

Project Report Series # 16

**Case Study “Closing the Information Gap”
Soccer Ball Production
for Nike in Pakistan**

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December 2009

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A publication of the Sustainable Development Policy Institute (SDPI).

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Table of Contents

1.	Introduction	1
2.	Employment Access	3
3.	Compliance with Core Labor Standards	5
4.	Decent Work and Wages	7
5.	Precarious Contracts	12
6.	Company Contribution to Public Goods	13
7.	Stakeholder Participation	14
8.	Summary and Conclusions	15
	References.....	18
	Annexure.....	20

Abbreviations

CPC	Cleaner Production Center
EIRIS	Ethical Investment Research Service
EOBI	Employees Old-Age Benefits Institution
EPA	Environmental Protection Agency
EU	European Union
FLA	Fair Labor Association
HS	Harmonized Commodity Description and Coding System
ILO	International Labor Organization
IRO	Industrial Relations Ordinance
IMAC	Independent Monitoring Association for Child Labor
ITGLWF	International Textile, Garment and Leather Workers' Federation
OSH	occupational safety and health
PILER	Pakistan Institute of Labor Education and Research
PKR	Pakistani Rupee
PU	polyurethane
RBI	Responsible Business Initiative
SDPI	Sustainable Development Policy Institute
SOP	Standard Operation Policies
SRI	Socially Responsible Investment
USD	United States Dollar

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1. Introduction

Modern Socially Responsible Investment (SRI) looks back at a tradition of more than thirty years in North America and Europe. In recent years, SRI funds have experienced a boom. Since the beginning of the 1990s, ‘ethical funds’ in the United Kingdom, for instance, have increased more than thirty times to a volume of over 6 billion British Pounds in 2005 (EIRIS, no date). SRI is based on the assumption that investors’ values should be reflected in the financial products they choose. It is associated with the hope to influence capital markets and the wider economy and society towards more sustainable practices, directly, through their demand for socially responsible business conduct, and indirectly, through the consumer activism that often accompanies SRI. The evaluation of listed companies according to predefined ethical criteria is a necessary requirement for the product development process of SRI funds.

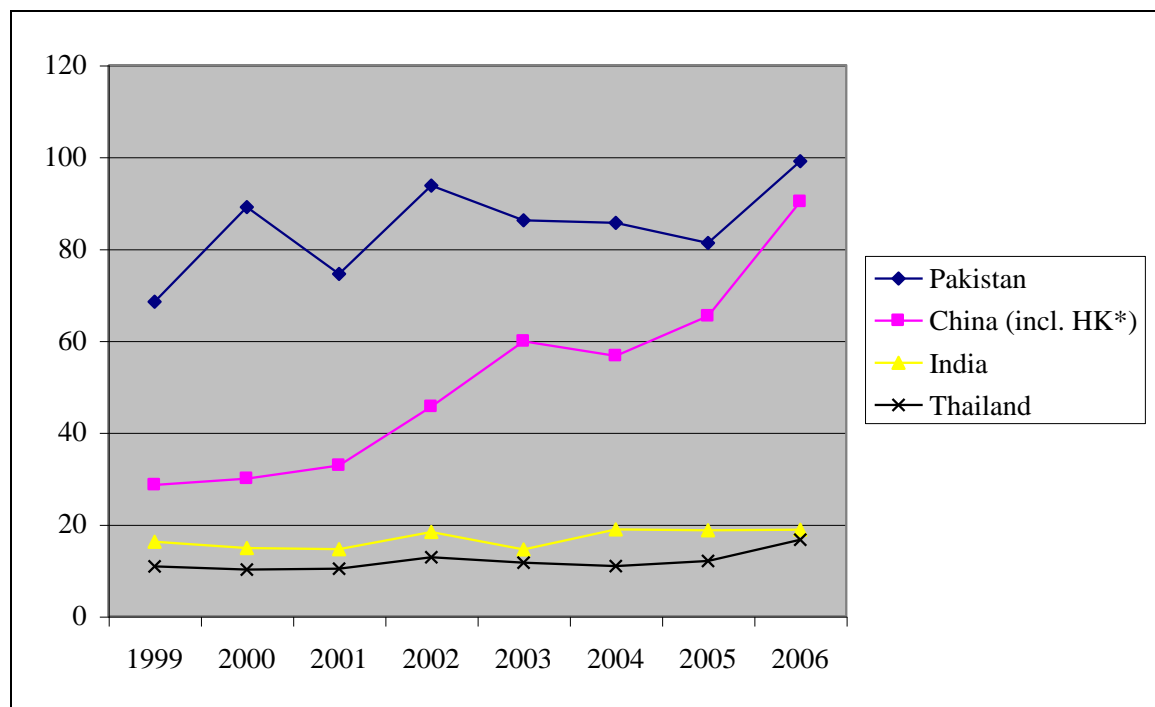
The sports equipment company Nike is one of the biggest concerns worldwide. In fiscal year 2006, Nike reported net revenues of United States Dollar (USD) 15 billion, *i.e.* a tenth of Pakistan’s total gross domestic product. It is ranked 158th on Fortune’s global list of private corporations according to their revenues (Fortune, 2007). It has been awarded a large number of prizes for responsible business conduct in the areas of environmental management, employee and community relations (Nike, 2007b). The positive assessments of the company’s conduct are reflected in the fact that Nike’s shares have been included in a large number of ethical funds as well as in the Dow Jones Sustainability Indices. However, civil society organizations do not rate the sportswear giant highly. The Oxfam-led Nike Watch campaign is the largest coalition of nongovernmental organizations that campaign against poor labor standards in the factories, cottage industries, and home-based workshops of Nike’s suppliers (Oxfam, no date).

Besides, in a few locations, Nike does not produce sport goods itself but outsources production of sportswear, footwear, and sports equipment to a global chain of manufacturers and their subcontractors. Whereas its own employees total approximately 30,000, the labor force in Nike’s suppliers’ factories are estimated to be more than twenty times larger than the company itself (Nike, 2007b). The spatial spread of production in ‘global value chains’ with lead firms from industrialised countries that coordinate or govern trade with nominally independent producers in developing countries has increased since the 1990s (Schmitz, 2006). In labor-intensive industries, such as textiles and garment, as well as sport goods industries, the relationship between the lead firm and its suppliers may be characterised by a high degree of control of some operations in the chain (Schmitz, 2006). Therefore, in order to assess the lead company’s performance, including social and environmental compliance, their suppliers have to be included in the analysis. Nike’s Code of Ethics stipulates that “sales agents, consultants, representatives, independent contractors, external temporary workers and suppliers are expected to observe the same standards of conduct as Nike employees when

conducting business with or for Nike.” (Nike, no date). This is why with soccer ball production for Nike in Pakistan, a case study of outsourced production has been included in the panel of case studies for Südwind’s project on “Closing the information gap”.

Pakistan does not loom large on Nike’s supplier list. Currently, two companies supply the company with sportswear and sports equipment. However, Pakistan is the multinational’s most important supplier of soccer balls. 71 percent of all soccer balls imported in the USA in the mid-1990s were produced in Pakistan (ILAB, 2007). Similarly, Pakistan is the European Union’s main soccer ball supplier, although this position is contested by Chinese imports (Figure 1). The bulk of them are produced in and around the vicinity of Sialkot, city of 3.5 million inhabitants, located in Pakistan’s Punjab province close to the Indian border and the Line of Control that separates the India- and Pakistan-controlled parts of Kashmir. In the global value chain for sports equipment manufacturing, the city of Sialkot is a famous name. It is estimated that about 80 percent of the world’s soccer balls are produced here by Nike and other sports brands (Montero, 2006).

Figure 1: Inflatable balls imports to the European Union from selected countries, 1999-2006 (million Euros)



Source: Eurostat (no date)

Notes: Inflatable balls refer to the Harmonized Commodity Description and Coding System (HS) code 950662 of the World Customs Union. The European Union here includes 27 member countries.

*HK refers to Hong Kong.

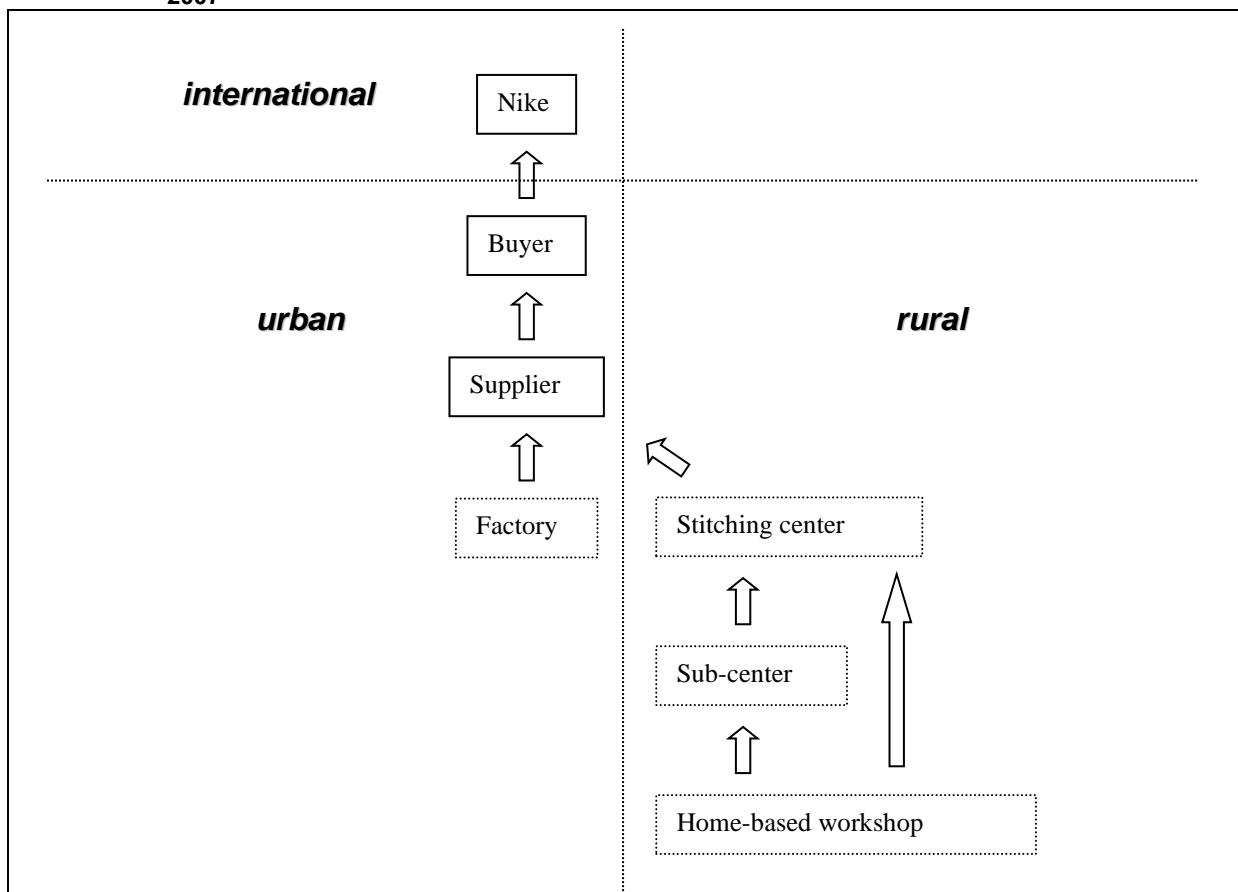
This report is based on a brief visit to Sialkot in September 2007. Interviews were conducted with workers in Nike’s former soccer ball supplier’s stitching centers, the new contractor’s management, as well as with staff members of the Pakistan Institute of Labor Education and Research (PILER). One former stitching center as well as the new supplier’s factory premises were visited (Annex 1). PILER is monitoring the compliance of Nike’s new soccer ball manufacturer and conducts research on and training for dismissed workers of the former

supplier. Besides notes from interviews and observations, available newspaper articles and internet resources were analyzed. In the following sections, the report provides an overview of the findings regarding Nike's suppliers' compliance. Treatment of workers and communities', as well as environmental management are focal topics. Their gender dimensions are highlighted as a crosscutting concern. The report concludes with recommendations regarding the ensurance of social and environmental compliance in general, as well as with specific suggestions for ethical investors.

2. Employment Access

In 1996, Nike started to purchase soccer balls from the Sialkot-based sports equipment manufacturer Saga Sports. The company was one of the largest soccer ball producers in Pakistan (NEWS, 2006). Besides Saga Sports' factory in Sialkot, assembly took place in thirteen stitching centers located up to 70 km from the city. The majority of workers involved in soccer ball manufacturing for Nike worked in these centers (Figures 2 and 6). Sub-centers belonged to some of them. Further, stitching took place in home-based workshops, albeit unofficially. The stitching centers that were established for soccer ball manufacturing for Nike were considered model facilities, amongst others because those workers became direct employees of Saga Sports. They were offered a number of benefits similar to those employed in the company's factory and Saga Sports invested in local schooling (PRNewswire, 1996). As will be shown later in this report, not all of these sound ideas were fully implemented.

Figure 2: Spatial organization of soccer ball manufacturing for Nike in Pakistan until March 2007



Source: Author's design

Ten years later, Nike claimed that despite repeated requests to deal with alleged violations of social standards, Saga Sports did not make the needed changes (Nike, 2006). Unauthorised sub-contracting to home-based workshops and the employment of child laborers were the main accusations raised against the supplier. Therefore, in November 2006, the multinational announced to end orders from Saga Sports. The retrenchment of Nike from Saga Sports meant unemployment for most of their 8,000 workers. Overall, an estimated 40,000 workers, three fourths of them located in the villages surrounding Sialkot, are involved in soccer ball manufacturing in Pakistan (ILAB, 2007). The figures indicate the importance of employment in Nike's contracted supplier. The contract with Saga Sports expired in March 2007 (Montero, 2006). Two months later, Nike announced to resume soccer ball manufacturing in Sialkot through a new supplier, Silver Star Group. Production started in September 2007, which is why, so far, little can be said about the new suppliers' social and environmental compliance. The volume of orders from Silver Star is significantly lower than Saga Sports' production for Nike. 850 workers are employed there currently, although the company has reported plans for expansion both within the factory and into renovated stitching centers.¹ During the interim period, orders were shifted to vendors of hand- and machine-stitched balls from China and Thailand (Nike, 2006).²

Estimates regarding the share of former Saga Sports workers who found alternative employment in Nike's new supplier's factory differ. Whereas Silver Star management claims that about two thirds of all former Saga Sports workers have been recruited in their factory, observers assume ten percent to be realistic.³ With Nike purchases from Saga Sports five times the volume of initial orders from Silver Star (Pakistan Times, 2007), it is obvious, though, that that majority of dismissed workers have not been absorbed by the new soccer ball supplier. Information about their current employment status is not available.⁴

The availability of alternative employment opportunities appears to differ by region. In some regions, other soccer ball manufacturers have absorbed the surplus demand for soccer balls caused by Nike's withdrawal. They have created jobs for stitchers, consequently. Other regions are characterised by a jump in unemployment as the rural labor market has no alternatives to offer. This is particularly the case for women who face a narrower choice in sectors and occupations considered appropriate for them. Besides, their greater mobility provides men with more employment opportunities in urban areas, in sectors such as trade and construction. Some workers and observers reported a drop in local piece rates per ball completed after Nike stopped orders from Saga Sports. This may be attributed to the greater competition of workers for available jobs and is indicative of their weak market power.

The significant reduction in the workforce manufacturing soccer balls for Nike has important spatial dimensions and associated implications for gender equality in access to employment. So far, Silver Star only produces in its factory located at the periphery of Sialkot city. Gender norms prevalent in Pakistan constrain female mobility due to considerations of security and

1 The figure includes employees who according to the management had signed their contracts but hadn't joined at the time of the interview.

2 Nike states the use of hand-stitched balls is declining, creating future problems for the soccer ball industrial cluster of Sialkot unless the industry modernizes (Pakistan Times, 2007). Some observers assume this to be the real reason for Nike's withdrawal from Saga Sports rather than compliance-related issues.

3 The difference may lie in either total employment or employment in Saga Sports' factory being the reference point.

4 PILER is in the process of compiling information in this regard, though.

family honor and assign women the responsibility for domestic work. Even if transport costs are ignored, workplaces that are located far from their homesteads are consequently inaccessible for female workers. Besides the loss of much-needed rural employment through the centralization of soccer ball stitching for Nike, this shift also implied a significant fall in job opportunities for women. About eighty percent of the total female employment provided by Saga Sports and its sub-centers has been lost after the change of supplier. The effort to effectively monitor and ensure social compliance in establishments dedicated to soccer ball production for Nike has thus ironically meant (even) less gender equality in recruitment, a stated principle of Nike's Code of Ethics (Nike, no date).

Box 1: Soccer ball stitching – empowering or inevitable?

Sadia*, a female stitcher, previously worked in Saga Sports's sub-center in Q.* She found alternative employment in a home-based workshop for another export-oriented firm. There, she works jointly with about a dozen other workers, most of them young unmarried women like herself. The rate per completed ball is Pakistani Rupees (PKR) 38, *i.e.* about 0.62 USD.⁵ She and her colleagues would usually complete three balls per day as compared to four to six produced by their male colleagues. Asked why their daily output is lower than men's, they point to the domestic chores they have to perform in addition to the piecework.

Sadia's family does not own any land, just a few water buffaloes. Most stitchers in this area are landless. Her brothers take care of the livestock, whereas her three sisters also stitch soccer balls. In her household, the daughters are, thus, the only providers of cash income. Besides this industry, employment for women is hard to find.

One of Sadia's colleagues reports that she and her three sisters who also make soccer balls are the main income earners in the family. The young women are not excited about their working conditions: "We never wanted to take up this work!" However, they are expected to support their parents financially. Their position in the household improves with the money they contribute and they earn more respect. After marriage, though, young women commonly stop this type of work. They hope that their husbands will then provide cash income.

Source: Author's field notes

Note: *Name changed.

3. Compliance with Core Labor Standards

The Core Labor Standards are a set of internationally recognized principles at work. They are enshrined in conventions of the International Labor Organization (ILO) and encompass the effective abolition of child labor (ILO conventions 138 and 182), the elimination of discrimination in employment and occupation (ILO conventions 100 and 111), the elimination of all forms of forced or compulsory labor (ILO conventions 29 and 105), as well as the freedom of association and the effective recognition of the right to collective bargaining (ILO conventions 87 and 98). Apart from a clause related to discrimination, the Nike Code of Conduct includes most of these minimum requirements for decent work.⁶

5 In March 2007, one USD equaled PKR 60.86.

6 However, the Nike Code of Conduct establishes "(t)he principle that decisions on hiring, salary, benefits, advancement, termination or retirement are based solely on the ability of an individual to do the job."

Silver Star/Nike's health and safety as well as Standard Operation Policies (SOPs) for the different production stages were on display in all units visited in September 2007, at least in Urdu, the national language, sometimes also in English. The SOPs were provided in pictorial form, also. The Silver Star management informed us that Nike's 'core leadership standards' on management, environment, safety, and health are provided to a company before Nike engages with a supplier. If local laws differ from these standards, then the more stringent standard would be applied. This is relevant with regards to minimum working hours, for example. National regulation on working hours and overtime was changed in June 2006. The new law stipulates twelve daily working hours as the maximum daily working time, which is significantly higher than the limit laid down in the ILO convention 1 (eight hours). The policies on management, environment, safety, and health were not provided by Silver Star despite repeated requests. During the interviews, we were informed that they could be shared with Nike's approval. Nike has given instructions to Silver Star not to communicate with non-governmental organizations or the media without previous approval by the multinational. Twice a year the supplier would conduct a self-assessment, based on documentation, workers' interviews etc. Nike has no representative based in Pakistan. A buying house acts as an authorized intermediary between Nike and its two Pakistani suppliers.

Child Labor

The use of child labor in the production of soccer balls has been primarily documented in Pakistan and India. In 1996, an ILO study estimated that more than 7,000 Pakistani children between the ages of 5-14 were involved in soccer ball stitching on a regular basis. Most of these children were boys. Child laborers earn less than their adult colleagues. A recent study quoted PKR 20.30 per ball, *i.e.* 0.33-0.49 USD (ILAB, 2007). This is about 25 percent lower than adult stitching rates. A campaign was launched against child labor in the soccer ball industry leading to the so-called 'Atlanta Agreement' with Pakistani manufacturers, the ILO, and UNICEF to stop using child labor. It came into force in 1997.

Nike's code of conduct prohibits the use of child labor, defined as a person under the age of 15 unless national laws state that the minimum age for work is 14 or the age at which compulsory schooling has ended. They rely on the system established by the Atlanta Agreement to monitor their child labor policy, in addition to any monitoring they might conduct on their own (ILAB, 2007). The monitoring mechanism established by the agreement involves the transfer of all stitching from home-based workshops to stitching centers where external monitoring is carried out by the ILO through unannounced visits (NEWS, 2006). In response, Nike created new stitching centers in order to ensure that children are not stitching soccer balls (ILAB, 2007).

As a result of the attention that has been devoted to the issue of child labor in Sialkot during the past ten years, all stakeholders, including workers, appear to be sensitized to the issue. Saga Sports was a signatory to the monitoring system established by the Atlanta Agreement (NEWS, 2006). Most former Saga Sports workers stated that under-aged children were not employed in the company's establishments. The same applies to the Silver Star management. However, employment of child laborers was the stated reason for Nike's withdrawal of orders from Saga Sports (Clark, 2006). Observers confirmed that children were stitching balls for Saga Sports. They were mostly located in home-based workshops, though.

Bonded Labor

There have been allegations of debt servitude in the Pakistani soccer ball industry. Although denied by Pakistani manufacturers, many families take loans or advances from subcontractors (ILAB, 2007). They bind workers to a particular employer and may make the vendors liable under the Bonded Labor Abolition Act 1992, which declares such advances as illegal. Such advances have been reported from Saga Sports' stitching centers as well. However, if all workers become registered as full-time employees as required by Nike in their agreement with Silver Star, then this concern would become obsolete.

Freedom of Association

In Saga Sports' factory, a trade union had been formed. Apparently, it was unsuccessful in persuading the factory management to abide by commitments to Nike. The union was not considered independent of the management and stopped its activities when the problems between Nike and Saga Sports began. However, no trade unions or other organizations representing workers' interests had been formed in the stitching centers or sub-centers. Despite the lack of support by workers' associations, in some centers, workers protested against poor working conditions. Strikes were triggered by low piece rates, poor quality of the canteen food, or dissatisfaction with the transport facility. It appears that the propensity to complain was higher when workers originated from areas where land ownership is common, *i.e.* their fallback position was better. However, the management usually did not respond to their demands, rather stressed 'not to create any fuss.'

Nike's agreement with its new contractor, Silver Star, requires that workers have full rights of freedom of association and collective bargaining. However, so far, no trade union has been formed in its factory. According to the management, 'workers' committees' have been established with PILER's consent. PILER assumes that the newly recruited workers' awareness regarding labor rights, including the right to association and collective bargaining, should be raised before they conduct elections (Shah, 2007).

4. Decent Work and Wages

Occupational Safety and Health


As noted above, Saga Sports' factory and especially the company's stitching centers were assumed to be model establishments, amongst others from the point of view of occupational safety and health (OSH). The ones, in which our interviewees worked were all equipped with a medical unit where a doctor, nurse, or compounder was either present permanently or visited regularly. However, the medical support was mainly confined to smaller problems only, such as pains or stomach problems. Sub-centers did not provide medical facilities, but in case of minor problems, medicine for treatment would be sent over from the center. New workers would undergo a health check. One respondent reported that, if any illnesses were found, applicants wouldn't be offered employment at the center. Bathrooms were available for about 30 workers each. The adequateness of ventilation, lighting, and fire fighting equipment could not be assessed *ex post*, amongst others, because the center visited was stripped of a lot of equipment after closure.

The Silver Star factory appeared to be well-ventilated and -lighted. However, we visited after the peak summer months and in the late afternoon. Fire extinguishers and buckets were observed in all units. Both electrical and manual fire alarms were present and emergency exits marked. We were informed that fire fighting, as well as health committees were formed and trained for emergencies. The company’s brochure mentions primary medical facilities to staff, which may relate to the First Aid boxes that were seen in some units. A doctor or other medical personnel were not present at the premises.

Figure 3: Stages in the soccer ball production process



Source: Author's design

Notes:  = labor-intensive stage

 = potential safety and health risks

The production process of soccer balls within the Silver Star factory starts with the lamination of cloth with polyurethane (PU). Workers involved in the PU lamination are exposed to strong fumes with unknown potential health effects. Those observed all wore masks with the exception of their supervisor. Some of the workers did not wear shoes despite the presence of large, partially open PU bins.

Cutting of PU panels is the next stage in soccer ball production. At Silver Star, cutting as well as lamination is done both manually and as an automatised process. One hand-operated machine requires one worker. The operator has to use both hands in the process of cutting, otherwise the machine would not respond.

Other than laminating and cutting, printing is labor-intensive. The observed workforce in Silver Star’s printing unit totals approximately 60 persons. However, automation of this production stage is planned. The workers apply paint of different colors and shapes in layers on a sieve that transfers the desired prints on the PU panels. This work is associated with strong fumes originating from the paints applied. All observed workers wore protective masks. The unit is located in the middle of the building with potentially negative effects on the circulation of fresh air.

Figure 4: Screen-printing of PU panels at Silver Star's factory, September 2007

Source: Silver Star

Stitching is the most labor-intensive work associated with soccer ball manufacturing. It causes significant ergonomic problems. All interviewed workers reported muscular pain in their shoulders and neck, especially after long working hours. We did not encounter any specific measures to improve occupational safety and health of Saga Sports' stitching centers in this respect. In the former center visited, workers sat on the ground on small chairs made out of metal tubes. It appears that the chairs were too hard to sit on for an extended period. Foam was wrapped around many of the tubes, especially on the backrest and on the seat. The workers did not perceive other work-related risks for their health and safety. A key informant pointed out the respiratory problems associated with stitching of a particular, but not very common type of ball. These balls have cloth on the synthetic leather panels. Lose fibers can enter the workers' respiratory system and cause health problems, from cough to tuberculosis. No masks were provided. Silver Star's stitching halls are equipped with separate bathrooms for women and men. Overall, one washroom is provided for 25 workers.

Figure 5: Soccer ball stitcher at Silver Star’s factory, September 2007



Source: Silver Star

After the completion of the ball, its quality is checked, it is washed with chemicals, deflated and packed. The potential OSH risks especially from manual washing of the balls as well as in lamination and printing are to be explored. None of the resources consulted elaborated on these.

Living Wages

The majority of workers at Saga Sports were stitchers, most of them employed in the decentralized stitching centers (Figure 6). As mentioned above, they were paid piece rates per ball completed. The rate for an ordinary soccer ball was PKR 40 (USD 0.66) for both female and male workers in the stitching centers. This appears to be comparable to slightly higher than what other companies manufacturing export quality balls offer. However, workers reported a lower piece rate of PKR 35 in at least one sub-center. Piece rate deductions for poor quality, broken equipment etc. were common. This practice is of doubtful legality, using the landmark Supreme Court judgment for brick kiln workers that banned contractors, commissions and deductions. The rates remained unchanged for six years despite an increase in the consumer price index of about 40 percent during the same period. During Saga Sports’ decline, rates went further down.

Saga Sports’ former workers reported around nine hours of daily work, including breaks for tea and lunch. However, given the nature of the piecework, people were flexible to come and go. Stitchers usually completed 3-6 balls per day. Overall, men reported a higher daily output than women. The stated reason for this difference was that female stitchers had to balance income-generating work with domestic responsibilities. This would lead to monthly earnings

varying between PKR 3,000-6,000 (Table 1). Benefits provided to the workers, such as transport and meals raised the gross salary.

Table 1: Gendered earnings in soccer ball stitching in Pakistan, 2007

Company	Sex	Daily output	Piece rate (PKR)	Monthly earnings* (PKR)
Capital	male	6	51	7,293
Forward	male	7	35	6,370
Capital	male	4	51	5,304
Saga Center	male	4	40	4,160
Anwar Khwaja	female	3	38	2,964
Saga Sub-center	female	3	35	2,730

Source: Author's field notes

Note: *26 monthly working days assumed.

Stitchers producing a lower daily output would thus hardly be able to generate a monthly income that matched the minimum wage. The national minimum wage for unskilled workers before July 2007 was PKR 4,000 (USD 66). According to ILO, assemblers of leather products belong to the second of four skill levels, for which the ability to read information such as safety instructions, to make written records of work completed, and to accurately perform simple arithmetical calculations is essential (ILO, 2006). The classification of stitchers as unskilled workers is thus questionable. Also, it is disputed whether the minimum wage in Pakistan represents a living wage. It doesn't even cover daily caloric intake let alone housing, clothing, education, medical, and other necessary expenses (PILER, 2005). The slack period during the monsoon rains also posed considerable problems to workers who depended on the daily income source of soccer ball stitching. Permanent employees in supervisory and managerial positions obtained a salary of PKR 4,000.

At present, the salary package for Silver Star's permanent workers guarantees the minimum wage of PKR 4,600 for unskilled workers (since July 2007). It includes transportation facilities for all workers, incentives during the harvest season, child-care for married women, special benefits for weddings/deaths and accidents, leave encashment, as well as bonuses twice a year. The overtime rate appears to be biased downwards by using 'base salary' to compute the overtime rate. This base salary is sometimes lower than the minimum wage. Silver Star seems to observe maximum working hours. Workers in Silver Star's factory work 26 days per month, being off on Sundays.

Contributions to Social Security Systems

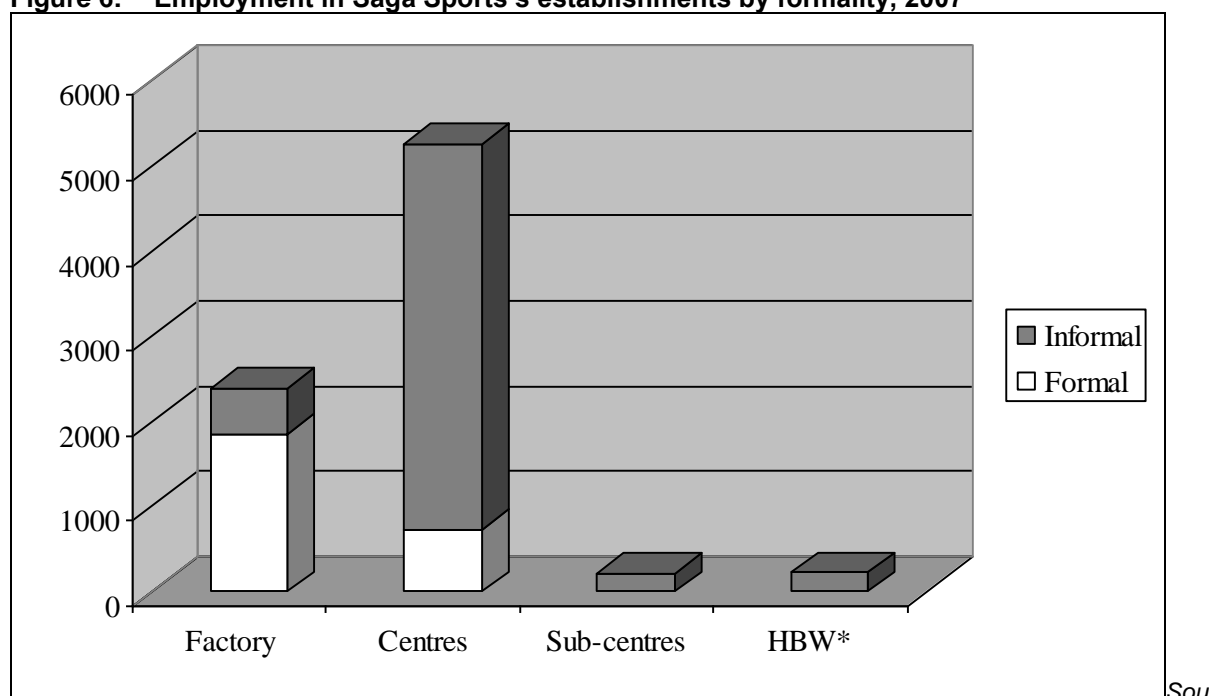
Saga Sports contributed to the national social security system for its permanent employees, which formed about a third of the workforce before Nike's retrenchment. This entitled them to social security in the event of sickness, employment injury, maternity and disablement, EOBI, and gratuity payments. After the closure of Saga Sports' establishments and the dismissal of workers, most of them received their gratuity. However, in a number of cases, the payment has not been made and/or cheques bounced. Nike announced to provide all workers with the same benefits as Saga Sports factory workers when the transnational company started to order soccer balls from the Pakistani supplier. However, as noted above, the majority of workers were employed informally and thus not registered.

As noted above, Silver Star has committed itself to provide all workers with the same benefits as permanent workers.

5. Precarious Contracts

Informal employment refers to workers who are not registered and/or not covered by labor-related legislation. In the context of Pakistan, a large number of sectors are exempted from coverage through labor laws, such as agriculture, military, health care and other public services (Ali, 2004). Similarly, non-permanent workers such as seasonal, home-based, and contract workers, independent of the sector they are employed in, are commonly not issued a letter of appointment. This means that they are not eligible for benefits such as social security or pensions (Employment Old Age Benefits, EOBI). Overall, Sialkot’s leather-stitching industry is largely informal and household-based (Pakistan Times, 2007).

Figure 6: Employment in Saga Sports’s establishments by formality, 2007



Note=*estimate. HBW= home-based workshops

Figure 6 reflects that more than two thirds of the approximately 8,000 workers in Nike’s former supplier were employed informally. Although most factory employees were on regular contracts, stitchers were pieceworkers. They formed the overwhelming majority of workers outside the factory and of total employment devoted to soccer ball stitching for Nike. Informalisation, as well as geographical dispersion of employment, prevents the organization of workers. One of the stated reasons for Nike’s withdrawal from Saga Sports was the widespread outsourcing of its products from Saga Sports’ facilities, resulting in the production of Nike soccer balls in home-based workshops in the Sialkot area. Nike has a policy against such practices because of the potential for using child labor and the inability to ensure safe working conditions in home-based settings. Overall, observers estimate that about five percent of the workers producing for Saga Sports were home-based workers.

The more informal the workplace, the greater was the share of female workers in Saga Sports establishments. Whereas very few women worked in the factory in Sialkot, about 16 percent of the labor force in the stitching centers, were women and girls. Furthermore, half of the stitchers in the sub-centers were female. It is likely that this share was even higher for home-based workers, due to the greater attraction of a workplace that can be combined with domestic responsibilities of women. This results in an invisible but double discrimination with regards to gendered earnings (NEWS, 2006). Due to lower stitching rates in sub-centers (and – possibly - home-based workshops), women are at a disadvantage due to their greater concentration in informal workplaces. Besides, the same domestic obligations that cause this concentration constrain women's working time and thus the amount of balls they can produce per day. Table 1 gives examples of the resulting gender gap earnings.

Silver Star reports providing stitchers who were previously recruited as contract workers with permanent contracts. This was done on Nike's request which requires all workers in its new contract factory to be registered as fulltime employees who are paid hourly wages and are eligible for social benefits (Nike, 2007a). However, screen-printing, washing, as well as lamination is still done by contract workers.

6. Company Contribution to Public Goods

Environmental Management

Silver Star claims that their soccer balls are toxic free. According to their image brochure, no Azo or dispersed dyes, formaldehyde, heavy metals, organotin compounds, phtalates, PVC are used in their soccer ball production. In Silver Star's factory, waste of the laminated sheets as well as polyethylene bags is sold and recycled. No wastewater treatment plant has been established or planned as, according to the interviewees, the wastewater does not reach the Environmental Protection Agency (EPA) pollution limits. In their assessment of potential soccer ball suppliers, PILER concluded that Silver Star did not realize its legal obligations with respect to environmental management and did not have plans for safe disposal of waste. According to the management, Silver Star has applied for registration with the EPA. However, they failed to explain what effects such a registration would have on the company's environmental management. The Silver Star management stated that chemical waste accumulated in their factory is handed over to the Sialkot Cleaner Production Center (CPC), a collaboration between the Government of Pakistan and Norwegian development aid for improved environmental management in tanneries.

Education and Training of Workers

When Saga Sports first stitching center was opened in 1996, the company announced building schools in the surrounding areas, pay tuition for all stitchers' children and books and other supplies to existing schools (PRNewswire, 1996). In the former stitching center visited, a school for workers' children was attached to the stitching halls. A worker formerly employed in this center reported little benefit of the school, though, as children could not be brought from afar to the center's school. Also, after the closure of a nearby sub-center for female stitchers, the classroom was utilized as a workplace for those stitchers.

Nike's new supplier reported that a matriculate level of education, *i.e.* ten years of schooling, would be desirable as an entry requirement for new workers. However, job experience matters more for recruitment. After one week of training, workers perform their duties.

Corruption

Nike's Code of Ethics prohibits embezzlement or misappropriation of property by its suppliers. Making bribes, kickbacks, or other improper payments is prohibited for Nike employees (Nike, no date). A few interviewees mentioned allegations of corruption in Saga Sports's management. Also, 'everyday forms of corruption' at the level of stitching centers might have been common. Threats to make deductions from the stitchers' earnings for broken needles, for instance, were perceived as a strategy to extract bribes from the workers.

7. Stakeholder Participation

In Pakistan, the Responsible Business Initiative (RBI) acts as third party social auditor of Nike's suppliers in Pakistan. RBI supports the implementation of social and environmental compliance in Pakistan's business community through research and capacity building. The RBI does surprise audits as well. The Fair Labor Association (FLA), a US-American non-profit multi-stakeholder initiative that engages in monitoring of labor standards, has conducted an audit of Saga Sports which confirmed the allegations of the occurrence of child labor against the company raised by Nike.

Immediately after the withdrawal from its supplier in November 2006, Nike stated it was engaging with governmental, non-governmental, and industry stakeholders to "secure support for affected workers and jointly explore sustainable, fresh approaches to local manufacturing and social enterprise models in Sialkot" (Nike, 2006). The company has worked with the ILO, the World Federation of Sporting Goods Industry, and other stakeholders, including Pakistan government officials (Nike, 2007a). After its withdrawal from Saga Sports, Nike requested PILER to study the situation of dismissed workers and provide legal aid as well as training for awareness-raising and skill enhancement to them. Besides, PILER provided input when Nike's new contractor was selected and is involved in monitoring its social and environmental compliance.

Observers found Nike's efforts to find an amicable solution with Saga Sports to save thousands of jobs and livelihoods disappointing. For example, the Chief Executive of the Independent Monitoring Association for Child Labor (IMAC) wonders if the wrong Saga Sports did warranted Nike leaving Sialkot (Montero, 2006). The fact that, in contrast to than other branded sports goods companies such as Adidas, Nike has no direct representation in Pakistan was perceived as an obstacle in the endeavors to resolve the problems. Nike's intermediary in Pakistan, a buying house, does not appear to have the required expertise in social and environmental compliance issues. The Christian Science Monitor raised the question: "Child labor is universally condemned, but is it fair for multinationals to cut and run when incidents arise of children working? Or do companies have an obligation to work to fix these problems themselves?" (Montero, 2006). The perceived lack of commitment was seen as an indicator of the real reason behind the transnational company's withdrawal, one of them being related to cost cuts.

8. Summary and Conclusions

Minimum Standards Necessary

The findings regarding Nike's business conduct as observed in its two suppliers of soccer balls in Pakistan can be summarized as follows. On the one hand, in the implementation of minimum requirements for decent work, Nike appears to excel other companies in the soccer ball industry in Pakistan. The medical facilities for workers, even in the rural stitching centers, transport facilities to enable especially female workers to access their workplace as well as their effort to provide all workers with the same benefits as permanent workers are some of the examples for comparatively better working conditions. On the other hand, in the past as well as in the current situation, the multinational does not appear to match international and its own standards for responsible business operations. Monthly earnings appear to be even lower than the national minimum wage; obvious discriminatory practices were applied in recruitment depending on medical tests. Environmental management emerges as another weak area. When Silver Star's social and environmental compliance was assessed by PILER before Nike's decision to place orders with the company, they concluded that they were not in satisfactory compliance with labor and environmental standards established by the Nike Code of Conduct.

In recent years, ethical investment has seen a move from criterion-based social and environmental ratings of listed companies to a 'best in class' approach. Criterion-based SRI evaluates and includes companies in ethical financial products based on whether or not they meet certain benchmarks in social and environmental compliance. A 'best in class' approach, in contrast, ranks businesses and selects, *e.g.* sectoral, pioneers – often independent of their compliance with any minimum criteria. The details about Nike's business conduct in soccer ball production in Pakistan provided above have illustrated that being a pioneer in the sector does not guarantee that minimum criteria for social and environmental compliance are met. This is not even the case in a company that is as much in the international spotlight as Nike. If ethical investors' hope to contribute to an economy that is conducive to international human development, then a criterion-based approach to SRI deserves much more attention of investors, financial service providers, and – last but not least – transnational companies.

Employment Access for the Vulnerable – especially Women

The overview of soccer ball manufacturing for Nike in Pakistan underscores another inconvenient fact. In its decision to withdraw orders from Saga Sports due to allegations of unauthorized outsourcing to home-based workshops and child labor employed in its establishments, the company has opted for huge unfettered employment losses as the price for social compliance. This decision has hit vulnerable workers hardest: Rural workers with hardly any employment alternative in the sluggish rural economy; low-skilled workers who face harsh competition for jobs and low earning prospects; informal workers, who did not receive any compensation after they lost their jobs.

Women are highly concentrated in all mentioned groups. Gender norms that limit the sectors and occupations considered appropriate for them, assign them the bulk of domestic responsibilities and restrict their circulation, leave them with very little choice for income generation. Whereas, the provision of regular contracts to all workers involved in soccer ball

manufacturing for Nike as well the provision of childcare for married women workers, in particular, as envisaged by Silver Star is an excellent step to improve working conditions and to widen this choice, it is not sufficient if long distances and inflexible working hours mean that women are effectively barred from access to employment. Therefore, in their assessment of gender dimensions of codes of conduct, Barrientos, Dolan and Tallontire aptly conclude (2003: 1517): "Codes of conduct designed solely around ILO core conventions and relevant national labor legislation (...) may cover gender issues related to formal employment. But they are less likely to be sensitive to the gendered needs of workers combining productive with reproductive work, and to the needs of those in informal forms of employment, with women forming the majority of both these groups (...)."

Employment Security in Global Industrial Re-structuring

One reason for the comparatively lower labor costs in developing countries, which make outsourcing of labor-intensive production processes to the global South attractive is the lack of provision of public social security. In such an environment, the focus of corporate responsibility needs to be broadened beyond minimum standards *at* work to access *to* work. We argue that this implies a special responsibility of transnational firms for their workers' employment security in developing countries.

The year 2006 Nike 'Saga' indicates that this issue is of increasing importance for workers, employment and, thus, development in the global South. After its withdrawal from Saga Sports, Nike substituted Pakistani soccer ball supply partially by machine-stitched balls originating from China and Thailand. In this context, the multinational company as well as other stakeholders stated that the use of hand-stitched balls is declining (Pakistan Times, 2007; ITGLWF, 2007). The technological upgrading of the soccer ball industry puts thousands of jobs in the industrial cluster of Sialkot at risk, unless the industry modernizes (Pakistan Times, 2007).

Given the lack of public safety nets for workers likely to lose their employment in the name of industrial upgrading, the transnational players leading and benefiting from this re-structuring, should strengthen their workers' resilience. At the local level, this implies major efforts for existing workers and their communities' education and skill enhancement. Exploring of alternative employment opportunities as envisaged in Nike's 'social enterprise model' mentioned above, for instance, requires innovative minds that are hard to find if less than one third of the rural population of Sialkot district completes ten years of schooling. Workers' bargaining power needs strengthening through a catalytic environment for unionization. To reach out to female workers in this respect, support for trade unions' activities needs to be combined with child-care provision in order to stimulate women's participation. The findings reported above also indicate that workers' propensity to claim their rights depends on their fall back position, including the availability of alternative employment. The labor market in rural Pakistan is not conducive in this respect. The rural unemployment rate is five percent (Federal Bureau of Statistics, 2006). Underemployment of approximately eight percent needs to be added (State Bank of Pakistan, 2006).⁷ Given the move towards more capital-intensive industrial production, not just in soccer ball manufacturing, multinational companies should contribute to stimulating rural employment,

7 This figure refers to the whole of Pakistan, not just rural areas.

in particular. Besides an extension of their activities through local sourcing of inputs and support services, this may imply help for forms of industrial organization that strengthen workers' bargaining power. The self-management of stitching centers as cooperatives is a related suggestion that PILER is currently exploring.

At the sectoral level of Pakistan's soccer ball industry, the crisis caused by Nike's decision to end orders to Saga Sports, may actually provide an opportunity to strengthen industry-wide social and environmental compliance. If Sialkot were established as model city for soccer ball industry, this might prove to be a successful strategy not just with regards to social and environmental compliance, but also due to the lingering threat of rising competition from China. The International Textile, Garment and Leather Workers' Federation (ITGLWF) foresees that unless the industrial center of Sialkot becomes a leader in productivity, quality, delivery and labor conditions it will not survive global restructuring in the soccer ball industry. A complete overhaul of the industry with the aim of establishing Sialkot as a center of excellence in soccer ball production with the best productivity, best quality, best delivery and best labor compliance would require a concerted effort at the national as well at the Sialkot level, with external support from the ILO in particular but also from key brands in the sector (ITGLWF, 2007). The main ingredient for industry-wide convincing social and environmental compliance is a consistent monitoring mechanism. Here, the Sialkot-based soccer ball industry can build on the experience of the Atlanta Agreement. Branded companies' direct presence is necessary in order to build capacity in and support monitoring of their local suppliers.

However, whereas sectoral and company-wide standards have potential to improve working conditions and reduce negative the impact of business activities on communities, in the long-term national or international development is impossible without nationally or – better: internationally - guaranteed standards. They guarantee that improvement of sectoral compliance in one country does not harm workers and communities in another and thus prevent the much-discussed 'race to the bottom' through competition in the global economy.

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Annexure

List of Interviews

Date	Respondent(s)	Location
11 September 2007	PILER Sialkot office staff	PILER office Sialkot
12 September 2007	PILER Sialkot office staff	PILER office Sialkot; on the way to stitching centers
12 September 2007	Female supervisor in Saga Sport’s Machrala former stitching center	Randheer Khokran
12 September 2007	Three female workers, formerly stitchers at Saga Sports’ Machrala center; one male worker, formerly employed at Saga Sports’ Kulluwal center	Randheer Khokran
12 September 2007	Sheikh Jahangir Iqbal, Chairman/CEO Silver Star Sports Division Amer Zeeshan, Manager HR & IT Silver Star Abid Azeem, Manager S.H.A.P.E. Silver Star Ayaz Bin Shaukat, Matrix	Silver Star Campus, Daska Road, Sialkot
13 September 2007	Three male stitchers, formerly employed in Saga Sports Kotli Amir Said stitching center	Najwal
13 September 2007	Several female stitchers working for company A., one of them being a former worker in Saga Sports’ Panwal sub-center	Najwal
13 September 2007	Several male workers in a stitching center owned by company C.	Najwal
13 September 2007	Former mess manager in Saga Sports’s Kotli Said Amir stitching center	Malagarapur
13 September 2007	Visit to former Saga Sports Kotli Said Amir stitching center	Kotli Said Amir