



NIKE

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ASSESSMENT FOR ACCREDITATION

May 2005

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## INTRODUCTION

FLA-accredited Participating Companies have demonstrated that they have the systems and procedures in place to successfully uphold fair labor standards throughout their supply chains. The complexity and ever-evolving nature of global supply chains make it impossible to guarantee that a product is made in conditions free of labor rights violations. For this reason, FLA does not certify brands. Instead, FLA evaluates companies at the headquarter level – in addition to standard factory-level due diligence activities that are conducted annually – to determine whether they have social compliance systems in place to proactively identify and address risks or instances of noncompliance. Accreditation is the highest level of recognition for FLA-affiliated companies, and is reevaluated every three years.

The FLA Board of Directors voted to approve the accreditation of Nike's compliance program on May 12<sup>th</sup>, 2005, based on proven adherence to FLA's Workplace Code of Conduct and the Obligations of Companies. Details on FLA's accreditation methodology can be found at [www.fairlabor.org/accreditation](http://www.fairlabor.org/accreditation).

## NIKE'S LABOR COMPLIANCE PROGRAM

### History with the FLA

Nike was a founding company of the Apparel Industry Partnership and has been an active participant in the FLA since its inception. Nike has attended the FLA Board of Directors and Monitoring Committee meetings throughout its implementation period. Nike representatives have served on the FLA Board of Directors as well as the Audit and Communication Committees.

### Overview of Program

Nike's code of conduct was established in 1992 and the compliance department was set up in 1996. Nike's Compliance Program falls under the umbrella of Nike's Corporate Responsibility Department and is headed by the Vice President of Compliance, who reports to the Vice President of Corporate Responsibility.

Nike Brand annual consolidated revenue for FY 2004 was \$10.9 billion.

### Compliance Team

Nike's internal audit team conducts the vast majority of Nike's full compliance audits, referred to as M-audits and Environmental Safety and Health (ESH) audits. Nike's monitoring also includes pre-sourcing audits and SHAPE (Safety, Health, Attitude, People and Environment) audits. SHAPE audits are conducted by Nike production staff and are utilized as a means to identify issues that may need further investigation. Third-party monitors are contracted for pre-sourcing audits and to conduct follow-up

visits as needed. Where there is no local Nike staff or where Nike staff may lack expertise, these external monitors will conduct M and ESH audits as well.

The most recent sources of information used in the assessment of Nike are provided below:

#### **Internal Audits at Regional Offices:**

Internal audits were conducted at Nike field offices in Bangkok, Thailand and Shanghai.

- In March 2005, two visits were made to the Nike office in Thailand. One-on-one interviews were conducted with all Nike Labor Compliance Specialists, the Thailand Country Manager and the Regional Director for South Asia. In addition, interviews were conducted with two Sourcing Managers from the apparel and equipment departments and one phone interview was conducted with a Manufacturing Manager from the footwear department. The FLA reviewed the Nike database with the Country Manager who projected the database screens from a laptop. Some documents were provided for on-site review. All supporting documentation that could not be reviewed on site, however, was provided to the FLA by Nike headquarters in Beaverton.
- In March 2005, FLA conducted an audit of the Nike China office in Shanghai. The visit consisted of interviews with the North China Compliance Manager and his team of four Compliance Auditors as well as with a Merchandising Manager. The Director of Compliance Operations, Corporate Responsibility from Nike World Headquarters was also present for the duration of the visit. Documents and files were made available upon request and a demonstration of the database was given. All documents for which copies were requested were provided to the FLA by Nike headquarters in Beaverton.

#### **Other Interviews Conducted In-Person or by Telephone:**

- An FLA representative conducted a telephone interview with Nike's Compliance Specialist in Bangladesh. The Country Manager for Bangladesh and the Regional Director for South Asia also participated in the phone interview.
- An FLA representative conducted two telephone interviews with current and former [monitoring organization] field staff in India and Thailand who had attended Nike's training of third-party monitors.

#### **Audit Observations:**

- FLA observed one and a half days of a two-day M-audit of a Nike contract apparel factory in Thailand.
- FLA observed one day of a two-day M-audit of a Nike contract apparel factory in Honduras.
- FLA observed a half-day of a one-day follow-up audit of a Nike contract apparel factory in China.

#### **Third Party Complaints:**

- During their implementation period, Nike has been involved in four Third Party Complaints:
  - BJ&B in the Dominican Republic

- Jakalanka in Sri Lanka
- PT Kolon Longgang in Indonesia
- PT Jaba Garmindo in Indonesia

**Profile of Nike's FLA applicable facilities during the implementation period<sup>1</sup>**

| LCI APPLICABLE FACILITIES AND IEMS, 2002-2004 |      |                |      |                |      |                |
|-----------------------------------------------|------|----------------|------|----------------|------|----------------|
| COUNTRY                                       | 2002 | 2002 IEM Count | 2003 | 2003 IEM Count | 2004 | 2004 IEM Count |
| ALBANIA                                       | 1    |                | 1    |                | 1    |                |
| ARGENTINA                                     | 4    |                | 10   |                | 10   |                |
| AUSTRALIA                                     | 14   |                | 12   |                | 13   |                |
| BANGLADESH                                    | 8    | 2              | 11   | 2              | 7    |                |
| BELARUS                                       | 2    |                | 2    |                | 2    |                |
| BELGIUM                                       |      |                |      |                | 1    |                |
| BRAZIL                                        | 21   |                | 23   | 1              | 22   | 1              |
| BULGARIA                                      | 8    |                | 7    |                | 10   |                |
| CAMBODIA                                      |      |                | 2    |                | 4    |                |
| CANADA                                        | 26   |                | 20   |                | 14   |                |
| CHILE                                         | 2    |                | 2    |                | 2    |                |
| CHINA                                         | 138  | 14             | 199  | 9              | 124  | 6              |
| COLOMBIA                                      | 1    |                | 1    |                | 2    |                |
| DOMINICAN REPUBLIC                            | 7    |                | 5    | 1              | 6    |                |
| ECUADOR                                       | 1    |                | 1    |                | 1    |                |
| EGYPT                                         | 2    |                | 5    |                | 4    |                |
| EL SALVADOR                                   | 15   | 4              | 11   |                | 8    | 1              |
| FIJI                                          | 2    |                | 2    |                | 3    |                |
| GERMANY                                       | 4    |                | 1    |                |      |                |
| GREECE                                        | 15   |                | 4    |                | 3    |                |
| GUATEMALA                                     | 5    |                | 4    |                | 4    |                |
| HOLLAND                                       | 3    |                |      |                |      |                |
| HONDURAS                                      | 4    |                | 11   | 1              | 10   | 2              |
| HONG KONG                                     | 13   |                | 12   |                | 9    |                |
| HUNGARY                                       | 1    |                | 1    |                |      |                |
| INDIA                                         | 42   |                | 43   | 4              | 21   | 2              |
| INDONESIA                                     | 53   | 8              | 53   | 5              | 45   | 1              |
| ISRAEL                                        | 3    |                | 3    |                | 6    |                |

|              |      |    |      |    |     |    |
|--------------|------|----|------|----|-----|----|
| ITALY        | 39   |    | 8    |    | 16  |    |
| JAPAN        | 18   |    | 29   |    | 26  |    |
| JORDAN       |      |    | 2    |    | 3   |    |
| KOREA        | 80   | 4  | 68   |    | 49  | 1  |
| LITHUANIA    | 1    |    | 1    |    | 1   |    |
| MACAU        | 4    |    | 5    |    | 3   |    |
| MACEDONIA    | 1    |    | 1    |    | 1   |    |
| MALAYSIA     | 54   |    | 64   | 3  | 46  |    |
| MEXICO       | 72   | 3  | 61   | 3  | 44  | 2  |
| MICRONESIA   | 2    |    | 1    |    |     |    |
| MOLDOVA      |      |    | 1    |    | 1   |    |
| MOROCCO      | 6    |    | 7    |    | 6   |    |
| NEW ZEALAND  | 1    |    | 1    |    | 1   |    |
| PAKISTAN     | 17   |    | 5    | 1  | 4   |    |
| PERU         | 3    |    | 1    |    | 2   |    |
| PHILIPPINES  | 22   | 3  | 8    |    | 5   |    |
| PORTUGAL     | 33   | 4  | 26   |    | 23  |    |
| ROMANIA      | 3    |    | 2    |    | 1   |    |
| RUSSIA       | 1    |    |      |    |     |    |
| SINGAPORE    | 2    |    | 2    |    | 2   |    |
| SOUTH AFRICA | 11   |    | 10   |    | 8   |    |
| SPAIN        | 5    |    | 7    |    | 6   |    |
| SRI LANKA    | 39   |    | 46   |    | 33  | 3  |
| SWITZERLAND  |      |    | 1    |    | 1   |    |
| TAIWAN       | 54   | 2  | 33   |    | 26  |    |
| THAILAND     | 92   | 4  | 73   | 5  | 71  | 4  |
| TUNISIA      | 8    |    | 11   |    | 10  |    |
| TURKEY       | 32   | 2  | 32   |    | 34  | 1  |
| UK           | 8    |    | 1    |    | 3   |    |
| USA          | 155  | 10 | 77   | 2  | 62  | 1  |
| VIETNAM      | 23   | 3  | 44   | 3  | 32  |    |
| TOTAL        | 1181 | 63 | 1074 | 40 | 852 | 25 |

<sup>1</sup> In Year One of FLA monitoring the IEM quota was 10%. It was reduced to 5% from Year Two onwards. That change, and the general trend towards consolidation in supply chains, explains the reduction in the numbers of IEMs over the course of the implementation period.

## **ANALYSIS OF NIKE'S LABOR COMPLIANCE PROGRAM USING THE FLA OBLIGATIONS OF COMPANIES AND EVALUATION WORKING GROUP BENCHMARKS**

This section presents a detailed report of the efforts LCI has made to meet FLA commitments as outlined in the FLA Charter and approved by the Board on the recommendation of the Evaluation Working Group. The obligations and corresponding benchmarks are listed below. Each benchmark is followed by examples of the actions LCI has taken to fulfill each obligation and examples of the due diligence the FLA staff and core consultants have undertaken to verify that this commitment has been met.

### **I. ADOPTS AND COMMUNICATES A CODE**

#### **1.1 Formally adopts a code that meets or exceeds FLA standards**

Actions Taken:

Nike's code of conduct was adopted in 1992.

Verification by FLA:

Nike's code of conduct is available on the company's website. A copy of Nike's code of conduct is available at FLA headquarters.

#### **1.2 Informs all suppliers in writing**

Actions Taken:

Nike informs its suppliers about the code of conduct through the supplier agreement and by providing new contract factories with the "Contractor Compliance Manual" and regional newsletters. Nike also provides all contract factories with the Nike Code Leadership Standards (CLS) on management systems, environment, safety and health; the CLS provide more detailed information on Nike's code elements and guidance on important compliance issues.

Verification by FLA:

A copy of the "Contractor Compliance Manual," Nike CLS and samples of the China newsletters are available at FLA headquarters.

#### **1.3 Posts the code in a prominent place in supplier facilities in the local languages of workers and managers**

Actions Taken:

Nike requires factories to post its code of conduct in prominent places and in the appropriate local language(s).

Verification by FLA:

The FLA has verified that the code is posted in multiple languages. The FLA has seen Nike's code of conduct posted in the local languages during factory visits to the following countries: China, Mexico, Honduras, El Salvador, Thailand and India.

One contract factory in Thailand, visited by the FLA, hired migrant workers from Burma and Nike's code of conduct was not available in Burmese. In one factory in India, the Nike code was posted 10 feet above the ground, and not at the eye level. It was a small poster with a small font size.

#### **1.4 Ensures that workers are informed orally and educated at regular intervals (to take account of labor turnover)**

##### Actions Taken:

Nike provides wallet-sized laminated cards in local languages that factories can make available to workers.

Nike requires factories to train their workers on the Nike code of conduct. [CSO] also provides training for factories on code elements.

Nike's own compliance staff provides trainings on Nike standards. M-audit requirements include an inquiry into worker awareness of Nike's code of conduct and training on Nike code elements.

##### Verification by FLA:

The FLA has verified this initiative through a review of Nike's wallet sized cards provided to workers during factory visits to the following countries: China, El Salvador, Mexico and Thailand.

FLA staff members have viewed documentation from trainings of vendors and have reviewed attendance sheets of supervisory skills trainings conducted by [CSO] at two footwear factories in Thailand. Training materials from the [CSO] are available in FLA offices.

During observations of Nike audits, the FLA confirms that auditors provide code awareness training to workers either during orientation or on an ongoing basis as part of their regular audit protocol. The FLA also reviewed training materials on the Nike CLS used for factory trainings.

#### **1.5 Obtain written agreement of suppliers to submit to periodic inspections/audits, including by accredited external monitors, to remediate instances of noncompliance with FLA Workplace Standards that arise, and to inform employees about those standards**

##### Actions Taken:

As mentioned above, Nike asks their contract factories to sign a Supplier Agreement outlining the need to comply with the FLA workplace standards. Other FLA requirements are communicated to the suppliers verbally in trainings and or in written communications.

##### Verification by FLA:

FLA has a copy of a Supplier Agreement on file.

## **2. TRAINS INTERNAL COMPLIANCE STAFF**

#### **2.1 Identifies the staff or service provider responsible for implementing their compliance program**

##### Actions Taken:

Nike has over 90 employees in its compliance department.



Nike also utilizes third party monitors for pre-sourcing audits as well for M-audits where Nike does not have compliance staff or an office.

Production and merchandising staff also provide compliance assistance in conducting SHAPE audits or remediation follow-up.

Verification by FLA:

A Nike organizational chart is on file at the FLA. FLA has also interacted with the compliance staff at Nike global team meetings and at visits to 8 Nike offices in 4 regions.

The FLA has met with two third-party auditors who conduct pre-sourcing audits on behalf of Nike.

The FLA spoke with two people from production who confirmed assisting in compliance by conducting SHAPE audits at Nike contract factories and/or following up on remediation.

**2.2 Ensures that they had training in all the areas under their responsibility, including, as appropriate, international and national labor standards, local languages, occupational and production risk factors, and techniques for monitoring, interviewing and remediating**

Actions Taken:

Nike conducted training for their global team on their new M-audit tool in a “boot camp” conducted in 2003.

New hires receive basic training in compliance and are assisted by more senior staff until skills are developed.

Nike trains third-party monitors on Nike protocols which are incorporated into their audit tool.

Nike reviews audit reports and provides feedback to both internal staff and third-party monitors.

Nike compliance staff trains production staff in regional offices to conduct SHAPE audits.

Verification by FLA:

Nike compliance staff in two countries confirmed attendance at boot camp.

Conversations with compliance staff in two separate countries confirmed this training process for new recruits.

Two individuals in Thailand and India from the same third-party monitor confirmed that Nike provided training focusing primarily on the Nike audit tool.

Documentation regarding reviews of third party monitors’ audits are on file at FLA headquarters.

Interviews with two sourcing staff confirmed that they had received SHAPE training by Nike compliance staff.

**2.3 Updates that training at regular intervals**

Actions Taken:

Regional and global meetings are conducted to improve the skills of Nike’s internal compliance team. On-going training includes topics such as labor law, auditing techniques, negotiating skills, worker interviews and ESH.

Verification by FLA:

The FLA is aware of the Nike global meetings. Compliance staff in three countries confirmed attendance at on-going training sessions during these meetings.

The FLA reviewed documentation from a team meeting in Thailand in December of 2004 at which training sessions on Effective Communication and ESH were held.

### 3. PROVIDES EMPLOYEES WITH CONFIDENTIAL REPORTING CHANNELS

#### 3.1 Encourages the establishment of grievance procedures at supplier facilities

Actions Taken:

In the CLS, Nike requires their contract factories to have a confidential grievance procedure to report harassment or abuse cases and raise other grievances. In addition, Nike investigates the existence and effectiveness of such procedures during the audits.

Nike has an initiative to create ESH committees as a first step towards functioning worker committees.

Verification by FLA:

FLA has reviewed the requirement for grievance procedures in the “Contractor Compliance Manual” and a copy of the CLS, both of which are on file at FLA headquarters. In two countries, FLA verified that Nike compliance staff inquired about the grievance procedures during audits.

The FLA has interacted with the initiative to create ESH committees.

#### 3.2 Provides channels for Company employees and workers at those facilities to contact the Company directly and confidentially if warranted

Actions Taken:

Nike does not systematically provide direct contact information to workers, preferring to encourage suppliers to develop their own internal procedures and go to Nike as a last resort. If requested by a worker, Nike auditors provide business cards during interviews.

Nike undertook several special projects to promote communication channels between workers and local NGOs in China and Indonesia. According to Nike, its global staff also received numerous complaints from workers in 2004.

Nike has partnered with a local NGO in Qingdao to provide a hotline number for workers to raise grievances.

Verification by FLA:

Interviews with local compliance staff in three countries indicated that, on occasion, Nike auditors provide business cards to workers during the interview process, either when requested by the worker, or when workers discuss sensitive issues. FLA could not verify this practice as it was not witnessed during the internal monitoring visits observed. According to one local team, no sensitive issues arose during worker interviews on the M-Audit observed by the FLA, which is why the local staff did not hand out any cards.

During FLA interviews with Nike staff in two regions, Nike compliance specialists confirmed that they received calls from workers directly on their cell-phones. Logs of phone calls are not maintained.

FLA confirmed with the organization that is partnered with Nike in providing hotline.

### 3.3 Ensures the channel is secure, so workers are not punished or prejudiced for using it

#### Actions Taken:

As part of the M-Audit protocol, Nike monitors also inform factory management that they will be speaking to workers and that workers must not be retaliated against. Nike monitors provide their business cards with direct numbers if sensitive issues are raised during interviews. They will also follow-up with interviewed workers during subsequent visits to verify that no retaliation has taken place.

#### Verification by FLA:

FLA reviewed an opening meeting checklist which stated that the Nike position on non-retaliation should be explained to factory management during the opening meeting. The FLA spoke to a compliance specialist in one region who confirmed that monitors keep a list of the workers that they interviewed and talk with them or check their records in any follow-up audits to assess whether any retaliation took place. The monitor stated that business cards would be passed out if sensitive issues were discussed. Additionally, in one observation, the FLA witnessed the lead auditor explaining the policy regarding worker retaliation to management in the opening meeting of an M- Audit.

## 4. CONDUCTS INTERNAL MONITORING

### 4.1 Internally monitors an appropriate sampling of suppliers to assess compliance, which includes worker interviews, records review, occupational safety and health review, practices of suppliers in relation to the FLA Workplace Standards

#### Actions Taken:

According to its 2004 Annual Report to the FLA, Nike conducted 245 M-Audits, 737 SHAPE audits and 21 ESH audits (described below), between their global team and third-party monitors.

Nike uses a risk-based approach to concentrate their monitoring efforts. This is based on four areas of risk: country, worker population, type of operation and past compliance history.

Nike's audit process generally consists of management interviews, worker interviews, factory walk-throughs and a records review.

#### Verification by FLA:

A review of Nike's database and other documentation demonstrate that Nike monitored an appropriate sample of their applicable facilities. The FLA reviewed the database indicating that a large number of audits had been conducted in China. The numbers provided by the local staff showed that 100% of footwear factories and 80% of apparel factories received M-audits in China. In Thailand, FLA reviewed a list reflecting that approximately 80% of all footwear factories received M-audits and almost half of the footwear factories had an additional ESH audit. Approximately 16% of apparel and equipment factories had either an M-audit or an ESH audit.

The FLA reviewed the risk assessment process and confirmed that Nike is using a risk-based model to prioritize factory audits.

FLA accompanied Nike monitors on 2 internal audits and confirmed that in both cases, monitors conducted management and worker interviews, records review, and occupational safety and health reviews. The FLA has also reviewed the Nike audit instruments and verifies that the tools outline this process.

## 4.2 Collects, verifies and quantifies compliance with workplace standards

### Actions Taken:

Nike has several ways of investigating code compliance at facilities. The M-Audit is Nike's in-depth audit, which investigates the labor/management systems and looks at all code elements except for safety and health. ESH audits investigate Environment, Safety and Health. SHAPE audits (Safety, Health, Attitude, People and Environment), conducted by either production or merchandising staff or by factory managers themselves, provide information on a variety of issues that indicate if further investigation.

### Verification by FLA:

FLA observed Nike staff utilize the M-Audit tool in three countries and confirmed it provides a detailed medium to collect data on many aspects of the factory. FLA also observed a SHAPE audit being conducted. A sample of an M-Audit, SHAPE audit and the Environmental, Safety and Health audit report are on file at FLA headquarters.

## 4.3 Analyzes the monitoring results and implements remediation plans to address noncompliance issues

### Actions Taken:

Nike utilizes a Master Action Plan (MAP) to document and review noncompliances and develop a remediation plan in cooperation with the factory management.

Nike also uses information stored in its database to track trends and incidences of noncompliances by region and code element.

### Verification by FLA:

FLA observed MAPs being used by compliance staff in three regions as a follow up to factory audits. Documentation of sample MAPs are on file at FLA headquarters.

## 4.4 Tracks the progress of remediation

### Actions Taken:

FLA observed MAPs being used by compliance staff in three regions as a follow up to factory audits. Documentation of sample MAPs are on file at FLA headquarters.

### Verification by FLA:

Samples of Nike's analysis of trends are provided along with Nike's annual report and are on file at FLA headquarters.

## 5. SUBMITS TO INDEPENDENT EXTERNAL MONITORING

### 5.1 Provides the FLA with an accurate, up-to-date factory list, factory profile, access letters, etc.

#### Actions Taken:

Nike submits factory lists, and all other information necessary for the IEM process.

#### Verification by FLA:

The FLA confirms the timely submission of supplier lists, access letters and any other necessary information.

## 5.2 Ensures that the suppliers selected for IEMs cooperate with the FLA monitors

### Actions Taken:

Nike sends copies of the FLA access letter to factories to inform them of a potential IEM and alerts them to the identification and access letter the monitor will carry.

### Verification by FLA:

The FLA confirms Nike's cooperation in IEMs.

The FLA confirms that there were no instances of aborted IEMs in which factory management refused to cooperate with FLA accredited monitors.

## 5.3 Cooperates with FLA requests for information, clarification and follow-up in the IEM process

### Actions Taken:

Nike submits information, clarification and updates to the FLA.

### Verification by FLA:

Nike has submitted information and clarification to the FLA upon request and has provided updates to their IEMs.

## 6. COLLECTS AND MANAGES COMPLIANCE INFORMATION

### 6.1 Maintains a database

#### Actions Taken:

Nike has a database which is globally accessible and used by the field and headquarter staff. Nike field staff use the database to store audit reports, factory profiles and remediation plans. The database at the Nike headquarters has capabilities to generate reports on compliance trends.

#### Verification by FLA:

The FLA has viewed Nike's database and its capabilities.

### 6.2 Generates up-to-date lists of suppliers when required

#### Actions Taken:

Nike supplies the FLA with up-to-date lists of suppliers upon request.

#### Verification by FLA:

FLA confirms receipt of up-to-date supplier lists when requested.

### 6.3 Analyzes compliance findings

#### Actions Taken:

Nike utilizes the database to analyze compliance findings. For instance, in the 2004 Annual Report, Nike states that out of the 245 M-Audits conducted, 58% of the audits found noncompliances in excessive hours according to Nike standards, 33% in wage calculation and 31% in treatment of workers.

Verification by FLA:

Samples of Nike analysis are made available through the public report and are on file at FLA headquarters.

#### 6.4 Reports to the FLA on those activities

Actions Taken:

Nike reports to the FLA on an annual basis on compliance activities and results.

Verification by FLA:

FLA confirms receipt of annual reports; documentation is on file at FLA headquarters.

### 7. REMEDIATES IN A TIMELY MANNER

#### 7.1 Upon receiving the internal and independent external monitoring reports, contacts the supplier concerned (within a reasonable timeframe) to agree to a remediation plan that addresses all compliance issues identified by the monitor

Actions Taken:

After an audit, Nike contacts the contract factory and uses the MAP to develop a remediation plan and a timeframe within which to complete remediation.

Verification by FLA:

Interviews with Nike field staff revealed that Nike monitors convey issues to factory management during closing meetings. They then work closely with factory management to develop remediation plans and timeframes for completion of those plans. FLA reviewed documentation of CAPs submitted by factories and MAP development by the Nike Compliance team. The FLA also reviewed documentation, including a MAP and email correspondence with factory management, regarding the development of a remediation plan.

#### 7.2 Implements a remediation plan regarding the noncompliances and the actions taken to prevent the recurrence of such noncompliances.

Actions Taken:

Nike remediation plans aim to be both corrective and preventative. Due to legal considerations, Nike is unable to write specifically about preventative measures in their plans.

Nike compliance staff undertakes other initiatives that aim to prevent the recurrence of noncompliances, including training and working with factory management.

Verification by FLA:

Through a review of the IEM plans submitted, the FLA cannot confirm whether or not Nike outlines how actions will be taken to prevent recurrence of noncompliances. In the IEM remediation plans submitted by Nike, the plans address the specific violation but often do not outline how actions will be taken to prevent its recurrence. FLA confirms receiving emails from Nike inquiring about how to remediate specific noncompliances.

FLA has reviewed documentation of training schedules and material for some of Nike's vendor trainings, including supervisor training and training on labor laws. In addition, one local compliance staff stated that the details that would demonstrate the close working relationship between Nike and a factory in the construction of preventative corrective action are not captured in the remediation plan but are reflected in phone conversations and in email correspondence.

### 7.3 Within sixty (60) days, supplies the FLA with the remediation plan citing all progress made and a timeline for outstanding items

#### Actions Taken:

Nike aims to provide the FLA with a remediation plan within 60 days of finalizing the report.

#### Verification by FLA:

FLA has reviewed documentation of training schedules and material for some of Nike's vendor trainings, including supervisor training and training on labor laws. In addition, one local compliance staff stated that the details that would demonstrate the close working relationship between Nike and a factory in the construction of preventative corrective action are not captured in the remediation plan but are reflected in phone conversations and in email correspondence.

### 7.4 Confirms the completion of remediation

#### Actions Taken:

Nike confirms completion of remediation through the collection of documents, photographs and/or follow-up visits. Documentation is scanned and stored in the database.

#### Verification by FLA:

The FLA has received documentation of completed remediation as part of the IEM remediation process. The FLA has also reviewed MAPs supporting verification documentation in Nike's database and filing system and can verify that Nike monitors confirm when remediation is complete. The FLA has also observed Nike staff conduct two follow-up audits to verify the completion of remediation at factories in China and El Salvador.

### 7.5 Conditions future business with contractors and suppliers upon compliance standards

#### Actions Taken:

Nike has developed a rating and scorecard system that it uses to convey how well a factory is doing with regards to compliance and to make recommendations on future orders.

The compliance department works closely with sourcing to convey the compliance status of suppliers.

#### Verification by FLA:

Documentation of the scorecard system and a sample scorecard rating of a factory is on file at FLA headquarters.

FLA interviewed different sourcing and production staff in three regions, all of whom demonstrated an understanding and concern regarding the compliance levels of their factories. Sourcing/production staff in one regional office confirmed that compliance is one of the factors used to determine whether or not to use a supplier. Another sourcing manager stated that he clearly understood the business implications if a factory scored poorly on the scorecard.

## 8. TAKES ALL STEPS NECESSARY TO PREVENT PERSISTENT FORMS OF NONCOMPLIANCE

### 8.1 Analyzes compliance information to identify persistent and/or serious forms of noncompliance

#### Actions Taken:

Nike reviews compliance information from a variety of perspectives, including factory ratings and results of monitoring visits to identify persistent and/or serious forms of noncompliance. Nike includes examples of persistent and/or serious forms of noncompliances they have identified in their annual report to the FLA.

#### Verification by FLA:

FLA has reviewed summaries and percentages of compliance issues generated through Nike's database which show the incidences of noncompliances occurring in Nike contract factories. Nike annual reports and documentation of database summaries are on file at FLA headquarters.

### 8.2 Establishes and implements programs designed to prevent the major forms of such noncompliance

#### Actions Taken:

Nike addresses major forms of noncompliance through training programs and a remuneration of back wages policy.

Nike is participating in FLA projects that aim to address persistent and major forms of noncompliance, such as blacklisting in Central America.

#### Verification by FLA:

Nike conducted significant training during their implementation period for workers and supervisors, much of it through [CSO]. [CSO] training material and copies of some attendance sheets are at the FLA offices.

FLA spoke with monitors from two different Nike offices in China and confirmed the process Nike follows for following up on the payment of back-wages to workers. Documentation of one example is on file at FLA Headquarters.

FLA can confirm Nike's participation in the FLA's Central American Project.

### 8.3 Takes steps to prevent recurrence in other applicable facilities where such noncompliances may occur

#### Actions Taken:

Nike's emphasis on training and information sharing with the factories and education of workers aims to prevent recurrences of noncompliances in other facilities.

#### Verification by FLA:

As mentioned above, FLA has reviewed information on some of the training provided by the [CSO], such as Supervisory Skills and Labor Law trainings for vendors. An example of the training provided to workers by the [CSO] was a street theatre production on sexual harassment in the workplace in two regions. The FLA reviewed Nike Newsletters from China which list dates for "Best Practice Sharing Meetings" and a variety of other trainings for vendors. The FLA also reviewed photos from a vendor seminar and round-table meeting.



## 9. CONSULTS WITH CIVIL SOCIETY

### 9.1 Maintains links to organizations of civil society involved in labor rights and utilize, where companies deem necessary, such local institutions to facilitate communication with Company employees and employees of contractors and suppliers in the reporting of noncompliance with the workplace standards

#### Actions Taken:

Nike consults with civil society on a regular basis, particularly in countries with challenging compliance issues.

Nike partnered with an international health NGO to improve occupational health practices in contracted footwear facilities in Indonesia, China and Vietnam.

#### Verification by FLA:

Nike maintains links with civil society groups involved in labor rights. The FLA verification involved:

- 1) a review of records on consultations with NGOs
- 2) review of Nike annual reports
- 3) on-site visits with Nike staff
- 4) IEM reports and reviews of internal monitoring reports.

Documentation on this initiative has been reviewed and is on file at FLA headquarters.

### 9.2 Consults periodically with the legally constituted unions representing employees at the worksite regarding the monitoring process and utilize the input of such unions where appropriate

#### Actions Taken:

Nike has collaborated with CSOs on assistance with occupational health and safety issues, raising awareness on issues such as sexual harassment. In addition, Nike seeks to consult with local government agencies to clarify legal interpretations.

Nike, in collaboration with two other FLA affiliated companies, worked with experts and local CSOs to promote the formation and development of a health and safety worker committee in a Nike footwear facility in southern China.

#### Verification by FLA:

In Thailand, Nike participated in a meeting with representatives from other brands and local CSOs in order to clarify certain labor laws. Nike also met with the labor officials to consult on labor relations issues in the country.

FLA can confirm collaboration through on-site observation and documentation review.

### 9.3 Analyzes compliance findings

#### Actions Taken:

Nike reports the company has been in dialog with international labor and union organizations in the US, Europe and Asia.

Nike's M-Audit requires that Nike auditors consult with union representatives in the factory.

#### Verification by FLA:

FLA has reviewed documentation regarding consultation with union representatives and Nike. The FLA can verify that during Third-Party Complaints, Nike consults with union representatives to reach a resolution to the complaint.

The FLA did not verify if Nike systematically consulted with union representatives during audits.

### 9.4 Assures the implementation of monitoring is consistent with applicable collective bargaining agreements

#### Actions Taken:

Nike's M-Audit tool requires that Nike auditors review a collective bargaining agreement if one exists at a facility.

#### Verification by FLA:

FLA confirmed that Nikes M-Audit tool includes the protocol that auditors review a collective bargainin agreement if one exists. The audits observed by FLA representatives were at factories that did not have independent trade unions.

The FLA confirmed, in at least one instance, Nike auditors worked with a factory to ensure that the CBA was implemented as part of a remediation process in response to a third party

## 10. PAYS DUES AND MEETS ITS OTHER PROCEDURAL REQUIREMENTS

### 10.1 Pays annual dues

#### Actions Taken:

Nike has paid annual dues to the FLA in a timely manner.

#### Verification by FLA:

The records are on file at FLA headquarters.

### 10.2 Pays IEM administrative and monitoring fees

#### Actions Taken:

Nike has paid all appropriate IEM fees to the FLA in a timely manner.

#### Verification by FLA:

The records are on file at FLA headquarters.

### 10.3 Signs and honors required FLA contracts

Actions Taken:

Nike signs, submits and honors the FLA contract.

Verification by FLA:

The FLA confirms Nike's cooperation in signing the FLA Monitoring Services Agreement.

### 10.4 Submits factory lists, a standardized annual report and other information in complete form and on time

Actions Taken:

Nike submits factory lists and standardized annual report in a complete and timely manner.

Verification by FLA:

The FLA confirms Nike submits its factory lists and the annual report accurately and in a timely manner.

## CONCLUSION

Accreditation of Nike compliance program should not be interpreted as a guarantee against issues and risks in the supply chain. Rather, accreditation indicates that the company has the systems in place to proactively identify and remediate those risks. Accreditation is not granted automatically, and is only renewed every three years following a satisfactory FLA evaluation of labor compliance systems and activities during the timeframe. FLA will continue to conduct standard due diligence activities on Nike, and will reevaluate its accreditation status in three years. To check an affiliate's accreditation status, visit [www.fairlabor.org/accreditation](http://www.fairlabor.org/accreditation).