury  &lt;br&gt; Conditions that can lead to serious harm to the environment</td>
<td></td>
</tr>
</tbody>
</table>