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A NOTE ON NIKE'S WAGES, LABOR EXPLOITATION AND PROFITS IN THE GARMENT INDUSTRY

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ABSTRACT

The garment industry is notorious for the endemic problem of labor exploitation we conducted an analysis of the average wages reported by Nike in 2001 and in its financial statements, showing that the brand could have doubled or tripled the wages of workers while maintaining a high net income. This is a paradigmatic case for the sector, and a unique opportunity to prove that paying a decent living wage is possible without suffering losses. To our knowledge, no other leading brand of the garment industry has published a detailed report on the wages of its workers. Even Nike decided not to do so again after the publication of its 2001 report. Consequently, the findings of our study have important implications for those who continue to demand that textile companies improve the labor conditions of their workers

KEYWORDS: garment industry, living wages, labor exploitation, Nike

INTRODUCTION

The garment industry is one of the most important and dynamic industries in the world. In 2014, between 60 and 75 million individuals were employed in the textile, clothing and footwear sector worldwide (Clean Clothes Campaign, 2015), with expenditure on marketing totalingapproximately$500 billion per year. More than 150 billion new articles of clothing were produced in the year 2010 (Beda & Shank, 2016). The global fashion industry is currently valued at a staggering 3,000 billion US dollars, 2% of the world's total GDP (FashionUnited.com).

However, despite these huge numbers, the garment industry is notorious for the endemic problem of labor exploitation (e.g. Alder-Milstein & Kline, 2017; Ali &Medhekar, 2016; Minney, 2017) and has long been associated with the sexual harassment and discrimination of women, human trafficking, exposure of workers to toxic chemicals, child labor, the lack of power or even non-existence of trade unions, long working hours, and extremely low wages.

Since the 1980s, several organizations and activists have denounced this situation, publishing horrific stories in the mass media about this modern form of slavery, while focusing the spotlight on those companies which allow slave labor to persist throughout their supply chains. Recent tragedies resulting from such inhumane conditions, such as the Rana Plaza collapse in Bangladesh in 2013, have also increased global awareness of this issue.

One of the brands that has been most heavily criticize doverits labor practices is Nike. During the late 1980s, American labor organizer Jeff Ballinger denounced the working conditions at Indonesian factories where clothing was produced for Nike. The minimum wage in Indonesia at the time was about $0.87 a day, which only covered 68% of a person's basic needs, and was far below the minimum amount necessary to maintain dependent family members. Ballinger’s first study of 250 workplaces in Jakarta reported that 44% of them did not even pay their workers the legal minimum wage (Ballinger, 2009).

Baker (1992) also reported that the 6,700 workers at the Hardaya Aneka Shoes Industry factory in Jakarta produced about 2,000 pairs of Nike shoes and sneakers per hour. Nike paid the factory $16.50 a pair for a model such as the Air Pegasus, which was then sold to retailers for about $35. These retailers, as Baker (1992) indicated, eventually sold the sneakers for about $70 a pair. However, the workers at the factory were paid a paltry $0.15 per hour.

During the 1990s, the efforts of Ballinger and other activists, such as Jim Keady, put tremendous pressure on Nike. The company tried to avert this crisis by increasing its marketing activity and elaborating a code of conduct for its suppliers. However, as Reclaim Democracy! (2012) showed the situation in 1998 was still far from satisfactory and there existed a clear contradiction between what Nike was claiming in its advertising and communications regarding, for example, a guaranteed living wage for its workers, and what other investigators were reporting, including an internal audit carried out by Ernst & Young.

In another maneuver designed to avert the criticism, Nike published the wages of its workers at 552 factories around the world (Kish, 2014) as an exercise in transparency and an attempt to demonstrate that Nike was paying above the minimum wage in each of the countries concerned.

However, a minimum wage does not necessarily mean a decent living wage. A living wage should be enough to cover a worker’s basic needs as well as the needs of dependent family members. This is a basic human right, as indicated (although not explicitly) in Article 23 of the Universal Declaration of Human Rights. Nevertheless, wages in the garment industry fall well below any living wage estimations. In 2015, the Asia Floor Wage Alliance calculated that in Bangladesh, Sri Lanka, Cambodia, India, Indonesia and China, the minimum wage was only 18%, 20%, 34%, 62%, 66% and 53% of a living wage, respectively (Labour Behind the Label, 2018). The situation in Central America was similar, such as in Guatemala (42%), El Salvador (34%), Nicaragua (35.4%) and Honduras (33%), as Maquila Solidarity Network (2016) revealed, using 2014 data. Therefore, many workers earning the minimum wage, or slightly higher, would need to be paid double or triple their actual wages in order to obtain a living wage. The case of Alta Gracia company shows clearly how earning a living wage in the garment industry dramatically improves the lives of workers and their families (Alder-Milstein & Kline, 2017).

In this study, we conducted an analysis of the average wages reported by Nike in 2001 and in its financial statements, showing that the brand could have doubled or tripled the wages of workers while maintaining a high net income. This is a paradigmatic case for the sector, and a unique opportunity to prove that paying a decent living wage is possible without suffering losses. To our knowledge, no other leading brand of the garment industry has published a detailed report on the wages of its workers. Even Nike decided not to do so again after the publication of its 2001 report. Consequently, the findings of this research have important implications for those who continue to demand that textile companies improve the labor conditions of their workers.

METHOD

We employed the data published by Nike (see Kish, 2014), which detailed the average wages of the workers at 552 factories located in 34 countries. Nike reported its monthly wages in the currency of each country, so we converted these values into 2001 US dollars using the Fxtop online currency convertor (Fxtop.com).

We then obtained Nike's results for the 2000-2016period in order to contextualize the 2001 fiscal year results. The main indicators of Nike's results are shown in Table 1.

We also calculated the gross margin performance (gross margin performance=net income/gross margin) as a measure of the value of the margin obtained. In addition, we computed the revenue performance (revenue performance=net income/revenue), i.e. the percentage of each dollar sold that remains as a net profit. As can be seen, Nike's net profits and the return for each dollar sold have continued to grow since 2000. In 2016, Nike reported a net income of $3,760 million, with a revenue performance of 11.61%. This means that, in order to obtain $1 of net profit, Nike only has to sell $8.6. In other words, for a $100 shoe sold by Nike, the company would earn$11.61.

Table 1. Nike results in millions of dollars (2000-2016)

Year	Revenue	Gross margin (profit)	Gross margin (%)	Gross margin performance	Net income	Revenue performance
2000	8995	3591,3	39,93%	16,13%	579,1	6,44%
2001	9488,8	3703,9	39,03%	15,92%	589,7	6,21%
2002	9893	3888,3	39,30%	17,19%	668,3	6,76%
2003	10700	4383,4	40,97%	16,88%	740,1	6,92%
2004	12250	5251,7	42,87%	18,01%	945,6	7,72%
2005	13740	6115,4	44,51%	19,81%	1211,6	8,82%

2006	15000	6880	45,87%	20,20%	1390	9,27%
2007	16300	7430	45,58%	20,05%	1490	9,14%
2008	18600	8710	46,83%	21,58%	1880	10,11%
2009	19200	8990	46,82%	16,57%	1490	7,76%
2010	19000	9200	48,42%	20,76%	1910	10,05%
2011	20900	9870	47,22%	21,58%	2130	10,19%
2012	24100	10900	45,23%	20,37%	2220	9,21%
2013	25300	11500	45,45%	21,57%	2480	9,80%
2014	27800	13100	47,12%	20,53%	2690	9,68%
2015	30601	14067	45.97%	23,25%	3273	10,69%
2016	32376	14971	46,24%	25,12%	3760	11,61%

In 2001, revenue performance was 6.44%, i.e., for Nike to earn $1, it had to sell $15.5.
The figure for total salary was calculated as the sum of the wages paid over 12 months for all the workers of each country. In 2001 that amount totaled$809.65 million, representing14.00% of the sales cost (revenue – gross margin).

We also estimated the total number of items sold in 2001. We used real data from2015, where the number of orders and net income were reported. Assuming a constant relationship between both variables, an estimate of 341.1 million articles was obtained for the year 2001.

Therefore, we performed two simulation analyses, considering two different scenarios; (1) the doubling of wages; (2) the tripling of wages. We then calculated net income and revenue performance again.

RESULTS
For every $1 paid to a worker, Nike obtained a profit of $0.72, i.e., a net return of 72% for every dollar invested in worker wages, a truly remarkable figure.

If Nike had maintained the sale price of its products while also doubling wages, its net income would have decreased from $579.10 million to $460.80 million. These are approximate values that were calculated after multiplying the gross margin performance by the gross margin, once sales costs had been increased. As can be seen from this simple calculation, Nike would have remained highly profitable, with a return on revenues of 4.86%. The same would have happened if wages had been

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tripled; Nike would still have remained highly profitable, with a net return for every dollar sold of 3.50%.

However, some might think that this figure is not enough, and that Nike cannot afford to lose a single penny of its potential profits. If wages are increased, then the products should be sold at a higher price in order to maintain profit margins. If this were to happen, and assuming that sales remain the same, the doubling of wages would only entail a 9% price increase. If we assume that the same number of products would be sold at this higher price, Nike would maintain exactly the same profits. There would obviously be many ways to do this, and prices would not have to be raised by the same proportion for all of Nike's range of products. For example, given that the demand for products in the first quartile of Nike's prices is much more inelastic (it is highly likely that people willing to pay $200 for a pair of sneakers would also be willing to pay $218), then prices in this quartile could be raised by more than 9% in order for the price increases in the remaining quartiles to be lower than 9% (the more elastic zone of demand). Table 2 summarizes these results.

Table 2. Simulation of doubling and tripling wages (in millions of dollars)

	Reported wages	Doubling wages	Tripling wages
Wages	809.65	1619.29	2428.94
Wages/Cost of sales	14.00%	27.99%	41.99%
Total costs	5784.9	6594.55	7404.19
Revenue	9488.80	9488.80	9488.80
Grossmargin	3703.90	2894.25	2084.61
Grossmargin %	39.03%	30.50%	21.97%
Net income	589.70	460.80	331.89
Revenue performance	6.21%	4.86%	3.50%
Price rise of 341 million products to maintain profits	-	2.37	4.75
% Price rise by product	-	9%	17%

DISCUSSION

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We have shown that Nike could have paid a decent living wage to its workers in 2001and still remained highly profitable. This is an important empirical finding because, to our knowledge, there is no data in the garment industry detailing worker wages at all the factories in the supply chain of the leading brands. However, it is highly likely that the same finding would be reached by analyzing other textile companies with similar profit margins, such as Inditex or H&M, companies that have also been heavily criticized for having similar labor practices.

All the simulations were carried out using suppliers from rich countries such as Canada, Australia, the United Kingdom, and the United States. It is clear that workers in these countries have wages more in line with the values of human dignity defended by the Universal Declaration of Human Rights. Therefore, our analysis is rather conservative. If the same analysis were to be carried out while giving much less weight to or even eliminating any possible wage increases of the workers in rich countries, Nike would still have far fewer excuses for not doubling the wages of its workers in poor countries.

In the last few years, Nike has remained in the public spotlight regarding its labor conditions. For example, in September 2016, Nike, along with other brands such as Walmart, refused to support Cambodian unions in their demand to raise the minimum wage from $140 per month to $179.60 (Stangler, 2016). The living wage in Cambodia, according to the Asia Floor Wage Alliance, is estimated at $283 per month. Nike, as we have just seen, reported a net profit of $3,760 million in 2016, and a revenue performance of 11.61%, i.e., a much better financial situation than in 2001, but even so, this has not resulted in Nike paying a decent living wage to its workers

Public campaigns carried out in recent years by USAS (United Students Against Sweatshops) and the Working Rights Consortium (WRC) have put the pressure back on Nike, by promoting several protests at different US colleges by students who wanted their respective universities to guarantee that workers producing Nike merchandise were treated with dignity (e.g. Greenhouse, 2010; Jaywork, 2017; Puri &Okuniewska, 2015).

Our research obviously has its limitations. The first is that we did not know the exact figures for individual wages, only the aggregate wages of workers. In addition, we have not considered the effects that increasing wages might have on productivity and on other externalities which could result in increased costs. However, as Alder-Midlstein & Kline (2017) show, paying a decent living wage could reduce other costs associated with employee turnover.

Although our conservative analysis has shown that, in order to maintain profits, Nike should increase the prices of its products by an average of between 9% and 17%, the case of Alta Gracias how that a price increase of only 2-3% could be enough to pay a living wage to its workers (Alder-Midlstein& Kline, 2017).

In conclusion, and while acknowledging the limitations of our analysis, we have shown that the leading brand names in the garment industry could pay a decent living wage to their workers while remaining highly profitable. Maybe this is the reason why there is no public data available regarding worker wages along all the steps of the supply chains, with the exception of this unique case published by Nike in 2001.

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