**Nike and child labor – how it went from laggard to leader**

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For well over a decade, Nike became defined by the term ‘sweatshop labor’. It was simply one of the principal things for which it became famous. Consequently, a good many people saw it as the epitome of uncaring capitalism. It was one of the demons of the anti-capitalist campaigners.

In reality, there was no truth to the idea that the company was wicked or uncaring. It was simply one of the first that had pioneered a new business model, and it was learning the hard way that it’s hugely successful formula had unintended consequences that would have to be dealt with.

Nike was originally founded in 1964 as Blue Ribbon Sports, changing to Nike in 1971. One of the two founders, Phil Knight, came up with the idea while he was at Stanford Business School. At the time, the vast majority of US footwear was manufactured in America. Nike was able to grow quickly using the model of outsourcing production to a network of suppliers in parts of the world where costs were lower.

By 2005, the company’s steady progress began to gain grudging respect from some of the campaign groups

Nike didn’t own the factories. In a very real sense, Nike has never manufactured a single shoe in its entire history. And because it didn’t own the factories, the assumption was that running them was business of the owners, not Nike. In its early decades of existence, there was apparently no evidence of any problem that challenged that assumption.

But by the 1990s, the world was changing. Economic deregulation was leading to a huge increase in the globalization of the economy, and as the scale of global corporate activity was ramping up, the negative consequences were becoming highly visible. Consequently, the US and European home markets began to hear more about working conditions in foreign factories. Nike was neither better nor worse than any of its peers at this point. The whole outsourced industry was based on the premise of “ignorance is bliss”. But ignorance was proving more and more difficult to maintain.

The company began to make changes. It revised its factory code of conduct, and hired auditing firms to carry out safety checks. But by and large, it was still left to the factory owners to sort themselves out while Nike negotiated for the lowest possible prices.

Everything changed in 1996. Life magazine published a story that included a photograph of a child stitching footballs that carried the Nike logo. There is some evidence that the photo was staged, since it showed inflated footballs while in reality the balls were shipped uninflated. It didn’t matter. The picture was a powerful visual for a situation that was shown to genuinely exist. The company’s reputation suffered and the first of many protests began to take place.

By 1998, the company accepted it needed to take responsibility. Phil Knight admitted “the Nike product has become synonymous with slave wages, forced overtime and arbitrary abuse.” It was going to be a longer journey than they might have imagined. Nike and child labor had become indelibly linked in the public consciousness.

Nike began to take the first steps. It released the names and locations of its factories. It changed elements of its shoe manufacture to reduce hazards to the workers who make them. It began producing reports to talk about its progress. And it put more focus on audits of factories to identify problems.

Nike now has extensive and transparent reporting on its progress

Still, the popular view of the company as a villain refused to go away. In 2001, one particular incident summed up the problem. The company had offered customers the ability to have a word of their choice stitched onto their new Nike trainers. One enterprising critic requested that the word ‘sweatshop’ should be used for his shoes. The company’s refusal was one of the first examples of a viral internet phenomenon as the email exchange got shared widely across the world.

Organizations such as ‘NikeWatch’ and the Clean Clothes Campaign expressed skepticism about Nike’s efforts, taking a cynical view of its seriousness and sincerity.

But by 2005, the company’s steady progress began to gain grudging respect from some of the campaign groups, and it seemed like the mood music might begin to change. Then just at that point, there came a crisis that threatened to take it right back to the beginning.

In the run-up to the 2006 World Cup, photos were presented to the company of pictures of Pakistani children stitching Nike footballs – a direct repeat of what had happened ten years earlier. It turned out that the supplier, Saga Sports, having become overwhelmed with orders linked to the approaching World Cup, had gone against the rules by sending balls out to be made at local homes.

There was a significant cost to dealing with this problem. To recall the balls would cost $100m short term, and it would delay future production considerably. The company decided to pull the product anyway and to cancel its contract with Saga, moving instead to Silver Star where all work would be done on factory premises.

It was a short-term financial blow, but it sent a strong signal to the company’s suppliers and its customers at the same time, that it was serious about tackling the problem.

The impact on former supplier Saga was enormous, essentially driving it to bankruptcy. Other suppliers based in Sialkot, Pakistan took careful note.

Hannah Jones, Nike's VP of Sustainable Business, has been a key figure driving the company's progress

Nike has shown itself to be willing to take other tough decisions, for instance pulling support from a major low cost supplier in Bangladesh because it was impossible to provide working conditions that met decent standards. This was a move that gave it a competitive disadvantage when others were exploiting Bangladesh as the lowest possible cost base. But it left the company less exposed when the Rana Plaza building disaster took place and hard questions began to be asked about who was doing what.

Now, Nike finds itself more often at the top of lists for sustainable companies, particularly within its sector. It appears in the top ten of the Fortune Most Admired Companies list. Its commitment to improving its environmental impact, providing transparency about its processes, and ensuring decent working conditions in its supply chain, have turned the tide of public perception.

Now the company is more often to be found on the front foot when it comes to matters of integrity. For instance, when boxer Manny Pacquiao recently made anti-gay comments during a media interview, Nike dissolved its partnership with him the very next day, labelling his comments “abhorrent.”

The company’s turnaround has become one of the success stories of corporate integrity in the last two decades.