

Comments on the Vietnam Section of the Tuck School Report: “Nike, Inc.: Survey of Vietnamese and Indonesian Domestic Expenditure Levels”

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SUMMARY

- A team of MBA students from the Tuck Business School at Dartmouth recently conducted a study of wages and expenditures for Nike workers in Vietnam and Indonesia. I reviewed in detail both the conclusions of the Tuck report, and the data presented in the appendices.
- Nike has used the Tuck school report to support the claim that it is providing “highly desired, good-paying jobs” in Vietnam (Nike Press Release 10/16/97). However, the actual data collected by the Tuck team lead to significantly different conclusions than those presented in the report.
- Many workers in the two Nike factories in Vietnam analyzed by the Tuck team are paid below the legal minimum wage. Twelve out of 37 workers at Chang Shin (VJ) reported pay below the legal minimum wage (of the province) of \$35 per month. Eight workers at VJ reported being paid 300,000 dong per month, which is equal to \$25.86 per month. Seven of the 11 workers interviewed at Sam Yang (VS) reported wages below the legal minimum.
- Despite their stated conclusions, the Tuck team’s data show that Nike wages leave most workers with no savings and little potential to move up or out of minimum wage jobs.
- Only 18 of the 51 Nike workers interviewed reported any savings. In the case of Sam Yang (VS), not one worker interviewed reported savings.
- The report fails to compare Nike wages to wages in other factories in the region. Average wages are: \$90 per month for State-owned enterprises; \$60 per month for foreign firms; and \$50 per month for small private Vietnamese firms. Nike workers at the VJ factory reported earning an average of \$41 per month.
- The Tuck team’s methodology is seriously flawed. The selection of factories was biased. The “typical expenditure” profile for workers is flawed in a number of ways. Major expenditures are inexplicably omitted from the calculation of workers’ expenses. The calculations of discretionary income are not based on actual wages. Not enough workers were interviewed to make this an accurate analysis.

Overview

In general, this is a well written, data rich report. However, its contents largely obfuscate the issues relevant to its stated goal of examining the “suitability of the wages and benefits paid” to Nike workers in Vietnam. The report purports to examine “income and spending levels required to sustain *individual* needs” (p.3) and yet the researchers developed a study design that explicitly avoided interviewing individual workers at Nike factories. As the Tuck team explains without even the slightest sense of irony, “After initial discussions with NIKE Vietnam management, it became evident to us that the factory workers would not be an ‘objective’ population to sample” (p.10). Fearing the potential biases of workers, the Tuck team conducted a “random” survey of income and expenditures of people living near two Nike plants, complemented with an outdated living standards survey, and then compared this to management reported wages for the factories.

Nike has used the Tuck school report to support the claim that it is providing “highly desired, good-paying jobs” in Vietnam (Nike Press Release 10/16/97). However, the actual data collected by the Tuck team paints a very different picture. Many workers in these Nike factories are being paid below the legal minimum wage. Not one worker at Nike’s Sam Yang factory reported any savings. Discretionary income is theoretical at best.

There are three main problems with this report: (1) the data collected by the Tuck team lead to different conclusions than they report; (2) their methodology is seriously flawed; and, (3) analysis of the “suitability of wages and benefits” at Nike factories would require a significantly different study. I speak to each of these briefly.

What the Tuck Team’s Data Actually Shows

The most interesting finding in the Tuck team’s report – and most relevant to the question of wages and expenditures – is buried deep within the Appendices. Income data from the Tuck team’s surveys show that many of the VS (Sam Yang) and VJ (Chang Shin) workers interviewed as part of their “random” surveys are being paid far below the minimum wage. Page 1 of the Appendix titled “Income” shows twelve workers at VJ reported pay below the legal minimum wage of \$35 (406,000 Vietnamese dong) per month. Eight workers reported being paid 300,000 dong per month, which is equal to \$25.86 per month.¹ Seven of the 11 VS workers interviewed also reported being paid below their local legal minimum of \$45 per month. The Tuck team apparently did not find this violation of Vietnamese law relevant or interesting enough to merit comment in the main report. This information directly contradicts the statement in the report summary that “factory workers in both Indonesia and Vietnam consistently earn wages at or above government mandated minimum wage levels.”

The Tuck team uses management provided wage amounts in their calculations. However, a close analysis of their own data contradicts management estimates. The report fails to note that the average wage of VJ workers interviewed (for which wage data was provided) was 475,135 dong per month (\$40.95). This average wage is far below the management reported “mean wage” of 653,000 dong (\$56.29), or the management reported “base wage” of 548,000 dong (\$47.24), which the Tuck team use for their hypothetical income and expenditures analysis. The Tuck team’s own research shows that management data on wages is simply incorrect.

Similarly, in another part of their report the Tuck team notes that “the average annual income of a Nike worker [in Vietnam] is \$384” (p.9). This works out to an average monthly wage of \$32, which is well below the legal minimum, not to mention the factory managers’ claims. It is not clear why the Tuck team ignored this information in their calculations of income and expenses.

¹ I use the exchange rate used by the Tuck team of 11,600 Vietnamese Dong to the US Dollar.

The most disingenuous finding in the report is the conclusion that “factory workers...can generate a significant amount of discretionary income” (p.6). At the same time, interviews with workers showed that “they very rarely accumulate personal savings on a recurring basis either for emergency purposes or for anticipated future expenditures such as education” (p.6). Faced with this seemingly contradictory finding, one might think to interview workers to find out if they really do have discretionary income, and if so what it is being used for. As I noted however, the Tuck team felt it too perilous a task to face the potential biases of workers to broach these questions.

The data the Tuck team did collect on savings tells a very interesting story. In the Appendix titled “Savings” the Tuck team documents that only 18 of the 51 Nike workers interviewed reported any savings whatsoever. In the case of VS, not one of the workers interviewed reported savings. It is thus unclear how the Tuck team can claim in their report, which Nike repeated in its press release of October 16, 1997, that workers “can more than make ends meet,” if their own data shows how few Nike workers can generate savings.

Problems with the Methodology

The report’s underlying methodology is problematic in a number of regards. I note only a few of the most glaring problems.

- The Tuck team assumed no bias on the part of the factory management, while assuming excessive bias on the part of workers. So while they caution against the motivations of workers towards biased responses, Professor Joseph Massey (who supervised the project) explains “we have no reason... a priori, to assume that they [factory managers] would give to an academic research team fraudulent data. So we accepted both the information that we received from the factories about what the factory minimum wage, the factory average wages were.”²
- Although the report makes claims about Nike workers, it does not intentionally study the actual wages or expenditures of Nike workers. The most relevant information the Tuck team collected was when they interviewed workers who happened to live in the houses they randomly selected.
- The calculations of discretionary income were not based on actual wages. As Professor Massey explained, the Tuck team “did not look at wage stubs. We took average wages as reported to us by the factories.”³ It should seem obvious that using management provided wage data without cross-checking information against actual pay-stubs is highly problematic.
- No verifiable data on discretionary income were collected. A close reading of the report shows that the most the Tuck team can actually claim is that “workers appear to be able to generate discretionary income” (p.29).
- The selection of factories was biased. The Tuck team selected the factory area with the lowest minimum wage and highest standard of living. VS and VJ are more rural than either VP (Pou Chen) or VT (Tae Kwang Vina). This means that average income and expenditures around the two factories selected compare more favorably relative to Nike wages than would the two largest Nike factories in Vietnam.
- Comparison of wages to annual average per capita GDP for all of Vietnam (\$230) is inappropriate. VS and VJ, while less industrialized than the areas around other Nike plants, are nonetheless, hardly agricultural areas. As the Tuck team notes, only 21% of adults in the

²Quoted in the transcript of the Nike press briefing titled “Dartmouth Professors Speak On Cost Of Living Study,” October 17, 1997, <http://www.nikeworkers.com>.

³ Ibid.

VS area, and only 10% of adults in the VJ area are farmers. These areas are in the most rapidly industrializing and urbanizing region of Vietnam. They have little in common with the 80 percent of Vietnamese who remain in rural agricultural areas, and who drive the national GDP figure. A better comparison is to the average wage in Dong Nai province. The Dong Nai Department of Labour, Invalids and Social Affairs (DoLISA) reported that average income per capita for Dong Nai province was \$449 in 1995.⁴ GDP has grown by 16% per year since 1995. A rough estimate would thus put the average per capita income to be around \$600 per year in 1997.

- The report fails to compare Nike wages to wages in other factories in the region. DoLISA reported average wages to be: \$90 per month for State-owned enterprises; \$60 per month for foreign firms; and \$50 per month for small private Vietnamese firms.⁵ Nike workers at the VJ factory reported earning an average of \$41 per month.
- The “typical expenditure” profile is flawed in a number of ways. Expenditure data is presented for households and then divided by the number of members. This is inappropriate for analyzing expenses of single individuals living alone. As Tuck’s Indonesia team asserts, there are “five general groups of factory workers, each with differing spending and saving habits” (p.7). Workers living away from home – which is the majority of workers in Nike’s largest factories in Vietnam – have higher expenditures than those living at home (p.8).
- Major expenditures are inexplicably omitted from the calculation of workers’ average expenses. For instance, the Tuck team assumed that Nike workers have zero transportation, education, or entertainment expenses (p.27). However, their own survey data show that “transportation and communication expenditures have risen to represent 18.6% and 16.6% of household spending for the VS and VJ areas respectively” (p.26) and education expenditures are around 14% of expenses (p.24). The chart on page 13 shows that transportation and education are the second and third highest expense categories for households, and yet the Tuck team asserts that Nike workers spend no money on these basic needs.

A More Appropriate Study Method

A research project designed to seriously analyze the question of workers’ income and expenditures would have been conducted very differently. Put simply, a study of income and expenditures of Nike workers should take actual Nike workers as the primary unit of analysis.

This would involve:

1. Collecting actual wage data from a large sample of Nike workers. This should be based on management records, interviews with workers, and review of pay stubs.
2. Analyzing expenditures for different types of Nike workers. As the Indonesian study notes there is a range of types of workers in these factories.
3. Analyzing average wages in the region to give some perspective on how Nike jobs compare to other manufacturing employment.
4. Analyzing normal living expenditures for the region. A “purchasing power parity” methodology, while problematic in a number of regards, could be used to compare the costs of a basic “basket” of goods and services across regions.
5. Evaluating savings and discretionary spending patterns of Nike workers. This could involve surveys of different types of Nike workers.

⁴ Interview with representatives of the Dong Nai Department of Labour, Invalids, and Social Affairs, June 12, 1997.

⁵ Ibid.

Conclusions

My overall analysis of the Tuck team's report is that they earned a B+ for obfuscation, and an F for reasoned analysis.

Given the very politicized debate surrounding labor issues in Nike factories in Asia, the Tuck team should have taken greater care to design and conduct a rigorous and unbiased assessment of wages and expenditures. Instead, using recommendations from Nike, the Tuck team carried out a methodologically flawed and biased study, and then failed to properly analyze the data they did collect.

A careful analysis of the Tuck team's data clearly call into question Nike's claim that it is providing "highly desired, good-paying jobs" in Vietnam. The data also highlight that both Nike's Code of Conduct, and its stated commitment to the legal minimum wage, are being violated.

If Nike is interested in analyzing the adequacy of the wages it pays its workers in Asia, it will need to do much better than the Tuck report. Locally based, independent NGOs (such as human rights, labor, or religious organizations) that have experience performing wage and expenditure studies, would provide a much more accurate picture of the current situation of Nike workers in Asia.

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