

**SENSEMAKING, INSTITUTIONS AND CRISES OF
LEGITIMACY: THE CASE OF NIKE'S SWEATSHOP**

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Abstract

The aim of this study is to explore the phenomenon of the legitimacy crisis. This is a variant of organizational crises which, although increasingly common and managerially relevant, is still under-explored. A legitimacy crisis signals a problematic relationship between the focal organization and its socio-institutional environment which calls for repairing of meaning. Having considered this, the study has developed a theoretical framework that integrates the sensemaking and institutional perspectives to investigate this phenomenon. To operationalize this theoretical framework, I have conducted a single longitudinal case study featuring Nike in the 1990s' sweatshop controversy, using a narrative approach and documenting the narrative unfolding of the crisis as the unit of analysis. An extensive collection of publicly accessible archival data constituted the bulk of the data base.

By means of this framework, the research provides rounded understanding of the causes of legitimacy crises, their unfolding patterns, and organizations' responses to them. Moreover, this theoretical integration also contributes to narrowing the gap between the sensemaking and institutional theories. The findings highlight that rational myths serve as sensegiving mechanisms for social actors, and that their effects penetrate the interplay between frameworks and meanings in sensemaking processes, as well as operating throughout the process of organizational restructuring in the context of a legitimacy crisis.

Moreover, this study identifies that improving the efficiency of sensemaking, and thereby improving meaning management, is the key to resolving a legitimacy crisis. This should be achieved through the modification and elaboration of interpretation frameworks. In particular, this study highlights the effects of organizational structuring in facilitating both internal and external communication during a legitimacy crisis, thereby contributing to the improved management of the unfolding crisis and to resolution of the crisis.

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Chapter 1 Introduction

This study seeks to explore organizational legitimacy crises by combining institutional and sensemaking theories. A crisis of legitimacy arises when an organization is perceived by the audiences as no longer conforming to social norms and expectations. This may undermine the organization's legitimacy, resulting in the imposition of official and/or informal constraints on its activities, damage to its reputation, and even a threat to its very survival. A legitimacy crisis may be triggered by charges of organizational misconduct or incompetence, usually initiated and pressed by victims, activists and non-governmental organizations (NGOs), or the more far-reaching global media (Ide III & Yarn, 2003). Examples abound, especially in regard to multinational corporations. Recent cases include: Microsoft's monopolistic practices (Schlender, 1998), Nike's "sweatshop" practices (Egan, 1998), Procter & Gamble's alleged animal cruelty (Beatty, 1998), McDonald's obesity lawsuit (Gibson, 2004), Mattel's product safety issue (Casey, 2007) and Toyota's car recall crisis (Lea *et al.*, 2010).

Several lessons can be learned from these happenings, and one message is clear: if organizations do not handle crises of this kind properly, a high price must be paid, because legitimacy is related to their "license to operate" (Baron, 1995; 2001). Nowadays, all sorts of scandals, controversies and disputes make headlines, and they may turn into legitimacy-threatening events for any given organization. Under the microscope of the media, today's organizations are increasingly more prone to legitimacy crises (King, 2008). There is little doubt that it has become imperative for organizations to improve their ability to cope with awkward situations during legitimacy crises. However, our knowledge about this type of organizational crisis and its management is inadequate, and there is relatively little literature on the topic.

The theoretical framework of the study combines insights from institutional and sensemaking theories. On the one hand, legitimacy is grounded in the relationship between organizations and their institutional environment. A crisis of legitimacy occurs because there is a potential breach of the implicit contract between the organization and the broader socio-cultural context in which it operates. The breach may disrupt the existing social order and temporarily call the legitimacy of the organization's activities into question. Institutional theories suggest that organizations need legitimacy in order to survive and carry out their activities (DiMaggio & Powell, 1991). Therefore,

organizations endeavor to maintain legitimacy by conforming to dominant rationalized myths (Meyer & Rowan, 1991). On the other hand, crises of legitimacy are instances in which the “facticity” of the social order is called into question and organizations become unable to engage with their world as usual (Berger & Luckmann, 1967). In other words, crises of legitimacy generate a need for deliberate sensemaking work undertaken to repair meaning, maintain or change existing practices, and re-establish a connection with the larger social order. This sensemaking work is most often associated with social acts of networking, negotiation and communication from which emerge coherent and plausible verbalizations that repair understandings of social reality (Taylor & Van Every, 2000; Weick, 1995).

The study treats the unfolding of a legitimacy crisis as a narrative process. When an organization’s conduct is called into question, it is pressured to engage in public discourse so as to demonstrate its conformity to social norms and defend or repair its legitimacy. In fact, only through public dialogue and communication can a legitimacy crisis be resolved. The narrative approach also serves to link crises of legitimacy, sensemaking and institutions together, because narratives and discourses are treated as ways to articulate social actors’ sensemaking, and this, in turn, relies on institutional elements. A major theoretical contribution of the present study is that it integrates these two previously separate strands of literature. The study also furnishes some in-depth, holistic insights into legitimacy crises.

1.1 Crises and crises of legitimacy

Organizational legitimacy crises constitute a type of organizational crisis which involves a potential breach of the implicit social contract that legitimizes an organization’s activity. Crises are normally defined as “low-probability/high consequence events” (Weick, 1988: 305), and they often begin with technology malfunctions, fatal accidents or major natural disasters. This kind of “standard” crisis may entail a loss of legitimacy, because accidents and disasters are likely to affect the reputation and social standing of the focal organization. There are, however, important attributes which characterize crises of legitimacy as distinctive phenomena.

In particular, crises of legitimacy can be characterized as “ordinary crises” that display elements of standard crises in a milder version. First, they apply to ordinary

organizations, as opposed to organizations operating in extreme environments. Unlike conventional crises, they do not necessarily involve “a major failure, accident or dangerous occurrence creating hazards and threats to people, properties and/or environment” (see Howard, 1993). Second, they have a higher probability of happening and a lower impact on survival and performance (especially in the short term). Crises of legitimacy are likely to evolve into a series of events and a number of sub-crises that may have prolonged impact on stakeholders’ perceptions of the organization and eventually threaten even its survival. Third, legitimacy crises are characterized by their discursive nature. They revolve around sorts of controversies or public disputes that can be identified as unsettled matters of facts, policies, and values between organizations and their constituents. In particular, legitimacy crises may be triggered by a contestable issue that becomes mature and challenges public perceptions about the legitimacy of the organization’s activities. The unfolding and resolution of such crises inevitably involve discursive interaction among different social groups.

In addition to the aforementioned points, also to be noted is that, like many other organizational crises, legitimacy crises often begin long before they become visible. It may therefore take a long time before a crisis situation is detected and attended to. Sometimes, even groundless accusations can provoke huge public speculation and possibly public hostility towards the focal organization which may escalate into a crisis of legitimacy (Ide III & Yarn, 2003). In this media age, such exigencies often indicate immediate media scrutiny, and minor incidents may rapidly turn into major disruptions with enormous potential long-term damage. Thus, for both private and public organizations, the tasks of legitimacy maintenance are of increasing importance.

There are two major sources from which legitimacy crises may arise. One consists of activists and NGOs. In recent years, activist groups have become better organized owing to advanced information technologies. In particular, they make increasing use of the Internet for information collation, networking, partnership, collaboration and, most importantly, for instant communication with the international media and the public (Spar & Mure, 2003; Srinivas, 2007). The media constitute another major source of controversies. Above all, allegations against organization are always made public and disseminated through the media. The mass media not only serve to monitor organizational behaviors and report illegitimate activities; they also define and evaluate the grounds for the actions of organizational leaders, regulators and other stakeholders

(Hybels, 1995). It seems that the media and NGOs tend to target big brands (Friedman, 1999). Denouncing renowned companies and brands is often a convenient way for the media to achieve eye-catching effects. With a voracious appetite for controversial news fodders, more often than not, media professionals are willing to participate in attacks against big brands (Sutter, 2001; King, 2008). In other words, the media may play a decisive role in triggering a crisis of legitimacy and they also act as a sounding board that amplifies the crisis and make it visible.

Furthermore, some organizations are more prone to legitimacy crises than others. For instance, in the private sector, large corporations are perhaps more vulnerable than smaller companies because they are likely to be exposed to social scrutiny. This may even be so for image-driven companies that sell lifestyles rather than products, such as Nike and Disney. These companies' good names are perhaps their most valuable assets. However, any charge of impropriety may jeopardize an organization's established reputation and even devastate it in a very short space of time. Companies with widely-recognized brand names and more accountability are precisely those with higher media exposure, which probably makes them easy targets for denunciation campaigns. If these organizations fail to take an appropriate stand on certain issues, they are more likely to come under attack. Crises of legitimacy will probably follow.

Moreover, the chaos fuelled by crises of legitimacy often shakes the foundations of an organization and can lead to a re-examination of the organization as a whole (Wilson, 2002). Organizations are likely to undertake discursive and material forms of change in order to repair their legitimacy (Elsbach, 1994). In other words, a legitimacy crisis may give rise to different levels of organizational change, such as in organizational language and in organizational structures. For example, when Nike was contending with the anti-sweatshop movements in the 1990s, its top management team not only relied on accounts to defend the company's legitimacy but also set up CSR departments and hired CSR professionals in response to the crisis (Cobb, 1998). These adjustments were made in parallel with large-scale negotiation efforts showing the company's endeavor to meet social expectations and its quest for legitimacy.

To summarize, legitimacy crises are becoming more complex as a consequence of more advanced technologies which facilitate communication, the increasingly powerful media, heightened public awareness of environmental and health issues, and shifting and diversified expectations of different social groups. It appears that, in order

to protect or restore their legitimacy, organizations are required to show greater sensitivity to social expectations. They must make sense of messages conveyed by their challengers, consider the interests of diverse stakeholders, and respond to and anticipate cultural and social pressures. Some organizations frequently subject to legitimacy challenges, such as Procter & Gamble and Nike, have engaged in vigorous negotiations and built long-term relationships with their key stakeholders, including activist groups. Put simply, with the much better informed public of today, organizations are under greater pressure to manage the gap between social expectations and their publicly perceived behaviors. This may require modification of the organizational structure both during the crisis and in the post-crisis period (Schwartz, 2000).

1.2 Theoretical framework

The research adopts a social constructionist point of view, according to which reality is shaped by its social and cultural context and in need of active interpretation (Berger & Luckmann, 1966). The study combines neo-institutional and sensemaking theories to examine crises of legitimacy. Neo-institutional theories offer macro explanations for the rise of a legitimacy crisis and how an organization may respond to it. Sensemaking theories attend to the micro process of how sensemaking is triggered and how meaning is developed and constructed during a crisis of legitimacy. The unfolding and resolution of a legitimacy crisis can be seen as a socially constructed process of order negotiation (Strauss *et al.*, 1963; 1964) that involves the focal organization enacting meaning upon its institutional environment. Integrating these two perspectives is likely to provide insights into how social and institutional norms affect organizational sensemaking during legitimacy crises and thereby affect the unfolding of the crisis.

1.2.1 Institutions and crises of legitimacy

From the institutional perspective, legitimacy can be broadly defined as the acceptance of the organization by its environment, and many researchers believe that it is vital for organizational survival and success (Dowling & Pfeffer, 1975). In particular, Suchman (1995) maintains that the role of the collective audience in legitimation processes should be explicitly acknowledged. He thus defines “legitimacy” as “a generalized perception or assumption that the actions of an entity are desirable, proper, or

appropriate within some socially constructed system of norms, values, beliefs, and definitions” (Suchman, 1995: 572). On this definition, organizations may suffer from a loss of legitimacy if their behaviors are no longer perceived to be consistent with the expectations of the collective audience. Loss of legitimacy can be threatening because the organization’s legitimacy—its general acceptance by the society or “license to operate”—is a source of competitive advantages. If legitimacy is challenged, the organization’s survival may not be threatened in the short term, but its strategy-making activities will be undermined (Baron, 1995; 2001). This may have a long-term impact on the organization’s development. A crisis of legitimacy is triggered when the social contract between the organization and the society is breached; that is, when the organization fails to comply with social expectations, whereas in this implicit contract it agrees to comply in return for support and approval of its existence (See Davis, 1973; Shocker & Sethi, 1974). A potential breach of the social contract induces stakeholders and the general public to perceive the organization as not legitimate. The significant presence of the audiences contributes to the discursive nature of legitimacy crises. When an organization’s conduct is called into question, it is pressured to engage in public discourse in order to demonstrate its conformity to social norms and to defend or repair its legitimacy.

There are two diverse views on the nature of legitimacy: strategic and cultural (Suchman, 1995). From a strategic perspective, organizations pursue legitimacy in return for resources provided by its environment, and organizations can strategically obtain, maintain or repair legitimacy. From a cultural point of view, legitimacy derives from taken-for-granted institutionalized norms and values. Organizations strive for legitimacy in order to gain “cultural support”, and they need to draw on broader cultural accounts to justify their existence (Meyer & Scott, 1983: 20). The distinction between strategic and cultural elements highlights that legitimacy results from the interplay between actors’ agency and institutional pressures. Accordingly, the unfolding of a legitimacy crisis may largely depend on the interaction between social actors’ sensemaking and socio-institutional elements.

According to Elsbach (1994), organizations may respond to legitimacy threats in two ways: one is the discursive approach—that is, providing accounts to defend, excuse, explain, justify their activities; the other is a material form of organizational change, such as modifying organizational forms and introducing institutionalized structures.

Both approaches involve the elicitation of legitimating characteristics from the broader cultural system. Based on the above points of view, during legitimacy crises, relevant organizational actors are likely to actively engage in sensemaking and the strategic management of legitimacy, for instance, by making tactical use of accounts and modifying the organizational structure. What is equally important is that, in this process, both organizational actors and external audiences are constrained by a broader taken-for-granted belief system. It is for this reason that the sensemaking and institutional perspectives need to be integrated in this research.

1.2.2 Sensemaking and crises of legitimacy

Sensemaking theories have been applied in analysis of various organizational crises (Weick, 1988, 1993; Reason, 1990; Staw *et al.*, 1981). However, they have been rarely deployed to examine legitimacy crises. The basic idea behind sensemaking is that reality is an ongoing outcome that emerges from efforts to generate order and make retrospective sense of what occurs (Weick, 1995). During crises, interpretations are restrained and severe demands are imposed on sensemaking (Weick, 1988: 305). Therefore, for crisis management, the more the sensemaking effort is directed at the crisis situation, the more likely it becomes that the crisis will be brought under control. As suggested by Weick (1988), actions devoted to sensemaking play a vital role in the “genesis” of crises; it is therefore crucial that they be understood so that crises can be managed and prevented. How a crisis of legitimacy unfolds largely depends on how the organization makes sense of it.

A crisis of legitimacy implies a potential breach of social expectations which temporarily disrupts the *status quo* and requires repair. Such disruptions trigger organizational sensemaking. The unfolding of the crisis is characterized by an ongoing negotiation of meaning driven by the accounts and justifications of organizational leaders and stakeholders and aimed at restoring social order. The distinctive discursive nature of legitimacy crises makes sensemaking an even more salient organizational process. In fact, sensemaking is essentially a matter of language and communication, on which the shaping, framing, and the very existence of situations, organizations and environment heavily rely (Mills, 2003; Weick *et al.*, 2005). Sensemaking theories can therefore provide insights into how the controversy that gives rise to a legitimacy crisis is framed and constructed as social reality. Moreover, how the organization makes sense of the controversy and how it constructs organizational reality guide its

subsequent actions in response to the crisis and thereby affect the unfolding of the crisis.

What cues the organization extracts from its environment and how it interprets them reveal some of the organization's most fundamental assumptions and beliefs, which may be seriously challenged during the crisis. As the crisis unfolds, the organization may continue to provide accounts and start to undertake material reform. These actions enact some meanings on its environment. Through social feedback loops (Weber & Glynn, 2006), meaning is negotiated and renegotiated between the focal organization and the stakeholders until a certain level of shared interpretation of social and organizational reality is achieved between them. This is when order is temporarily restored. This process is an ongoing outcome of the interaction between institutional forces and social actors' sensemaking.

1.2.3 Integrating the institutional and sensemaking perspectives

Given the nature of legitimacy crises, it seems appropriate for the present study to adopt a combined theoretical framework that takes account of both institutions and sensemaking. On the one hand, the institutional perspective provides macro explanations of what may cause a legitimacy crisis and why an organization needs to defend or repair its legitimacy when it faces legitimacy threats. It offers ideas of how an organization may respond to a legitimacy crisis and what drives such responses. On the other hand, sensemaking theories are useful in elucidating how a controversy is discursively constructed and continuously shaped and how organizational sensemaking triggered by the legitimacy crisis may affect meaning negotiation and therefore the unfolding and resolution of the crisis. By weaving these two approaches together, the present study provides a more dynamic view of legitimacy crises.

With some notable exceptions (e.g. Weber & Glynn 2006), the two perspectives have been rarely conjoined. The sensemaking theory, which is more of a tool for micro-level analysis, incorporates meaning and the minds of individual social actors into organizational studies and treats organizing as an activity that reduces ambiguity and provides social reality with a better order (Weick *et al.*, 2005); whereas institutional conceptions explain how institutional forces embedded in larger social context shape organizational structures and practices (DiMaggio & Powell, 1991) and are likely to be

applied in macro domains. However, it has been pointed out by some scholars that the embeddedness of sensemaking in its social and institutional context has been under-explored (Taylor & Van Every, 2000; Scott, 2001; Weick *et al.*, 2005). Institutional and sensemaking theory can be explicitly combined in the investigation of legitimacy crises when the institutional foundations of sensemaking encounter challenges.

A major synergy of institutional and sensemaking theories lies in their common epistemological underpinnings based on social constructionist views of reality. Both of them are established on the assumption that everyday reality is socially constructed. Also, both sets of theories focus on the production and development of meaning, which is a vital process that affects the onset and unfolding of a crisis of legitimacy. Connecting these two perspectives is likely to provide better understanding of highly complex social phenomena, such as legitimacy crises, at both the micro and macro levels. Moreover, organizational behaviors are largely shaped by cognitive, normative and regulatory forces deriving from such dominant actors as the mass media, governmental authorities, professional bodies and interest groups. Hence, to explore how organizational actors make sense of events, it is essential to resort to the broader social and cultural context (Weick *et al.*, 2005). Beyond the traditional view that sensemaking is contextualized by institutions that impose cognitive constraints on the sensemaking actors, Weber and Glynn (2006:1644) suggest that institutions function as “building blocks” or “substance” for sensemaking, provide guidance and edit the ways in which action forms, and are constantly enacted and constructed in ongoing sensemaking processes.

Returning to organizations’ struggle for legitimacy, it is likely that the management of organizational legitimacy during a legitimacy crisis requires ongoing organizational sensemaking embedded in social and institutional contexts. From the perspective of social constructionism, the process of “legitimation”, which involves continuous testing and redefinition of the legitimacy of an organization through ongoing interaction with its environment, is a complex social and cognitive process subject to bounded rationality (Berger & Luckmann, 1966; Baum & Oliver, 1991). Both the organization and its external constituents are involved in the interactive process. The former tries to make sense of the latter’s expectations through observing, interpreting, learning, anticipating and even influencing their demands (Meyer & Rowan, 1991; Weick, 2001), and the latter seek to make sense of the organization and assess its

degree of conformity and desirability of its behaviors. The interaction of the two sides determines whether the organization can normalize the breach or reach a new agreement. Most importantly, their sensemaking activities are embedded in larger social belief systems and institutional myths.

In other words, an organization's pursuit of legitimacy invariably involves interaction with its external constituents, and it is embedded in a broader institutional context with differentiated cognitive and cultural components that serve to shape, and are shaped in their turn by, the organization. By relating the institutional perspective to sensemaking, this search provides a broader field of vision and illuminates how institutional forces affect organizational sensemaking during crises of legitimacy. Moreover, it broadens our understanding of the relationship between institutions and sensemaking. Although the institutional context is an integral part of sensemaking, the ways in which these are connected are still rarely explored (Weber & Glynn, 2006; Weick *et al.*, 2005). In view of the foregoing points, it is expected that the implications generated by this study will be more insightful if the embeddedness of sensemaking in its social, cultural, historical and institutional contexts is examined.

1.3 Research questions

The ability to respond promptly and decisively in the event of a legitimacy crisis is vital for an organization's survival. Since crises are unavoidable (Mitroff, 2001), it is crucial for organizations to devise effective strategies to cope with them once they occur. Notably, crises of legitimacy provide a fruitful setting for studying the micro-foundations of institutions and understanding the complex interaction between macro-institutional processes and micro-level sensemaking. Accordingly, the aim of this study is to explore crises of legitimacy and highlight their implications for institutional and sensemaking theories. The dissertation addresses the following research questions: how do legitimacy crises unfold? How do relevant organizational actors make sense of, and respond to, crises of legitimacy? How do societal and institutional elements affect organizational sensemaking during crises of legitimacy?

1.4 Research design

To answer the research questions, I conducted a longitudinal case study of Nike's sweatshop controversy from mid-1996 to mid-1998. I treated the unfolding of Nike's legitimacy crisis as a narrative process and used archival data to reconstruct the unfolding of the case story. In particular, the case study was guided by a focus on how the interaction between social actors' micro-processes of sensemaking and macro-institutional forces (e.g. institutional myths) affected the framing, unfolding and settling of the controversy.

Given the distinctive discursive side of legitimacy crises, a narrative approach was used to address the dialoguing process among the focal organization, key challengers, the media and other audiences. In a sense, narratives are ways to articulate social actors' sensemaking—a form of organizational communication aimed at restoring order. Some narratives, such as accounts, can be viewed as collective sensemaking material. These narratives are material on which both internal participants and outsiders rely to generate plausible interpretations that inform actions (Balogun & Johnson, 2004). As Musson (1999) observes, narrative materials are, on the one hand, produced as part of the sensemaking process, and on the other, used to preserve and communicate concepts, ideas and other information. Since meanings negotiated among different social groups have a direct impact on the unfolding of the crisis, narratives that carry these meanings demonstrate how the crisis unfolds and how it is resolved. In this dissertation, narratives not only provide empirical access to crises of legitimacy, but also serve as means to operationalize the analysis from both the institutional and sensemaking perspectives.

The Nike case is perhaps one of the most archetypal legitimacy crises in business history. Nike is an image-driven company that represents global manufacturing, so that the impact of attack from the activists as well as unfavorable projections from the media were significant and profound. Furthermore, the time-span of this case is extensive. It covers the period from mid-1996, when the crisis situation became distinctly critical, to May 1998, when the then Nike CEO Phil Knight (1998) gave a landmark speech at the National Press Club Conference, formally committing Nike to strict standards for its overseas subcontractors. There is a large volume of news coverage by major media outlets, and this made a sizable and dynamic collection of data possible. These data enabled me to look into how the "sweatshop" problem was

first framed by activists, how Nike's top management team made sense of the controversy, and how Nike's response-strategies evolved over time.

The case study was principally based on archival data integrated from various sources, including newspapers, magazines, the Internet and scholarly journals. Particular attention was paid to public accounts circulated in the media, because these made the crisis observable. The intensity of the crisis was measured by the amount of media coverage on Nike and sweatshop practices. Data across different sources were compared and contrasted so as to facilitate reflexive and rigorous analysis. I reconstructed the story in chronological order and pinned down the twists and turns (Czarniawska, 1998) in an attempt to identify patterns in the crisis by breaking the story into phases (Langley, 1999). Case interpretation focused on the narrative unfolding of the crisis. I analyzed the accounts developed by relevant stakeholders during the different stages of the controversy. I treated these accounts as articulations of stakeholders' sensemaking and looked at how institutional forces, such as rational myths, shaped the organization's and stakeholders' discourse during the controversy. In this way, the narrative analysis highlighted the connection among crises of legitimacy, sensemaking and institutions.

1.5 Theoretical and practical relevance

This study has theoretical relevance in two areas. Firstly, it has added to the literature on organizational crisis studies in general. On the one hand, it has conducted an empirical study on a research field hitherto largely under explored: crises of legitimacy as distinctive crisis phenomena which warrant closer scholarly and managerial attention. On the other hand, this study has provided alternative perspectives on the approach to the exploration of organizational crises. In particular, in relation to the research topic, this study has highlighted subtle processes that precede crises of legitimacy and which previously attracted little scholarly and managerial attention: that is, the accumulation of mismatches between social expectations concerning business behavior and socially perceived business performance.

Other contributions of this study derive from its use of an integrated framework which combines the sensemaking and institutional perspectives to explore the legitimacy crisis phenomenon. By means of this framework, the research provides rounded

understanding of the causes of legitimacy crises, their unfolding patterns, and organizations' responses to them. Moreover, this theoretical integration also contributes to narrowing the gap between the sensemaking and institutional theories. As noted, although this theoretical distance has attracted widespread scholarly interest, research on the connection between sensemaking and institutions is still limited in the existing literature.

As regards the practical relevance of this study, it has managerial implications for crisis preparation and prevention, as well as for the management of legitimacy crisis situations. In the former case, the study has highlighted the importance that organizational actors pay attention to the often subtle, slow and unorganized movements of social trends that may create mismatches between societal expectations concerning their behavior and their publicly perceived behavior. As for how to respond to crisis situations, this study has identified the difficulties in the management of meanings by organizational actors during a legitimacy crisis. It provides a series of useful guidelines for practitioners to tackle these difficulties.

1.6 Structure of the dissertation

This dissertation is structured as follows. Chapter 2 reviews the relevant literature, focusing on the institutional and sensemaking implications of organizational legitimacy crises. The chapter surveys past studies on organizational crises and different conceptualizations of organizational legitimacy, and then defines legitimacy crises, identifying their similarities with and differences from standard organizational crises. Because a legitimacy crisis may be a component of a standard crisis, this study also provides added value for crisis management in general. This is followed by a discussion on possible responses by organizations to legitimacy challenges and institutional explanations for such responses. The last section of the chapter highlights the sensemaking perspective, reviewing past research using sensemaking theories to study traditional organizational crises and discussing how they can be applied to legitimacy crises. A theoretical framework integrating the institutional and sensemaking perspectives is presented at the end of the literature review.

Chapter 3 addresses the research methodology of the present study. A description of and a rationale for the research design used are provided. The chapter justifies the case

study strategy and the narrative approach, explains why the current case was selected and defines the unit of analysis. Detailed information about data sources and data gathering and the process and methods of data analysis are presented, highlighting the coherence between the research questions and the types, collection and analysis of data. The chapter concludes by discussing limitations deriving from the research design.

Chapter 4 introduces the background to the Nike case, focusing on Nike's history, its organizational culture, its CEO and co-founder Phil Knight, its competitive advantages and outsourcing practices in developing countries. In Chapter 5 and 6, based on media coverage, the Nike case story is presented and divided into two parts: Part I features the period from mid-1996 to the end of 1996 when the legitimacy crisis first arose, intensified, and reached a short-term closure. Part II covers the period from the beginning of 1997 to mid-1998 when the crisis started to escalate again and finally ended with Phil Knight's key speech. Each part concludes with a discussion.

Chapter 7 presents the main findings of the research. It is divided into three sections, each of which addresses one of the research questions. The first section discusses the cause and the unfolding of a legitimacy crisis, highlighting the similarities and differences between a crisis of legitimacy and a traditional organizational crisis. The second one focuses on the sensemaking implications for legitimacy crises: that is, how sensemaking is triggered and how the disrupted order is repaired in the ongoing process of sensemaking. The third section illustrates how sensemaking may be affected by social and institutional elements such as rational myths in a crisis of legitimacy.

Chapter 8 concludes the research. It first presents a summary of the dissertation and outlines the main findings, the empirical and theoretical contributions of the study. The managerial implications of the study are also addressed. At the end of the chapter, I explain the limitations of the research and provide some guidelines and suggestions for future studies.

Chapter 2 Literature Review

Introduction

To investigate legitimacy crises as conceptualized in this dissertation, I intend to integrate the institutional and sensemaking perspectives. The rationale for this theoretical integration is two-fold: on the one hand, the kind of crisis under study is essentially a manifestation of a problematic relationship between the focal organization and its socio-institutional environment. It occurs when constituents in the environment perceive the organization as engaging in inappropriate or undesirable activities—that is, when the organization is not as acceptable to the society as it was previously, and this decrease in social acceptance causes major disruptions in the organization's normal operations. The concept of legitimacy in institutional theories is often used to posit this kind of relationship between an organization and its environment. In addition, based on the notion of legitimacy, the institutional perspective may also have considerable promise in explaining what causes a loss of legitimacy, what drives an organization to pursue legitimacy, and what approaches it may adopt to defend and repair its legitimacy when facing legitimacy threats. These institutional concepts and theories yield implications as to why a legitimacy crisis arises and how an organization may respond to a legitimacy crisis at different stages of the crisis, and why.

On the other hand, a legitimacy crisis indicates significant change in the socio-institutional environment in which the organization operates. The change challenges what organizational actors take for granted, and accordingly disrupts the organization's normal course of interaction with its environment. In other words, a legitimacy crisis constitutes a trigger for organizational actors to develop new ways to understand and engage their world. To achieve this, they have to engage in a series of negotiations and communications with relevant social groups. Such inter-organizational interactions between organizations are largely socially constructed (Strauss *et al.*, 1963; 1964). This is essentially a process of sensemaking. A legitimacy crisis destabilizes the institutional foundations that sustain organizational actors' understanding of organizational reality. It temporarily disrupts the existing social order, which needs to be restored; and this calls for a repair of meaning. Active sensemaking is triggered in order to repair meaning and reconnect to the broader socio-cultural contexts. The understanding of

social reality is gradually repaired and a new social order emerges as meaning is generated, negotiated and revised in the ongoing dialogue between the organization and its stakeholders. Accordingly, sensemaking is an essential communication process that continues to shape social actors' construction of reality and thereby affects the unfolding of a legitimacy crisis.

The above discussion highlights that crises of legitimacy constitute important organizational phenomena occurring at the intersection between institutions and sensemaking. A legitimacy crisis generates a need for the focal organization to reestablish a relationship with its institutional environment through networking, negotiation and communication. Such social acts are guided by deliberate sensemaking work aimed at repairing order. The unfolding of a legitimacy crisis is a meaning negotiation process that typically involves observable interactions among macro institutional elements, such as institutional myths, and social actors' micro-processes of sensemaking. Therefore, the theoretical approach of the present study, which integrates the institutional and sensemaking perspectives, not only facilitates the investigation of legitimacy crises but also sheds light on the relationship between institutions and sensemaking.

This chapter is divided into three main sections intended to furnish a theoretical framework within which to investigate legitimacy crises. The first section compares and contrasts legitimacy crises with "standard" organizational crises in the extant literature, the purpose being to provide a clear conceptualization of the former. The empirical gap that this dissertation seeks to address is thereby identified. The second section discusses the application of institutional theories to the study of legitimacy crises. Key concepts in institutional theories are introduced, such as legitimacy and rational myths. Relevant theories and findings are also discussed, such as past research on how organizations may respond to legitimacy challenges. The third section links the sensemaking perspective to crises of legitimacy. It reviews the extant literature on sensemaking and organizational crises and focuses on the role of sensemaking in the social construction of reality. In particular, it considers the connection among communication, sensemaking and crises of legitimacy. The fourth section discusses the theoretical gap between institutional and sensemaking theories and presents a theoretical framework which integrates the institutional and sensemaking perspectives for the purpose of examining crises of legitimacy. The chapter concludes with a

discussion of empirical and theoretical gaps in the literature and how this study contributes to filling those gaps.

2.1 Crises and crises of legitimacy

In neo-institutional theories, legitimacy is established as a key concept with which to evaluate the relationship between an organization and its environment. Put briefly, a legitimate organization is one that is accepted by its environment and whose activities are regarded as appropriate and desirable by the society (Suchman, 1995). When an organization is perceived by the public as being run inappropriately, its legitimacy is likely to be challenged. In other words, a crisis of legitimacy may be provoked by a marked gap between socio-institutional expectations and the organization's publicly perceived image and performance (Sethi, 1975; 1979). The gap will diminish social support for the organization's existence, activities and strategies, challenging its "license to operate" within its environment and undermining its competitive advantages (Baron, 1995; Ciancutti & Steding, 2000). Therefore, when faced by such crises, organizations have to take measures to repair their legitimacy. This dissertation conceptualizes a legitimacy crisis as one type of organizational crisis in which the organization's legitimacy is called into question because its behaviors are perceived by the society as deviant from social norms and expectations. Owing to the traditional focus of crisis studies on high-profile events involving accidents, natural disasters and major technical or economic failures, this field has been vaguely defined and deserves more academic attention.

An organizational crisis is sometimes simply defined as a situation that seriously threatens the organization's survival (Nystrom & Starbuck, 1984). Studies by such scholars as Drucker (1980, 1985), Nystrom & Starbuck (1984), Perrow (1984), Quarantelli (1988), Weick (1988, 1993), Reason (1990), Smith (1990, 2006), Booth (1993), Lagadec (1993), Shaeffer *et al.* (1998) and Ray (1999), amongst many others, have significantly augmented our understanding of organizational crises. There is also a wealth of literature on crisis management theories concerning how to predict potential crises (Fink, 1986; Friedman, 2002), how to prevent or prepare for crises (Pauchant & Mitroff, 1992; Coombs, 1999; Mitroff, 2001; Chong, 2004), and how to minimize damage and learn from crises (Mitroff, 1988, 2005; Coombs, 1995).

Despite a large body of literature on organizational crises and crisis management, many researchers maintain that most organizations are not prepared to anticipate crises or to manage them effectively once they occur (Augustine, 2000; Elliott *et al.*, 2002). One of the reasons for this may be the constantly-changing nature of crises nowadays. Not only have the time frame and geographic scope of crises expanded (Hart *et al.*, 2001), but the diversity and complexity of crises have amplified in recent times (Rosenthal *et al.*, 2001). As suggested by Mitroff (2001:5), “crises are no longer an aberrant, rare, random, or peripheral feature of today’s society. They are built into the very fabric and fiber of modern societies”. Standard organizational crises, such as the Mann Gulch disaster (Weick, 1993) and the Exxon Valdez oil spill (Pauchant & Mitroff, 1992; Barton, 2001), are not the only critical situations that concern today’s organizations. The likelihood that organizations will suffer calamitous loss caused by natural disasters and technical failures only represents the tip of the iceberg. Organizations are more likely to encounter crises of legitimacy, which occur more frequently than conventional crises and have the potential to cause immeasurable damage to organizations. However, legitimacy crises are rarely identified as a distinctive type of organizational crisis.

2.1.1 Comparing and contrasting standard crises and crises of legitimacy

The conceptualization of legitimacy crises can be further clarified by comparing and contrasting them with standard crises. During a crisis of legitimacy, the legitimacy of the organization’s certain activities is highlighted and widely discussed by external audiences. As a consequence, the relationship between the organization and its environment becomes problematic and must be repaired. One could argue that legitimacy problems only represent one aspect or stage of a crisis. Standard crises may also lead to loss of legitimacy, especially when there are significant social consequences that need to be addressed. For instance, the deadly explosion at one of BP’s refineries in Texas City in 2005 also caused longtime public censure of the oil company’s safety practice (Treanor, 2007). In fact, legitimacy management has been treated as an aspect of crisis management, and usually addressed from the perspective of crisis or/and post-crisis communication (e.g. Benoit & Lindsey, 1987; Benson, 1988; Marcus & Goodman, 1991; Massey, 2001; Jaques, 2009). However, this dissertation proposes that crises of legitimacy can be conceptualized as a distinctive type of organizational crises: that is, as an empirical phenomenon in their own right.

Crises are often defined as rare, damaging events that threaten the viability and survival of an organization. For instance, Weick (1988: 305) characterizes crises as “low-probability/high consequence events that threatens the most fundamental goals of an organization”. Lerbinger (1997: 4) defines a crisis as “an event that brings, or has the potential for bringing, an organization into disrepute and imperils its future profitability, growth, and possibly its very survival”. Scholarly emphasis has long been placed on the accidental, extreme facets of crises. For instance, standard crises examined in the literature, such as the Challenger Shuttle explosion (Starbuck & Milliken, 1988) and Union Carbide’s chemical spill at Bhopal (Shrivastava, 1992), often start with lethal incidents or major natural disasters, which involve injuries, loss of life, or some sort of technical breakdown and result in massive damage to an organization (see Shrivastava *et al.*, 1988). As said, standard crises may also lead to loss of legitimacy, since accidents and disasters tend to have negative impacts on the reputation and social standing of the focal organization. As noted by Barton (2001, 2), not only the event itself, but also its aftermath may significantly damage an organization’s reputation. In other words, crises of any kind can trigger legitimacy problems for organizations if they are not properly managed. In this sense, legitimacy can be treated as a critical issue to be addressed during and after standard crises.

Nevertheless, there are salient features characterizing crises of legitimacy as a distinctive phenomenon. The similarities and differences between standard crises and crises of legitimacy are summarized in Table 1. In particular, crises of legitimacy can be termed “ordinary crises” which exhibit the above-mentioned features of standard crises but less markedly so. Firstly, in cases of legitimacy crisis, those features also apply to ordinary organizations, as opposed to organizations operating in extreme environments. They do not necessarily entail “a major failure...serious accident or dangerous occurrence creating hazards and threats to people, properties and/or environment” (see Howard, 1993). Legitimacy crises may be triggered by incidents which are relatively “minor” compared with fatal accidents, and they may happen to all types of organization operating in either common or extreme environments.

Secondly, crises of legitimacy have a higher probability of occurring. Compared with conventional crises involving extraordinary events, crises of legitimacy happen more frequently, especially to organizations vulnerable to crises of this kind, such as image-driven large corporations. This may be due to the fact that today’s organizations

operate in this new media age where the media can exert enormous influence on public perception (Iyengar & Kinder, 1987; Hybels, 1995; Strinati, 1995; Tucker, 1998). Notably, the media tend to identify controversies and conflicts of interest between different social groups as newsworthy, especially when large corporations are involved (Peretti & Micheletti, 2004; King, 2008). Once an event has been exposed in negative light, the legitimacy of an organization may be challenged (Ray, 1999).

Table 1. Similarities and differences between standard crises and crises of legitimacy

	Standard Crises	Crises of Legitimacy
Similarities	Possibly cause damage to legitimacy and impact on the organization’s reputation and social standing	
	Cause major, not minor, disruptions in the organization’s normal operation	
	Imply loss of control: with limited time and resources, the problem needs to be solved quickly but the solution is unknown.	
Differences	Happen in extreme environments	May happen to any kind of organization
	Often involve natural disasters and fatal accidents, major technical failures that create hazards and threats to people, property and/or environment	Centered on contestable issues (e.g. social and environmental issues) that do not necessarily involve loss of human life or major tangible damage
	Low probability—rarely happen	Higher probability—happen more often, especially to large corporations
	High impact on the organization’s survival and performance	Lower impact, not necessarily threatening the organization’s survival or performance (e.g. profitability), at least not in the short term
	Negotiation with outsiders is not necessary, at least not throughout the crisis	Have a distinctive discursive nature: require discursive solutions and involve ongoing discursive interaction with external audiences

Thirdly, legitimacy crises do not necessarily threaten the survival or performance of organizations, at least not in the short period. They may not even impact negatively on a business organization's profitability. For instance, when still under siege by anti-sweatshop movements, Nike's sales growth reached a record high in 1997, rising by 42% to 9.19 billion USD (Marshall, 1997). The company's stock price dropped in late December 1997, and in the year that followed, plunging sales in Asia and the stagnant US market led to an 8% decline in gross revenue (Wolper, 1998). The reasons were manifold: the company's own sluggish performance, an apparent shift in teen fashions, and the Asian financial crisis. In other words, there is no strong evidence that the legitimacy challenge, Nike's sales downturn and the dip in the company's stock price were related (Cobb, 1998; Lee, 2000). However, such challenges to corporations' "license to operate" can have a strong impact when market opportunities or access are controlled by third parties, such as states and local communities (Baron, 1995; 2001).

Although there is probably no visible, immediate harm in some cases of legitimacy crisis, and significant damage is not likely in the short run, the crisis may still evolve into a series of events and a number of sub-crises that have prolonged impacts on stakeholders' perceptions of the organization and eventually threaten its very survival. Severe confrontations sometimes occur, ranging from intense media scrutiny and censure, such as the media targeting of Mattel's product recalls due to toy safety scares (Wallop, 2007); to direct physical attack on the organization's facilities, such as the assault by armed youths on Shell's oil plant in Nigeria (Borzello, 2004).

Fourthly, one of the most significant attributes of legitimacy crises is their discursive nature. They originate from controversies or public disputes highlighting certain unresolved issues concerning facts, policies and values between an organization and its stakeholders. In particular, a crisis of legitimacy may be triggered by the mature of a contestable issue that changes public perceptions about some of the organization's activities, or about the organization as the whole. Especially in the case of large corporations, such issues are likely to come under intense media scrutiny and cause internal and external stakeholders to question the legitimacy of the organization, thereby giving rise to disruptions and a crisis of legitimacy. The unfolding and resolution of legitimacy crises inevitably involve discursive interaction among different social groups. It is also a process in which relevant organizational actors seek discursive solutions with which to repair the breach of social expectations and restore

the relationship between the organization and its environment.

Although legitimacy crises may not manifest themselves in extremely critical and stressful conditions, as do many standard crises, they can still be identified as a type of organizational crisis in two respects: firstly, like other sorts of crises, legitimacy crises cause or have the potential to cause “major”, rather than “minor localized”, disruptions in the normal operation of an organization (Coombs, 1999; Pauchant & Mitroff, 1992). Secondly, like other organizational crises, crises of legitimacy involve some degree of loss of control, and urgent actions are therefore required to solve the problem. However, solutions are unknown or problem-solving methods are not available to the organization (Howard, 1993; Pearson & Claire, 1998).

The first respect derives from the distinction between a general crisis and an issue or incident (Coombs, 1999). According to many scholars, organizational crises entail significant disruptions in larger organizational routines. As Fink (1986) puts it, crises are situations that may “interfere with normal business operations”. For another example, Pauchant & Mitroff (1992:12) conceptualize crisis as “a disruption” that “physically affects a system as a whole and threatens its basic assumptions, its subjective sense of self, its existential core”. Accordingly, an event or a series of events can be identified as a crisis of legitimacy, and not merely an issue, only when it destabilizes the organization’s underlying assumptions and its well-established belief system. As Habermas (1957: 46) says, a crisis of legitimacy “is directly an identity crisis”. It shakes the core of the organization, challenging organizational members’ understanding of self and the outside world.

It can be observed that a legitimacy crisis interrupts an organization’s normal course of operation. For instance, the organization may engage in a series of activities in response to the controversy, such as issuing statements, holding press conferences, organizing various PR campaigns, and even undertaking extensive organizational change. However, to be noted is that minor, peripheral problems may lead to major breakdowns of order. As said, a crisis of legitimacy may be caused by a dispute or a contestable issue of minor significance that becomes mature. The issue may initially produce limited disruption in a small part of the organization, and it may remain as it is. Nevertheless, it may also turn into a major controversy affecting a considerable proportion of the organization.

The second respect highlights the sense of urgency and the ambiguity concerning the means of resolution that characterize organizational crises in general (Howard, 1993; Pearson & Clair, 1998) and legitimacy crises in particular. A legitimacy crisis indicates significant shift in the public perception of the focal organization, which the organization is unable to predict and control. This signals that the organization's legitimacy is at stake. As organizations are pressured to maintain their legitimacy in order to survive, there arises an urgent need for organizational actors to respond swiftly in order to manage the risk and restore order. However, an effective solution is unknown or not clear, and actively pursued by organizational members.

Legitimacy crises, like many others, have the potential to change the organization's internal and external structure. This means that not only may the appearance, routines and practices of an organization undergo change but new social relationships may be established between the organization and various stakeholders. Many scholars highlight the two sides of crises: "danger" and "opportunity" (Shaluf *et al.*, 2003), and in a similar vein, Erikson (1964: 139) defines a crisis as "turning point for better or worse". According to this point of view, a legitimacy crisis represents a critical phase when an organization has an opportunity to reestablish or even improve its connection with the environment, or the relationship between them may further deteriorate.

2.1.2 Summary

To sum up, legitimacy crises constitute a component of regular crisis and a distinctive type of organizational crisis, which involves a potential breach of the implicit social contract between the organization and individuals in the society. In other words, a legitimacy crisis arises when the organization's behaviors are widely perceived by the society as violating the implicit contract whereby it agrees to comply with social norms and expectations in return for support and approval of its existence (See Davis, 1973; Shocker & Sethi, 1974; Donaldson, 1982; Donaldson & Dunfee, 1994). Legitimacy crises display many characteristics of standard crises in less salient form. They may not involve extreme environments or accidental, extraordinary events, and they may be simply triggered by a dispute which initially inflicts only minimal damage in terms of profit or reputation. Nonetheless, they may turn into major, lingering crises of legitimacy, and the accumulative disruptions and damage they cause may be devastating.

Although immediate damage may not be significant and the focal organization's survival may not be threatened, at least not in the short run, a legitimacy crisis may have the potential to cause major disruptions in the organization's operation and lead to structural changes of the organization, which are invariably preceded by negotiations (Strauss *et al.*, 1963; 1964). In addition, this type of crisis also gives rise to a sense of urgency among organizational actors as they seek solutions to the problem which are unknown to them. For instance, although Nike's profitability did not seem to be affected by the sweatshop controversy, the company continued to invest increasingly more time and resources in tackling it, because it is always a fundamental need for organizations to secure legitimacy in order to survive, and the risk of losing it is unaffordable.

All in all, legitimacy crises revolve around certain sorts of controversies and do not necessarily involve fatal accidents or extensive physical damage. They are less exceptional and more "ordinary" than standard crises in the sense that they happen more often. Yet crises of this type may also undermine an organization's reputation and social standing and consequently cause considerable damage to other aspects of the organization. However, while there is much prior research on conventional crises, far less has been done to explore legitimacy crises, even though they have become one of the most alarming challenges faced by many of today's organizations. This is the empirical gap that the present study aims to fill.

2.2 Institutions and crises of legitimacy

This section seeks to link institutional theories to crises of legitimacy. It conducts a more in-depth discussion on legitimacy. Based on this key concept highlighting the relationship between organizations and their environments, it applies related institutional theories to examine legitimacy crises, focusing on why organizations need legitimacy, what drives them to pursue legitimacy, and how they may respond to legitimacy challenges.

As mentioned, legitimacy can be broadly defined as the acceptance of the organization by its environment on which it depends, and many scholars believe that such acceptance is a prerequisite for organizational survival and success: if an organization's legitimacy is threatened or damaged, it will encounter problems (Dowling & Pfeffer, 1975; DiMaggio & Powell, 1991b; Suchman, 1995). Legitimacy is socially defined

and subject to adjustment (Berger & Luckmann, 1967). An organization's legitimacy is continuously tested and redefined in the interaction between the organization and its environment. A legitimacy crisis therefore represents a critical juncture when the organization's degree of acceptability to its environment declines dramatically and unexpectedly.

Organizational legitimacy involves evaluation by others based on established social values and norms. It is "a status conferred by social actors (Deephouse, 1996: 1025)" and an organization's degree of legitimacy is determined by appraisal of its activities "in terms of shared or common values" in the context of the involvement of these activities in the larger social system (Parsons, 1960: 175). Suchman (1995: 572) highlights the role of collective audiences in assessing and defining the legitimacy of organizations when he describes "legitimacy" as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions". Accordingly, an organization may begin to lose legitimacy if its practices or actions are perceived by the collective audiences as inappropriate, undesirable or deviant from prevailing social values and norms. Such perceptions are derived from broader socio-cultural belief systems. In a way, the significant presence of external audiences establishes the discursive nature of legitimacy crises. When external audiences question the appropriateness of an organization's behaviors, it is pressured to defend or repair its legitimacy by engaging in public discourse so as to demonstrate its conformity to social expectations.

A crisis of legitimacy means a problematic relationship between the organization and its environment. In the case of business organizations, their environments can be divided into two sectors: technical and institutional (Scott, 1991). A crisis of legitimacy may arise from both areas. An organization's technical environments are domains where products and service are exchanged in the marketplace and the organization is rewarded for effective management of production, distribution and other work-related functions; whereas institutional environments are exemplified by elaborate rules and requirements to which the organization must adhere so that it can obtain support and legitimacy from the environments. As far as institutional environments are concerned, organizations are rewarded for operating in appropriate structures and processes rather than for the quantity and quality of their outputs (Scott & Meyer, 1983: 40). In the

present study, the boundaries between technical and institutional environments are toned down. An organization may suffer a loss of legitimacy if expectations from its technical or institutional environments are breached. However, even problems originating from the organization's technical domain may have a fall-out on its institutional environments which needs to be addressed. In either case, organizations are likely to take measures to improve the relationship with their institutional environments. The divide and interpenetration between the technical and institutional fields derive from the difference and connection between the strategic and cultural aspects of legitimacy.

2.2.1 Legitimacy from a strategic and cultural point of view

Different views have been put forward on the nature of legitimacy, and they can be roughly divided into two groups: strategic and cultural. Scholars following the strategic tradition believe that organizations are in constant pursuit of legitimacy because only when they achieve a certain degree of legitimacy can they justify claim on resources vital to them. Legitimacy is essentially one of the operational resources that organizations need to obtain from their environments in order to generate “tangible, real outcomes” (Dowling & Pfeffer, 1975; Pfeffer, 1981:5). Legitimacy can also be viewed as a resource that allows freedom to organizations (Johansson, 2007). An organization lacking legitimacy may still survive and even be successful. Yet it needs to spend more time and resources on networking with stakeholders and other outsiders in an attempt to convince them to interact with the organization. From the strategic point of view, legitimacy derives from demands arising in the technical domain rather than in the institutional environment. In the legitimation process, “the actions that can be taken” are of central importance (Dowling & Pfeffer, 1975: 122). In other words, the process of gaining, maintaining and regaining legitimacy can be strategically managed by manipulating symbols and rituals, and through purposive, calculated communication activities.

In contrast, researchers who view legitimacy from a cultural perspective argue that legitimacy in essence stems from institutionalized norms and values that are taken for granted (Meyer & Scott, 1983; Zucker, 1987; Meyer & Rowan, 1991; DiMaggio & Powell, 1991b). Institutional forces, rather than technical concerns, are the key sources of coercive pressures that urge organizations to strive for legitimacy and social conformity (Meyer & Rowan, 1991; Oliver, 1991; Scott, 1995; Tolbert & Zucker,

1996). It does not follow that organizations merely extract legitimacy from the environment; instead, cultural and institutional elements construct and interpenetrate organizations. Hence, while the broader institutional context shapes how an organization is built, structured and operated, it also determines how the organization is understood and identified with certain status (Suchman, 1995; Deephouse, 1996). From this point of view, organizations, their managers, measures of organizational performance, and demands from constituents are “products and producers of larger, institutionalized cultural frameworks (Suchman, 1995, 577)”.

These two perspectives are combined in the present study. It can be noted from the distinction between strategic and cultural elements that the evaluation of the organization’s legitimacy results from the ongoing interaction between stakeholders’ agency and institutional pressures. During legitimacy crises, relevant organizational actors are likely to actively engage in sensemaking and the strategic management of legitimacy. For instance, organizational leaders may strategically dialogue with targeted stakeholders to protect or repair the organization’s legitimacy. The ongoing communication between the organization and its audiences is a two-way process. Hence not only the focal organization but also the audiences, especially key challengers, are likely to engage in active sensemaking and make strategic moves to achieve their goals. In this process, both organizational members and external audiences are constrained by a broader taken-for-granted belief system in the form of rationalized myths and institutional logics—the criteria used to assess the legitimacy of an organization’s behaviors (Suddaby & Greenwood, 2005).

Legitimacy is always problematic and difficult to manage. Suchman (1995: 578-584) identifies three types of legitimacy that stakeholders may confer on an organization: pragmatic legitimacy is interest-based, resting on “the self-interested calculations of an organization’s most immediate audiences”; moral legitimacy is value-oriented, guided by societal beliefs about whether an organization’s activities are “the right thing to do”; and cognitive legitimacy is related to cognitive evaluation of whether an organization’s behavior is comprehensible, understandable or “to do otherwise is unthinkable”, based on some “taken-for-granted cultural account”. An organization may encounter a crisis of legitimacy when it starts to lose any one type of legitimacy.

Moreover, the maintenance and repair of legitimacy involves understanding of social expectations. However, many scholars point out that most of today’s organizations face

a fragmented institutional environment filled with a multitude of social groups with disparate values and contesting beliefs about the appropriateness of organizational behaviors (Meyer *et al.*, 1987; Kostova & Zaheer, 1999; Hoffman, 1999). This makes legitimacy management an even more intricate and thorny task. As noted by Ashforth & Gibbs (1990: 117), “social values and expectations are often contradictory, evolving, and difficult to operationalize. There are often ambiguities and inconsistencies in their transmission—in the laws and traditions that ratify values, the editorializing of the media, and the pressure campaigns of interest groups.” For instance, during a crisis of legitimacy, shifts in social expectations may add to the difficulty of defending and repairing legitimacy. Questions about an organization’s behaviors are raised and sometimes redefined as the dialogue between the organization and audiences progresses. Organizational actors must constantly evaluate the environment and accordingly adjust their approach in response to the evolving public expectations and perceptions of its actions.

Hybels (1995) furnishes further insights into the complex environments challenging multinational corporations. He proposes that organizational legitimacy can be examined at the level of the company as a whole, as well as at the level of the subunits of the company in foreign countries. For the corporation as a whole, the legitimating environment is the global environment consisting of institutional environments in all its home and host countries, as well as of institutions beyond national boundaries, such as global media and global activist groups. These two levels are interconnected: the legitimacy of the multinational corporation as a whole is affected by the legitimacy of its subunits and vice versa. This context creates more opportunities for expectation mismatches. Corporations operating in different countries usually face more complex situations, because companies and the legitimating environment may probably lack the information and the cognitive structures required to understand, interpret and evaluate each other. For instance, in the sweatshop case featuring Nike, the global media dominated by western developed countries were inclined to adopt western standards to judge the company’s labor practices in Asia’s developing countries.

The above discussion highlights that the nature of legitimacy and the complexity of environments contribute to the difficulty of resolving crises of legitimacy. When an organization seeks to protect and repair legitimacy, it is imperative that organizational actors interact with the audiences by networking, communicating and negotiating with them to gain their support. The negotiation and communication process can be highly

unpredictable and difficult to control. The next subsection discusses how organizations may respond to legitimacy challenges.

2.2.2 Organizations' response to legitimacy challenges

There are two main strategies by which organizations respond to legitimacy threats (Elsbach, 1994): one is the discursive approach—that is, providing rational, credible and socially accepted accounts for the consumption of both internal and external participants—to legitimize their actions (Suchman, 1995; Phillips *et al.*, 2004); the other is a material form of organizational change, such as the incorporation of institutionalized structures, procedures or goals to signal legitimacy in their behaviors (DiMaggio & Powell, 1991a; Meyer & Rowan, 1991). Both approaches involve extracting some sorts of legitimating characteristics from the institutional environment. How to craft socially-accepted accounts to defend, excuse, explain, justify the organization's activities depends on what rhetorical resources are available in the broader cultural and institutional system. Likewise, material reforms such as organizational restructuring also tend to draw on institutionalized organizational forms. This can be explained by the concept of rational myths (Meyer & Rowan, 1991). These are defined as socially shared, institutionalized rules and belief systems. In order to signal and repair legitimacy, organizations have to demonstrate conformity to certain rational myths by incorporating institutionally prescribed organizational forms accordingly. There are two ways to achieve this: by integrating institutionalized elements into the organizations' language (discursive fix) and into their structures and procedures (material fix).

2.2.2.1 Discursive approach

Language plays an essential role in generating legitimacy and conformity (Meyer, 1994). An organization may use linguistic tools, such as providing legitimating accounts, or other skillful or strategic uses of language to tackle legitimacy problems (Coombs, 1995; Suchman, 1995; Creed *et al.*, 2002; Suddaby & Greenwood, 2005). Even when an organization's legitimacy is intact, it is essential for it to provide acceptable legitimating accounts to explain its activities, because organizations that fail to do so are more susceptible to the accusation of being irrational or negligent (Meyer & Rowan, 1991; Phillips *et al.*, 2004). Organizational vocabularies are usually created to provide such accounts to support organizational goals, structures and procedures. In situations where an organization's legitimacy is in jeopardy, it becomes an even more

pressing task for the organization to provide accounts to legitimize its actions (Suchman, 1995). In this sense, accounts can be defined as “verbal remedial strategies” that provide “explanations for problematic behavior to rectify a predicament” (Gonzales *et al.*, 1990: 610), or to minimize blame or ward off stigma during or after controversial events (Ginzel *et al.*, 2004). They serve to attribute certain meanings to activities and structures when organizations seek to legitimize practices and beliefs that are challenged and to delegitimize others (Zilber, 2002).

Suchman (1995: 597-598) argues that when a breach of legitimacy occurs, the initial task for the organization is to “formulate a normalizing account that separates the threatening revelation from larger assessments of the organization as a whole”, and that four kinds of accounts are feasible, namely, denials, excuses, justifications, and explanations. Managers of the organization can choose to deny the problem. However, if these accounts are not sincere or credible, further revelations may cause additional damage to its legitimacy. Or they can excuse it, which may provoke questions concerning the good faith and confidence of specific organizational participants or external authorities, as well as the management’s competency. The third option is to justify the disruptive event—to make it sound congruous with prevailing social values and beliefs by “redefining means and ends retrospectively”. If the managers fail to develop a forceful legitimating account, they may resort to the last tactic: provide a seemingly plausible explanation for the issue in a way that legitimacy may be preserved to at least a minimal extent.

The use of accounts to manage legitimacy is related to crisis communication strategies. There is a growing body of literature in this field, such as the work by Marcus & Goodman (1991), Sturges (1994), Benoit (1995), Coombs (1999) and Hale *et al.* (2005). Crisis communication is described as “the enactment of control (or at least its appearance) in the face of high uncertainty in an effort to win external audiences’ confidence, in ways that are ethical” (Heath, 1994: 259). According to some scholars, in cases where moderately negative results are likely to ensue from deliberate organization actions, acknowledgements and accommodative accounts (e.g. accepting responsibility, admitting the existence of a problem, and announcing actions to remedy the situation) rather than denial of controversy (e.g. denying the existence of the problem and refusing to admit the need to change) may be more effective in protecting organizational legitimacy (Marcus & Goodman, 1991; Elsbach, 1994).

In addition, Coombs (1999) proposes that, in order to minimize damage, organizations need to use different communication strategies according to the level of crisis responsibility. Ranging from low responsibility to high responsibility crises, there are rumors, natural disasters, malevolence, accidents, and misdeeds. According to Coombs, the defensive communication strategy (e.g. attacking the accuser, denial, excuse, and justification) is more effective for lower responsibility crises; while for higher responsibility ones, the accommodative communication approach (e.g. full apology, corrective action, and ingratiation) is more appropriate. As noted, a legitimacy crisis may involve a series of events and sub-crises. It is therefore inadvisable for an organization to cling to a specific response strategy.

Accounts provide interpretations of organizational actions which can either amplify the situation or put it in a better light. These linguistic devices can take various forms, such as press releases, interviews, statements in annual reports as well as those made during press conferences, which are mainly presented in information sources created by the focal organization (Ginzel *et al.*, 2004: 231). From a strategic point of view, accounts offered by the focal organization during legitimacy crises are deliberately designed to influence public perceptions, in an attempt to win back public approval and repair legitimacy. Notably, it is suggested that organizations must provide consistent accounts to all groups of stakeholders—mixed signals should be avoided. Failure to do so would destroy trust, tarnish the organization's image, escalate and prolong crises (Pearson & Clair, 1998; Coombs, 1999; Barton, 2001), because stakeholders may challenge the credibility and truthfulness of the accounts (Coombs, 1999; Ginzel *et al.*, 2004).

It is believed that the accounts given to explain and justify organizations' actions are more likely to be found in and introduced from external sources, such as the broader cultural and institutional system, rather than being created internally (Meyer & Rowan, 1991; Scott, 1991). From a cultural perspective on legitimacy, because the creation and transmission of legitimating accounts are associated with institutional pressures, these accounts are likely to consist of macro institutional elements (Scott, 1995; Phillips *et al.*, 2004). Institutional characteristics are believed to be able to lend legitimacy to accounts of activities (Elsbach, 1994). As argued by Meyer & Scott (1983: 20), to gain legitimacy—that is, to achieve a certain level of socio-cultural support—organizations must have access to available “established cultural accounts” that can provide socially accepted explanations for their actions and existence.

In other words, the accounts provided by organizations to gain, protect and repair legitimacy are all embedded in a larger social and institutional context and likely to draw on broader socially-shared and institutionalized rules and belief systems—rational myths. The broad institutional environment is a reservoir of rational myths which signal credibility, reliability and legitimacy to broad segments of the society. Those myths serve as sources of justification for organizations' behaviors and provide institutional grounds for their accounts (Boltanski & Thévenot, 2006). For instance, during a legitimacy crisis, if the focal organization intends to maintain an existing controversial practice, it needs to provide legitimating accounts to explain and justify the reasons why this particular practice is required or desirable, the purpose being to gain support internally and externally. Relevant organizational actors may incorporate into their accounts references to certain myths so as to enhance their credibility and support their claims. To combine the strategic and cultural perspectives on legitimacy, organizational actors rely on institutionalized scripts and accounts to justify their activities, but actor's agency may still affect the institutional meanings associated with their practices, and their interpretations constitute significant parts of the political process of (de)institutionalization during a legitimacy crisis (Zilber, 2002).

2.2.2.2 Material change

In response to legitimacy challenges, an organization may engage in material forms of organizational change, such as adjusting resource dependencies, modifying existing practices, changing the leadership, and hiring new personnel (Elsbach, 1994; Suchman, 1995). Because legitimacy is judged by the conformity between an organization's structural characteristics and institutional rules, the organization may strategically change its appearance to mitigate legitimacy threats. For instance, it can replace parts of its existing structure and some of its procedures with new ones displaying institutionalized characteristics in order to signal conformity to social expectations and demonstrate its willingness to fulfill institutional requirements. Although these reforms may be the outcomes of strategic planning, they are all shaped by institutional constraints.

In normal circumstances, organizations incorporate institutionalized organizational forms to signal reliability and legitimacy to outside audiences. Rational myths about these institutionalized forms gain legitimacy based on the assumption that they are "rationally effective". Organizations are forced by these myths to increasingly

incorporate proper institutional elements into their structures—failure to do so is irrational and unreliable and will undermine the internal and external support, and even their capacity for survival. The incorporation of institutionalized constructs has itself an expressive effect: it provides a legitimate “account of activities that protects the organization from having its conduct questioned (Meyer & Rowan, 1991: 50)”. Because an organization’s structure indicates its socially defined capacity to perform certain activities (Scott, 1992), when an organization’s legitimacy is challenged, it may undertake organizational restructuring to demonstrate its improved capacity to meet new institutional demands (Suchman, 1995). Notably, organizations tend to draw on rational myths to modify their structure and practices.

For instance, as a notion frequently alluded to in negotiations during recent legitimacy crises, corporate social responsibility (CSR) reflecting institutional requirements, social norms and expectations can be conceptualized as one type of institutional myth (Lawrence *et al.*, 2002). Following this line of reasoning, if a company is accused of engaging in irresponsible activities, it may seek to establish a link with the rational myth of CSR in order to improve its acceptability in the social and institutional context. Responding to long waves of institutional pressures, the focal organization and others involved may progressively incorporate packages of related schemes: CSR policies, departments and professionals to demonstrate its awareness of CSR and its capacity to perform CSR tasks (Meyer, 2007)¹.

Institutionally prescribed structures adopted by organizations not only guide and generate organizational actions, they also have symbolic meanings. They serve to convey a message to the organization’s internal participants as well as to external audiences that it is “acting on collectively valued purposes in a proper and adequate manner” (Meyer & Rowan, 1991: 50). Therefore, integrating externally legitimized and widely endorsed structures is likely to reinforce support from organizational members as well as external constituents. This is why organizations tend to adopt external and ceremonial assessment criteria—that is, to incorporate external constituents’ standards of performance as one way to enhance their legitimate status (DiMaggio & Powell, 1991a; Deephouse, 1996). This is one of the main tactics which organizations may use when their legitimacy is in jeopardy. During legitimacy crises, organizations may “disassociate themselves from delegitimated procedures, structures,

¹ This is a macro, simplified explanation. The micro process of this is likely to be much more complex and intricate. For instance, even within the same organization, members may have very different interpretations of what CSR stands for (Humphrey & Brown, 2008).

and even geographic locales (Suchman, 1995: 602)", and establish bonds with external monitors, or incorporate some externally endorsed assessment procedures in order to repair the breach of social expectations and therefore their legitimacy.

These new settings and structures reflect legal and social expectations, and they represent a bid for acceptance and support from the society. These visible aspects of an organization signal to the outside world that changes have occurred—for instance, to show that CSR had become a significant component of the organization's corporate culture. Shell set up a social responsibility committee at the end of 1997 after the crisis in Nigeria (PIRC Ltd., 1998). Nevertheless, those changes may only be "pro forma" (Bolman & Deal, 1994). The underlying values and assumptions and actual practices of an organization, which are far more difficult to change, may probably remain the same. According to Meyer and Rowan (1991), it is an imperative but relatively lighter task to simply exhibit the organization's awareness of, and responsiveness to, institutionalized rules and social expectations than it is actually to initiate substantial change in practice.

This is the "decoupling" approach often used by organizations to maintain and repair legitimacy, where "decoupling" means splitting structural units from activities and from each other (Meyer & Rowan, 1991). Organizations deliberately stage "a ceremonial front" while detaching their technical core from the demanding external entities (Scott, 1987; DiMaggio & Powell, 1991b; Meyer & Rowan, 1991). It is a way to defend organizations against change and protecting them against scrutiny of their technical performance. Through decoupling, organizations are able to "maintain standardized, legitimating, formal structures while their activities vary in response to practical considerations" (Meyer & Rowan, 1991: 58). However, there are studies suggesting that although such ceremonial responses may be caused by institutional pressures, organizational members' may have tendency to "internalize" these pressures, leading to profound organizational change (Espeland & Sauder, 2007; Sauder & Espeland, 2009).

Organizations often decouple their structures from activities in order to resolve inconsistencies between institutionalized rules and efficiency. As said, in order to claim resources and improve their survival prospects, organizations must conform to institutionalized myths and strive for legitimacy. Since nonconformity will invite questions, criticisms or inspections, organizations are forced to modify their

appearances from time to time in order to generate consonance (Elsbach & Sutton, 1992). That is to say, in response to institutional pressures, organizations adopt policies and rules that meet the expectations of the institutional environment, even though in the short term they may have no practical bearing on the organizations' operation. During legitimacy crises, organizations may have to consider the following trade-off: adopting new institutional rules may affect their efficiency; while maintaining the existing practices that promote efficiency and shareholder value may damage their ceremonial conformity and sacrifice their support and legitimacy. Organizations can choose to adopt institutionalized structures and decouple them from actual practices. However, it is worth noting that once an organization's legitimacy is questioned, it may probably have to undergo rigid re-evaluation which may make it difficult to decouple activities (Suchman, 1995).

Finally, organizational restructuring and other material forms of organizational change involve the management of meaning. As mentioned earlier, such shifts in appearance made by drawing on rational myths have symbolic implications in their own right. However, it seems that organizations often complement material change with the use of linguistic tools to advertise these organizational changes to audiences (Elsbach, 1994). The accounts used to explain organizational changes in structure, procedures and policies serve to clarify and channel perceptions of these organizational actions. For instance, the organization may provide accounts to further explain what has motivated it to initiate these changes and what these new structures and practices will bring, so that the audiences may gain a deeper impression of conformity. In addition, because organizations tend to "dramatize" their ritual commitments to major institutionalized elements (Meyer & Rowan, 1991: 59), they may dramatize material organizational changes intended to signal and symbolize legitimacy.

For instance, an organization under scrutiny may make drastic leadership changes, set up new departments and hire relevant professionals while staging spectacular shows, such as TV advertising and public speeches, to announce and promote these newly integrated schemes to audiences. A similar line of reasoning stems from Bolman and Deal's (1994) comparison of organizations to theaters. They argue that, in a world of chaos, ambiguity and uncertainty, organizations search for order, predictability and meaning. More often than not, rather than admit that the ambiguity is irresolvable, or that the uncertainty is irreducible, individuals and organizations resort to symbolic solutions. Organizational structure and processes then function as theaters: they

become “dramatic performances” that reinforce cohesion within organizations and tie organizations to their institutional environment.

2.2.3 Summary

Organizational legitimacy is socially defined. It is a status granted by collective audiences rather than something that can be claimed by the organization. Crises of legitimacy may arise when there is a controversy or dispute that induces audiences to question the appropriateness of the organization’s behaviors. A loss of legitimacy implies a decrease in social support, and it may cause damage to an organization’s image, undermine its future development and even threaten its very survival. To protect and repair legitimacy, it is particularly crucial for organizations to demonstrate or reestablish acceptability to the society. They have to engage in negotiation and communication with audiences to win back their support. However, this process can be very challenging, because different segments of audiences are likely to have different expectations, diverse values and perceptions.

The nature of legitimacy is two-sided. On the one hand, legitimacy can be understood as an operational resource which organizations can strategically obtain and manage in pursuit of their goals and objectives. From this perspective, the moves made by organizations in response to legitimacy challenges are largely driven by pragmatic concerns. On the other hand, legitimacy is derived from a broader taken-for-granted belief system which constrains the understanding of organizations as well as audiences of social reality and their approaches to legitimacy issues. In other words, during a legitimacy crisis, the organization may engage in strategic communication activities to protect or repair its legitimacy. However, such approaches all stem from a larger belief system which constrains organizational actors’ sensemaking that guides the organization’s response to legitimacy challenges, as well as audiences’ evaluation and perception of the organization’s activities.

There are two main types of strategy that organizations use to tackle legitimacy challenges: the discursive approach, which usually involves a tactical use of language; and material forms of organizational change, such as organizational restructuring. Both approaches involve the management of meaning to promote a new interpretation of the organization which is constrained by, and arises from, a web of myths. In normal circumstances, organizations incorporate institutionalized elements into their vocabularies and structures in order to demonstrate their conformity to social norms

and thereby protect themselves against legitimacy threats. However, since legitimacy is evaluated on how well an organization conforms to social expectations, organizations encountering legitimacy crises can devise a range of strategies to influence and satisfy institutional demands. They may actively provide accounts to legitimize their activities and defend their legitimacy. They may adapt to external ideas of how their activities should be performed, and increasingly adopt and advertise new structures and practices that display institutionalized organizational traits signaling conformity to prevailing myths in an attempt to repair legitimacy.

2.3 Sensemaking and crises of legitimacy

Sensemaking theories have furnished useful tools with which to explore how order is restored after breakdowns and interruptions, especially in relation to traditional organizational crises (Straw *et al.*, 1981; Weick, 1988, 1990, 1993; Drazin *et al.*, 1999). This study suggests that the sensemaking approach can also be applied to investigate crises of legitimacy. From a sensemaking perspective, a crisis of legitimacy indicates that there has been a potential breach of social expectations that requires repair. The breach temporarily disrupts the social order in which the organization operates. Such interruptions trigger deliberate organizational sensemaking work aimed at repairing the breach of social expectations and restoring order.

The basic idea behind sensemaking theories is that reality is an ongoing outcome that emerges from efforts to generate order and make retrospective sense of what occurs—that is, organizations emerge through sensemaking (Weick, 1995; Weick *et al.*, 2005). Weick (1995: 6) defines sensemaking as a critical organizational activity that involves placing stimuli into frameworks, “comprehending, redressing surprise, constructing meaning, interacting in pursuit of mutual understanding and patterning”. In short, sensemaking unfolds as “a sequence in which people concerned with identity in the social context of other actors engage ongoing circumstances from which they extract cues and make plausible sense retrospectively, while enacting more or less order into those ongoing circumstances” (Weick *et al.*, 2005: 409).

Sensemaking is triggered when “an expectation of continuity is breached” and when ongoing ordered action is interrupted. Sensemaking activities are consciously performed to achieve a sense of plausibility, which “normalizes the breach, restores the expectation, and enables projects to continue (Weick *et al.*, 2005: 414)”. Thus sensemaking theories are usually deployed to address ambiguous and unexpected

occurrences, such as interruptions, surprises, breakdowns, perplexing events and situations that impose massive cognitive demands on individuals and sometimes engender a dramatic and sudden loss of sense (Louis, 1980; Smircich & Stubbart, 1985; Weick, 1993; Hill & Levenhagen, 1995; Patriotta, 2003; Balogun & Johnson, 2004).

The sensemaking approach is a promising source of insights into the phenomenon of legitimacy crises. Such crises are situations that create breakdowns and disruptions. Sensemaking activities are triggered by interruptive events which in turn create a sense of uncertainty and ambiguity among organizational members, thereby “highlighting gaps to be filled through sensemaking activities” (Patriotta, 2003: 358). In crisis situations, organizational actors often have to interpret and evaluate the environment based on inadequate information, past experiences and interactions (Daft & Weick, 1984). In a legitimacy crisis, the focal organization faces an equivocal institutional environment where audiences have negative perceptions about the organization’s actions and start to question its legitimacy. This shift in the environment destabilizes the frameworks on which organizational actors rely to interpret the world, a process which may lead to the problematic construction of meanings and frameworks. To reduce ambiguity and restore order, organizational leaders engage in sensemaking activities whereby they seek to understand and provide interpretations of issues causing tension between the organization and external audiences:

Furthermore, the sensemaking approach is suitable for addressing issues of communication and meaning construction during disruptive events. It is consequently used in the present study to explore how meaning is breached, created, enacted and repaired, and to examine the ongoing negotiation of meaning that characterizes the unfolding of a legitimacy crisis. The meaning negotiation process is driven by sensemaking manifest in the form of accounts provided by organizational leaders and external social actors. By investigating this process, the dissertation is able to elucidate how disrupted social order is reshaped and possibly restored. In short, sensemaking theories can facilitate our understanding of how controversies are socially constructed as reality, giving rise to crises of legitimacy and causing disruption to the existing social order. They also provide micro-level explanations on how organizations may respond to questions and demands raised by audiences at different stages of the crises so as to restore order.

Sensemaking is to a great extent affected by the broader social and institutional context

because it determines the level of salience of information and provides norms, values and expectations that constrain social actors' action and the accounts that they use to justify it (Weber & Glynn, 2006). Therefore, the evaluation and interpretation of disruptive events by organizational actors as well as by external audiences heavily rely on broader socio-cultural frameworks. Through the process of meaning construction and discursive interaction between the focal organization and its constituents in the environment, the void of meaning exposed by disruptions is filled; the order is negotiated and at some point rebuilt. In short, sensemaking is the key to understanding how legitimacy crises unfold and are resolved; and the sensemaking perspective can be more constructive if we take account of the role performed by social and institutional elements in this process.

2.3.1 Sensemaking and organizational crises

Sensemaking is frequently linked to crisis studies, and it is regarded as a critical issue in crisis situations. A general pattern of sensemaking in crisis situations is as follows: order is interrupted and sense is lost; such breakdowns trigger sensemaking through which sense is rebuilt and order is restored. A number of organizational theorists, such as Straw *et al.* (1981), Mitroff (1988), Weick (1988, 1990, 1993), Reason (1990), Gephart (1993), Gephart and Pitter (1993) and Drazin *et al.* (1999), have adopted a sensemaking perspective to investigate organization-based crises. Although most of their findings are based on studies of standard crises, they still have implications for this research on crises of legitimacy.

It goes without saying that organizations routinely make sense of things. However, during crises, sensemaking usually becomes increasingly urgent and imperative. Crisis situations induce cognitive mechanisms to switch from a routine automatic mindset to active thinking in order to restore sense (Louis & Sutton, 1991). During crises, the demand for sensemaking is high, but it is often impeded by interruptions of expectations, a sudden loss of meaning, a lack of experience, and a consequent inability to act (Weick, 1988; Roux-Dufort & Vidaillet, 2003). For crisis management, the more the sensemaking effort is directed at the crisis situation, the more likely it becomes that the crisis will be brought under control. As suggested by Weick (1988), actions devoted to sensemaking play a vital role in the "genesis" of crises. It is therefore crucial that they be understood so as to manage and prevent crises. How crises unfold largely depends on how organizations make sense of them.

The same line of reasoning can be applied to crises of legitimacy. How the organization makes sense of the controversy determines what accounts or actions it will use to respond to the crisis, which affects audiences' interpretation of the relevant issues. In other words, the enactment of meanings created by and exchanged between the focal organization and other social groups decides the unfolding of the legitimacy crisis. This relates to a crucial question in the sensemaking literature concerned with the management of meaning in organizational settings: how social actors construct what they construct, why, and with what effects (Smircich & Morgan, 1982; Weick, 1995; Weick *et al.*, 2005; Rouleau, 2005). During legitimacy crises, sensemaking becomes an even more pressing issue because organizational actors encounter breaches of expectations and losses of sense which call for swift repair. The following subsections focus on the findings and theories on sensemaking and crises which can provide insights into crises of legitimacy: notably enactment theory, and the structuring of frameworks and meanings during crises.

2.3.1.1 Enactment and organizational crises

Weick (1988) draws on the notion of enactment to investigate crisis situations. "Enactment" concerns action that is crucial for sensemaking. The term is used to describe the fact that social actors create their environments which in the meantime constrain their own actions (Weick, 1995). According to Weick, social actors first enact their environments, which they then seek to understand through reflection. As they perform an action, their ideas, attention, motivations and expectations towards it shift, and this in turn alters their activities. An organization may change as organizational members' understandings and interpretations change: it is organizational actors that interpret what they think their environments consist of, and they act upon their interpretations. Therefore, Weick (1988: 306) notes, "To sort out a crisis as it unfolds often requires action which simultaneously generates the raw material that is used for sensemaking and affects the unfolding crisis itself". That is to say, the action taken by organizational members to solve a problem *per se* has an impact on the problem in question.

The same applies to crises of legitimacy. Whatever positions the focal organization adopts, such as denying the existence of the problem, rejecting or accepting responsibilities in order to resist or undertake practical change, it is a way to enact the environment. Based on the accounts provided and actions taken by the organization,

audiences will update their understanding of relevant issues and give their feedback, which in turn provides material for organizational actors to evaluate the environment. As stated by Weick (1988:306), organizational actors “often produce structures, constraints, and opportunities that were not there before they took action”. As the cycles of action taken by these organizational actors accumulate, their responses which provoke further action become increasingly significant components of the crisis. For instance, when an organization faces charges of misconduct, attempts by organizational leaders to deny, conceal, rationalize or simply explain the incident may subsequently limit the problem-solving approach available to them and result in more damage to the organization’s legitimacy. While organizational members’ actions can cause or intensify a crisis, they can also help alleviate it to less dangerous levels.

Because people know what they have done only after they do it, organizational actors and their actions soon become part of the crisis. From this standpoint, the initial response to the crisis not only sets the tone for the rest of the crisis “such that multiple conflicts erupt rapidly and aggravate the situation” (Weick, 1988; Ashforth & Gibbs, 1990), it also determines the track of the unfolding crisis. In this regard, Weick (1988) introduces the concept of “triggering events” into studies of crises. He maintains that a triggering event is a crucial juncture where interventions can make a difference. It involves judgment which may decline as pressure increases and has the potential to develop into a crisis. A triggering event in the present study is thus the starting point of a legitimacy crisis. As noted earlier, a legitimacy crisis can be triggered by an accident, a controversy or a scandal. Based on the above conceptualization of triggering events, in the context of a legitimacy crisis, the nature of the event and the focal organization’s first response will significantly influence audiences’ interpretation of, and reaction to the event, and therefore the unfolding of the crisis. Therefore, the triggering event implies not only danger but also an opportunity for organizational actors to intervene to prevent the crisis from escalating or even turn the adverse situation to its advantage.

However, many scholars suggest that preventive actions should be taken even before the onset of a “triggering event”. For instance, according to Mitroff (2000), the best possible form of crisis management is to prevent crises before they occur, and this can be achieved by detecting, amplifying and acting upon these early warning signals in an effective way. He maintains that it is essential for organizations to shift from being “reactive” to “continuously proactive” to crises. That is, they must detect early warning signals of defects that are “ticking time bombs” before it is too late. Therefore,

constant examination of their entire operations, as well as of the internal and external environment, is crucial.

Commitment, capacity and expectations are highlighted as three significant elements that can affect the unfolding of a crisis (Weick, 1988) and possibly the unfolding of a crisis of legitimacy. Strong commitment can generate meaning in times of ambiguity; while it can also create persistent explanation about an action—"tenacious justification (1988:310)" —which may turn into a taken-for-granted assumption that may well cause or escalate the crisis. In other words, the practices and assumptions based on justification generated by strong commitment may be significant contributors to crises.

As regards capacity, it follows that a change in capacity will lead to shifts in perception and action. This is because people tend to see things that they feel they have the capacity to act upon. If people believe that "I have capacity" and "capacity makes a difference", their defensive perception should be reduced and they are able to see more. The more they manage to see, the more likely it becomes that they will see instances where they can make effective intervention. Capacity influences crisis management via mechanisms including "perception, distribution of competence and control within a hierarchy, and number and diversity of actors" (Weick, 1988: 311). In a crisis of legitimacy, changes in the organizational structure that improve these mechanisms are likely to contribute to resolution of the crisis.

Finally, the expectations of top management are believed to be significant in both preventing and controlling crises (Nystrom & Starbuck, 1984; Weick, 1988). Expectation affects enactment through the mechanism of the "self-fulfilling prophecy" (Weick, 1988) and is capable of de-escalating as well intensifying a crisis. It is considered to be a salient source of crisis prevention. These findings relative to the enactive quality of organizational crises have important implications for the prevention and management of a legitimacy crisis as it unfolds.

2.3.1.2 Interaction between frameworks and meanings during organizational crises

Sensemaking is about placing stimuli in a framework that enables social actors "to comprehend, understand, explain, attribute, extrapolate, and predict" (Starbuck & Milliken, 1988: 51). During crises, organizational actors engage in the active construction of meanings so that they can understand the disruption, and these

meanings are drawn from frameworks such as institutional myths, goals, plans and traditions of the organization and other acceptable justifications (Weick *et al.*, 2005: 409). However, during crises, organizational actors may encounter difficulties in constructing meanings out of frameworks as meanings and frameworks destroy each other, which is described as the collapse of sensemaking in organizations (Reason, 1990; Weick, 1993). It is observed that in extreme crisis situations such as life-threatening ones, members of the organization are vulnerable to “sudden losses of meaning”. Weick (1993) describes this phenomenon as a cosmology episode that occurs when people suddenly and intensely feel that the universe is no longer a rational, comprehensible and orderly system. The collapse of sensemaking is devastating in that, whilst the sense of what is occurring is collapsing, sensemakers are also losing the means to restore this sense.

Weick (1993) examines the collapse of sensemaking in the Mann Gulch Disaster with a focus on structure, frameworks and meanings. He describes structure as “a complex medium of control which is continually produced and recreated in interaction and yet shapes that interaction”, and structuring as composed of frameworks and meanings and the relationships between them (Weick, 1993: 644-645). According to Weick (1993: 17), structuring can be a “deviation-amplifying cause loop” capable of intensifying either a gain or a decline in either meaning or framework. In other words, the collapse of sensemaking occurs when the decline in meaning and framework is on the rise in the current structuring process. However, sensemaking can be restored through restructuring that breaks the pattern of the loop.

Weick’s (1993) study examines sensemaking among the internal members of an organization during a standard crisis. According to his findings, the relationship between meaning and framework can be described from two facets: firstly, increased shared meanings among organizational members lead to more elaborate frameworks of roles which give rise to a further development of shared meaning. However, once one of the two elements begins to decline, this decline can spread and become amplified—that is, fewer shared meanings lead to less elaborate frameworks, which lead to less meaning, and then to less elaborate frameworks. Similarly, as the role system loses its structure, which leads to a loss of meaning, and then to a further loss of structure; and the loop continues as such. Secondly, as organizational actors pay more attention to frameworks, meanings are ignored for the time being, and as the structure becomes better identified, their attention will shift back to meanings. In other words, a decrease

in structure facilitates the gaining of meaning, which in turn leads to the build-up of structure. Based on the first facet, in crisis situations, problematic and decreasing meaning is a signal for the organizational actors to pay more attention to structures and to reaffirm and reconstruct them, because these actions create more structure, which then increases meaning. The second facet indicates that when an organization begins to lose structure, organizational members also lose meaning. This warns them that they should pay more attention to the structure they are losing or gain more individual meaning, which guides them in rebuilding structure.

A crisis of legitimacy has the conditions for the onset of a perhaps milder version of the cosmology episode. When an organization experiences a loss of legitimacy, this implies a radical change in its institutional environment. The shift in public perception of the organization and its behaviors may challenge the organization's underlying values and assumptions—that is, its well-established interpretation frameworks—and breach the internal members' understanding of self and social reality. Organizational actors, then, may temporarily experience a loss of sense, and there arises a pressing need to repair this understanding and restore sense.

The sensemaking process during a crisis of legitimacy is likely to involve an interaction between frameworks and meanings similar to that of a standard crisis. Frameworks are considered to be central organizing schemes for making sense of relevant events, which are interpreted and enacted in sensemaking and shared among organizational members and subunits (Gamson *et al.*, 1992; Weick, 1995; Drazin *et al.*, 1999; Balogun & Johnson, 2004). They bring order to events because they link events to meanings which in turn guide ensuing action; and in this fashion, behaviors are mediated. That is to say, except for meaning, frameworks also serve to organize experiences, motivation, and subsequent involvement and action (Drazin *et al.*, 1999). However, when a crisis of legitimacy arises, the existing order is disrupted, and these frameworks, and the role structures on which organizational actors rely to make sense of events and engage the world, become vulnerable (perhaps less serious than described in the collapse of sensemaking in extreme crisis situations environment). When they do so, organizational actors are left with confusions and breached meanings and become unable to understand and integrate the unfolding events of the crisis. Confusion needs to be reduced and meaning needs to be repaired, reorganized or “re-keyed” by adjusting the existing frames in the dynamic process of sensemaking (Goffman, 1974; Drazin *et al.*, 1999).

To be noted is that this study requires the investigator to look at not only the interaction between frameworks and meanings within the focal organization but also the interplay between diverse sets of frameworks and meanings held by different social groups. This is because, unlike Weick's study, it focuses on a kind of crisis situation where sensemaking by external social actors also has significant influences on the unfolding of the crisis, and negotiation of understanding between internal and external participants is necessary. In other words, the interplay among different frameworks and meanings produced and maintained by relevant social groups largely affects the unfolding of the crisis. As will be further discussed in later sections, institutionalized myths may represent the most prominent pre-fabricated frameworks that provide substance for social actors' sensemaking while being vigorously contested during a legitimacy crisis.

Combined with Weick's (1993) findings on how organizations can prevent and manage the collapse of sensemaking in crisis situations, this review suggests that organizations can improve their capacity to tackle crises of legitimacy by reorganizing their internal and external structures and role system, for instance by setting up new departments, hiring new personnel, and establishing connections with external social groups. These approaches can improve organizations' framework and meaning construction, and thereby enhance their adaptability to the evolving crisis situation.

2.3.2 Communication, sensemaking and crises of legitimacy

Many researchers underline the importance of communication both within and outside the organization during crises. For example, Ray (1999) argues that effective communication is crucial if an organization is to survive and recover from a crisis. Weick (1993) warns that the lack of communication will increase an organization's vulnerability to disruption. Moreover, Coombs (1999) suggests that effective communication plays a vital role in preparing for crises, detecting crises, and preventing crises. Given the distinctive discursive nature of legitimacy crises, communication, especially external communication, is perhaps a particularly critical issue for organizations to address during a crisis. In its turn, this makes sensemaking, which is essentially a matter of communication, even more a salient organizational process.

Communication, especially in the form of narrative, is described as an essential aspect of sensemaking and organizing by many organizational theorists (Taylor & Van Every,

2000; Boje, 2001; Brown, 2005; Weick *et al.*, 2005). Taylor and Van Every (2000: 40) consider communication to be an ongoing process of making sense of circumstances which are “turned into situations that is comprehended explicitly in words and that serves as a springboard into action”. Sensemaking occurs and unfolds in language and communication, and organizations and events are talked into existence (Mills, 2003; Weick *et al.*, 2005). Once language is involved in sensemaking, it begins to facilitate the configuration of perspectives (Eisenberg *et al.*, 1998) as well as frames (Weick, 1995). By means of communication, organizational relations are shaped; organizational structures are formed, reformed and maintained; and values and beliefs are modified or solidified (Weick *et al.*, 2005). In short, sensemaking is essentially a matter of language and communication; and on these the shaping, framing and the very existence of situations, organizations and environments heavily rely. Therefore, the sensemaking perspective is useful for understanding how a crisis of legitimacy is framed and constructed as social reality and how it unfolds through a communication process which is also a sensemaking process performed by organizational actors and audiences.

The sensemaking perspective often requires researchers to look through the lens of the languages used by social actors. Many scholars, such as Boje (1991), Watson (1995), Czarniawska (1998), Brown (2000; 2005), Patriotta (2003) and Mills (2003), have given prominence to the role of narrative in sensemaking. According to them, sensemaking can be defined as a conversational, narrative or linguistic process through which people interpret phenomena and construct intersubjective accounts to explain social reality (Weick, 1995; Barrett *et al.*, 1995; Brown, 2000; Balogun & Johnson, 2004; Phillips *et al.*, 2004). Narratives construct events into being and they are regarded as one of the most important forms of meaning creation.

A sensemaking process is very similar to a narrative process. For instance, Czarniawska (1998: 20) writes, “Organizational narratives are both inscriptions of past performances and scripts and staging instructions for future performances”. This remark chimes with the views of other scholars who suggest that sensemaking can be treated as a form of narrativization; or equally, that narratives can be treated as acts of sensemaking, and that social realities are articulated, shaped and reproduced through discourse (Boje, 2001; Brown, 2005).

Controversies and legitimacy issues are constant topics for public discourse or debate (Hybels, 1995). In the case of legitimacy crises, the existing order is disrupted and can

only be repaired through the negotiation of meaning, which is primarily a narrative and collective sensemaking process. Through intensive sensemaking communication, organizational actors are able to develop equifinal meanings that allow for organized actions respondent to the crisis despite differences in their interpretations; this is how they make collective sense (Donnellon *et al.*, 1986). Therefore, accounts and narrative texts as products of these organized actions driven by equifinal meanings can be seen as linguistic forms that articulate organizational sensemaking aimed at repairing order. Accordingly, this dissertation treats narratives as ways to articulate sensemaking by social actors. Notably, the media serve as a discursive space in which this can happen. They provide a sounding board that amplifies crises of legitimacy and makes them visible.

Moreover, communication during crises of legitimacy also involves the process of persuasion or “sensegiving”. This is a variant of sensemaking undertaken to create meanings for target audiences, the purpose being to influence their understanding and actions towards the organization (Gioia & Chittipeddi, 1991, Weick *et al.*, 2005). During legitimacy crises, communication with external audiences is particularly important owing to the need to demonstrate acceptability to the society. To repair the disrupted order caused by the legitimacy crisis, it is essential for organizational leaders to attribute new meanings to events and organizational actions in categories that are acceptable to key stakeholders and other audiences. In relation to sensemaking, this is a sensegiving process.

2.3.3 Sensemaking, sensegiving and crises of legitimacy

Sensemaking and sensegiving constitute two important aspects of the negotiation process that characterizes the unfolding of a legitimacy crisis. They are processes that are closely related and highly infused with each other in this context. Put briefly, sensemaking is the process of meaning construction whereby sensemakers develop a meaningful framework within which to understand certain matters, especially in extreme circumstances, emergent events and crisis situations. Sensegiving has to do with the process of attempting to influence the way in which others construct meaning and make sense (Gioia & Chittipeddi, 1991). In the context of this study, sensemaking concerns how organizational actors understand issues and events so as to restore order, whereas sensegiving is an attempt to influence audiences’ understanding of issues in order to sustain or regain their support. These two organizational processes are

essential for resolving a crisis of legitimacy.

As noted, sensemakers notice, bracket, extract, label, and interpret cues from their environment and begin to enact a certain level of order in the environment while being shaped by it (Weick *et al.*, 2005: 414). In legitimacy crises, sensemaking is one of the most critical issues that warrant significant attention and effort. When dealing with legitimacy issues, organizational leaders need to make sense out of highly discrepant meanings or conflicting interpretation frameworks. How organizational actors and audiences make sense of issues depends heavily on organizational values and culture, as well as on the broader social context; while at the same time it determines what actions are to be taken by the focal organization, actions which in turn affect audiences' understanding of issues. This is how a crisis of legitimacy is likely to unfold. In short, the sensemaking perspective provides insights into the phenomenon of crises of legitimacy. However, it is beneficial to complement the sensemaking approach with an understanding of the sensegiving process. Since legitimacy is something granted by audiences to organizations, two-way ongoing communication with audiences is essential to maintain and repair legitimacy. The unfolding of a legitimacy crisis is ultimately a negotiation process which involves both sensemaking and sensegiving. Therefore, to understand such crises, a sensegiving perspective is required.

The term "sensegiving" was first introduced by Gioia and Chittipeddi (1991: 442) to describe the "process of attempting to influence the sensemaking and meaning construction of others toward a preferred redefinition of organizational reality". While the sensemaking process mainly concerns the development of understanding for self, the sensegiving process involves attempts to influence how the audiences understand or make sense of certain issues—that is "supplying a workable interpretation" to others (Gioia & Chittipeddi, 1991: 443). According to Maitlis and Lawrence (2007: 57), sensegiving is triggered by "the perception or anticipation of a gap in organizational sensemaking processes". Leaders or other organizational actors as well as stakeholders are said to engage in sensegiving when they construct and articulate persuasive accounts in an attempt to influence each other. Sensegiving activities by organizational leaders and stakeholders are critical in shaping organizational reality. For instance, Gioia and Chittipeddi's (1991) study shows that organizational leaders' sensegiving plays an important role in driving major organizational change. Stakeholders' sensegiving activities, on the other hand, can also have significant impacts on organizational change, strategy and sensemaking.

In the context of crises of legitimacy, sensegiving by organizational actors is triggered when they perceive or anticipate sensemaking gaps which arise when issues become ambiguous and unpredictable, and therefore demand active sensemaking (Maitlis & Lawrence, 2007). Crises of legitimacy imply disparate and even irreconcilable understandings of certain issues by the focal organization and its audiences which trigger relevant organizational actors' sensemaking. When organizational leaders encounter controversies of high uncertainty and ambiguity, they perceive widening sensemaking gaps, and these perceptions trigger sensegiving to fill the gaps. The interruption characterized by broken social expectations may cause shock, confusion and a sense of instability among organizational actors, and these in turn affect their sensemaking and sensegiving activities. Resolving a crisis of legitimacy requires deliberate sensemaking and sensegiving work aimed at repairing legitimacy and restoring order. Therefore, on the one hand, the decision-makers of the focal organization try to make sense of ambiguous issues emerging during the crisis. On the other hand, they are motivated to engage in sensegiving activities, constructing narratives, using persuasive or evocative language, symbols and other sensegiving devices in an attempt to orient the sensemaking processes of audiences towards some intended outcome (e.g. a favorable public perception of the organization).

Moreover, sensegiving can be understood as a process of framing an event or issue and disseminating it to intended audiences (Fiss & Zajac, 2006). Frames can be understood as interpretive schemes that social actors use to influence the interpretation of reality among various audiences (Snow *et al.*, 1986; Fiss & Zajac, 2006). That is to say, social actors develop frames to mobilize support for their positions (Fiss & Hirsch, 2005). Framing implies there are competing interpretations and reflects the strategic and political side of meaning construction. Also, frames are embedded in historical, cultural and material contexts (Fiss & Hirsch, 2005; Fiss & Zajac, 2006). In the context of a legitimacy crisis, the focal organization needs to provide plausible accounts to explain events or issues, or to justify its actions. This is a sensegiving process in which organizational leaders create meaning for intended audiences, strategically espousing their views—that is, giving sense. It involves the process of framing and promoting the legitimating frame as organizational leaders attempt to affect influential audiences' interpretations of events in order to secure their support. As mentioned earlier, social actors may draw on institutionalized scripts and accounts to frame relevant issues. In this sense, such institutional elements serve as sensegiving mechanisms.

It is also important that organizational actors should perform sensegiving activities in order not to let rumors and speculations to fill the void of information, which may probably add fuel to the fire (Pearson & Clair, 1998). For instance, in a legitimacy crisis characterized by a highly ambiguous and volatile environment, it is very likely that rumors, speculations and half-truths may surface and circulate rapidly in the media (Bromley, 1993). Organizations need to provide credible accounts to counter false information which may further affect audiences' perceptions about them and lead to intense scrutiny from the media and governmental bodies.

Lastly, legitimacy crises and organizational sensemaking and sensegiving can also be linked through the issue of identity construction. According to Weick (1993), during life-threatening crises, organizational members are likely to experience loss of identity and then loss of meaning. Only when they find their identity can they make sense of what they do and what is around them. Organizational identity is dynamic and unstable, and legitimacy crises triggered by external events such as a scandal or a controversy may also challenge the organizational members' definition of central and distinctive features of the organization (Gioia *et al.*, 2000). As said, a legitimacy crisis "is directly an identity crisis" (Habermas, 1975: 46). During an identity crisis, sensemaking is triggered and organizational actors start to reinterpret and reevaluate certain aspects of the existing identity. In the meantime, they are also driven to engage in sensegiving activities to influence the way in which audiences perceive the organization—that is, to create an intended image. As argued by Corley and Gioia (2004), when organizational identity is called into question, organizational leaders experience a growing "sensegiving" imperative to promote collective sensemaking. They are required to reconstruct credible and consistent accounts for internal members and external audiences in order to fill the meaning void created by identity ambiguity. As the crisis unfolds, organizational identity may emerge from ongoing sensemaking and sensegiving processes through which organizational actors reconstruct shared beliefs and understandings and revise the organization's formal identity claims.

2.3.4 Summary

The above review provides a rationale for integrating sensemaking theories in the theoretical construction of this study. A crisis of legitimacy undermines the stability of the focal organization's taken-for-granted belief system and challenges organizational actors' understanding of themselves and the world around them. Active sensemaking is

triggered to repair meaning. This study aims to provide an enacted view of legitimacy crises: how organizational actors make sense of the crisis determines what subsequent actions they take to respond to it, such as providing accounts and engaging in organizational restructuring. These actions in turn affect audiences' interpretations and therefore the unfolding of the crisis. This study also highlights the construction of frameworks and meanings in the sensemaking process during a crisis. Notably, organizational actors' interpretations of events rely on their vulnerable frameworks, which are constrained and constituted by a broader social and institutional system. As will be further discussed in the next section, this exemplifies the places where institutions and sensemaking intersect in the study.

The sensemaking approach is suitable for this study also because it highlights the role of communication and language in the social construction of reality. Communication is of central importance for crisis management, which applies especially in the case of crises of legitimacy. Crises of this type may be set off by events of different kinds and vary in the ways they unfold; but only through the negotiation of understanding can they be resolved. The process of meaning negotiation is driven by ongoing, infused sensemaking and sensegiving activities aimed at repairing order. Therefore, the sensemaking perspective can facilitate understanding of the unfolding of a legitimacy crisis, as in how meaning is breached, negotiated, enacted and repaired and how order is disrupted, negotiated and restored.

Conclusion

This chapter has first defined crises of legitimacy as ordinary crises that share some similarities with standard crises but display many characteristics of standard crises in a milder version. A legitimacy crisis is triggered when there is a potential breach of the social contract, which implies behavioral deviation from social values and norms. Crises of legitimacy may happen to ordinary organizations and may have a lower impact than standard crises. They occur more frequently than extreme crises and have significant implications for the development and survival of today's organizations. However, they have been rarely identified as constituting a distinctive type of organizational crisis. This, therefore, is a field that is largely under-explored. The aim of this study is to make an empirical contribution to improving our understanding and

management of legitimacy crises.

The nature of legitimacy crises requires the study to incorporate the institutional and sensemaking perspectives. The institutional perspective conceptualizes legitimacy as the acceptance of organizations by their environments: it is granted by collective audiences. On the basis of this concept, institutional theories related to legitimacy and legitimacy management provide important insights into how crises of legitimacy may arise, unfold and be resolved, and macro-level explanations to answer the question of 'why'. One of the most noteworthy aspects of a legitimacy crisis is its discursive nature, in that it requires organizations to use discursive means to achieve acceptance by the society. Therefore, negotiation between the focal organization and its audiences is an essential component of a legitimacy crisis.

The review has also shown that sensemaking theories are likely to contribute to knowledge about legitimacy crises. It is important for crisis researchers to investigate the sensemaking process during crises. An understanding of how sensemaking affects the unfolding of crises is expected to provide insights into crisis management. Previous findings on sensemaking and standard crises also have implications for the investigation of legitimacy crises. Moreover, the discursive nature of legitimacy crises indicates the advantages of using the language-based sensemaking perspective to study the phenomenon. In short, the discussion highlights the micro-sensemaking perspective as a proper entry point leading to its integration with the macro-institutional perspective. Therefore, in the rest of this dissertation, these two perspectives will be discussed in that order. Combining this with the institutional perspective, researchers can take a more rounded look at the complex social phenomenon constituted by legitimacy crises.

Chapter 3 Theoretical Framework

Introduction

As can be seen from last chapter, crises of legitimacy are important organizational phenomena that occur at the intersection between sensemaking and institutions. As illustrated in the Introduction, the research questions addressed by the study focus on the unfolding of legitimacy crises, organizational actors' sensemaking and response to crises, and the interaction between sensemaking and institutional elements during legitimacy crises. To address the research questions, I developed a theoretical framework integrating sensemaking and institutional theories to study crises of legitimacy. By integrating sensemaking and institutional perspectives, this study intends to provide further insights into the phenomenon of organizational legitimacy crises. However, these two strands of theory are rarely combined, with some notable exceptions (e.g. Weber & Glynn 2006). Through the investigation of a crisis of legitimacy, this study also examines the connection between micro-level sensemaking and macro institutional processes.

3.1 Gaps between sensemaking and institutional theories

As asserted by Scott (2001), only on the basis of its broader social and cultural context can an organization be properly understood. Nevertheless, the embeddedness of sensemaking in its social and institutional context has been under-explored (Taylor & Van Every, 2000; Scott, 2001; Weick *et al.*, 2005; Weber & Glynn, 2006). Institutional theorists, on the other hand, have realized that little effort has been made to explore the micro foundations of institutions (DiMaggio & Powell, 1991a; Tolbert & Zucker, 1996; Lawrence & Suddaby, 2006), which can possibly be investigated through the sensemaking approach (Scott, 2001; Boxenbaum, 2006). Closer attention has been paid to the divide between sensemaking and institutional theories, and some efforts have been made to close the gap. For instance, Geppert and Clark (2003) examine how certain institutional effects enter into the micro-processes of social construction. Elsbach *et al.* (2005) develop a framework with which to identify patterns of interaction between cognitive schemas and institutional contexts during organizational sensemaking. Nevertheless, sensemaking and institutional theories can be entwined more explicitly through investigation of disruptive events such as legitimacy crises

when the institutional foundations of sensemaking encounter challenge.

One of the reasons why the two strands of theory are rarely conjoined may lie in the assumption that most organizations operate in stable institutional environments where macro-level systems including social, political and economic constructions are in good order (De Holan & Phillips, 2002). However, some of these assumptions become invalid when organizations encounter disruptive events, such as legitimacy crises, in which those taken-for-granted elements become turbulent and hard to ignore. These events may cause cognitive discontinuities and rupture what has been “locked in by institutional inertia”, which may give rise to a temporary loss of sense and divergence from well-established, institutionalized practices (Hoffman, 1999: 353). They open a window through which researchers can observe how organizations enact their institutional environments and how institutions are reconfigured.

Additionally, the rare connection between these currents of thought may be also due to their traditional research focuses (Weber & Glynn, 2006): institutional theories, built to explain how institutional forces embedded in larger social contexts shape organizational structures (DiMaggio & Powell, 1991a), are likely to be applied in macro domains; whereas the sensemaking perspective, which is more a tool for micro-level analysis, incorporates meanings and minds of social actors into organizational studies (Weick *et al.*, 2005). However, it is beneficial to connect these two perspectives, because by so doing it becomes possible to generate better understanding of social phenomena with high complexity at both macro and micro levels. Based on the above consideration, a cross-level examination of sensemaking and institutional processes seems to be a rounded approach to the phenomenon of legitimacy crises.

3.2 Synergies of sensemaking and institutional theories

One of the synergies of sensemaking and institutional theories consists in their common epistemological assumptions based on social constructionist views of reality (Berger & Luckmann, 1966). Moreover, both theories focus on the production and development of meaning. Sensemaking can be connected to institutional theories in that the socially constructed world is institutionalized into one that constrains action and orientation—that is, institutions “provide meanings and stability to social life (Scott, 2001: 48), whilst sensemaking is the “feedstock” for institutionalization (Weick, 1995: 36). Institutional myths are prevalent in contemporary organizational life, whereas sensemaking can be conceived as mythmaking (Schneider & Dunbar, 1992;

Gephart, 1993). When social actors try to make sense of events, they are said to engage in mythmaking in order to reduce ambiguity and uncertainty and maintain a consistent self-conception. These mythologies define rationality, establish what is acceptable, and legitimate and serve as “patterning devices” that give order to social actors’ understanding (Brown, 1997: 654). Institutional forms such as mythologies provide frameworks or sets of meanings for social actors to interpret the reality (Lawrence & Suddaby, 2006).

Relating this synergy to the research topic, legitimacy is socially defined and it is subject to change. Legitimation, as a complex social and cognitive process which involves the continuous testing and redefinition of an organization’s legitimacy through ongoing interaction with its environment, can be viewed as “the collective making of meaning” (Baum & Oliver, 1991; Neilsen & Rao, 1987: 524). The legitimation process occurs in social interaction and involves assessments made by audiences on the basis of a set of shared norms, values and beliefs that are established as rational myths and institutional logics. Through this process, the organization becomes embedded in these taken-for-granted assumptions (Zucker, 1991). When an organization’s legitimacy is challenged, so are those assumptions, and this requires change in the understanding of self and social reality. Active thinking replaces the routine mindset which was previously stabilized by the existing belief system. To repair legitimacy and their understanding of social reality, organizational actors draw on rational myths and institutional logics to reestablish a connection with the larger social order.

As suggested by Hoffman (1999), significant events that can alter institutional orders are “socially constructed through a contest over meaning” among organizations and various constituents. Meanings and interpretations are generated, enacted, revised and to some degree shared by the focal organization and external audiences. Existing myths and logics provide an array of frameworks or templates with which both organizational actors and audiences can understand each other’s behaviors, and they may also be manipulated to provide interpretations aimed at establishing, maintaining or destroying legitimacy (Zilber, 2002, 2006; Suddaby & Greenwood, 2005; Lawrence & Suddaby, 2006). Through ongoing sensemaking and negotiation of meanings, some frameworks may be maintained and others may be disrupted, reconstructed and gradually shared among members of the society. During this process, some myths continue to thrive, some fade away, and new ones may arise, which in turn affect subsequent actions and

construction of social reality.

In addition, sensemaking and neo-institutionalism share a common emphasis on the enacting dynamics underlying the interrelationship between organizations and their environments (Smircich & Stubbart, 1985). Both streams of thought theorize that participants in social life are constrained by, as well as constructing, the social and institutional order. The process of social interaction and negotiation that characterizes legitimation is vastly interactive and often iterative (Ashforth & Gibbs, 1990). In the analysis of legitimacy crises, organizational vocabularies, structures and practices can be treated as organizational attributes subject to change in response to shifts in the institutional environment. More importantly, the unfolding of crises is a reciprocal, enacting process that involves the negotiation of meanings with potential institutional outcomes—e.g. the emergence of new institutional orders and understandings (Hoffman, 1999; Zilber, 2002). In particular, the present study focuses on the enactment of narratives and accounts produced by and articulated among different social groups during legitimacy crises.

This approach leads to another major category of synergies between institutions and sensemaking: narrative and discourse,² which also link meanings, sensemaking and institutionalization (Zilber, 2002, 2006; Phillips *et al.*, 2004). Both the sensemaking and institutional approaches assume that narratives or discourses are major sources of understanding on socially constructed reality. In particular, Phillips *et al.* (2004) explicate the relationship among texts, discourse and institutions. They define discourses as prearranged sets of meaningful texts which take various forms, such as written documents, verbal reports, spoken words, pictures and symbols. By producing texts, social actors can exert influence on the discursive sphere that shapes reality. Phillips *et al.* (2004) argue that institutions are constituted fundamentally through the

² In this dissertation, the term “discourse” means a prearranged collection of texts “located within social and organizational contexts, that share certain structural features and have both functional and constructive effects on their contexts” (Heracleous & Marshak, 2004: 1309). Accordingly, texts are treated as manifestations of discourse (Heracleous & Marshak, 2004; Phillips *et al.*, 2004). While narratives can be simply defined as texts which record events over time (Morson, 1994) and they are commonly used to investigate sensemaking in organizations (see Weick, 1995; Brown, 2000; Boje, 2001; Patriotta, 2003), discourse is often linked to institutional studies (see Fairclough, 1985; Alvesson & Kärreman, 2000; Phillips *et al.*, 2004). To integrate the sensemaking and institutional perspectives, this study focuses on narratives that are embedded in larger discourses, negotiated over time within relations of power and knowledge (Foucault, 1980). It intends to examine the discursive resources available to social actors as well as the ways in which these resources are deployed narratively by these actors (Holstein & Gubrium, 2000). Texts are therefore resources that enter into such examination.

production of supporting texts rather than through the mere imitation of actions. In the context of a legitimacy crisis when organizational actors need to affect how the organization's legitimacy is perceived, or to repair legitimacy, rich texts are likely to be produced and extensively disseminated in the process of public communication. For instance, an organization may produce and disseminate such textual materials as accounts, slogans, mission statements and codes of conduct in an attempt to defend, reestablish or repair its legitimacy. Based on their interpretation of these texts, external audiences give their feedback to the organization, also through the production and diffusion of texts. These can be viewed as the products of ongoing sensemaking by social actors. As the crisis unfolds, some meaningful texts may be repetitively produced, structured, and form a discourse which may gain prominence as a result of further proliferation of this collection of texts. At some point, new institutional forms emerge from the dominant discourse.

Moreover, narratives produced to construct legitimacy are largely derived from broader cultural accounts and institutional myths (Zilber, 2006). They are larger belief systems which provide socially-accepted categories and institutionalized scripts used by social actors to construct meanings intended to justify their arguments and actions to others. In other words, pre-existing myths serve as sensegiving mechanisms, and they are a source of justifications, providing institutional grounds for meanings and actions (Boltanski & Thévenot, 2006). The ongoing micro-process of meaning construction and negotiation may lead to macro institutional change—some institutional understandings may be maintained and others altered.

Institutions are traditionally considered to be providers of taken-for-granted assumptions for sensemaking. They impose internalized cognitive constraints on sensemaking, rendering alternatives simply unimaginable or inconceivable (Barley & Tolbert, 1997; Geppert & Clark, 2003). From this perspective, the relationship between sensemaking and institutions is fairly linear and straightforward: institutions provide substance for sensemaking, and institutional contexts affect sensemaking activities by means of cognitive constraints. However, as shown, institutions are also recognized as the products of purposive action, whether or not they are intended outcomes (Jepperson, 1991; Zilber, 2002, 2006; Phillips *et al.*, 2004; Lawrence & Suddaby, 2006). According to this point of view, interpretations are not passively constructed by social actors using or relating to institutionalized accounts, and institutionalization is a non-automatic process which may be affected by actors' agency and other elements.

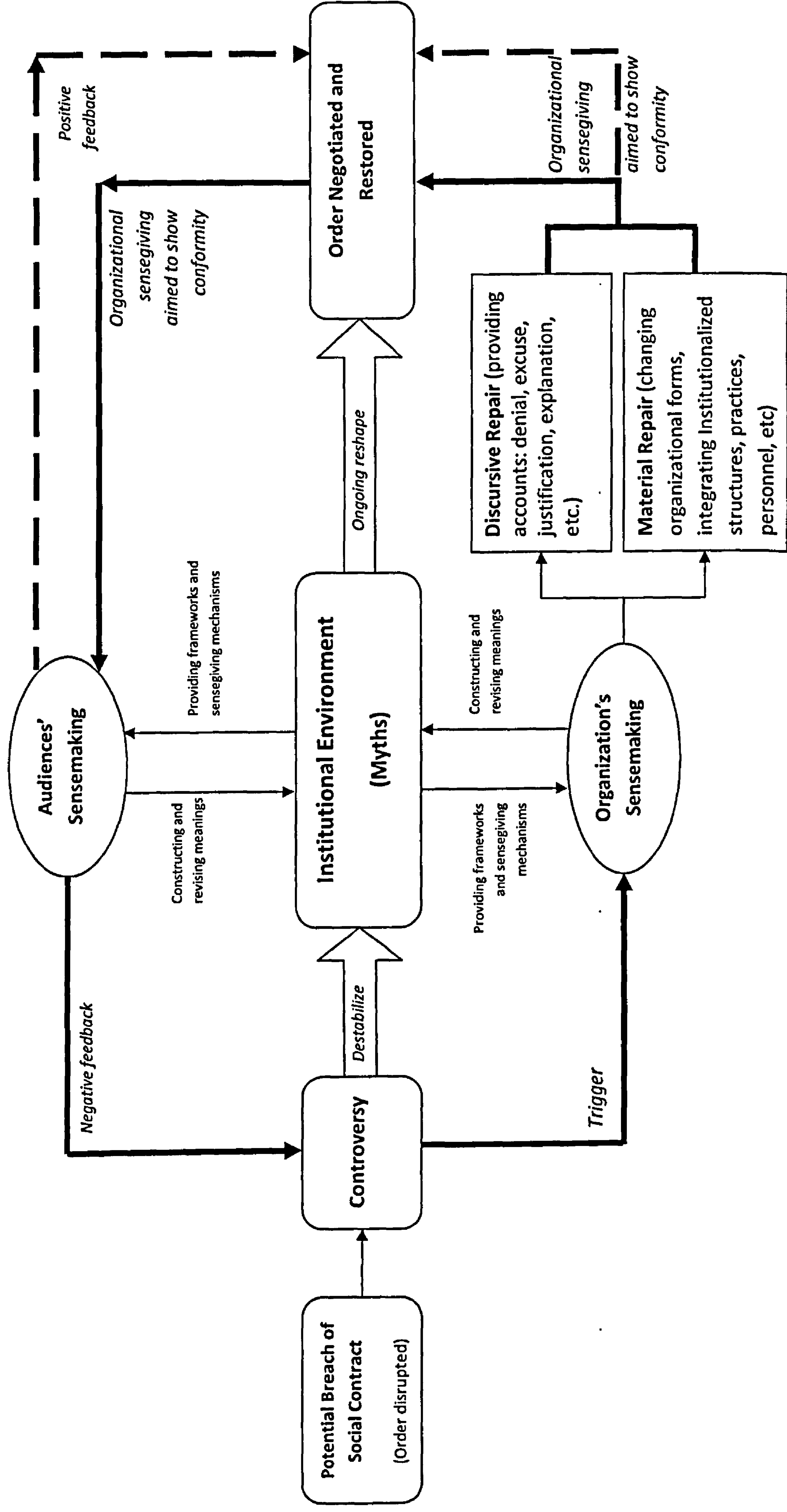
Weber and Glynn (2006) have broadened our vision of the relationship between sensemaking and institutions. According to them, institutions serve as “substance” or “building blocks” for sensemaking and provide guidance and edit the ways in which actions form, and also how institutions are constantly enacted and constructed in ongoing sensemaking processes (Weber & Glynn, 2006: 1644). As regards how institutions affect sensemaking, Weber and Glynn propose that institutions trigger sensemaking when continuous attention, and thus ongoing sensemaking activity, is required to address certain institution-related concerns, and when understanding needs to be achieved about puzzles, inconsistencies, ambiguities and gaps inherent in institutions. Institutions also prime sensemaking by supplying social cues. The idea of “priming” takes into consideration how social actors deal with situations which demand alternative institutionally prescribed roles and diverse actions expected from the institutional environment. Moreover, institutions edit sensemaking by retrospectively editing, amending and modifying meanings, and thus actions, according to perceived institutional expectations (Weber & Glynn, 2006).

The theoretical extension made by Weber and Glynn (2006) to link sensemaking with institutional contexts is no doubt valuable. Nevertheless, there are very few empirical studies which explicitly integrate sensemaking and institutions like the present one. This research on a crisis of legitimacy contributes to closing the gap because it focuses on an ongoing process of sensemaking which involves intensive social interaction rather than moments or certain periods when institutions trigger, prime and edit sensemaking as addressed by Weber and Glynn (2006). The findings will point to how institutional elements affect sensemaking at different stages of an unfolding legitimacy crisis which in turn gives rise to new social and institutional order.

3.3 An integrated theoretical framework for the study of legitimacy crises

Based on the above discussion, this section presents the theoretical framework of this study by integrating the sensemaking and institutional perspectives to explore crises of legitimacy (See Figure 1). A crisis of legitimacy occurs when the organization is no longer perceived by audiences as conforming to social expectations. In other words, there is a potential breach of the social contract that legitimizes the organization's actions, and the breach of contract generates public perceptions that the organization is not legitimate. Crises of legitimacy entail unexpected changes in the social and institutional environment in relation to the focal organization, exemplified by a shift in the public perception of the organization. In normal circumstances when the institutional environment is stable, institutional myths serve to provide pre-existing assumptions for sensemaking and internalize cognitive constraints on sensemaking. Therefore, organizational actors are in the state of routine thinking, and some organizational behaviors are largely taken for granted or performed "mindlessly". However, if the underlying logics and assumptions of these behaviors are challenged, cognitive discord and a desire for cognitive consistency will emerge and lead to a more active, conscious processing of information—sensemaking is then triggered (Johnson *et al.*, 2000: 574). The underlying assumptions are sometimes called into question because of intrinsic contradictions and ambiguities of institutions. For instance, institutionalized expectations in regard to organizations can be ambiguous, inadequate and contradictory. Disruptions such as controversial events may further expose the inconsistencies and ambivalence inherent in and among institutions, which may trigger sensemaking.

Figure 1. Theoretical framework linking a crisis of legitimacy, sensemaking, institutions (inserted)



Consider, for example, an oil company listed on a stock market. It is highly likely that the company faces contradictory institutionalized expectations. Typically, as a business organization, it is required to generate as much profit as possible for its shareholders, which may well be an incentive to ignore environmental concerns; on the other hand, as an integral unit of the local community in which it performs its activities, the oil company is obliged by law not to harm the environment. These are two somewhat incompatible performances expected by two different institutions. These competing expectations may require continuous attention if they shift over time: for example, shareholders may become keener to protect the environment, or the local government may be urged to show signs of immediate economic growth so that it relaxes the regulations. Once these expectations are not met or an unbalanced condition is reached, which becomes unacceptable by either side, negative feedback is emitted by those concerned. Some feedbacks may signal significant threats to organizational legitimacy and some may be made and transmitted in unexpected ways. The unexpected, legitimacy-threatening feedback exposes or amplifies contradictions between two sets of social expectations, and may give rise to a legitimacy crisis.

As the institutional environment is destabilized and order disrupted, organizational actors' interpretation frameworks and assumptions previously supported by a broader cultural and institutional belief system become unstable and subject to change. A problematic framework in turn affects the construction of meaning. As a result, the organizational actors' understanding of the outside world is breached and requires repair. Sensemaking is triggered and organizational actors begin to provide interpretations of relevant issues and engage in negotiation with audiences with the purpose of creating a certain level of shared understanding (i.e. repairing legitimacy and restoring order).

In the negotiation process, ongoing sensemaking and sensegiving activities constitute cycles of understanding and influencing. Organizational actors start to develop a framework of meanings with which to understand issues and evaluate the environment. In the meantime, to reestablish organization's legitimacy, they are likely to engage in sensegiving activities in an attempt to guide audiences' understanding, thereby influencing their perceptions and expectations. Sensegiving does not only influence the audiences, for efforts at sensegiving may also affect how relevant organizational actors frame and interpret issues and events (Gioia & Chittipeddi, 1991; Weick *et al.*, 2005).

At some point, with sensemaking and sensegiving efforts, disruptions may be resolved or simply suppressed for the time being (e.g. by reaching a provisional agreement).

As an organization faces a legitimacy crisis, some taken-for-granted assumptions are challenged, and therefore certain aspects of the world suddenly become incomprehensible. Such cognitive discontinuities may engender cosmology episodes when organizational actors experience a sudden loss of meaning and thereafter framework. The crisis may escalate if they continue to lose sense. Effective sensemaking in this case means effective construction of meaning and framework. According to Weick (1995), if attention is paid to the management of meaning and structure, organizational sensemaking can be improved. However, it is not clear if this theory can be fully applied to legitimacy crises, because it was primarily developed from studies of crises in extreme environments.

As a crisis unfolds, meanings are constructed, reconstructed and enacted in social discourse. In particular, as legitimacy is evaluated by audiences on the basis of a broader belief system consisting of institutional myths and logics, organizational actors inevitably draw on these myths and logics to process information and create meanings aimed at protecting or repairing the organization's legitimacy. In other words, both sensemaking and sensegiving are embedded in these broader belief systems. The actions and linguistic resources available to the organization to respond to the crisis are largely constrained by, and mainly derived from, institutionalized myths and logics extracted from the broader institutional environment.

The ongoing negotiation of meanings may lead to the reconstruction of role systems and structures which diverge from well-established, institutionalized practices (Hoffman, 1999: 353). In other words, organizational changes are driven by sensemaking and sensegiving processes. New organizational practices and behaviors may emerge and some may be abandoned. Some practices and behaviors may become institutionalized and some deinstitutionalized. In other words, when some institutional myths and understandings are challenged in a legitimacy crisis, new organizational forms may emerge and in their turn alter the existing myths in given context or lead to the rise of new ones.

As can be seen, the unfolding of the crisis is ultimately a meaning negotiation process

which involves ongoing sensemaking and sensegiving activities by organizational actors and audiences. From this negotiation process there emerge coherent and plausible articulations that repair the organizational actors' understandings of social reality. This process can also be illustrated in terms of a feedback loop. A crisis of legitimacy arises when there is "unexpected or significant discrepancy of feedback" from the society which triggers sensemaking to restore order (Johnson *et al.*, 2000: 574). Although organizational actions, or organizational responses to legitimacy challenges, are driven by pragmatic concerns and extracted cues, they are "socially regulated through feedback loops (Weber & Glynn, 2006: 1651)". This sequence evolves through a social interaction chain where the organization enacts its environment and receives feedback from the audiences, which inform the organization of their most updated expectations. According to this feedback, the organization modifies its conduct and responsive approach. In the meantime, the audiences keep track of and evaluate the organization's performance providing it with feedback.

There are two approaches that the organization can adopt to protect and repair its legitimacy: discursive and material fixes. The former involves the use of accounts such as denial, excuse, justification and explanation and other linguistic tools to reestablish acceptability to the society. The latter refers to material forms of organizational change (e.g. incorporating new structures and adopting new practices), and the advertisement of such change, intended to demonstrate conformity to social expectations and to repair legitimacy. As the crisis unfolds, the organization may continue to provide accounts and embark on a series of organizational restructurings. These discursive and material approaches are driven and mediated through ongoing sensemaking and sensegiving processes and both of them involve a management of meaning.

As said by Phillips *et al.* (2004: 637), discourse and action are mutually constituted. Discourse generates meaning to be shared among social actors and discourse also gives meaning to actions, in so doing constructing social reality. In other words, these responsive actions, whether they generate linguistic products or material outcomes, have symbolic implications and they create meanings that enact the organization's relationship with its environment. Through social feedback loops, meanings are constructed, negotiated and renegotiated between the focal organization and the society until a certain level of shared understanding of social reality is achieved. This is when order is temporarily restored.

In different areas of the feedback loops, institutional myths serve to support, constrain, trigger, edit and prime sensemaking and perhaps sensegiving. Along with the meaning negotiation process, the institutional environment as a reservoir of rationalized myths, scripts and other acceptable justifications also begins to change shape as the result of micro-level sensemaking and production of texts. In a sense, the flow of the feedback loops is mobilized by production of texts. A crisis of legitimacy per se can be triggered by the production of texts, such as a damning report on an organization's behavior. During the crisis, a large amount of texts are likely to be generated as products of sensemaking and sensegiving activities by organizational actors and audiences. On the part of the organization, both discursive and material responses involve production of supporting texts in forms of accounts, reports, interviews and statements. The same applies to the means that audiences can use to give their feedback.

Feedback can be negative or positive. Negative feedback may cause sub-crises and amplify the controversy, which further challenges the organization's legitimacy and belief system and thus leads to more sensemaking work. As a result, more accounts are produced, and action is taken by organizational actors to address the negative feedback and perhaps damaging events caused by it. Positive feedback may contribute to the further production of texts with certain meanings. In this process, a varied discursive landscape emerges with assorted domains of meanings produced by different groups of social actors (Fiss & Hirsch, 2005). As the negotiation continues through the feedback loops, some sets of texts may continue to proliferate and thereby reinforce the discourse. New organizational forms and practices may emerge as a result. Some discourse may gain increasingly more prominence and eventually give rise to a new institutional order. To be noted is that this theoretical framework also complements the negotiated order theory (Strauss *et al.*, 1963; 1964) by providing a macro perspective on how social orders are negotiated and re-negotiated among various social groups, highlighting the inter-organizational dynamics which drive organizational and social change in this process.

Conclusion

A crisis of legitimacy causes disruptions that punctuate "the routinization of interaction that escapes reflexivity" and exposes what is taken-for-granted. Once the taken-for-

granted has been challenged, reflection becomes possible, which paves the way for “new, emergent structures to take shape” (Bean & Hamilton, 2006: 343). In other words, as the broader social and institutional context in which sensemaking is embedded becomes uncertain and equivocal during a legitimacy crisis, the connection and interaction between sensemaking and institutional processes becomes more salient and observable. Crises of legitimacy provide a fruitful setting for investigation of the micro foundations of institutions and the interaction between micro-level sensemaking and macro institutional forces. According to the foregoing review, there is not enough academic effort to achieve such a theoretical integration. In view of the research void revealed, the intention of this study is therefore to merge the sensemaking and institutional perspectives for the purpose of investigating the underexplored phenomenon of legitimacy crisis.

There are three major synergies between these two lines of inquiry: a shared assumption of reality as socially constructed; the enacting nature of the interaction between organizations and their environment; and narratives as articulations of social reality. These synergies have implications for the research design of this study. Firstly, the research, in line with the assumptions of social constructionism, adopts an interpretive approach. Secondly, it focuses on the unfolding of a crisis—a process when the organization enacts its environment. Thirdly, it uses a narrative approach to operationalize the theoretical framework because it allows integration of the sensemaking and institutional perspectives.

On the basis of the foregoing review of the key literature on integration between sensemaking and institutional theories, in this study I present a theoretical framework that combines the sensemaking and institutional perspectives to investigate the phenomenon of crises of legitimacy, my intention being to narrow the gap between the two sets of theories. Using this theoretical framework, the study elucidates how order is disrupted, negotiated and repaired and how systems are returned to normalcy during an unfolding crisis of legitimacy, thereby providing insights into the phenomenon and implications for crisis management. It also furnishes insights into how micro-level sensemaking is affected by institutional elements such as institutional myths and how it in turn drives macro institutional processes.

The framework can be visualized as a feedback loop which begins with a potential

breach of the social contract giving rise to a crisis of legitimacy. Sensemaking is triggered by significant negative feedback, and its aim is to repair the disrupted order. Meanings are created and negotiated as organizational actors enact the environment using strategies which include discursive fixes and material reforms. These actions are guided and driven by deliberate sensemaking and sensegiving work intended to restore order and which is constrained and enabled by a broader belief system formed of rational myths and institutional logics. Order is negotiated and repaired through a negotiation process in which more or less shared meanings are generated, enacted and maintained as reference points of reality. Some of these meanings may give rise to a dominant discourse that brings about new organizational forms and institutional order.

As regards legitimacy crises, the feedback loops are perhaps most visible in the media, which can be viewed as constituting a discursive semiotic space where crisis events and the organizations involved are portrayed (O'Connell & Mills, 2003). Because the media have a voracious appetite for controversial news fodder, they often act as a sounding board that amplifies crises of legitimacy. In this regard, the study, as it is elaborated in the next chapter, focuses on how meaning is constructed, enacted, revised and becomes socially shared in the public discursive space of the media during a legitimacy crisis. Accordingly, this space serves as a major source of narrative data for the present research.

Chapter 4 Methodology

Introduction

This study is based on a set of epistemological and ontological assumptions of social constructionism. This philosophical stance is linked to the theoretical positioning of the research: both the sensemaking and the institutional perspectives that it intends to integrate are built upon the traditions of social constructionism. Therefore, methodologically, the study as a whole takes the form of interpretive research. To investigate legitimacy crises, a longitudinal case study design is mapped out as the key research strategy, whereas a narrative approach is adopted, with textual and documentary data as its main analytical method. This chapter provides a description of, and a rationale for, the research methodology. To gain empirical access to crises of legitimacy, I chose the sweatshop case involving Nike, and I utilized archival data and narrative analysis to operationalize the theoretical framework presented earlier and use it to explore the interaction between micro-level sensemaking and macro-institutional elements during crises.

In the awareness that the legitimacy crisis phenomenon is characterized by its multiplicity and complexity—usually recognized from a chain of events emerging from the interplay of actions, social relationships and situations—a case study strategy was employed to address the research questions. The reasons for this were manifold, and they will be set out in later paragraphs. Put briefly, the case study method allows for a great deal of flexibility and serendipity, and it enables researchers to conduct highly context-embedded analysis. It involves the holistic, in-depth investigation of an organization, a program or an event, usually combining a variety of methods and materials. Moreover, a case study serves to elucidate processes and relationships with rich description and shed lights on why and how particular events unfold as they do; and this to a large extent matches the main goal of this study (Feagin *et al.*, 1991; Gummesson, 2000).

The research was designed to vitalize the sensemaking and institutional aspects of these controversies by drawing on a framework combining the pertinent building blocks of the sensemaking and institutional theories. This combined perspective directly links with the role of narratives in re-establishing organizational legitimacy.

Essentially, social actors use narratives to deploy discursive resources in order to frame issues, negotiate meanings, and settle controversies (Cruikshank, 1999; Holstein & Gubrium, 2000). Moreover, narratives represent a synergy between sensemaking and institutional theories—narratives are often regarded as observable sensemaking devices, and institutions are reflected “in the content, rhetoric, and dialogue patterns” among social participants (Hoffman, 1999: 355). This is where the rationale for using narrative data resides. Coupled with the theoretical grounding of this study, a narrative approach was applied in order to conduct cross-level analysis of legitimacy crises and examine the linkages between sensemaking and institutions.

According to Gephart (1993), the narrative approach is a feasible methodological strategy with which to integrate micro and macro analyses. Also to be noted is that the research interest concerned how different social actors make sense of a controversy through the media, which serve as a sounding board that may trigger and amplify a crisis of legitimacy, and also as a public forum in which public dialogue takes place. Therefore, the database was composed largely of public accounts and archival materials, such as news reports and press releases, with the media as the key data source. A more comprehensive discussion on how narrative data and the narrative approach fitted with the research focus is presented in the sections that follow. The remaining part of this chapter more exhaustively describes the key aspects of the research design, such as the strategies for case-selection, data collection and data analysis; and it identifies the unit of analysis used for the case study.

4.1 Research design

4.1.1 Introduction

A research design can be defined as “the overall configuration of a piece of research: what kind of evidence is gathered from where, and how such evidence is interpreted in order to provide good answers to the basic research question[s]” (Easterby-Smith *et al.*, 1990: 21). It is the framework that guides the collection and analysis of data in research. According to Yin (1994: 19), the research design is also the “logical sequence” that can coherently link the empirical data with the research questions, and eventually to the conclusions. That is to say, different dimensions of the research process and techniques applied in this process should be related logically to the

research focus and are prioritized through the choice of research design. The formulation of the research design that I used was guided by these concerns. In brief, the research investigated a classic case exemplifying crises of legitimacy and it was centered on the anti-sweatshop campaign against Nike from mid-1996 to mid-1998. The case study was conducted with the aid of narrative analysis techniques centering on archival data. Further details on why this design was chosen and in what way it was keyed to the research questions are given in the subsequent paragraphs.

The case-study method was employed as the main research strategy with which to address the research questions. As shown, the research reported here explored a poorly-studied social phenomenon, and it was also an explanatory study designed to answer the questions of “how” and “why”. The case-study method was suitable for the study because it is one of the most comprehensive and frequently used approaches within interpretive paradigms, and it is considered to be the most appropriate research method for studies addressing “how” and “why” types of questions focused on contemporary phenomena or events in a real-life context (Luthans, 1981). The main strength of the case-study method is that it allows researchers to examine specific situations and organizations from multiple perspectives, and that it is able to incorporate various forms of evidence, such as documents, interviews, observations and artifacts, and both qualitative and quantitative data (Eisenhardt, 1989; Feagin *et al.*, 1991; Stake, 1995, Gummesson, 2000). This is particularly important for the present study, where detailed information is needed to test theories and assumptions in a particular context—a crisis of legitimacy.

Nevertheless, the case-study method has been criticized regarding its external validity—that is, whether the results can be generalized beyond the cases chosen. This applies especially to the single-case approach, because its main limitation is its lack of generalizability. In this regard, some researchers (e.g. Stake, 1995; Schwandt, 1997) point out that the primary role of a case study is to understand the complex interrelationships among all the elements present in a particular case setting, and to generalize, contest, refine, or expand a theory, model or concept, rather than develop frequencies. Therefore, for research using the case-study method, the results are generalized to theory instead of populations—that is, “analytic generalization” as opposed to “statistical generalization”. Analytic generalization does not rely on samples and populations. Such generalizations can be seen as “explanations of

particular phenomena derived from empirical interpretive research” which may be valuable in other settings and organizations but are not wholly predictive of future situations (Walsham, 1995: 79; Darke *et al.*, 1998). Through analytic generalization, a study can investigate only one or several cases.

The rationales for the use of the single-case approach in this research are these: its purpose was to investigate an under-explored problem; and it aimed to develop and test a theoretical framework in a particular case, rather than enumerate frequencies in values. There is relatively little research on crises of legitimacy, and the purpose of this study is to open up this neglected field. Moreover, this investigation focuses on a cause-and-effect process which needs to be tracked over time, rather than being concerned with frequencies. Besides, one of the main goals of this study is to test how well the theoretical framework was formulated rather than conduct statistical generalization to a population. Therefore a single-case design is justified.

To answer the research questions, I conducted an in-depth, longitudinal case study of the legitimacy crisis triggered by the sweatshop controversy facing Nike in the 1990s. The research questions and data availability largely determined the choice of case. The selection of the case was guided by certain procedures that helped identify major legitimacy crises. It was intended for a sizeable and dynamic collection of data that would allow me to fully contextualize the crisis, and it took me on an intellectually challenging journey of data analysis. In this case, Nike was under intense media scrutiny and its labor practices became a heated topic for public discourse. This case had salient aspects typical of a legitimacy crisis and therefore fitted the research purpose. Before moving to further explanation of why the sweatshop case was selected, it is essential first to deal with the questions of why and how the narrative approach was applied in this study.

4.1.2 Narrative approach

Overall, the interpretive approach was selected as the primary research method because it served as a bridge between sensemaking and institutional theories. More specifically, the main analytical technique used was narrative analysis—the case study was built from narrative factors to reconstruct the unfolding crisis. In general, narrative analysis is believed to be constructive when applied in longitudinal studies with immense

databases (Langley, 1999). Notably, the narrative approach is, according to Gephart (1993: 1468), derived from the following assumptions: the interpretations of the text-creators are embedded in the texts themselves; meaning is “inter-textual” in that “a given text is constructed from, and acquires meaning through, its embeddedness in a multiplicity of discourses and texts”, and discourse is considered as a presentation in forms of conversation or text, or as a narration of events.

The following discussion shows that the narrative approach was suited to the study, in that it not only coherently connected the collection and analysis of data, but also linked them to the research problems. To start with the studied phenomenon *per se*, this choice of analytical method was in part determined by the discursive side of legitimacy crises. Organizations need to regain their legitimate status through a process of negotiation and re-negotiation. This is essentially a sensemaking and sensegiving process in which organizational actors need to take account of the competing values, social norms and shifting opinions of an elaborate social network. Narratives as the output from this process weave together an evolving meaning system on which both organizational actors and audiences rely to construct issues, negotiate meanings and resolve contentious problems. In other words, because narrative accounts are carriers of meanings negotiated among different interest groups, they have a direct impact on the unfolding of a crisis. Equally importantly, these narratives and accounts through which meanings are constructed reflect the discursive positions held by different actors, crystallize the negotiation process in the public debate, and demonstrate how crises of legitimacy are resolved. Therefore, narratives enable researchers to monitor how crises are constructed and how they unfold.

To a considerable extent, the use of a narrative approach was also determined by the recognition by both sensemaking and institutional theorists of narratives as intrinsically significant components of social life. Narratives are widely accepted as being vital interpretive frames of reference for sensemaking (Czarniawska, 1998; Boje, 2001). Narratives can also be used to study the institutionalization of meanings: that is, “how meanings are selected, legitimized, encoded, and institutionalized” (Patriotta, 2003: 351). This is essentially where narrative data come in. As mentioned previously, the aim of the research was to examine how collective sensemaking by organizational actors sought to repair the social order, and it treated organizational sensemaking during legitimacy crises as a communication process manifest in the form of accounts

and narratives—that is, narratives and accounts as articulations of social actors’ sensemaking.

In addition, this dissertation argues that, in order to understand how institutions affect sensemaking or vice versa, especially when the institutional foundation of sensemaking is challenged, it is crucial to investigate the discursive dynamics underlying both of them. Essentially, narratives provide empirical access to the study of the sensemaking process, and they serve to operationalize the analysis from both the sensemaking/micro and institutional/macro perspectives. As argued earlier, crises may cause disruptions to the wider social order as they trigger sensemaking. Previous norms and assumptions underpinning sensemaking become problematic, so that meanings must be repaired, and the prevailing institutions attributable to taken-for-grantedness are subjected to change and may give way to alternatives. It is narratives that enable exploration of the meaning-repairing process and the linkage between sensemaking and institutions. Moreover, the study recognizes the “editorializing” effect of the media (Ashforth & Gibbs, 1990: 117) and highlights their capacity to trigger and amplify legitimacy crises. Above all, the public understanding of relevant issues comes about primarily through media reporting, and the media provide significant cues for the majority of social actors to make sense of events and issues (O’Connell & Mills, 2003). It is therefore essential to treat media accounts as forming a substantial and integral category of data.

Besides, as well argued by Gephart (1993: 1466-1468), narratives are perhaps the most effective tools available for the study of uncommon organizational events, such as accidents and crises, and perhaps the more common ones like crises of legitimacy that unfold over time and leave a considerable archival residue. These events themselves exemplify the significance of use, rather than neglect, by researchers of documentary data. The publicly available archival accounts, which include corporate documents, reports by professional authorities (e.g. consultancies), public inquiry transcripts and proceedings, government reports, newspaper articles and other public accounts, “describe organizational events at a level of detail not otherwise available” and enable the assembly of dynamic case stories and rigorous analysis of rich qualitative data.

It may be necessary to justify the application of this analytical approach further. Because this study emphasizes how patterns of sensemaking emerge and evolve over

time, the narrative approach is exceptionally accommodating in this respect as well. As suggested by Gephart (1993), the narrative approach facilitates applications of sensemaking concepts to uncover the practices and processes that create and sustain interpretations of critical organizational events. It is also understood that some discourse may give rise to significant shifts in patterns of sensemaking (Taylor & Robichaud, 2004; Phillips *et al.*, 2004). Furthermore, discourse furnishes linguistic and cognitive templates on which social actors rely to make sense of the social world. In this sense, the way in which social actors make sense of an issue is largely affected by the dominant discourse. For example, Brown (2000) finds that the prevailing discourse generated in public inquiries may probably lead to established patterns in making sense of the issue.

Phillips *et al.* (2004) argue that discourse is established through the production of key texts and is therefore enacted and reproduced in a social context, a process which may give rise to new institutions. As noted in the literature, these arguments have implications for the construction of the theoretical framework in use. Moreover, as shown by several papers (e.g. Phillips *et al.*, 2004; Fiss & Hirsch, 2005; Zilber, 2006), the narrative approach can also furnish a means to examine institutional conflicts and the institutionalization driven by the interplay of diverse discourses. The foregoing discussion highlights that an effective way to explore the organizational sensemaking process during legitimacy crises is to track across time how the relevant discourse is assembled, organized and developed, and how the dominant discourse is recognized and established.

To conclude, after the close consideration illustrated above, the research design was pieced together. An intensive case study was conducted which mainly relied on contexts built from documents and archival records as the chief forms of evidence. These were integrated from various sources, including newspapers, magazines, the Internet and scholarly journals. Databases were compiled; data were coded; and chains of evidence were categorized to explore the unfolding crisis. The story was rebuilt in chronological order, and an attempt was made to identify the unfolding pattern of the crisis and the shifts in the modality of organizational sensemaking by decomposing the case into phases. In this way, the crisis as a whole, as well as specific scenarios, were examined. In particular, the study focused on how the interaction between macro-institutional forces (e.g. institutional myths) and social actors' micro-processes of

sensemaking affected the framing, unfolding and settling of the controversy. To this end, it drew on the narrative approach to conduct cross-level analysis of the dialogic process of the unfolding crisis. The theoretical framework that integrates sensemaking and institutional theories was applied to analyze and interpret the data.

4.1.3 Case selection and case setting

Nike, as one of the world's most famous brands, was the focal organization of the case study. Not surprisingly, the company has come under the spotlight due to legitimacy issues on several occasions. This section details the case selection criteria. Essentially, the case was selected from the population for theoretical rather than statistical reasons (Eisenhardt, 1989; Yin, 1994). Because the study adopted a single-case approach to investigate an under-explored phenomenon, the case chosen had to be theoretically revealing and meet all the necessary conditions for testing the theoretical framework. It was therefore essential to choose a case that displayed all the characteristics of a legitimacy crisis as defined in this study. Because much has been discussed in preceding chapters, a brief review of the phenomenon studied may be necessary at this point. Put briefly, a crisis of legitimacy may be triggered by a disaster and an accident as well as by a subtle dispute or controversy. The reputation or social standing of the focal organization is threatened and the potential damage may be significant; however, the survival or performance of the organization may not be affected in the short term. The organization is pressured to tackle the predicament with limited time and resources. A typical legitimacy crisis is characterized by a series of events or sub-crises, and by intense media scrutiny. These were the primary conditions which a case story had to fulfill for selection.

The second criterion was that access to adequate amounts of data should be available. It is certain that organizations, especially when they encounter critical events resembling a legitimacy crisis, are intricate, and that they involve a great deal of social action. Thus, in order to generate a vigorous and critical interpretation of the whole picture, and explicate how and why the phenomenon studied has developed as a result of social interaction over time, organizational case studies like the one conducted here are likely to resort to a sizeable, complex and dynamic collection of data from various sources. Coupled with the previous discussion about the appropriate types of narrative data, another selection priority was the availability of archival data; which also meant

that the prospective data resources had to be substantial in terms of quality and quantity.

The main resources included news stories distributed by press agencies through newspapers, magazines and the Internet; organizational documents (e.g. annual reports), announcements and statements made through various channels, such as industrial publications, the official websites of the organizations affected and various associations, and the mass media; government inquiry transcripts and proceedings and those of any other public inquiry (Gephart, 1993); reports and other publications of professional authorities, such as auditing agencies and consulting firms; textual records of important interviews and transcripts of keynote speeches delivered by organizational leaders. This broad range of data sources facilitated the construction of a comprehensive qualitative database which was likely to lead to the production of rich findings and improved external validity in the building and testing of theories (Gephart, 1993).

This decisive factor of case selection required the crisis chosen to be significant in so far as it had attracted much media attention and resulted in the production of adequate archival material. A rough estimate of certain measures may ensure that this criterion is fulfilled. Hoffman (1999: 365), in reference to Protess *et al.*'s (1987) work, points out that the press affects governmental and corporate policies "through the volume and content of news coverage". Coupled with the insight from Phillips *et al.* (2004) as to the effect of discourse produced by powerful actors, three measures were devised.

Time-span was the first one: the longer a crisis lasts, the more likely it becomes that an adequate amount of archival material is produced. The second was the level of concern shown by the world's leading news agencies, including the Associated Press, Reuters, ABC, BBC and CNN. If media coverage from these powerful news networks is massive, it means that the organization is under intense public scrutiny. It can then be assumed that the negotiation process has been activated and a large amount of data resources can be expected. The third measure was the number and the potential influence of social groups and authorities (e.g. social activists, professional organizations, consumers, victims, shareholders, governing bodies) involved in the course of negotiations: the greater the number and the more influential the constituents entering the scene, the more dynamic the case is likely to be, and the greater the

likelihood that sufficient data can be collected. Certainly, these propositions are not the focus of this study—they were benchmarks loosely set to guide the case-selecting process—and they will not be further discussed here. A quick glance at the sweatshop controversy set out below shows that the case met all three requirements.

The choice of the case can be justified on the basis of the above discussion. Firstly, the sweatshop case had all the defining features of a crisis of legitimacy. In addition, the case particularly suited the study because the research interest was in crises of legitimacy defined as “ordinary” crises as opposed to standard ones. The sweatshop case was a typical “ordinary crisis” because it displayed characteristics distinctive of an ordinary crisis. For instance, the triggering event was mild, and the case did not involve any kind of disaster or technical breakdown; but it did cause major disruptions to the company’s larger routine. Also, although Nike’s image was tarnished, neither its profitability nor prospects of survival were markedly affected. Nonetheless, organizational members came under increasing pressure to find an effective solution to the problem.

The case concerns a high-profile organization facing legitimacy threats, and it is one of the most attention-grabbing legitimacy crises of recent times. Nike, as the focal organization in the case, was a company that had greatly benefited from its world-renowned brand name and one that represented global manufacturing. These features made the impact of attack from the activists as well as unfavorable projections from the media remarkably significant and profound. As noted earlier, multinational enterprises are usually more vulnerable to legitimacy controversies. Kostova and Zaheer (1999) contend that, owing to the involvement of multinational corporations in multiple host environments, the issues challenging their legitimacy often encompass more complexity in the legitimating environment, the organization, and the process of legitimation. The multiplicity embedded in such a context was also a trigger for research interest in business organizations operating in a global environment.

Furthermore, the time-span of this case is also considerable. It covered the period from mid-1996, when the crisis situation became distinctly critical, to 1998, when the then Nike CEO Phil Knight gave a landmark speech at the National Press Club Conference, formally committing Nike to strict standards for its overseas subcontractors and greater transparency of the firm’s corporate social responsibility practices. In between, there

occurred a series of localized events and sub-crises that contributed to the unfolding of the larger crisis (See Figure 2). As one might expect, the scale of media coverage was phenomenal—some reports originally appeared in the press; some through audio or video broadcasting; some via the Internet. Many external participants contributed to the unfolding of the crisis: they included various activist organizations, such as Global Exchange and Campaign for Labor Rights, consumer groups, public critics, various governmental authorities such as the U.S. congress and the U.S Labor Department. Also to be noted is that the case is characterized by the activists' media-oriented strategies and denouncing campaigns which challenged Nike by reaching a broad audience nationally and globally. As expected, there was a large volume of news coverage by major media outlets, and this made a sizable and dynamic collection of data possible. Consequently, archival data about the case were abundant, and access to data was unproblematic.

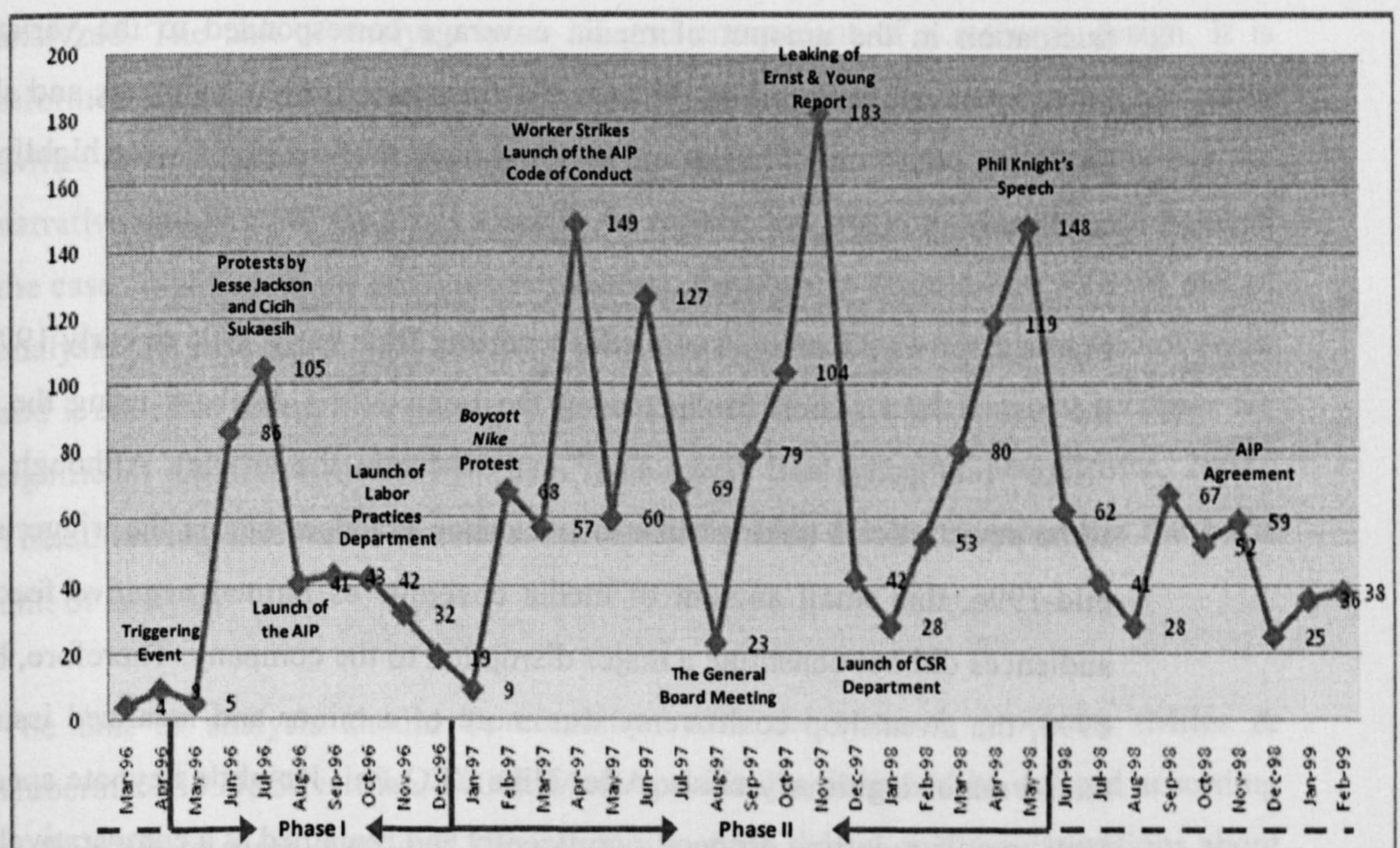


Figure 2. Amount of media reporting linking Nike to sweatshop practices from March 1996 to February 1999

Since the study was designed to reconstruct a story out of the crisis, the time-frame of the Nike case was specified to include the triggering event, the phases when the company experienced the most critical situations, and a closure when the dispute ended with a settlement or the negotiation was somehow closed. Notably, the key indicator used in the research to define the starting point (around May 1996), the conclusion

(May 1998), and the intensity of the crisis was the amount of media reporting on Nike and sweatshop practices. This measuring means is consistent with the assumption of this study that the media perform the role of triggering and amplifying legitimacy crises, and also act as a discursive space where much of the sensemaking work of social actors is articulated and where meanings are negotiated. Feedback from audiences and the focal organization's discursive responses are mostly made through this public forum. Whatever their goals are, internal members and external audiences all resort to media coverage in order to develop understanding of events and issues.

In other words, media coverage reflects, and at the same time affects, public perceptions to a large extent. Therefore, statistics on media coverage can be used to identify the critical time periods and the unfolding pattern of a legitimacy crisis. For instance, a sudden increase in the number of media reports mentioning Nike and sweatshop practices signified unexpected negative feedback from the audiences, and fluctuation in the amount of media coverage corresponded to the variation in the intensity of public scrutiny. Because the focus was on key moments and shifts in the unfolding crisis, major peaks and the flow pattern of the graph were highlighted in the case study.

Figure 2 shows the amount of media reporting from early 1996 to early 1999 based on the results of a search conducted on the Lexis-Nexis database using the key words "Nike" (company) and "sweatshop" (anywhere in the article). Although there were some news articles linking Nike to sweatshop practices before the triggering event in mid-1996, this small amount of media coverage as limited negative feedback from audiences did not constitute a major disruption to the company. Therefore, before mid-1996, the sweatshop controversy was more of a minor and localized issue for Nike than a major legitimacy crisis. After Nike CEO Phil Knight's keynote speech in May 1998, media reporting dropped significantly and remained at a comparatively low level. It can be assumed that the crisis had been resolved at least for the time being.

The case study is divided into two parts. The first begins with a discussion of some pre-crisis events in the early 1990s when "weak" early warning signals were emitted; it then focuses on the period from mid-1996 to the end of 1996. The second part covers the period from the beginning of 1997 until mid-1998. There are two reasons for this division. Firstly, as shown in Figure 2, between August 1996 and the beginning of

1997 there was a considerable period of time when criticisms of Nike's labor practices remained at a less harmful level. This can perhaps be attributed to the formation of the Apparel Industry Partnership (AIP) backed by the White House with the aim of tackling the sweatshop issue, which represented a temporary settlement of the controversy. Secondly, this period was one of the major turning points of the crisis. Nike's move to join the coalition arguably prevented the crisis from intensifying. However, shifts in its strategy, which were most evident from 1997 onwards, seemed to give rise to a series of sub-crises. Therefore, the dividing point was set at the end of 1996. As will be elaborated in the case study chapters, these two phases represent two different unfolding patterns of the crisis.

4.1.4 Unit of analysis

The unit of analysis must be identified appropriately before data are collected and analyzed. The unit of analysis is an integral component of a research design. It is informed by research questions, and it is the main entity analyzed in a case study (Miles & Huberman, 1994). In the research reported here, the unit of analysis was the narrative unfolding of the crisis studied. As regards the beginning and the end point of the case, as shown in the previous sub-section, the choices were in line with the unit of analysis: the case began with intense news reporting leading to a proliferation of texts, and it ended in ceremonial narrative forms (Nike CEO's speech)—ritual accounts are significant discursive means by which legitimacy crises are remedied (Brown, 2004). The following discussion provides validation for this decision concerning the basic unit of analysis.

The unit of analysis should be consistent with the research problems (Miles & Huberman, 1994; Silverman, 2000). More specifically, it should be defined according to the main research questions, because a case study should only raise questions about the unit of analysis. Clearly, defining the unit of analysis as the narrative development of the Nike crisis was allied not only with the research questions but also with the theoretical positioning of the study. Again, it drew upon the sensemaking and institutional perspectives, and it established the negotiation of meaning as the key to understanding the phenomenon.

It then becomes significant to observe the narrative processes underpinning an

unfolding crisis because it enables the researcher to examine the negotiation dialogue and incorporate sensemaking and institutional perspectives. Hence, the case study was primarily treated as a text. Defining the narrative unfolding of the crisis as the unit of analysis also narrowed down the research focus (as on narrative processes) and further specified the way in which the research questions, such as how crises of legitimacy arise and unfold (in narrative terms), were answered.

It is also recommended that the data collection and analysis, and the designation and investigation of any subunits, should be determined by the boundaries that define the unit of analysis (Hamel, 1993). In many organizational case studies, the unit of analysis does not always have clear boundaries like an individual person or an organization. Many case studies, such as one concerning an event, are not confined to particular individuals or groups because what they seek to examine is the interaction among different social actors and groups. Much like the present study, such case studies usually concern themselves with a social system or a web of relationships among diverse groups and organizations (Stake, 1995). As indicated earlier, looking at the narrative side of social constructs is exceptionally informative in studies of phenomena embedded in rich social contexts. From this point of view, there are two reasons why it is advantageous to envision the narrative development of a crisis as the case study's unit of analysis. Firstly, this arrangement allows for a certain degree of flexibility in the data collection and analysis because the boundaries that it establishes can be easily adjusted when necessary. Secondly, this unit of analysis enables the inquiry to accommodate a whole range of key social actors entering the discursive site; it can therefore facilitate understanding of the social system, or more specifically of the meaning system and institutional settings where legitimacy crises are socially constructed.

4.1.5 Data sources

In general, archival data in the form of news accounts, corporate documents and inquiry reports were my initial targets. Apart from the already-mentioned utilization of documentary data by a number of crisis studies, it seemed desirable to further validate the use of this sort of data. Essentially, this choice of data type was in line with the overall narrative approach adopted. The qualitative archival material provided abundant narrative resources essential for the analytical approach.

These data were required for the research for other reasons. As emphasized earlier, the research visualized a legitimacy crisis as a text produced by social actors. Accordingly, the study was designed to examine how a crisis of legitimacy unfolds in narrative terms. Documentary data therefore served as a crucial resource for the textual reconstruction of the unfolding crisis; and this textual reconstruction formed the basis of the study. As also clarified, the research focus was on retrospective, collective sensemaking that organized public dialogue among different participants in the negotiation processes. Hence, it was vital to exploit public accounts in such forms as news reports and administrative documents so as to extract texts and narratives that would yield information on public sensemaking. There will be further discussion on the use of archival data in later parts of this section; and, as argued below, data targets could be narrowed down to more specific types of documentary data.

The primary attempt was to collect all available documentary data concerning the crisis. As expected, the size of such a data collection was overwhelmingly large, and some data were certainly more important than others. For instance, to construct a coherent chronological account of a legitimacy crisis, it is necessary to conduct an extensive review of a large amount of raw archival data, but the crucial issue is identifying the key points when actions or incidents as manifested in texts affect the way the crisis unfolds. This is precisely a matter of deciding what data to focus on and what data to leave out (Stake, 1995). In other words, it is pointless to search for data randomly: priorities must be established as to what particular kinds of data or what data sources should be given emphasis. This was another data collection policy that guided this study.

As noted, an important task was building the storyline for the case in chronological order; thus one goal of data collection was to include all data that might have given rise to a rich, theoretically-valuable description of the crisis. The story should present how an organizational crisis was socially constructed by narrative means—more specifically, how critics (e.g. activists and media reporters in this case) defined and shaped the key issues, and how the focal organization's legitimacy was first challenged and then repaired through ongoing negotiation. Again, given that in building a plausible, coherent story of this kind, natural reasoning would point to publications and textual productions by news agencies and public broadcasters in the media industry, which is one of the main data sources. In particular, special attention was paid to news articles, broadcast transcripts and press releases from news sources with agenda-setting

power (Fiss & Hirsch, 2005), such as mainstream news agencies and networks.

These media constructs performed the role as the most influential forums in which the discursive interaction among the main theoretically meaningful social groups—the focal company, the activists, the professional authorities, the governing bodies, etc.—took place, where social disputes were defined, debated and redefined, and where social contracts were negotiated and renegotiated. Therefore, the resulting textual products were most likely to reflect how social actors made sense of these issues and how they were constructed in certain social contexts, and more fundamentally, how meanings carried by these texts and narratives enacted social relationships which led to changes in the broader social and institutional system. Fundamentally, these textual data played a vital role in this study because they allowed the narrative reconstruction of the negotiation process.

In the case of social events of public importance, there are always investigative activities undertaken by various organizations and authorities, such as the focal organization, NGOs, regulators and professional organizations, that are assigned the task. As regards the present study, relevant official reports and administrative documents served as important data resources providing added value to the study. This type of documentation included the company's annual reports, official statements, corporate press releases, NGOs and the investigation reports of relevant professional organizations, and the like, which were related to the crisis. Especial attention was paid to the aforementioned administrative reporting documents because they were closely linked to my research interest. These documents often contained sensemaking narratives with theoretically significant implications because they were textual material ritually produced and circulated by perhaps the most powerful social groups, such as governing bodies, the organizations affected, and other dominant institutions involved. The analysis of such documents often “sheds light on how people make sense of complicated and problematic social situations” (Brown, 2004: 94). Also to be noted is that the launch of many official policies identified as key turning points in the unfolding of the crisis were often initially circulated through these documents. Moreover, the releases of some authoritative reports marked significant shifts in the unfolding of the crisis.

Above all, the task of processing, interpreting and integrating the data into a coherent,

informative story required meanings to be drawn from different data sources in order to allow comparison and cross-reference. Accordingly, with the aforesaid priorities taken into account, it was important to widen the range of data sources as much as possible. This was exactly what this study endeavored to achieve. Having referred to the data collection strategy employed by Gephart (1993:1468), the study adopted a similar approach intended to “obtain the set of relevant texts that emerged from different sources over the life history of the focal event”. One of the advantages of this strategy is that these textual data offer “diverse descriptions of important features” of the event from the varied perspectives of major external and internal participants and public audiences. Another benefit is that these texts mutually inform one another and can be used to track the events across different settings over time. Now that the appropriate data types and data sources have been identified, the next section conducts more in-depth discussion and provides further detailed information on the data collection.

4.1.6 Data collection

The data collected for the case study included texts from news articles, commentary articles, broadcast transcripts, various forms of press releases, corporate documents (e.g. annual reports, official statements and transcripts of keynote management speeches), and milestone documents authored by governmental bodies, the company, trade and industry associations, professional authorities, academic organizations and other organizations concerned (See Table 2). I searched the Lexis-Nexis database to obtain articles from “All English Language News”, including major regional, U.S. national and international newspapers, magazines, journals, trade publications and newswires, press releases and news transcripts between 1986 and March 1999. During the pre-crisis period from 1986 to March 1996, to increase probability, I used the following key words, “sweatshop” (Anywhere in Article), “labor” (In the Headline) as an alternative, and “Nike” (Company) because “sweatshop” may not have been a frequently used term at this early stage. I identified 46 articles in this time slot. From April 1996 to March 1999, the key words “sweatshop” (Anywhere in Article) and “Nike” (Company) were used, and 1027 articles were identified. I reviewed these articles for content, excluding any article that met the exclusion criteria listed below. In this way, 1073 articles were reviewed, and 248 of them were included in this study (see Appendix 1). Because full-text *Wall Street Journal* articles and some trade publications

and academic journals were not available in the Lexis-Nexis database, they were obtained through ProQuest.

Articles for news media were excluded if there were overlapping items (e.g. articles in different newspapers based on the same newswire report); if they emphasized another topic with only a brief mention of Nike and its labor practices; if they were in a “Question & Answer” format; if they were letters to the editors or corrections, or lacked sufficient information. After the review, I identified and obtained, from other sources such as company and NGO websites, a number of key corporate documents (7 items), investigation reports from professional authorities (3 items) and reports and press releases from NGOs (16 items), which were not available through Lexis-Nexis. All in all, the dataset contained 264 articles, which included 160 news articles, 34 articles from the trade press, and other relevant articles and reports from Lexis-Nexis and other sources (See Table 3).

Table 2. Data Sources I	
Sources	Examples
News media (news agencies, newspapers, magazines, transcripts of TV programmes)	The Associated Press, Agence France Presse, Financial Times, Los Angeles Times, New York Times, The Oregonian, Washington Post, ABC, CBS, CNN, ESPN
Trade publications	Marketing Magazine, Newsweek, Sporting Goods Business
Academic articles (scholarly journals and academic publications)	Business Journal, Journal of Commerce, The American Behavioral Scientist, California Management Review, Harvard International Review
Company documentations	Annual Reports, CEO Speeches, official announcements, press releases
Reports and other publications by professional authorities (e.g. auditing companies, consultancies)	GoodWorks International, Ernst & Young, Amos Tuck School
Reports/press releases/announcements, etc from anti-sweatshop activists, NGOs and other concerned groups	Vietnam Labor Watch, Clean Clothes Campaign, Press for Change, Asia Monitor Resource Center, Hong Kong Christian Industrial Committee, Transnational Resource and Action Center

Table 3.Data Sources II (Percentages illustrate the proportion of the selected articles in the original sample)						
<div> <div>Year</div> <div>Sources</div> </div>	1985-Mar 1996	April-Dec 1996	1997	1998	Jan-Mar 1999	Total
News Media	10 (29%)	40 (22%)	76 (23%)	25 (15%)	9(16%)	160 (21%)
Trade Publications	3 (75%)	7 (34%)	13 (36%)	10 (33%)	1(50%)	34 (36%)
Academic	0 (0%)	5 (38%)	12 (48%)	11 (44%)	4 (48%)	32 (45%)
Professional Authorities	0	0	3	0	0	3
Company Documentations	2	3	3	1	0	9
NGOs and other Anti-sweatshop Groups Publications	4	3	10	5	4	26
Total	19	58	117	52	18	264

As expected, the data sources were varied. For instance, news articles and commentaries were usually found in newspapers and magazines. Notably, major news networks usually provided electronic versions of their news reports online. As for corporate documents, online access to these documents was available on Nike’s official website. As mentioned above, the mass media constituted one of the most important data sources, and the globe’s leading news agencies and news networks were identified as a major data location. To be more specific, the study focused on archival coverage of the triggering event as well as the follow-up reports and commentaries that appeared in the world’s most influential newspapers, such as *Financial Times*, *Washington Post*, and *New York Times*. Attention was also paid to leading business and industry journals and magazines, such as *The Economist*, *Wall Street Journal*, *Business Week* and *Forbes*; influential scholarly journals, such as *Journal of Commerce*, *California Management Review*, and *Harvard International Review*. The study also highlighted press releases from major news agencies, such as Reuters, the Associated Press and Xinhua Press. The world’s best-known public broadcasters, which included ABC, NBC, CNN, BBC, CBS and ESPN, were also covered.

Another major category of data collections comprised corporate documents, including

annual reports, codes of conducts, mission statements, transcripts of press conferences, investigation reports, and the like. Some of these were acquired online and some through company publications. To build the background of the case study, other information about the company, such as company profile and history, as well as information about the relevant industrial sector, was also collected from diverse sources. In addition, the study also referred to descriptions of the crisis studied in various books, such as *No Sweat: Fashion, Free Trade, and the Rights of Garment Workers* by Ross (1999) and *When Good Companies Do Bad Things: Responsibility and Risk in an Age of Globalization* by Schwartz and Gibb (1999).

The Internet was the most accessible site rich in textual data resources. As mentioned, a large number of articles and reports about the dispute were available on the websites of many major news networks, such as ABC, CNN and the BBC. NGO websites also abounded with textual accounts, including news reports, academic articles, press releases and transcripts of important interviews and TV programs; and web links to other related texts were usually given. In addition, websites of relevant industry associations proved helpful in providing useful and coherent information about the organizational field in which Nike operated; and more importantly, gave information on major historical disputes that had concerned the industry. The Nike company website was another key source of important information, such as company profile, financial reports, personnel records and other corporate documents.

Moreover, the Internet gave access to the most important documents on major internal and external investigations conducted by different authorities and organizations, such as the Ernst & Young (1997) report and the Vietnam Labor Watch Report on Nike's labor conduct. Finally, major search engines such as Google and electronic databases (e.g. Lexis-Nexis, EBSCO, ProQuest) significantly facilitated the data searching process. They offered unedited texts of news reports from leading news agencies and press releases from a large number of multinational corporations, governmental departments, industry associations, activists groups and other organizations. Equipped with sophisticated search techniques, they provided flexible and reliable access to organized streams of a wide variety of archival data useful for the present study.

To conclude, archival data were obtained from a variety of sources. Corporate documents, news articles, public accounts, as well as other archival data produced by

government authorities and a range of relevant social groups, were used as empirical data. In line with the research purposes, a large number of data sets of news articles and press releases addressing the topic were assembled. Close attention was paid to media networks and news agencies with recognized agenda-setting influence. Additionally, large amounts of official accounts produced by different institutions were collected as required. Data sources included newspapers, journals, magazines, books and other relevant publications; and the World Wide Web was the data site that contributed most importantly to data collection and the subsequent data processing as well. Also, because data may well (and did) turn out to be incomplete or ambiguous as the data are processed, the procedure was to continue data gathering until data analysis appeared to have run its course (Miles & Huberman, 1994).

4.1.7 Data analysis

Case interpretation focused on the narrative unfolding of the crisis. To prepare the way for robust theorizing, I analyzed the accounts developed by relevant Nike organizational actors and various external participants during different stages of the crisis. I treated these accounts as articulations of these social actors' sensemaking. In particular, I focused on how institutional elements, such as rational myths, shaped social actors' discourse in the controversy. In this way, the narrative analysis highlighted the connection among crises of legitimacy, sensemaking and institutions.

I assembled a storyline highlighting how the "sweatshop" problem was first framed by activists, how Nike made sense of the controversy, and how Nike's response-strategies evolved over time. A large amount of archival data was used to construct the timeline with rich descriptions of the crisis. These archival data, ranging from news articles, press releases to official reports and administrative documents, were subjected to close reading, standardized assorting and categorizing. The data extracted from wide-ranging sources were organized to form a comprehensive database through a coding scheme devised to facilitate efficient and systematic data retrieval and exhaustive data analysis. The case story represented the textual history of the legitimacy crisis as it unfolded over time. More importantly, the story was grounded on thorough interrogation of its social and institutional context.

Also gathered was background information on the case, such as company history,

profiles of company leaders, and relevant information about the sporting goods industry. Moreover, based on the preliminary data search, I discovered that there was a low level of media attention to the sweatshop issue dating back to the late 1980s. Therefore, news reports at this pre-crisis stage were also examined. The completed storyline was then broken down into the two parts mentioned earlier, and several episodes were identified in each phase. The dividing points of these episodes were key events or actions as depicted in the narrative unfolding of the crisis and which reflected the twists, turns and plots that should be pinned down in narrative analysis (Czarniawska, 1998). The main assumption is that an organizational crisis of legitimacy can be “comprehensively and exhaustively tracked across time, through newspaper articles, public accounts, inquiries, and other occasions on which it occurs and where it was textually represented and hence thematized” (Gephart, 1993: 1511).

As far as this study is concerned, one of the most important tasks of the data analysis was to investigate the discursive development of the crises involved. To this end, the research was designed to examine the discursive positions articulated by vital social actors and groups involved, including Nike, anti-sweatshop activists, key investigative journalists, professional bodies, government agencies and a variety of relevant organizations, which revealed the institutional positions held by these participants (Brown, 2005). For instance, corporate documents generated for public disclosure, such as annual reports, can be understood as the organization’s effort to gain legitimization. These textual products show how organizational actors make sense of the organization itself and how the latter is perceived by the public; and they also represent how the company understands and engages in its institutional relationship with a range of internal and external constituents (Suddaby & Greenwood, 2005).

As argued by Brown (2005:1596-1600), the official reports produced by certain organizations represent their attempt to make sense of occurrences. They are accounts disclosed in a bid to “impose a particular version of reality on” intended audiences, or to create a “public discourse myth” that serves to protect the institutional interests represented by the issuing organization. For example, in a legitimacy crisis, investigation reports provided by the focal organization are usually designed to diminish public speculation or anxiety. They offer an ostensibly plausible explanation of what has occurred and reflect the organization’s attempt to preserve its legitimacy. The same applies to such accounts provided by the governing institutions. As implied

by Brown's (2005) investigation into *the Report of the Board of Banking Supervision* on the collapse of Barings Bank, ambiguities and inconsistencies may be found in these official reports. A report of this kind is essentially "a monologue that closes down competing ideas, explanations, and plots, discouraging sceptical questioning" (Brown, 2005: 1600), thus maintaining and reinforcing the legitimacy of the authorities concerned in times of crisis.

At this point, there are some matters that should be clarified. The legitimatizing capacity of discourse is certainly one of the theoretical foundations of this study. Also, the social and institutional organization of such documentations was undoubtedly one of my research interests. However, unlike Brown's (2005) paper, which focuses on a single report by a regulatory authority with hegemonic influence, this study was interested in the dynamic of a chain of crisis events as depicted in narrative forms, and in the process whereby certain interpretations of the events were produced, framed and sustained. It therefore did not restrict itself to treating such reports as static indicators of a particular institution's one-off attempt to override rival opinions and achieve legitimation. Instead, these documents were recognized as discursive productions of a dynamic, ongoing negotiation process which constantly interacted with other clusters of public discourse arising and shifting in a structural context. The research assumed that it was the discursive interaction supported by the production of texts that engendered a legitimacy crisis. Therefore, as an integral component of the empirical data resource, the accounts of the events given in these official documents were used to contextualize and substantively compose the case story. After all, in addition to information outflow from the sphere of the mass media, these reporting documents provided another major discursive resource on which the social actors' sensemaking could draw.

At the initial stage of analysis, the raw textual data were reviewed sentence by sentence, and texts containing a reference to the sweatshop controversy were extracted and then coded. The data were later processed in an iterative, spiraling cycle of coding and recoding. As emphasized by Miles and Huberman (1994: 62), it is important to maintain a relational structure among various codes and to preserve conceptual coherence in the coding scheme—that is, to knit "a conceptual web". The date, the source (e.g. a publication, a website, a book, or an issuing organization), the title or the general topic of the document from which the texts were extracted, and the text's

location (page number, location on sitemap) were categorized. For convenience, in the following discussion, the “company” (i.e. Nike) and “external participants” respectively refer to key decision-makers and other relevant internal organizational actors at Nike, and audiences such as media professionals, activists, critics, and leaders and governmental agencies of home and host countries. Owing to the sheer size of the data collection, the coding scheme started with a set of very broad categories to organize the data, and an attempt was made to carry out a micro-level analysis by channeling these data into more abstract concepts and themes coherent with the theoretical framework.

Firstly, the unrefined data were coded into the following five categories drawn from the general accounting scheme devised by Bogdan and Biklen (1992).

- context: background information needed to reconstruct the story, which included company background, industrial information, market condition, etc; definition of the situation;
- how Nike publicly defined, or perceived, the situation it was undergoing, which was related to general organizational sensemaking; the way of thinking about the issues;
- how Nike and external participants understood, defined, or perceived the labor issue and the related topics, e.g. what was wrong with the existing practices, if anything; what concerned them; what should have been done; what actions should have been taken, which was linked to construction of organizational identity, meaning and sensemaking; ways of thinking about each other;
- how Nike and external participants understood and perceived each other, e.g. was the company perceived by audiences as acting in an irresponsible way?; did the company consider activist groups as hostile and exaggerating the consequences of the issue?; who should be held responsible for what had happened?; who was to blame?, which were questions associated with meaning and identity construction;
- action: what reported actions Nike and external participants took—did the company hold a press conference or advertise on television?, or did the customers boycott the company?, were any pressure campaigns waged by interest groups, etc.?, which was linked with how the company enacted the environment and how the company’s legitimacy was challenged and repaired.

This accounting system furnished a chronological narrative account of what had

occurred and what the various participants had thought about it. By means of this first-round coding, a general storyline was pieced together, and some themes emerged, such as the general positions taken by Nike and external participants at different stages of the crisis (e.g. denial or acceptance of responsibility). This led to the next stage.

In the second stage, pattern codes were developed as regards how the crisis unfolded and how diverse understandings of the issue emerged and evolved. It began with close examination of the dialogue between Nike, its major critics, and other influential audiences. Codes were developed to categorize and subcategorize forms of accounts—that is, how they were framed (Elsbach, 1994). The two broad forms of accounts were denial (outright/hostile or partial/accommodative denial with excuses, justifications and explanations) and acknowledgement (with excuses, justifications and explanations). This stage of the coding also considered how organizational actors described the organization and themselves (identity claims) when they provided accounts. This coding method was also drawn from Bogdan and Biklen's (1992) categorizing scheme. Then, coupled with concepts from sensemaking theories, the mass of data put in some sort of order by the initial coding was further distributed into the following three more abstract categories.

- frameworks or perspectives, which were deeply rooted in identity and more conceptually inclusive than “ways of thinking about issues/people” in the first round coding—for instance, the perspective on which a company draws to make sense of a situation largely depends on how it positions itself: if it does so as a profit-generator for shareholders, it will probably adopt a parallel perspective to understand the issue;
- events, i.e. key activities by either side that signified the major development of the crisis, usually accompanied with noteworthy textual production, such as an investigation (usually followed by a report), further disclosure of key information (e.g. through press releases in documentary form), etc;
- strategies, which were summarized from the first-round coding on how the company and external participants acted on each other—the tactics employed and the actions taken by Nike and external participants.

The data were thus revised and recoded to produce a higher order of patterns—process,

which concerned the sequence of events, flow, and more importantly, transitions, turning points and changes over time—which were essential for the storyline construction. In the case study, after assembling a full account of the crisis, the time scale was decomposed into two phases (as featured respectively in Phase I and Phase II of the case study) by drawing on these process-related codes. This was followed by the analysis of each phase with a view to breaking the sequence of the unfolding crisis down into patterns so as to penetrate the problem. These inferential codes were subjected to ongoing revision as the data processing continued, with new data gathered and added into the coding scheme, as well as new themes (e.g. rational myths) captured and classified.

The third round of coding involved cross-level analysis incorporating concepts from institutional theories. Referring to the categories developed through the earlier coding process, the analysis focused on the myth-related content of the accounts and the language used by Nike and different external participants. Especial attention was paid to texts expressing taken-for-granted beliefs and understandings of specific issues, since these denoted abstract rational myths (Zilber, 2006), and also to the frequencies with which Nike and significant audiences used such expressions at different stages of the crisis. Drawing on the conceptual framework, codes were generated to monitor how institutionalized myths were reflected, realized and mobilized to achieve certain ends through the production of accounts and narratives, and how rational myths affected the social actors' sensemaking process during the crisis. This was achieved by checking the data and the conceptual framework back and forth across the storyline (Glaser & Strauss, 1967; Miles & Huberman, 1994; Silverman, 2000). Based on the theoretical framework, a cross-level, comprehensive explanation of the crisis was developed. Mutually shaping categories and their relationships were developed and illustrated in a visualized map.

As mentioned previously, the dynamics of the research findings partially stem from the study's attempt to weave together key disparate textual segments into a meaningful whole with coherent passages exemplifying the unfolding sensemaking of organizational actors and other social actors. In order to increase the validity and reliability of the research findings, data collected from different sources were triangulated so as to avoid reliance on isolated fragments of texts (Miles & Huberman, 1994). These data were contextually verified and corroborated by those from other

sources of evidence, which were expected to facilitate reflexive and rigorous analysis (Silverman, 1993).

Moreover, the research bore in mind that “the process of building theory from case study research is a strikingly iterative one” which “involves constant iteration backward and forward between steps” (Eisenhardt, 1989: 546). Hence, the findings and data exhibits were finalized after checking, back and forth across the timeline of the crisis, the data, the theoretical framework and the themes and categories surfacing from the data analysis (Miles & Huberman, 1994). The purpose, as proposed by Eisenhardt (1989), was to establish an intimate linkage between the analyzing process and the empirical data. Patterns related to the unfolding of the legitimacy crisis, sensemaking process, the interaction between sensemaking and rational myths and how it affected the unfolding of the crisis were then identified. In order to retain the original flavor of study-important narrative data, these are presented in the following chapters in the form of actual segments of raw texts, and full references for these texts are provided.

4.2 Conclusion and limitations

The research was grounded on a theoretical framework combining the sensemaking and institutional perspectives. These were expected to be useful in exploring the social phenomenon of a legitimacy crisis because they enabled the interactive investigation of micro-and macro-level analysis of the focal events and hence filled the theoretical gap between sensemaking and institutional theories. As suggested by many scholars, research work becomes scientific if the methods of study applied are appropriate to its subject matter. Hence a social study can be considered as scientific “to the extent that it uses appropriate methods and is rigorous, critical and objective in its handling of data” (Silverman, 1993: 144). Accordingly, the focus of the research design was to decide upon appropriate accessible data that could be used in an apposite analytical way so as to address the research questions. This mapping was developed after giving close practical and theoretical consideration to different stages of the designing process as illustrated above.

As argued by Silverman (1993: 60), “the presence and significance of documentary products” provides researchers with “a rich vein of analytic topics” and “a valuable source of information”. The study specifically focuses on one such topic. To

summarize, the research consisted of a longitudinal case study on the Nike sweatshop controversy, and it applied an interpretive approach in general with special help from the techniques of narrative analysis. As regards empirical data, archival data constituted the bulk of the data base. The latter was a massive collection of texts extracted from media coverage and documentation of official records which revealed how Nike accounted for and legitimated its activities. In an attempt to build a vivid account of the crisis, an intensive review of the raw textual data was conducted. The data sets were systematically gathered and ordered according to a coding scheme devised to facilitate systematic and comprehensive data processing. Based on sophisticated contextual scaffolding, evidence was triangulated to the increase validity and reliability of theory building.

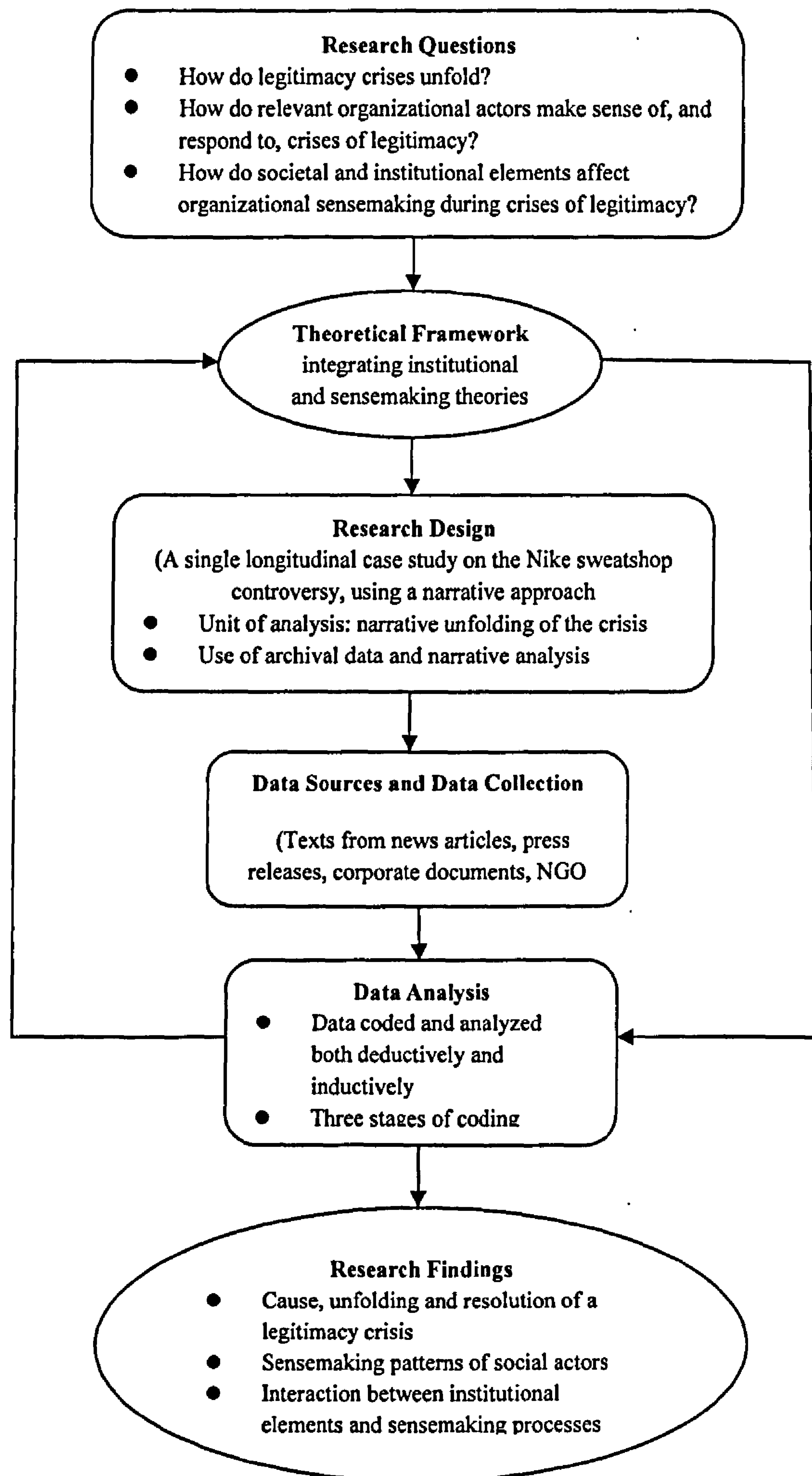
There were three stages in the coding procedure, which started with the micro sensemaking processes and concluded with a cross-level framework. Different levels of codes were created to label the concepts, themes and patterns derived from the existing theories and from the data analysis. To enhance the robustness of data interpretation, codes were examined and re-examined in an analytic cycle. Overall, this can be viewed as research combining narrative strategies with visualized aids to deal with multilevel process data (Langley, 1999), in an attempt to fully exploit the data so that they yield new insights. The research process is summarized in Figure 3.

Finally, research based on case study always has some limitations. Because the present study adopted a single-case approach, it was limited in its scope. To counteract this weakness, the case was carefully selected; multiple sources of evidence were used; and sequences of evidence were established. Moreover, the triangulated research strategy adopted helped ensure the methodological rigor required of a case study and improved its reliability and validity (Feagin *et al.*, 1991; Yin, 1994).

Another drawback is that the research mainly relied on archival data. It did not employ qualitative tools such as interviews or participant observation because of lack of access to settings that were publicly inaccessible (Gephart, 1993). It is admitted that solely drawing on public accounts, which probably provided incomplete records of the events, limited the observation to happenings reported through public channels, especially the media, and omitted others that might have affected the unfolding of the crises. Nevertheless, as shown by the previous discussion, the unfolding of events as

manifested in public textual accounts carries theoretical significance. After all, news reporting has a direct impact on the way in which an issue is understood by different social actors, and thus on how the crisis unfolds. In addition, as noted before, given that the research focus was on deliberate organizational sensemaking work aimed at restoring order, because the narrative approach looks at public dialogue and the meanings negotiated between the focal organization and audiences in its environment in the public forum, it should be appropriate. Moreover, data regarding this aspect, such as those taking the form of news reports, investigation reports, interview records and press releases, should be as adequate as described above. Certainly, there is always room for improvement, and it is acknowledged that the generalizability of these findings could be increased through further research.

Figure 3. The research process



Chapter 5 Background to Nike and Outsourcing

Introduction

The relocation of manufacturing to low-cost developing countries has long been common practice for many multinational corporations, especially for shoe and garment companies such as Nike, Gap, and Levi Strauss & Co. The reasons are simple: much lower labor costs, lower land costs, less union involvement and fewer government regulations. In the 1990s, however, these big brand names have come under unprecedented pressure as various NGOs and the media interrogated them as regards their labor practices in developing countries. The usual response of these large companies was to shrug off the criticisms, claiming that they had no control over their contracted factories and that the labor policies of overseas factories were none of their business. Nevertheless, a brief examination of such controversies would suggest that this “dodging-the-bullet” manoeuvre was far from enough to deal with such controversies.

In the mid-1990s, public criticisms voiced by human rights groups, labor unions and the media singled out Nike from many other footwear and apparel firms as a major target. The company was assailed by the anti-sweatshop movement, constantly exposed to critical coverage of the poor working conditions in such countries as Indonesia, Vietnam and China, and accused of exploiting third-world workers. The allegations centred on such issues as low wages, the use of child labor, forced long working hours, workers abused by factory managements, unpleasant, and unsafe working conditions. This case study focuses on the legitimacy crisis faced by Nike from mid-1996 to mid-1998 when the “sweatshop” controversy reached its height. In particular, the case study examines how the crisis unfolded, and how Nike, faced with widespread negative publicity, negotiated with its critics and coped with the crisis. Because organizational crises are contextually driven and each of them is unique, it is particularly important to contextualize the case adequately. This chapter provides background information about Nike, the focal organization, and its labor practices.

This background information has been assembled by drawing on a variety of sources, including the official websites of Nike, Yahoo! Finance, Datamonitor and CNN, and a number of widely circulating newspapers and magazines in the U.S., such as *The New York Times*, *Fortune*, *Financial Times*, *The Wall Street Journal* and *Business Week*.

The first section of this chapter gives an overview of Nike, and then surveys what have been predominately portrayed as its history, heritage and philosophy. The second section features Nike's business model, its marketing strategy, and a controversial figure who played a key role in the sweatshop controversy—Nike's then CEO Phil Knight.

5.1 Nike's history, heritage and philosophy

In terms of profitability and pace of expansion, Nike is unarguably one of the world's most successful multinational corporations. For decades, Nike, headquartered near Beaverton, Oregon in the U.S., has been engaged in the design, development, and worldwide marketing of athletic footwear, apparel, sports equipment and accessory products (Datamonitor, 2007). The global enterprise has dominated the world's sportswear and sports equipment industry since the 1990s. Its performance in the marketplace has been so remarkable that the company's success stories, phenomenal growth, marketing strategy, and the culture that it symbolizes, have been studied by many researchers working in various fields, such as Strasser (1991), Willigan (1992), Katz (1995), Goldman and Papson (1998), and Zook and Allen (2003).

Nike positions itself as a "youthful, premium brand", and it markets its products in over 160 countries across the globe with offices located in 46 countries (Nike Inc., 2007a; 2007b). The company is well-known for its extensive sponsoring activities: according to a survey conducted in 1998, Nike was the most widely recognized corporate sponsor in sports (Slater & Lloyd, 2004). Besides its enormously diversified product lines, the company also supplies apparel with licensed college, professional team and league logos. Most of Nike's footwear and apparel products are manufactured by independent contractors in Asian developing countries, including China, Indonesia, Thailand, Philippines, Vietnam, India and Pakistan. As regards distribution, Nike channels its products through an assortment of independent distributors, licensees and subsidiaries in over 120 countries (Datamonitor, 2007).

Nike is widely recognized as an outstanding brand builder, and its dramatic transition from a small local firm to the world's market leader is much admired (Strasser, 1991; Willigan, 1992; Zook & Allen, 2003). As Kharif (2003) writes, in the space of only

three decades since the brand was first introduced, “Nike has grown from a maker of shoes for track-and-field athletes into the world’s leading purveyor of sportswear and sneakers - for everyone from major leaguers to wannabes”. The company’s stunningly rapid growth is indeed extraordinary in the world’s business history, and it all started with two men—Bill Bowerman, a track and field coach at the University of Oregon, and Phil Knight, a middle-distance runner trained by Bowerman. They began their business partnership in 1964, when they set up the Blue Ribbon Sport company, which initially operated as a distributor for the Japanese shoe brand Onitsuka Tiger, achieving first-year sales of 8,000 USD (Nike Inc., 2007c; Yahoo! Finance, 2007).

In particular, the success stories of Nike and its founders (Phil Knight in particular) have been recounted by the mainstream media as well as by activists and NGOs—see the article by Saporit (1998) in *Time* and a Christian Aid report by Brookes & Madden (1995)—and they have been repeatedly publicized by the company itself on various occasions, on its official website (Nike Inc., 2007c) and in Phil Knight’s 1998 keynote speech. It appears that the idea of building an athlete shoe empire came to Knight back in the early 1960s when he was a Stanford MBA student. In one of his marketing research papers, he argued that importing low-priced, high-performance athletic shoes from Japan could challenge the German brands such as Adidas and Puma, which at that time dominated the U.S. market (Herbert, 1996b; Alesia, 2004). The advantage was apparent: shoes made in Japan were cheaper because fixed costs, such as those of labor and land, were lower in Japan.

Another widely told story recounts that Knight founded Nike by selling shoes out of the trunk of his car (Knight, 1998; Saporit, 1998). From such insignificant beginnings, Knight’s business idea has grown into a sportswear enterprise which has defined a way of life and many aspects of contemporary popular culture (Katz, 1995; Goldman & Papson, 1998). Blue Ribbon Sport initially targeted the market segment of professional runners. The company’s profits grew rapidly, and in 1966 it opened its first retail shoe store in Santa Monica, California (Yahoo! Finance, 2007). In the 1970s, Knight and his company caught the jogging trend at an early stage and began marketing their shoes to non-professional runners as well. Shortly thereafter, a huge market opened up to them as running shoes became a fashion statement and everyone began to wear them: this movement was later termed “sneakerization” (Goldman *et al.*, 1995).

In 1971, Blue Ribbon Sport launched a footwear range branded as “Nike”, named after the Greek winged goddess of victory, and released its newly designed trademark “Swoosh”: both of these events will be discussed towards the end of this subsection. In 1978, by which time the company was earning 270 million USD annually, it was officially renamed as Nike Inc. (Nike Inc., 2007c; Datamonitor, 2007; Yahoo! Finance, 2007). Over the decade that followed, Nike’s expansion accelerated, and its size almost doubled year on year. By 1979, Nike had outstripped its German arch-rival Adidas, the former U.S market leader, taking over half of the U.S. athlete shoe market and enjoying a turnover of 149 million USD. It went public in December 1980 and its annual revenue surpassed the one-billion-USD mark six years later (Nike Inc., 2005). In 1985, Nike launched one of its best-selling product lines—the Air Jordan shoes—as well as specialized apparel endorsed by NBA player Michael Jordan. One year later, the shoe manufacturer launched its apparel collection (Datamonitor, 2007). During the 1980s, Reebok, another American sportswear company, arose as Nike’s single direct competitor. However, by the beginning of 1990s, Nike had become unrivalled as it beat off Reebok’s challenge by regaining its domestic market share (Hoover’s, 2007). Overall, Nike’s sales leaped from 270 million USD to more than 2.2 billion in one decade from 1980 to 1990.

In 1990, the first Nike Town super store was opened—another selling idea developed by Phil Knight—in downtown Portland, Oregon, and the store soon won numerous retail design and business awards. The company had already become the world’s leading athletic shoe and apparel company in terms of both market share and sales, which amounted to more than 9 billion USD in 1997 and 1998, even when Nike was beset by the sweatshop controversy. By 1998, Nike controlled over 40 per cent of the athletic shoe market in the U.S., and about 37 per cent worldwide (Nike Inc., 2005). From 1990 to 1998, benefiting from a steadily growing domestic market and a booming global market, Nike underwent spectacular expansion, with sales soaring from 2.2 to 9.6 billion USD (Nike Inc., 2000). Starting from the 1980s and throughout the 1990s, Nike diversified its product lines and broadened its brand portfolio to include many other sports, in the meantime expanding its retail network to regions all around the world (Zook & Allen, 2003; Nike Inc., 2005). Although the company’s profitability dropped in the late 1990s, it revived not long afterwards: revenues rebounded from the low of 8.7 billion in 1999 to 10 billion in 2003, and then amounted to 16 billion USD in 2007.

As regards the present study, it is worthwhile focusing on the company's financial performance during the period when it was under attack for the alleged exploitation of overseas workers making Nike products. The company's financial report shows that it achieved extraordinary growth from 1994 to 1998 (Nike Inc., 2000). From 1994 onwards, Nike maintained a remarkably strong growth rate at about 39 per cent on average, with sales rocketing from about 3.8 billion USD in 1994 to nearly 9.6 billion USD in 1998. Investors enjoyed a huge 320 per cent increase in the stock price from the beginning of 1995 to a high of 75 USD per share in early 1997. The year 1997, in particular, saw the company's sales rise from 6.5 billion to 9.2 billion USD—an astonishing leap of 42 per cent, and to 9.6 billion USD one year later, although they then dropped by 8 per cent in 1999. During that period, sales in the U.S. market accounted for more than 40 per cent of Nike's revenues, and around 30 per cent of them came from EMEA (Europe, Middle East and Africa). The Asia Pacific region became the company's fastest growing market, except in 1998 when Asia was hit by the Asian Financial Crisis.

Nike's fast growth is largely attributable to success in branding and marketing. Its products are easily identified, thanks to the company's distinctive trademark—the *Swoosh*. As one of world's most recognized corporate logos, the *Swoosh* was created by Caroline Davidson, a student at Portland State University. Echoing the Nike brand name, it represents the wing of the Greek Goddess (Nike Inc., 2007d). According to the company's official illustration, Nike is the goddess “symbolizing victorious encounters” on “history's earliest battlefields”. The sense of battling and winning conveyed by the brand is further elucidated by the following definition: “A Greek would say, ‘When we go to battle and win, we say it is Nike’”. The Nike empire presents itself as a leader who rules in modern times and values achievement, triumph and conquest: “Synonymous with honored conquest, Nike is the twentieth century footwear that lifts the world's greatest athletes to new levels of mastery and achievement (Nike Inc., 2007d)”. In the spring of 1972, the first pair of shoes bearing the Nike *Swoosh* was produced. Thereafter, it became a symbol of success in the 1980s. As regards the cultural and commercial influence of the trademark, Goldman and Papson (1998: 1) note: “We live in a cultural economy of signs and Nike's swoosh is currently the most recognizable brand icon in that economy. The Nike swoosh is a commercial symbol that has come to stand for athletic excellence, hip authenticity, and playful selfawareness”. However, during the anti-sweatshop movement in the 1990s, the logo suddenly became “emblematic of all of Nike's troubles (Egan, 1998: 68)”.

Since then, the logo has been shrinking in size on some Nike products, while other products are being launched with completely new logos.

As an extremely successful marketing company, Nike has introduced the world to many classic slogans and taglines, such as “There is no finish line” and “Just do it”. Nike launched its most famous “Just Do It” advertising campaign in 1988, which was recognized by *Advertising Age* as one of the top five advertising campaigns in the twentieth century, and the slogan itself was the runner-up among the top 10 slogans in the 100-year history of advertising (Advertising Age, 1999; Datamonitor, 2007). To a large extent, “Just do it” has been read as a “can do” attitude and as the essence of the message Nike intends to deliver: revolution, confidence, “free-spiritedness” and “a will to do what one wants, and indeed can do” (Levin & Behrens, 2003). In line with the company’s core business function as a shoe and apparel marketer, the image evokes strong dedication to sport and fitness, which has added tremendously to Nike’s brand equity.

All in all, the world’s largest athlete shoe and apparel supplier has been described as one of the most successfully branded and fastest growing companies in the world. Its success stories have been well documented by many prestige publications—the business press in particular such as *The Wall Street Journal* (e.g. Ferguson, 1992; Goldman, 1993) and *Harvard Business Review* (e.g. Willigan, 1992; Treacy, 1993)—and its marketing strategies have been used as case studies at world-renowned business schools across the globe. In general, commentators are amazed at how a small, local, risk-taking business, as Nike was thirty years ago, grew into a global brand, together with McDonald’s and Coca Cola, perceived as a symbol of overwhelming corporate America (Shaw, 1999). Apart from Nike’s almost overnight transformation in terms of corporate size and market share, it is also well known as an outstanding conqueror of markets. It is fair to say that for two decades after it overtook Adidas in the late 1970s, the company encountered few major obstacles in maintaining its dominant position in the marketplace, except for a short period in the 1980s when it struggled against Reebok; nevertheless, Nike managed to overcome this hurdle and continued to grow in the 1990s. From a different perspective, it is probably not that Nike invariably encountered feeble competition as a matter of luck; instead, the company was simply good at winning. Its repeated conquests were due to numerous factors. The following subsection conducts detailed discussion on Nike’s leadership and the strategic factors linked with its enormous success.

5.2 Phil Knight and competitive advantages

Few of those who study Nike omit consideration of its former CEO and chairman Phil Knight. The business tycoon warrants special attention because of his prominent role in the legitimacy crisis that hit Nike in the 1990s. As mentioned previously, the inspirational stories about the co-founder of the sportswear empire abound (Boje, 1998a). He occupied various professional roles in his career: as a certified public accountant at Price Waterhouse and Coopers & Lybrand; as an Assistant Professor in Business Administration at Portland State University; and as Chairman and CEO of Nike (Roth, 2005; Datamonitor, 2007).

Unsurprisingly, according to many observers knowledgeable about the company, Nike's huge success—in financial terms at least—cannot be separated from Knight's tenacity, his extraordinary insights and sound business decisions. Many of his peers, including Nike's employees, business professionals on Wall Street, scholars and corporate leaders, have paid tribute to this legendary though controversial entrepreneur for his remarkable achievements (Strasser, 1991; Willigan, 1992; Krentzman, 1997; Zook & Allen, 2003; Roth, 2005). For instance, Nike employees "tell stories about him", and "call him a father figure, a leader, a visionary" and even "a genius" (Roth, 2005). As the well-known sports agent David Falk says, "In a very short period of time, Phil Knight created one of the greatest American commerce stories of the 20th century" (Krentzman, 1997). In particular, Harris (1999), a leading expert on marketing, Shemper (2004) of *Time* and Roth (2005) of *Fortune* compliment Knight as a marketing pioneer, or as one of the master marketers of contemporary times.

To exemplify how Knight acquired this reputation, he was one of the first businessmen to allow vendors to pre-order inventory, which was a revolutionary business practice at the time but soon became standard among other businesses (Alesia, 2004). More importantly, his groundbreaking marketing and manufacturing decisions have revolutionized the sports shoe industry. The fact that Nike has long been viewed as a cultural icon is attributable to Knight's beliefs and insights. It is widely acknowledged that his concept of endorsement marketing has been the key to Nike's success and continues to be an important element in its marketing strategy. This is one of the most significant aspects emphasised by practitioners and researchers on Nike's strategies and competitive advantages: it drove the company's tremendous performance but also added to its difficulties during the legitimacy crisis. As recognized by Krentzman (1997), to start this sponsorship revolution, Knight understood and managed to capture

the spirit of American pop culture and related it to sports. He found a way to blend U.S. society's worship of heroes, obsession with status symbols and its penchant for rebellious figures. The legendary brand-builder believed that people are heavily influenced by what top athletes are wearing and they will purchase shoes accordingly. He called this the "Pyramid of Influence" (Alesia, 2004).

Knight's concept has enabled the company to achieve extraordinary results in marketing; indeed, sponsoring athletes and major sports events has always been its major marketing tool. It is not difficult to show that a large part of Nike's strategy has been built on its image. In 1978, the sneaker company started to give college coaches Nike shoes for free and offered them 5,000 USD contracts to have their teams wear Nike shoes exclusively. In the same year, the company also signed champion tennis player John McEnroe, women's marathon gold medallist Joan Benoit, and Olympic track star gold-medal winner Carl Lewis, as well as professional teams and college athletic teams (Wetzel & Yaeger, 2000; Nike Inc., 2005; Hoover's, 2007). In addition, Nike's first nationwide television commercial was broadcast on the occasion of the 1982 New York Marathon. Since then, many more television commercials have been created to promote the brand, usually featuring celebrity athletes endorsing Nike products; and television has become one of the company's main advertising media, enabling it to reach a broader consumer base and reinforce its publicity and marketing impact (Goldman & Papson, 1998).

It is worth noting that among all of Nike's sponsorship deals with big-name sports stars, the signing of Michael Jordan in 1984 is the one most credited with boosting the brand's media presence and sales. Vaccaro, another mastermind behind Nike, convinced Phil Knight that NBA player Michael Jordan was worth an endorsement contract for 500,000 USD per year. Knight soon signed Jordan and announced the launch of the new Air Jordan shoes; since then, the player's name has been constantly linked with the Nike brand. Jordan became a U.S. and world superstar almost overnight, and the next year the Air Jordan shoe line earned Nike 100 million USD. This line is now one of the longest-lasting in shoe history. The Air Jordan gave Nike the edge in basketball shoes and its success was so phenomenal that Vaccaro claimed, "The marriage of Michael and Nike is the biggest story in the history of sports marketing" (Wetzel & Yaeger, 2000: 78). The company then began to dominate not only the running shoes segment but also the basketball market (Roth, 2004) and soon

branched out into many other sports, enhancing its diversity and making itself into a hugely profitable company (Zook & Allen, 2003).

As indicated earlier, Nike's image also comprises a rebellious side. The representation of the company as a rebel is markedly apparent in Nike's choices of athlete endorsees, such as tennis players John McEnroe and Andre Agassi, and basketball players like Charles Barkley and Dennis Rodman, who were well-known for their pugnacious and aggressive attitudes. In addition, in several interviews (see Willigan, 1992; Saporito, 1998), Phil Knight pointed out that the shoe empire's culture was infused with the spirit of a rebel and that Nike's image had to some extent been built around the rebellious personalities of these celebrity athletes. Not surprisingly, such a positioning made Nike products particularly appealing to the youth market. This image was further boosted as the media enthusiastically conveyed this sensational portrayal of Nike in the 1980s and throughout the 1990s, using words like "rebellious" "revolutionary", "irreverent" and "anti-establishment" (see Magnet, 1982: 158; Malkin, 1996; Boje, 1998a, 1998b; Keller, 1999; Klein, 1999).

Furthermore, the shoe giant has positioned itself as a premium brand whose selling points are innovative design and quality. Its marketing strategy has revolved around an irreverent brand image realized by the distinctive *Swoosh* logo and award-winning advertising, and especially a number of famous advertising slogans. It captures consumer attention by using top-ranking athletes and professional teams to promote its products. As pointed out by some investigators, Nike has relied on a whole marketing package—"It took on a new religion of brand consciousness and broke advertising sound barriers with its indelible Swoosh, 'Just Do It' slogan and deified sports figures. Nike managed the deftest of marketing tricks: to be both anti-establishment and mass market (Soloman *et al.*, 1998: 36)." Nevertheless, the backlash incurred by Nike during the legitimacy crisis was closely tied to what seemed to be the finest set of tricks Nike had been so contentedly clinging to.

Besides its well-crafted image, Nike's pursuit of cheap labor has been another factor in its rapid growth and market leadership. At its beginnings, the company was a "grassroots organization" (Roth, 2004). Knight's grassroots strategy consisted in low capital and necessity, but it later became one of the shoe giant's competitive advantages. Since the company's foundation, it has sought to produce high-quality products at affordable prices for North American and, more recently, worldwide consumers. As admitted on many occasions by Nike leaders, this had been achieved in

large part by using low-cost labor (e.g. see Phil Knight's interview with The News Hour, PBS on 13 May 1998). In the early 1990s, reports began to circulate that the footwear industry was shifting its manufacturing sites to lower-cost labor markets (Clifford, 1992; Darlin, 1992; Brook & Madden, 1995; Herbert, 1996a). Echoing this finding, a study published in 1997 by Jardine Fleming—a Hong Kong-based investment bank—showed that, in Asia, Nike had moved its manufacturing operations from Japan to Korea and Taiwan, then from South China, Indonesia, and Thailand to North China and Vietnam, following the same track as cited above (Light & Clifford, 1997; Kahle *et al.*, 2000).

Outsourcing to less developed countries where labor was cheap had yielded the low manufacturing costs and relatively high quality of products which were the crucial components of Nike's positioning. As expected, it was firmly believed by many internal and external participants that outsourcing at the production end was almost as central to the firm's strategy as paying high fees to celebrated endorsers to boost sales at the consumer end (Anonymous, 1997). For instance, Nike was often cited as an outsourcing role model, for instance by Quinn and Hilmer (1995). In 1997, the industry leader had about 600,000 overseas manufacturing workers in 32 different countries, most of whom were women working for subcontractors in Asian countries such as China, Vietnam, Indonesia and Thailand (Firoz & Ammaturo, 2002). The next subsection provides an overview of Nike's operations in those countries.

5.3 Nike's operations in Asia

Before 1976, most Nike shoes had been made in Japan. In that year, Nike started relocating production, first to Korea, and later to Taiwan. In the same year, its shoes were sold for the first time in *Asia*. Phil Knight declared, "There is no value in making things any more. The value is added by careful research, by innovation and by marketing" (Willigan, 1992). Knight consequently decided that Nike would contract production to local Korean and Taiwanese companies, instead of owning its own plants. Since then, with the vast majority of its products manufactured by overseas suppliers, Nike has become a company whose activities essentially consists in the design and marketing of athlete footwear. For example, in 1986, an article in *Business Week* noted that the leading brand visualized itself "not as a manufacturer but as a research,

development and marketing corporation (Wilson & Dobrzynski, 1986: 62)”; and later, its corporate identity became even more specific when Knight pointed out: “Nike is a marketing company (Willigan, 1992)”.

By 1980, nearly 90 per cent of Nike’s products were being made in Korea and Taiwan. Then, in the 1980s, Nike found even cheaper labor in other Asian countries such as China, Indonesia, Thailand and Vietnam. In the early 1990s, a large portion of Nike production moved to these regions. Throughout the 1980s and 1990s, Indonesia was the Nike’s largest production center with about 17 factories employing some 90,000 workers and producing about 7 million pairs of shoes each month. By 1988, nearly one third of Nike shoes were being made in Indonesia alone. In the 1980s, after the introduction of China’s open-door policy, Nike *set up production* in that area through Taiwanese investors. It became Nike’s second largest production site in the 1990s (Clifford, 1992; Firoz & Ammaturo, 2002).

The relationship between Nike and its subcontractors was known as being fairly close. It is reported that there were Nike expatriate staff in each of the plants of its suppliers, who served to perform quality control and liaise with the headquarters and the R&D department (Quinn & Hilmer, 1995; Wokutch, 2001). As reported by *Time* (1994) and claimed by the company (Nike Inc., 1996b), this staff also conducted inspections of subcontractors’ factory sites on a weekly basis to monitor working conditions, ensuring adherence to Nike’s code of conduct. Notably, in Korean-owned plants based in Indonesia and Vietnam, the top management was usually Korean. Middle-level managers and superiors might be either Korean or local people (Quinn & Hilmer, 1995; Cleanclothes.org, 1997).

Some scholars, such as Goldman *et al.* (1995), Hodge *et al.* (1996) and Boje (1998a; 2000), describe Nike as a prime model of the “virtual organization” which typically consists of a core organization with the CEO and full-time staff performing key functions, while the company establishes interim alliances with subcontractors to do the supplementary tasks. Nike was a virtual organization in that it had a CEO and core employees to carry out the functions of product design, marketing and public relations, whereas it contracted its production to Korean and Taiwanese-owned firms operating about 350 factory sites in more than 30 countries, and employing around 600,000 unskilled Asian workers, 85 per cent of whom were women. Boje (2000) points out that, compared to the core of loyal employees who focused on product design,

marketing and other brand-building and fortifying activities, the Asian workers who actually made the shoes were somewhat peripheral to the company.

At the time of the crisis, through its contractors, Nike was providing work for about 383,000 people at 200 factories throughout Asia, mainly in China, Vietnam, Indonesia and Thailand (Kahle *et al.*, 2000). Despite the fact that in 1992 Nike had already implemented a code of conduct for its contracted manufacturers, from the mid-1996 onwards, critical reports and media coverage of poor working conditions, strikes, worker abuse, and even the use of child labor at Nike's overseas plants, were recurrent, and they aroused intense public debates worldwide, most notably in North America. First a variety of activist groups, mainstream press, later students' associations and finally even the US Congress began to express their concerns and voice their criticisms in different ways.

Conclusion

This chapter has provided a context for the case study. As shown, for most of the 1990s, Nike had a strong market-oriented culture and a matching identity as the world's best marketer of sporting goods, which may have stemmed from its rapid growth and its business model. The combination of innovative marketing strategies and aggressive outsourcing practices brought the company enormous financial success, prestige and reputation. This culture and identity of Nike were enhanced and reinforced over the years.

There are two factors that may have contributed to this markedly strong organizational culture and identity. The first is the personality of Nike's founder, Phil Knight, who was also leader of the company during the crisis. He has been the most iconic figure in the company's history, and his personality had left traces in Nike's culture. The former CEO had been responsible for many of Nike's key decisions and strategies. He enjoyed many years of fame and also had a strong belief in himself and in the company's business model. Secondly, Nike's widely-recognized marketing and advertising strategies also contributed to affirming the identity perceptions of internal participants. The company's skilful use of various marketing tools not only turned it into a world-renowned brand, but also increasingly established it as a focus of media attention and as a market-oriented company.

Moreover, the sweatshop controversy arose in a context where manufacturing outsourcing was prevalent in the consumer goods industry, and Nike was considered to be one of the most effective practitioners of outsourcing. But although Nike had benefited from low-cost labor, the laborers who produced for the company had scant connection with it (being separated by a large functional and geographical distance). The sweatshop controversy erupted because such outsourcing activities became widely perceived as inappropriate and unacceptable to society. It not only challenged the industry's well-established, taken-for-granted practice, but also undermined Nike's fundamental beliefs and underlying assumptions of what it was, what was around it, and how it should behave. In other words, owing to negative feedback from society, the organizational actors' understanding of social reality was called into question. This understanding, as shown by the case study, was progressively repaired as an ongoing outcome of negotiation and bargaining between Nike and the audiences.

Chapter 6 Case Study (Phase I)

Introduction

This chapter focuses on the initial stage of the sweatshop controversy when Nike received widespread negative feedback from society which was marked by massive media condemnation of Nike's overseas labor practices. The time frame of Phase I extends from mid-1996 to the end of 1996. As shown in Figure 4, media reporting on Nike and its overseas labor practices started to increase dramatically in June and July, and began to fall from August to the end of 1996. This was a period when the sneaker giant was first subject to intense media scrutiny. A series of PR nightmares and waves of bad press regarding underpaid workers, poor workplace conditions, as well as various forms of labor abuses at Nike's plants seriously challenged the company's reputation and legitimacy. Nike embarked on a series of negotiations with its critics and made progressive concessions. This phase concluded with Nike joining the Apparel Industry Partnership (AIP), the formation of which established sweatshops as an industry-wide problem and institutionalized corporate self-regulation as a solution to the problem.

As said, the research reported here treated the unfolding crisis as a text, and negotiation as taking place in a discursive space. The amount of media coverage was used to build the time frame of the case in that it indicated the beginning, intensity and punctuations of the crisis. Archival materials such as news articles and corporate documents were used as empirical data. The findings of Phase I highlight two main rhetorical strategies adopted by NGOs and Nike to negotiate meanings in the sweatshop controversy. The NGOs' rhetorical strategy drew on the larger human rights discourse and the basic norms of humanitarianism to construct a social problem out of the labor practices of large corporations, thereby driving organizational changes. As Nike sought to maintain the *status quo*, it developed a counter-rhetoric which at first was mostly derived from the neoclassical economic rationality that prioritized market competition and profit maximization,³ and was later used a mixed rhetoric that fused elements from both

³ Traditionally, from a neoclassical economic perspective, the only corporate social responsibility is that of making profits and competing in the market (Friedman, 1962: 1970).

perspectives to give rise to a hybrid line of rhetoric on corporate social responsibility. These rhetorical strategies relied on a range of existing myths,⁴ and these myths served as sensegiving mechanisms that provided sense with which social actors could negotiate order.

This chapter first introduces the pre-crisis period from 1980s to mid-1996 when the sweatshop controversy emerged. It then focuses on the first part of the crisis—the period between mid-1996 to the end of 1996—which is divided into six subsections: the triggering event, the first wave of negative reports on Nike's labor practices, anti-Nike protests by human rights leader Jesse Jackson and former Nike worker Cicih Sukaesik, more challenging investigative reports on Nike factories, the launch of the AIP, which in effect temporarily brought the controversy to an end, and the annual shareholders' meeting and the creation of Labor Practices Departments containing measures to prevent future controversy, and which will lead us to the second phase of the crisis. Finally, discussion is conducted on rhetorical strategies, institutional myths and implications for organizational sensemaking.

⁴ Myths are shared belief systems. They are hard to define. As argued by Nothnagle (1999: 6), "since it exists in faith and emotion, myth resists exact definition, no less than 'reality'. A precisely defined myth is no longer a myth, and it goes without saying that one person's myth is another's fact." In a broad sense, myths are accessible, simplified narratives of past events that make truth-claims, have sufficient persuasive power or gain general acceptance, meaning credibility, and that possess authority (make successful claims to the status of paradigmatic truth). This last property differentiates them from "history" and enables them to gloss over excessive complexity, confusion and ambiguity (Lincoln, 1989). Myths not only determine morality and social norms, they also provide ready answers to puzzles, and serve to justify, simplify or contextualize complex and sometimes disruptive events and issues. In other words, myths allow meaningful organizational behaviors to occur, and "narrow the horizon in which organizational life is allowed to make sense" (Boje *et al.*, 1982). Also, they are institutional elements that help to legitimate new social forms and provide support and stability for accustomed ones.

In this dissertation, the term "myth" refers to a category of socially-shared beliefs broader than what neo-institutional theorists usually describe as a framework of the institutionalized rules that organizations are forced to follow in achieving a given end (Meyer & Rowan, 1991). In particular, some of the myths discussed in this dissertation are "legitimizing myths" which can be defined as "values, attitudes, beliefs, causal attributions, and ideologies that provide moral and intellectual justification for social practices", such as attitudes and belief systems like individualism, nationalism, materialism, utilitarianism, egalitarianism, humanitarianism, neoliberalism and conservatism (Sidanius *et al.*, 1994; Sidanius & Pratto, 1999: 104). Myths embody a range of widely shared beliefs, world views and ideologies. . Myths are simply a means to interpret social reality, and typically, they mirror, constitute and can be used to elicit common emotions and sentiments. As Lincoln said, "...myth is not just a coding device in which important information is conveyed, on the basis of which actors can then construct society. It is also a discursive act through which actors evoke the sentiments out of which society is actively constructed (Lincoln, 1989: 25)."

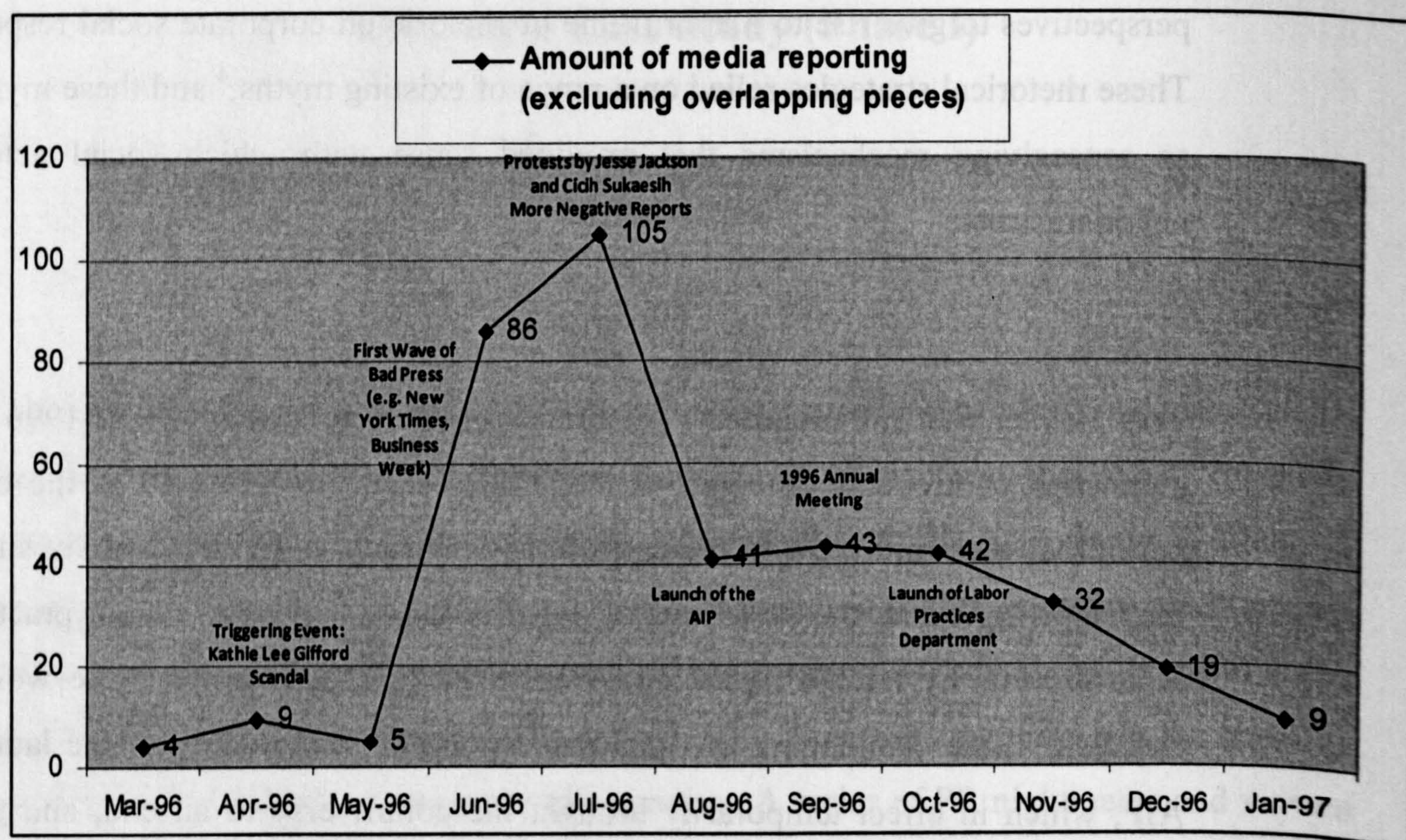


Figure 4. Amount of media reporting linking Nike to sweatshop practices from March 1996 to January 1997

6.1 Pre-crisis period from the 1980s to mid-1996

As a prelude to examination of the legitimacy crisis which hit Nike from mid-1996, this section provides a review on the sweatshop controversy during the pre-crisis period. The controversy emerged in the 1980s and garnered increasing public attention over time, especially during the early 1990s. To be noted is that Nike was not precisely a “target” for the anti-sweatshop movement until the outbreak of the crisis in June 1996. Before that time, although there had occasionally been Western media coverage of the “sweatshop” allegation against Nike (See Figure 5), similar criticisms were made of other major brands in the clothing industry, such as Gap, Levi’s (e.g. Shenon, 1993; Jackson, 1993; Udesky, 1994) and Walmart (e.g. Gladstone, 1992; Lawless, 1994; PR Newswire, 1994). There is little evidence that Nike was disproportionately scrutinized by activists or the media prior to the sudden explosion of negative media reporting on Nike’s overseas labor practices in mid-1996.

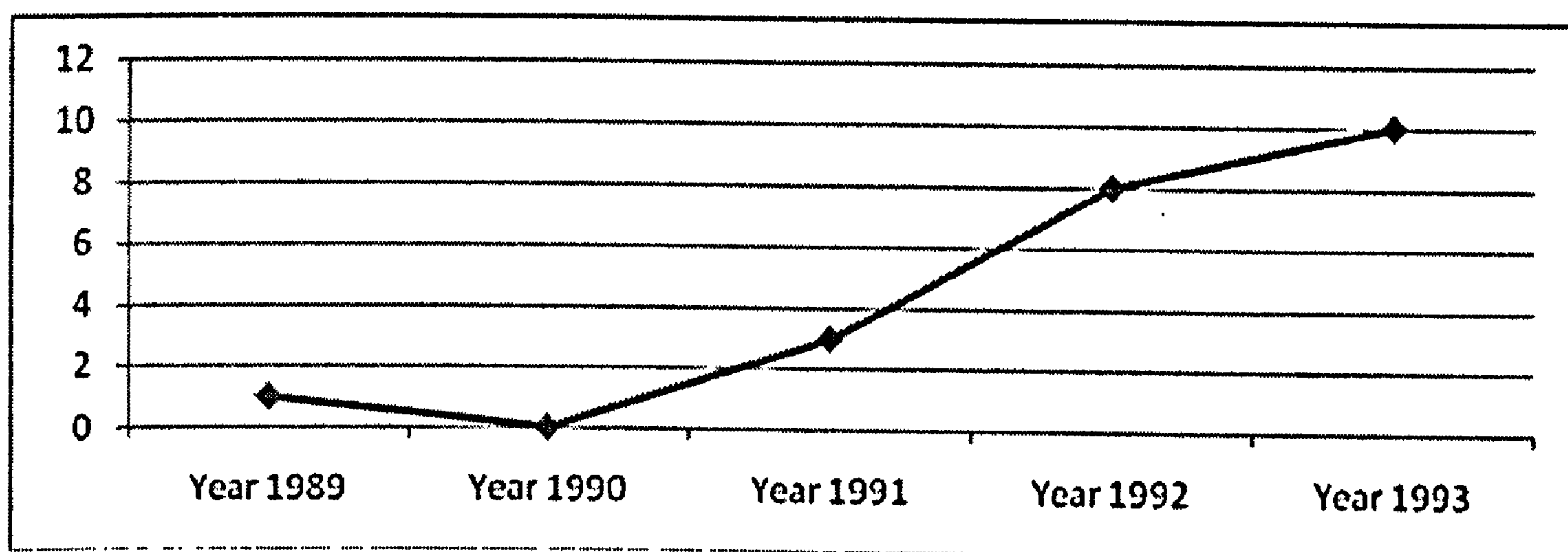


Figure 5. Amount of media reporting linking Nike to sweatshop practices from 1989 to 1993

However, to explore the crisis in which Nike's legitimacy was seriously challenged, it is necessary to examine the early stage of the sweatshop controversy. There were early warning signals that preceded the crisis. As will be seen from the following discussion, many themes that characterized the construction of the problem recurred in the major development of the controversy during the second half of the 1990s. Moreover, 1992 saw one of the major shifts in the controversy when Nike, the industry leader, began to accept responsibility for contracted workers and conditions at non-owned factories which it had previously attempted to sidestep. In addition, the company introduced its first workplace code of conduct, which marked the first significant moment of organizational change initiated by Nike's top management to deal with the controversy. These moves paved the way for the subsequent development of the controversy, especially when the major crisis suddenly erupted in mid-1996.

Nike's labor issues in Asia can be traced back to the late 1980s. In 1988 and 1989, Indonesian newspapers carried negative reports on South Korean-owned factories producing Nike shoes and apparel. The major criticisms concerned low wages, poor working conditions and frequent violation of human rights. Moreover, throughout the late 1980s and early 1990s, strikes and protests were mounted every year in some Asian countries, Indonesia in particular (Ballinger, 2000). In the meantime, worker strikes and reports on violations of labor regulations by the U.S. footwear industry drew considerable media coverage in those Asian countries, and increasingly outside that area in major Western media outlets, including U.S. television broadcast networks, such as ABC and CBS, and in the mainstream print press, such as *The New York Times*, *The Economist* and *Los Angeles Times*, as well as in some academic journals and trade

publications (e.g. Schwarz, 1991; Wallace, 1992; Clifford, 1992; Darlin, 1992; Clifford & Handley, 1993; The New Republic, 1994; Time, 1994; Clifford, 1994; Foreign Affairs, 1994).

In the early 1990s, the U.S. government also took action to tackle domestic sweatshop problems. For instance, in October 1991, the U.S. Department of Labor filed lawsuits against five major clothing corporations, including Levi's and Gap, for failing to pay overtime to 1,350 Chinese contracted workers who labored in poor conditions at factories based in Saipan, the capital of the United States Commonwealth of the Northern Mariana Islands (Yoder, 1991). In July 1992, the U.S. Congress held hearings on the "*slave labor*" allegedly used in those apparel operations (Barrett, 1992; The Associated Press, 1992). These government activities resulted in bad press for Gap and Levi's; and most importantly, they furthered public awareness of U.S. corporations using "sweatshop labor" and legitimated it as a social problem. Although they largely concerned domestic cases, such actions taken by the U.S. authority, and what they implied, might have to some extent made the public mind receptive to the view of the anti-sweatshop activists that corporations whose goods were produced under poor conditions should be publicly censured—even when this happened outside U.S. territory and affected non-US citizens.

As mentioned, in those early days, several large companies were caught up in the dispute, and there is no evidence that any one of them in particular was singled out. As far as Nike is concerned, this period was characterized by the company's avoidance of responsibility. At that time, like most of the large corporations involved, Nike refused to accept responsibility for its contracted factories and workers. The first key turning point came in August 1992, when Nike's executives decided to make public statements in response to the exploitation charges made by two reports: one by Jeffrey Ballinger (1992), founder of Press for Change, an NGO with a focus on labor rights in developing countries; and the other by Nena Baker (1992), reporter of a major U.S. national newspaper, *The Oregonian*. As illustrated in the following subsections, the turning point was manifest in the Nike management's varied discursive responses to the two reports: its response to the first typified the company's hands-off, responsibility-avoiding approach. Nevertheless, CEO Phil Knight was later prompted

by Baker's article to issue a letter defending the company, and it eventually led to the launch of Nike's and the sportswear industry's first workplace code of conduct.

Report by Jeffrey Ballinger

In August 1992, after monitoring wages and working conditions from 1988 to 1992 in Indonesia, Jeffrey Ballinger released the first influential report by activists—*"Nike, the New Free-Trade Heel: Nike's Profits Jump on the Backs of Asian Workers"* in *Harper's Monthly*—which publicized poor working conditions in Nike's overseas plants. The report exemplified some key narrative approaches deployed by anti-sweatshop activists, such as recounting the stories of individual factory workers, and tactically contextualizing an array of figures and statistics to elucidate what constituted unjust labor conditions and why corporations should be responsible for social injustice.

For instance, the report documented the story of Sadisah, a local Indonesian working for one of Nike's subcontracted factories. Sadisah's poverty was described thus:

"Sadisah works six days a week, ten and a half hours a day, for the equivalent of \$ 37.46 US a month, or about 14 cents an hour. That's less than the Indonesian government's figure for 'minimum physical need.'

Her wage lets her rent a shanty with no electricity or running water (Aird, 1992)."

The report revealed that factory workers earned insufficient pay to cover their basic needs (e.g. water and electricity) even though they worked excessive overtime. Figures were not only used to show the intensity of Sadisah's work, the meager wage that she was earning, and therefore her poor living standards, but also to illustrate the huge profits that Nike was making out of Sadisah's misery. Figures also highlighted the stark contrast between Sadisah and Michael Jordan—Nike's biggest endorser—in terms of the pay checks that they received:

"A pair of Nikes worth 80 bucks US costs about 12 cents in labor.

Michael Jordan reportedly gets \$ 20 million to endorse Nike...It would take Sadisah 44,492 years to earn that (Aird, 1992)."

The above numbers and figures were juxtaposed with the values of human equality, impartiality and justice. In context, the first sentence suggested that Nike made colossal profits by squeezing the production end, regardless of any negative impact on workers. The second set of figures highlighted the difference in income, thus making it a case of social injustice caused by Nike's business decisions and incommensurate allocation of resources: that is, making massive investments in sponsorship and advertising, while paying scant wages to production workers. It also implied that Nike could have paid more to its contractors to improve factory conditions and raise workers' wages. The message was that Nike should be held directly responsible for the unfair treatment received by thousands of workers like Sadisah.

In line with the sneaker giant's typical responses at the time, Nike officials refused to accept responsibility for workers, claiming that they were employed by factory owners rather than Nike itself; hence Nike should be discounted as the responsible party. For instance, John Woodman, Nike's general manager in Indonesia said, "*They are our subcontractors...It's not within our scope to investigate (allegations of labor violations...*". He also denied knowledge of factory conditions, adding "*I don't know that I need to know*" (Schwarz, 1991). While seeking to disassociate the company completely from the contractors' behaviors, Nike's then public relations director Dusty Kidd denied in particular that its business partners were breaking local minimum wage laws. He said, "*Any factory we use is required to meet their government's standards for minimum wage*" (Business Times, 1992).

Not surprisingly, the issue of wages was the constant focus of the debate. The company drew on a range of discursive tactics to explain and justify the existing level of pay. One of the arguments frequently employed by Nike management to counter the low-wage accusation was that account should be taken of local economic and social contexts when evaluating wage levels. For instance, Kidd said, "*You have to put the numbers in context...Over there, \$35-\$40 a month is actually a pretty good wage*" (Roeper, 1992), contending that the assessment of workers' pay should be based on local standards, and that the workers were already better paid than many of their compatriots.

In addition, at the time, Nike's senior managers tended to offer detached, unsympathetic economic interpretations of how labor markets function and of how pay rates are decided. They argued that wage levels at the company's overseas factories were rightly decided by the laws of economics, which could not be willfully changed. For instance, John Woodman pointed to the large surplus of local labor to explain the low wage, implying that the supply and demand levels of the local job market, not Nike, had decided the wage level: *"I don't think we're taking advantage of the situation... There is high unemployment and people are looking for work, which causes wages to be low"* (Baker, 1992). Similarly, when Phil Knight commented on why workers' earnings were below the level of minimum physical need, he said: *"It isn't dictated by government decree: Jobs go to those (factories) that are most effective"* (Baker, 1992).

Similarly, senior managers of Nike cited the dominant neoclassical economic assumption of utility-maximization to defend the existing outsourcing model. For instance, Dusty Kidd argued that it was cost-effective to manufacture footwear outside the United States. In his view, this manufacturing decision was what all rational corporate actors would make.

"The fact is, you cannot manufacture athletic shoes in this country and make a profit. The wage components are too high. I once commissioned a study on what it would cost to manufacture a pair of Air Jordans in the United States. The retail price would have to jump from the current \$ 130 to \$ 300 (Roeper, 1992)."

The above paragraphs give some examples of the standard arguments used by Nike's senior management to counter criticisms of its outsourcing practices before the company formally acknowledged its responsibility for contracted workers later in 1992. As shown, the Nike management not only denied its responsibility for, and knowledge about, factory conditions, it also utilized the benchmark of local standards and a wholly unaccommodating line of economic argument to frame the prevailing labor standard as normal and natural. At this early stage, when faced by "sweatshop" allegations, large corporations like Nike simply issued public statements while dodging their responsibilities for foreign workers. Because they refused to accept responsibility, discussion on the need and ways to improve labor conditions was out of the question. It

was the media that played a vital role in yielding the initial fruitful results of the anti-sweatshop movement. The first momentous shift in Nike's discursive position came after Nena Baker's report appeared in *The Oregonian*, the largest daily newspaper by circulation in Oregon and the northwest of the United States.

Report by Nena Baker

From 9 to 11 August, *The Oregonian* published a serial investigative report on factories producing Nike goods in Indonesia entitled "*The Hidden Hand of Nike's World*" and written by Nena Baker (1992), a staff writer for the newspaper. As shown below, Baker's report largely echoed the activists' construction of the labor problem as exploitation of third-world workers by profit-driven U.S. corporations. It thereby further established those companies' hands-off approach towards workers as socially unacceptable. The report began with a discussion on workers' earnings and depicted Nike as a third-world exploiter. The author implied that, although Nike had the capacity to improve the workers' poor financial circumstances, it chose to ignore the problem and seek only to maximize profit.

Baker drew on an array of statistics to configure a rich company vs. poor workers image and to establish a causal link between Nike's business activities and the "sweatshop" problem. Consider the following passage. By juxtaposing the retail price, the wholesale price and the manufacturing cost of a pair of Nike shoes, Baker demonstrated the massive profit margin achieved by the company through the use of cheap labor.

"Welcome to the Hardaya Aneka Shoes Industry factory, known as Hasi. Each hour here, 6,700 workers crank out about 2,000 pairs of Nike shoes. Nike pays the factory \$16.50 a pair for a model such as the men's Air Pegasus, which it sells to retailers for about \$35, says David Taylor, Nike's vice president of footwear production. Retailers, in turn, eventually sell it for about \$70 (Baker, 1992)."

The following excerpt is another example. In similar manner to Jeffrey Ballinger, the writer used figures to present two aspects of a harsh "reality" for which Nike should be held responsible: firstly, high-priced Nike sneakers were made by low-paid workers; secondly, there was a huge pay gap between Michael Jordan and the Indonesian

workers. The reporter sought to highlight the abnormal and unacceptable side of the “reality” by describing it as distorted like “a *funhouse mirror*” (Baker, 1992). In context, she implied that it was morally wrong to give this kind of financial treatment to workers.

“Put another way, it would take all of Tri’s pay for seven weeks to buy one pair of the Nike shoes she helps make. Contrast her wages with those of basketball star Michael Jordan, Nike’s \$5-million-a-year pitchman, and the picture distorts like a funhouse mirror (Baker, 1992).”

The exploitation charge was most forcefully pressed by Baker when she criticized Nike’s way of doing business. She alleged that the company invested heavily in marketing while opting for the lowest charging manufacturers and ruthlessly squeezing the subcontracting network’s profit margins in order to maximize its own. She portrayed Nike as greed-motivated by pointing out that the shoe giant had been moving its manufacturing sites from one country to another in pursuit of the cheapest labor. Baker suggested that Nike was involved in the indirect exploitation of foreign workers because it took advantage of the ownership structure of the subcontracting system to avoid legal responsibilities for workers. This discourse of exploitation would characterize many aspects of the construction of the “sweatshop” problem by anti-sweatshop groups thereafter. Baker wrote:

“For Beaverton-based Nike Inc., which has roamed through Asia for 20 years in pursuit of ever-cheaper production sources, Indonesia is the newest frontier.

.....

Nike, for its part, will spend \$180 million on advertising this year. In contrast, it has invested nothing in manufacturing plants or equipment. Instead, the company, which makes no shoes in the United States, contracts with 35 independent shoe factories sprinkled like colonies throughout Indonesia, China, Thailand, South Korea and Taiwan.

The arrangement buoys Nike’s gross margin of profit—a hearty 39 percent for the fiscal year just ended -- and keeps the company at arm’s length from the labor-intensive, highly technical and, some say, exploitative manufacturing business (Baker, 1992).”

Notably, an emotionally and politically charged metaphoric theme of colonialism was employed in the above extracts—a theme that largely connoted Nike’s behavior as conquest and economic exploitation (Thomas, 1994). For instance, in order to describe how Nike had left its mark across Asia, Baker used the metaphors of “colonies” and “*the newest frontier*”, implying that Nike treated its third-world workers as disposable resources that could be abandoned and replaced once exhausted. It had now moved to Indonesia, “*the newest frontier*”, where the company could exploit a new pool of labor.

Like Ballinger, Baker also focused on reporting different kinds of human suffering and abuse, showing sympathy for the foreign workers. For instance, she narrated the physical pain experienced by factory workers on a daily basis and the potential threats to their health and safety in the workplace. She wrote:

“Stay 10 minutes in the Hasi factory where Tri Mugiyanti works – for at least eight hours a day, sometimes six days a week—and your head will pound, your stomach will churn, your eyes and lips will burn.

Glue and paint fumes ply their narcotic effect. Workers without protective clothing operate hot molds, presses and cutting machines. Daydream and you may lose a fingertip. Other dangers lie in wait, too: A rubber-room fire killed one worker last year (Baker, 1992).”

As shown, major criticisms of Nike’s labor practices at this stage included exploiting third-world labor markets, using and abusing mostly young, female workers, moving production locations when labor cost was on the rise, substandard wages, excessive overtime, and health and safety issues. These criticisms became increasingly bundled into the term “sweatshop” in the latter part of the 1990s, when some of these themes became more prominent than others. In essence, Nike’s challengers, activists and media critics alike, used emotionally heated and politically charged language to link the problem to broader social values and aspirations, such as human dignity and equality. This kind of argument undermined the moral legitimacy of Nike’s business practices. By so doing, the opponents sought to legitimate their discursive position, to evoke negative emotional responses against Nike, and to call for radical change of the prevalent labor practices (Suddaby & Greenwood, 2005). The rhetoric also reflected

how the challengers adopted an empathetic, humanitarian perspective as opposed to Nike's use of legal terms and the assumptions of self-interested economic decision-making to conceptualize the social relationship between the company and factory workers.

On 19 August 1992, CEO Phil Knight (1992) wrote a letter to *The Oregonian*, openly and unprecedentedly responding to the exploitation accusations raised by Nena Baker. In the letter, Knight made a major concession: for the first time, he announced that Nike would accept responsibility for contracted workers. He wrote, "*We do accept responsibility for the working conditions in factories we contract with to make our products...*" (Knight, 1992). However, the CEO denied that Nike's subcontractors were running sweatshops, and he adhered to the company's usual unaccommodating line. He pointed out that the company provided satisfactory working conditions and salaries for workers, again using the rhetoric of local contexts to establish his point:

"Nike's foreign factories generally offer the highest pay and the best working conditions of any athletic-shoe factories in the particular country. In China, a worker in a Nike factory makes higher wages than a professor at Beijing University.

We carried that sense of responsibility with us into our newest source country, Indonesia, where we pay a premium wage over other shoe factories (Knight, 1992)."

As one of Nike's typical responses to criticisms thereafter, another major approach used by Knight was to discredit the critics' claims, which, according to him, "*contained so many inaccuracies and distortions*" (Knight, 1992). For instance, the CEO refuted the substance of Baker's allegation that Nike was behaving like a colonizer in search of cheap labor by presenting the following "facts":

"...we do not 'roam the globe' looking for ever-cheaper sources of supply. Nike has, in fact, been doing business with two factories in Taiwan for 18 years and two factories in Korea for 16 years... It should be noted that while Indonesian labor costs are the lowest of any of our source countries, the profit margins there are also the worst (Knight, 1992)."

As shown, Knight picked up on any errors he could find in the report to challenge the credibility of Baker's claims. By way of another example, regarding Nike's profit

margin and executives' pay, the chairman pointed out that the figures cited by Baker were inaccurate, irrelevant or misleading:

"On the financial side, Baker's misleading reference to Nike's 'hearty 39 percent' gross margin of profit in 1992 may have suited her sensationalist tone, but the more relevant fact is that Nike's net profit for the same period was 9.7 percent (Knight, 1992)."

"In her eagerness to portray Nike executives as fat cats, Baker obviously didn't bother to look at Nike's proxy statements and other public documents. If she had, she would have known that not one of Nike's executives has an annual compensation package of 'a couple of million dollars' (Knight, 1992)."

The above quotes revealed more aspects besides. They exemplify the contest between the critics' emotive, "sensationalist tone" and Nike's conventional economic arguments. They also reflect the CEO's rhetorical attempt to provide another organizational "reality" in which Nike was being unfairly attacked by the media and victimized by unprofessional reporting. In line with this vision, Knight sought to protect the company's reputation by counter-attacking its challengers, putting up a fight, so to speak. As shown, apart from faulting the report for its "technical" inaccuracy, Knight also questioned the integrity of the journalist and the news agency which she represented, and criticized them for using a biased, "sensationalist tone" to vilify the company. He wrote:

"The Oregonian, by assigning a reporter to take an in-depth look at Nike, had a great opportunity to educate the public about how a successful U.S. marketing company really works. Instead, the story not only completely lacked context, it also was an example of gross sensationalism...(Knight, 1992)"

However, despite continued denial of sweatshop conditions at Nike plants, Knight's letter did exhibit a slight shift in the company's discursive position—from completely relying on neoclassical economic arguments to incorporating some humanitarian principles. For instance, after Knight announced the company's acceptance of responsibility, he emphasized that Nike had always had a "sense of responsibility", thus seeking to build a consistent image of a socially responsible company. Moreover, he started to communicate an interest by Nike in the well-being of local workers which reflected basic humanitarian values. For instance, he noted that the company had "tried to upgrade...the quality of life...of employees" working in Nike factories (Knight,

1992). Hence, Knight vaguely defined the workers' "quality of life" as Nike's responsibility. This was the first time that Nike used the hybrid rhetoric of CSR to mediate the competing meanings derived from the neoclassical economic and humanitarian framing of the issue.

Later in 1992, corresponding with its admission of responsibilities for its manufacturing facilities, Nike formulated its first "*Code of Conduct and Memorandum of Understanding*" (Nike Inc., 1992) to bind its business partners to certain principles. The code required Nike's suppliers and subcontractors to comply with local regulations as regards mandated wages, allowances, benefits, work hours and overtime, health and safety standards and environmental protection. According to Nike, all extant and potential subcontractors and suppliers were obligated to sign this code of conduct and post it within their factory premises. However, the bar was set at a fairly low level. Those rules and standards drew largely on local regulations as their sources of reference.

For instance, the code explicitly banned the use of child labor. However, it followed the minimum-age guideline established by local laws and norms as long as the child was aged over 14. Nevertheless, it appears that the introduction of the code brought the controversy to a temporary closure for Nike: With hindsight, the company was not subject to widespread bad press coverage in the following few years. Although in 1993 negative reports on Nike's labor practices continued to increase (see Figure 5), this was only a slight rise compared with a twofold increase in sweatshop-related coverage on the sporting goods industry as a whole (see Figure 6).

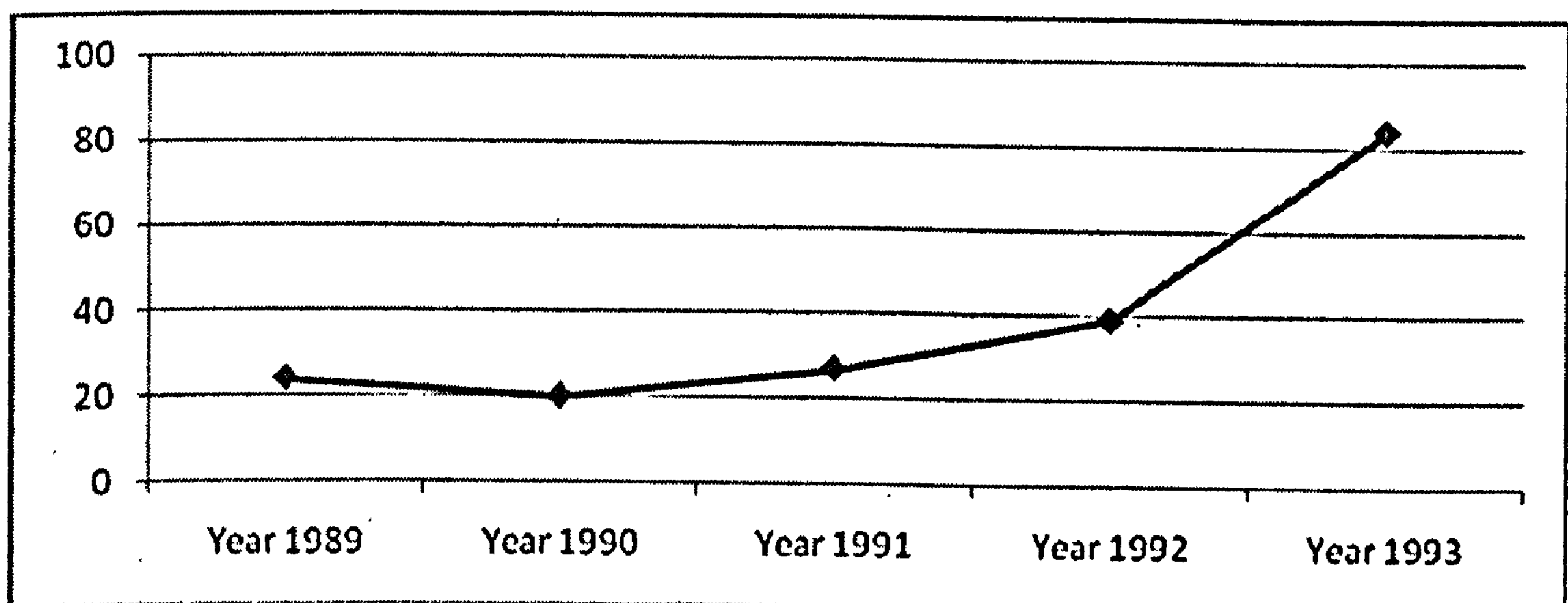


Figure 6. Amount of media reporting linking the Sports & Athletics Industry to sweatshop practices from 1989 to 1993

However, this was not the end of the story. Critics cast doubt on the likelihood of full enforcement of the code and alleged that it was simply window dressing (Wallace, 1992; Ballinger, 2000). As for Nike, the company began to develop new approaches, which included the building of new structures, to deal with the concerns over its labor practices abroad. Besides drafting the 1992 Code of Conduct, the company appointed Ernst & Young to monitor its overseas plants in 1994. The years between 1992 and mid-1996 were a slow build-up period before the controversy turned into a major crisis. Reports of unfair labor practices in the footwear industry continued to surface from time to time (e.g. Clifford & Handley, 1993; Time, 1994; Clifford, 1994; Anonymous, 1994). Moreover, a number of local and international labor rights advocacy groups were formed and became more organized (Ballinger, 2000).

In addition, some governmental actors continued to endorse the activists' construction of the sweatshop problem. For instance, in 1995, the U.S. Secretary of Labor Robert Reich called for a Retailer Summit to discuss how to improve the clothing industry's compliance with workplace standards. And media awareness of the issue continued to mount. Critical reports of Nike and other large corporations' overseas labor practices made repeated appearances in major U.S. media outlets, such as NBC, ABC, CBS, *Boston Globe*, *The New York Times* and *The Economist*. But, as said, still no particular company was singled out, and despite the harsh criticism of those big brands' labor policy by activists, vigorous debate only occurred in a confined community consisting of NGOs, activists and a small number of media critics. It thus remained a low-profile social problem which received minor media attention until the Kathie Lee Gifford controversy hit the headlines in mid-1996.

As illustrated above, Nike's critics tended to use emotionally and politically charged narratives that tapped into the values of humanitarianism and egalitarianism to frame the labor issue. They portrayed Nike as a profit-driven brutal force engaged in the exploitation of vulnerable third-world workers. Many critics argued that Nike could and should have exerted influence over its contractors to improve factory conditions and ensure basic income and decent living standards for workers; instead, the shoe giant had chosen to ignore the suffering of workers. In other words, the critics used the logic of social justice to drive institutional change. However, this construction of the

“sweatshop” problem limited the activist groups’ subsequent moves: they had to focus their resources on pressuring companies rather than governmental authorities, which somehow led to corporate self-regulation being established as the more likely solution to the problem.

At first, Nike’s senior managers tried to avoid responsibility by arguing that the company did not have legal obligations for non-owned factories. Several types of counter-rhetoric were used by Nike officials, such as complete denial of the existence of sweatshop conditions and refusal to accept that anything needed fixing; questioning its challengers’ credibility; using local standards; and employing utterly unsympathetic, traditionally dominant economic theories and concepts (e.g. supply/demand, market competition and cost effectiveness) to rationalize the existence of the global outsourcing practice and to justify workers’ level of pay. Although Nike later became slightly more accommodating to the NGOs’ humanitarian arguments, most of its counter-rhetoric at that time consisted of a defensive and confrontational attitude to critics and their claims.

Nike’s acceptance of responsibility for workers and the introduction of its first code of conduct may be viewed as the results of the first round of negotiations in the controversy. These two corresponding moves served to institute new social relations among Nike, contracted factories and workers, and they marked the initial establishment of an increasingly taken-for-granted belief that recognition of responsibility for contracted workers was a requisite for legitimate corporate labor practices. In other words, the criterion on which legitimacy was assessed had altered (Suddaby & Greenwood, 2005). This, in turn, led to more controversies and new debates. For instance, the code gave rise to a discourse on code compliance, and the expansion of this discourse became most prominent in the mid-1990s.

6.2 Phase I of the crisis (from mid-1996 to the end of 1996)

This section depicts the period between mid-1996 to the end of 1996 when Nike had to cope with severe challenges against its brand name and legitimacy. The phase begun with the Kathie Lee Gifford controversy which erupted at the end of April and gave rise to massive media coverage of sweatshop conditions in manufacturing sites of the U.S. clothing industry. Shortly thereafter, the Nike management found that the company was being targeted not only by anti-sweatshop groups but also by the media. With the groundwork undertaken in the previous stage, and by exploiting the high-profile Kathie Lee Gifford scandal, NGOs successfully drew public attention to the sweatshop issue, and called for elimination of sweatshop labor.

In June and July, media scrutiny reached a far greater intensity than Nike had previously faced. The industry leader received strong criticisms from *The New York Times*, *Life Magazine*, *Business Week* and many other major media outlets. The company also encountered protests from former Nike worker Cicih Sukaesih, whose request to meet with Phil Knight was rejected by the sneaker company. Also rejected was human rights leader Jesse Jackson's demand to inspect one of its factory sites. This was when negative media coverage reached its peak during the phase (see Figure 4). Nike initially dismissed the criticisms, later joined the government-backed AIP—a multi-stakeholder coalition with the declared goal of developing industry-wide labor standards to combat sweatshops—and finally established a Labor Practices Department. Media scrutiny started to decline considerably from August onwards, and remained at a relatively low level until January 1997.

6.2.1 The triggering event

This sub-section focuses on the Kathie Lee Gifford controversy that triggered the legitimacy crisis. It delineates Nike's earliest attempts to dismiss the sweatshop charges soon after the triggering event. These initial reactions by Nike affected the subsequent unfolding of the crisis. It seemed that the Nike management began to pay

closer attention to the issue, actively releasing corporate figures, making public statements, and developing a broader variety of rhetorical tactics to defend the company. Although Nike's approach remained on the PR-based track of denial and reactive defense, there were signs of convergence, in that the hybrid discourse of CSR gained increasing prominence.

On 29 April 1996, in a Capitol Hill testimony, Charles Kernaghan, Executive Director of the National Labor Committee revealed that U.S. national talk show host Kathie Lee Gifford's clothing line sold by Wal-Mart was made by Honduran teenage workers who labored in sweatshops and earned 31 US cents per hour (Strom, 1996; Baum, 1996a; PBS, 1996). Initially, Gifford tearfully denied the charges on television and then claimed that she was unaware of the sweatshop conditions at the factories producing her clothing line. Many U.S. newspapers and television shows featured the story, and the sweatshop issue suddenly came under the spotlight (Samuel, 1996). At the end of May, Gifford publicly named Michael Jordan, key spokesman for Nike, as another celebrity who endorsed apparel products without being aware of the conditions in which they were made (Strom, 1996; Carr, 1996).

Yet another blow to Nike came at about the same time, when Joel Joseph, chairman of the Made in the USA Foundation, singled out Nike and accused it of exploiting child labor. As he put it to the media, *"I think Nike is particularly bad because wherever we pull up the rug and find child labor, Nike is there...I know children are employed at the Nike plant in Indonesia. I know children are employed making Nike soccer balls in Pakistan"* (Baum, 1996a). In particular, Joseph claimed on a television show that Nike's Air Jordan shoes were made by child workers in Indonesia: *"Air Jordans are made in Indonesia by 11- and 12-year-old girls making 14 cents an hour"* (The Boston Herald, 1996). When Michael Jordan was questioned about his link with Nike and its labor practices, the NBA player threw the ball back to Nike, saying, *"...I think that's Nike's decision to do what they can to make sure everything is correctly done. I don't know the complete situation. Why should I? I'm trying to do my job. Hopefully, Nike will do the right thing..."* (Manning, 1996a). From this point onwards, Nike had to shoulder the entire burden of doing *"the right thing"* expected of it.

For the first time, the Nike management admitted that there were problems in the company's supply chain. Nike's director of corporate communications Donna Gibbs admitted that some subcontractors in Pakistan used children to stitch soccer balls. However, she insisted that the company did not purposely hire child workers and tried to mitigate blame by attributing the problem to the local historical context. She said, *"Child labor is really an epidemic in Pakistan. It's something we're very concerned about. It's a centuries-old practice...we've been subcontracting production there for less than a year. In that time, we've taken more steps to protect worker rights than companies that have worked in the country for decades."*

As regards the situation in Indonesia, Donna Gibbs used another line of rhetoric. She stressed the impracticality of carrying out flawless oversight given the size of Nike's supply chain, saying *"...Again we endeavor to have impeccable oversight but unfortunately we don't live in a perfect world and all we can do is aggressively monitor the situation"* (Baum, 1996). As shown, although Gibbs sought to excuse the problem, she used a somewhat more sympathetic rhetoric to do so—emphasizing that the company was *"very concerned"* and had *"taken more steps to protect worker rights"*. This was a way to show that the company was not a self-interested corporation, but rather one which respected the rights of workers.

However, despite admitting the use of child labor, Nike's top management team stuck largely to its pre-crisis approach to countering allegations: it sought to defend the company by means of denial and delegitimization of its critics. For instance, Nike issued a PR statement denying the accusations raised by Joel Joseph, picking up on inaccuracies in his claims, and questioning his motives. The company asserted that the critic's claims were *"completely false and irresponsible"*, pointing out that the workers making Air Jordans were paid 45 cents an hour, instead of the 14 cents as claimed by Joseph (Agence France Presse, 1996).

Notably, Donna Gibbs assumed a somewhat hostile stance when disputing the claims made by the chairman of the Made in the USA Foundation. For instance, she used

sarcasm by saying, "*Perhaps Mr. Joseph should have looked at an Air Jordan shoe on store shelves to learn that the product is made in Taiwan*" (a region with a higher standard of living)" (Agence France Presse, 1996). She also questioned Joseph's sincerity by casting doubts on his motives and his hidden agenda, saying "*One has to question the credibility of an individual whose organization (Made in the USA Foundation) is largely financed by labor unions opposed to free trade with developing nations* (Agence France Presse, 1996)."

Yet this time the Nike management treated its critics' allegations more seriously than it had previously done. It took the initiative by disclosing corporate data on wages as evidence against Joseph's claims. A series of figures were released on foreign workers' pay rates, showing that they earned more than the minimum wages set by local governments. According to the statement: "*The average line-worker's wage in Asian subcontracted facilities is double the government-mandated minimum*" (Agence France Presse, 1996). To further justify the overseas workers' levels of pay, Nike executives again claimed that it was inappropriate to judge foreign workers' earnings by U.S. standards, owing to social and economic variances (Carr, 1996).

The company also started to make frequent references to its code of conduct in order to demonstrate its compliance. For instance, the statement emphasized that Nike's subcontractors were all required to abide by the code, which "*strictly prohibits child labor, and certifies compliance with applicable government regulations regarding minimum wage and overtime*" (Baum, 1996a). These codes, together with local regulations, defined the boundaries of the responsibilities recognized by Nike at the beginning of the legitimacy crisis. As the crisis unfolded, the notion of code compliance became an increasingly significant component of the CSR discourse. Nike's challengers urged the company to enforce those self-initiated labor standards, while pushing it to assume broader responsibilities, such as paying living wages and adopting international labor standards.

Despite the Nike management's PR efforts to defend the company, Nike, caught in the swirl of the Kathie Lee Gifford controversy, had to respond to accusations from all sides. Since then, it seemed that the sneaker giant had been taking the blame for the other companies in the industry. It is fair to say that Joel Joseph was one of the most important contributors to this outcome. In the triggering event, he seized the opportunity of Nike's fortuitous involvement in the Kathie Lee Gifford scandal and used perhaps the most prominent theme of the controversy at the time—child labor—to turn the spotlight on the company. This was one of the early attempts by anti-sweatshop groups to target the sneaker giant. The Kathie Lee Gifford episode, enacted by Joseph's decision to single out Nike, unleashed a chain of public relations nightmares that tainted the company's image and threatened its legitimacy. It was followed by a series of media campaigns launched by anti-sweatshop groups (Ballinger, 2001). Perhaps most importantly, Nike's labor record was widely discussed and examined by the media; and a large body of media material criticizing Nike's overseas labor practices created and reinforced the sense that Nike was being “targeted” and “attacked”.

6.2.2 The first wave of negative media coverage

The beginning of June 1996 saw the first wave of bad press against Nike. For instance, *The New York Times* ran a series of articles by its columnist Bob Herbert (1996a; 1996b) condemning Nike's overseas labor practices. *Business Week* published a critical report entitled “*Pangs of Conscience*” by Elizabeth Malkin (1996) on Nike's labor record. This section illuminates how critics further rhetorically associated Nike with the sweatshop allegations and how the company responded to the unprecedented media scrutiny. As mentioned, the overall discursive construction of the labor problem by Nike's opponents was consistent with that of the pre-crisis period, though new rhetorical resources were deployed. It is very likely that what made the situation so threatening for Nike was the sudden proliferation of media texts raising questions about the social acceptability of Nike's labor practices.

To begin with the “old” narrative approach, some critics recycled the technique of highlighting the multimillion-dollar gulf between an Asian worker’s meager wage and the huge sums of money that Michael Jordan and CEO Phil Knight were making. For example, Farhan Haq (1996) of *Inter Press Service* quoted John Cavanagh, an analyst at the Institute for Policy Studies, “...the mainly female Indonesian workforce that makes Nike shoes earns an average of USD 1.35 a day—so that, on the whole, the entire workforce earns four million dollars less from Nike than basketball star and Nike spokesman Michael Jordan” (Haq, 1996). As said by Malkin of *Business Week* (1996), the social inequality highlighted by the drastic pay gap had helped turn Nike into a “lightning rod” for criticism of US corporations’ overseas manufacturing practices.

For another example, Bob Herbert (1996a) quantified the contrast in earnings between factory workers and Phil Knight and suggested that Nike was moving across the globe to find lower-cost labor:

“I asked Nike on Friday what he was worth. After hemming and hawing about such incidentals as his \$864,583 salary and \$787,500 bonus in fiscal 1995, a spokesman got to the real deal—his Nike stock. Hold onto your sneakers. Mr. Knight’s stock is valued at a breathtaking \$4.5 billion.

And, of course, he wants more. With labor costs skyrocketing in Indonesia, Nike is moving into Vietnam. I asked a Nike spokesman if he knew what the minimum wage was there. He said it was 331,000 Vietnamese dollars per month. He said he didn’t know how much that was in American dollars.

I do. It’s \$30 a month (Herbert, 1996a).”

More importantly, Herbert sought to visualize this inequality through “a pyramid of exploitation” (Herbert, 1996a) in the global outsourcing system of the sportswear industry, with Phil Knight and some “uncaring multimillionaire celebrities” such as Michael Jordan at the top and workers making Nike shoes “like slaves” at the bottom. In this metaphor, Phil Knight and elite celebrities represented the most powerful of self-interested oppressors, whereas workers were vastly less powerful and portrayed as the oppressed. The integration of the pyramid metaphor into the construction of the sweatshop problem reinforced the activists’ conceptualization of social relations between Nike and workers—the oppressor and the oppressed. In this way, the image of

the company as a repressive and cruel tyrant was dynamically created and related to audiences. Herbert wrote:

“Think of it as a pyramid of exploitation. In the comfort zone at the very top is a stable of uncaring multimillionaire celebrities – Michael Jordan, Andre Agassi, Spike Lee et al – and their guru, the fabulously successful founder and chief executive of Nike Inc., Philip H. Knight.

At the bottom, shouldering the crushing weight of Mr. Knight’s multinational enterprise, are the legions of young Asians, mostly women, who work like slaves to turn out Nike’s products... (Herbert, 1996a)”

Moreover, to challenge Nike’s legitimacy further, media critics began to associate its image with authoritarian host nations, which was greatly at odds with the image that the company had been endeavoring to build and maintain. Notably, this link made Nike’s complicity in perpetrating labor rights abuses in foreign factories obvious. For instance, Herbert (1996b) described Nike as surrounded by a *“bad neighborhood”*, referring to countries like Indonesia that *“continued to commit serious human right abuses”* such as massacres. According to Herbert, in pursuit of cheap labor, Nike chose to ignore the government’s poor human rights records and even took advantage of the country’s autocratic political and economic system. He wrote: *“Nike and the other companies would like to distance themselves from the grotesque activities of the Suharto regime. But they cannot. They benefit both directly and indirectly from the systematic oppression of the Indonesian people”* (Herbert, 1996b).

Likewise, Malkin (1996) challenged Nike’s image by explicitly contrasting it with what its affiliated repressive governments represented, and she accused Nike of tolerating violations of human rights. The investigator noted that the Indonesian government strictly controlled the labor market and suppressed labor union activities so as to ensure the supply of artificially low-cost labor to foreign investors. More importantly, Malkin suggested that the company had the influence to induce the local authority to lift control on labor. However, contrary to its rebellious, anti-establishment image, Nike chose to look away. This implied that Nike should be held partially responsible for the labor repression. In particular, Malkin’s description of her personal

experience during her visit to Indonesian factories reflected her humanitarian concerns over the problem.

“There is also a not-so-subtle relationship between the managers of the factories and police, who help keep workers under control. This reporter got a taste of that power...after a series of interviews set up by Pakpahan’s union in Serang. Eighteen plainclothes police detained me...for almost four hours, demanding an explanation of what I was doing. Two questions during my interrogation betrayed the regime’s anxiety: What did the workers say about their conditions? Did I think the minimum wage was high enough? Union activists say it’s typical of the chronic harassment they endure...Although Nike’s image is that of an on-the-edge rebel that likes to tweak authority, it has not challenged the Indonesian government’s control over labor (Malkin, 1996).”

The above criticisms by media critics seriously threatened Nike’s brand image, in that the media created an image of Nike in stark contrast with the one diligently built and maintained by the company. Accordingly, public perceptions and understandings of Nike and its behaviors started to shift. As mentioned, Nike had been promoting a discourse of self-empowerment and anti-establishment, and it had consistently portrayed itself as a socially concerned actor by establishing associations with the grassroots and the aspirations of social minorities. After years of hard work, the company had managed to deliver a clear and consistent message concerning Nike and its products, and it had created one of the world’s strongest brand identities (Goldman, & Papson, 1998, Solomon *et al.*, 1998). Now that this well-established reputation was in jeopardy because the media were discursively creating a morally deficient image of the company as involved in the violation of widely accepted human rights, the discrepancy between the self-created image and the media-created image forced Nike’s senior management to tackle the accusations with great vigor.

Firstly, it appeared that in order to deal with mounting pressure, the Nike management made an extensive effort to devise new strategies to argue against its challengers. In particular, it attempted to change the conditions of the debate by providing multiple perspectives with which to reframe the issue in opposition to what the company called

the naïve and oversimplified interpretations put forward by its critics. Although these new lines of rhetoric were largely derived from an economic perspective, a few of them to some extent mirrored major aspects of humanitarian norms and assumptions, such as those that highlighted Nike's role in improving people's social wellbeing and protecting human rights. For instance, one of Nike's recurrent counter-rhetorics pointed to the economic benefits that Nike's business brought to workers and developing countries. The company began to claim that it was providing jobs desired by local people. Knight noted in an interview that *"We have thousands of people in lines for the jobs that we have, and they're the best shoe factories in the world, the best conditions"* (Baum, 1996a). Knight also argued that Nike was in fact providing tremendous economic resources for developing countries to prosper. He used the myth of the success achieved by Korea and Japan:

"Underdeveloped countries must trade or see deeper declines in living standards. History shows that the best way out of poverty for such countries is through exports of light manufactured goods that provide the base for more skilled production...In South Korea and Taiwan, where Nike has a larger presence than any other athletic footwear company, many workers earn middle-income wages in economies with as much as a 97 percent employment rate. In Indonesia, thanks to Nike and other multinational corporations, real wages have risen 55 percent since 1990 (Knight, 1996)."

According to this line of argument, Nike had made humanitarian contributions to improving the quality of local people's life in the sense that it provided a means for those countries to integrate themselves into the global economy and move out of poverty. While NGOs used a duty-based, deontological perspective on human rights to assert that Nike was not doing the "right" thing—that is, fulfilling its duty to protect human rights—in the manufacturing of its products, Nike leaders countered with a goals-based, teleological perspective, arguing that the company was doing the "good" thing because its manufacturing activities resulted in improved human welfare and reduced human suffering in the long run (Frankenna, 1973; Donnelly, 2003).

These arguments also reflected how the Nike management had begun to apply economic theories to explain its relationship with local economies which had a direct impact on local people's lives and demonstrated its interest in the wellbeing of others. This seemed to be the common ground that the company found and continued to use to

reconcile its behavior with humanitarian aspirations guided by the principles of impartiality and universality. However, this did not mean that Nike was gradually relinquishing its previous rhetorical approach of using the traditional economic framework to interpret the “reality”. For instance, the passage quoted above can also be read as a way to naturalize the *status quo* by suggesting that the so-called “sweatshops” only represented an early stage in an economic development process. Likewise, in response to the critics’ demand for an increase in the workers’ wages considering the multi-million-dollar endorsement fees paid to celebrities like Michael Jordan, Knight contended that the workers’ wages were fair in the labor market context because they were proportionate to local skill levels and even higher than average wages: he argued that Nike workers were “*paid more than their countrymen*” (Knight, 1996), and that the same applied to Michael Jordan—“*the most famous athlete of our day, at the peak of his fame and career*” (Knight, 1996), as the CEO put it.

The Nike officials increasingly used a hybrid CSR discourse to balance the capitalist pursuit of economic self-interest with humanitarian concerns. For instance, in response to Bob Herbert’s criticisms, Phil Knight (1996) issued a letter to *The New York Times* in which he denied sweatshop conditions, while emphasizing Nike’s commitment to social responsibility: “*Nike has paid, on average, double the minimum wage as defined in countries where its products are produced under contract. This is in addition to free meals, housing and health care and transportation subsidies.....Nike has been concerned with developing safe and healthy work environments wherever it has worked with contractors in emerging market societies*” (Knight, 1996). As the controversy developed, more and more CSR discourse of this kind was incorporated into Nike’s language.

Yet again the Nike management counter-attacked against its critics by trying to delegitimize their claims. For instance, Knight questioned the trustworthiness of Bob Herbert. He suggested that the columnist was out of touch with local contexts because he had “*never set foot inside a Nike-subcontracted facility*” (Knight, 1996). However, this implied that more investigations were needed to determine what was really happening in those factories, which was exactly what many news reporters began to do soon after. As a consequence, even more unfavorable media coverage was generated.

Moreover, as one of Nike's frequently used counter-claims against its critics, Knight accused Herbert of being motivated by publicity. He described the critic as one of the "*reporters who sacrifice enlightenment for hype*" (Knight, 1996). Later in his letter to Nike's shareholders, Knight wrote that he had been "*absolutely astonished by the reaction of certain print media over the events...*" (Nike Inc, 1996b). In particular, he blamed *The New York Times* for irresponsible reporting. He wrote:

"I can't get out of my mind a meeting with the Editorial Board of The New York Times. After it had published three scathing columns on the low wages in factories making NIKE shoes in Indonesia, their first question was, 'What do you pay those people anyway?'"

Three columns ripping us on pay before they asked us what the pay is. Oh well (Nike Inc, 1996b)."

The chairman again described some media critics as misinformed sensationalists. He worded his opinion in sarcastic terms: "*It has basically and uniformly said, 'Don't confuse me with the facts I have a sensationalist sound bite.' I believe this issue is much more a significant statement about the media and its approach to truth than it is a statement about Nike*" (Nike Inc, 1996b). Drawing on the myth of media workers as objective truth-tellers, Knight challenged the ethical propriety of the way in which some media produced news. By so doing, he imposed his interpretation of the organizational environment: the company was being unfairly "targeted" and "attacked" by the media.

To sum up, on the one hand, the media contributed to reinforcing the activists' construction of the sweatshop problem; on the other, because Nike had become the "targeted" company, the well-publicized sweatshop charges prompted the Nike management to make unprecedented PR efforts to respond. Compared to its response to the sweatshop accusation in 1992, the company was now more actively engaged in public dialogue with its critics. However, the Nike management continued to deny most of the charges and sought to defend the company mainly by using various rhetorical tactics. Nike's shielding approach was as confrontational before, with its rhetoric loaded with cynicism and suspicion towards its opponents.

It was likely that Nike leaders attempted to add more layers to the framing of the issue, the purpose being to counter critics' arguments and more effectively disassociate the company from sweatshop allegations. Although most of Nike's counter-arguments were market-based, there were some signs of discursive convergence, which was reflected in the company's occasional mention of humanitarian concerns and its burgeoning CSR discourse, in addition to its earlier admission that child labor was used in some of its factories. Nevertheless, the company's constant denials and sometimes aggressive defense provoked more opposition in terms of the number of the contesting actors entering the scene and of the intensity and scope of the anti-sweatshop campaigns directed at the company, which further boosted negative media coverage and intensified the crisis.

6.2.3 Protests by Jesse Jackson and Cicih Sukaesih

In July, the amount of media reporting of Nike's labor controversy reached its peak during the year. The company encountered escalating opposition from a variety of social actors, who publicly expressed their concerns and criticisms of its overseas labor practices. The Nike management maintained its defensive, unreceptive stance towards its challengers. There were two noteworthy contentious episodes between the two sides, which were widely covered by the media. The leading contesting actor in the first episode was civil rights leader Jesse Jackson. He demanded to inspect one of Nike's factory sites and was almost insolently turned down by the company. As a result, Jackson used the media to call for further scrutiny of Nike, suggesting that it had something to hide. While the Nike management attempted to keep the labor issue internal, Jackson urged the company to engage in multi-party collaboration. The second episode was centered on Cicih Sukaesih, a former Nike worker. She was barred from Nike's headquarters when she made an attempt to meet with Phil Knight and protest against the company's violation of workers' rights in Indonesia. Soon after Sukaesih's protest, which gained considerable media attention, Nike's top management announced its decision to join the AIP.

Jesse Jackson denied entry into one of Nike's manufacturing plants

On 20 July, Nike rejected Jesse Jackson's request to view one of its shoe factories in Indonesia. The reasons were given in a letter sent to Jackson by Brad Figel, Nike's director of governmental affairs and international trade counsel. In line with one of Nike's counter-claims that critics were keen to twist the facts and use false evidence to misinform the public and attack the company, Figel stated that Nike did not want to give a biased spectator any such opportunity. The metaphor of "*bully pulpit*" was used to position the company as the victim of malicious attacks; and denying Jackson's request was therefore a measure to prevent further attacks. The letter read:

"We are proud of these facilities and feel they can provide an unbiased observer with a good example of how subcontracted factories in developing countries can and do comply with fair labor standards and practices. Unfortunately, our previous experience with the Rainbow Coalition (led by Jackson) leads us to believe that your visit would lack that unbiased approach. It is not our desire to open our contract factories merely to provide a bully pulpit to someone who fails to provide a neutral viewpoint regarding the issues" (The Associated Press, 1996).

This somewhat harshly worded letter showed a more aggressive side to Nike management's defensive stance. In public, Nike's spokesperson Donna Gibbs put it in more refined terms: "*We appreciate Reverend Jackson's concerns and we are taking proactive steps to address those concerns*" (Tanner, 1996). This implied that the company would rely on internal mechanisms to address any potential or existing problem, which did not include allowing activists to inspect the company's facilities.

The story was made public because Jesse Jackson released a copy of the letter to the media. The civil rights leader had his own interpretation of Nike's responses. He said, "*Nike has made a calculated judgment not to allow American citizens, their customers, on a trade mission to view their plants and warehouses*" (Tanner, 1996). Drawing on the notion of corporate accountability, Jackson defined himself as an important stakeholder of the company—one of the concerned "*American citizens*", one of their "*customers*", who should be entitled to visit its plants to find out under what conditions Nike products were being made. This rhetoric added to the emerging

CSR discourse to highlight the expanded boundaries of the notion of corporate responsibility—which was now not only towards shareholders but also towards a variety of stakeholders. In addition, Jackson retaliated by questioning Nike's motivation in rejecting his request. Jackson suggested that the reason why he had not been allowed to visit the plant was that Nike had something to hide. He said, *"We have been denied access to a Nike plant because they are afraid that if the cameras expose their wage rates, expose standards in the plant, then they will be embarrassed"* (Tanner, 1996).

Moreover, not only did the activist leader describe Nike as the worst third-world exploiter, he also declared the need for increased public awareness of the company's exploitative labor practices and the need for further scrutiny of the company. He said, *"Nike is producing 15 million pairs of shoes a year out of this region (with) some of the lowest wages...and making some of the highest profits...We indeed will take this message back to America and look at this contrast between Nike products on the shelves and their behavior in Indonesia"* (Tanner, 1996). In his call for more forceful protests against the company, he proposed that joint efforts be made to solve the problem: not only corporate leaders but also government bodies and labor unions *"must all be part of an arrangement"* (Tanner, 1996), which implied that the sweatshop problem could by no means be solved by an internal company review process as suggested by Nike. This was another way to urge the company to facilitate collaboration with NGOs, rather than reject outright any criticism of its labor practices.

The story of former Nike worker Cicih Sukaesih

In July 1996, Cicih Sukaesih was brought to the U.S. for a speaking tour sponsored by anti-sweatshop groups Global Exchange and Press for Change. This seemed to be another attempt by activist groups' to arouse media interest with painful stories recounted by Nike workers: as described by Campaign for Labor Rights (1996), this initiative *"brought a human face to the Nike campaign"*. Indeed, Sukaesih's appearances attracted a great deal of media attention. Both Bob Herbert (1996c) and

Farhan Haq (1996), an *Inter Press Service* journalist, ran stories about Sukaesih which portrayed her as a “*short*”, “*small-boned*”, “*unemployed*” Indonesian woman worker who had been fired in 1992 for organizing strikes against the South Korean factory owners and had since been blacklisted. On 23 July, Sukaesih was banned from the Nike headquarters because she had demanded to meet with Phil Knight—“*I want to ask him to consider the plight of Indonesian workers*” (Herbert, 1996c), she said.

The former Nike worker claimed that she had been paid USD 1.20 a day when working for the Nike plant, which was lower than the 1.30 USD minimum wage required by the Indonesian law. Through the mass media, Sukaesih’s sponsors publicized their demands that Nike settle the claims of workers who had been “*unfairly dismissed*” and that the company agree to “*independent monitoring as a safeguard against abuses in the factories*” (Herbert, 1996c). These moves by anti-sweatshop groups further refined the framing of the sweatshop issue. When portraying women workers as weak and victimized, these NGOs implicitly reproduced the myth that women are weak and helpless victims in need of protection, the purpose being to foster a collective understanding that Nike was involved in the abuse of particularly vulnerable people. They provided themes that many media would soon resume and elaborate—especially when the mistreatment of woman workers was related to corporal punishment. This in turn resulted in such themes gaining more prominence than others.

In response, Nike’s Donna Gibbs rapidly rebuffed Sukaesih’s accusation that Nike failed to pay minimum wages and insisted that all of its subcontracted factories were paying their workers above or at the legal rate of minimum wage (Haq, 1996). Knight again emphasized Nike’s role in providing desirable jobs for local people by saying “*Indonesians were lining up for jobs in factories that make Nikes*”. He also noted, “*it would wreck the country’s economy if wages were allowed to get too high*” (Herbert, 1996c). The chairman suggested that improving labor standards would increase production costs and thereby reduce the demand for labor, which would cause job losses and eventually damage local economies which relied heavily on foreign investments. This line of rhetoric added further complexity to the issue of pay levels in order to counter the challengers’ demands and to defend the company’s current wage policy. It also fitted into a larger counter-discourse that portrayed some critics as naïve,

emotional idealists lacking “*business education*” (Carr, 1996). Nevertheless, this was also a reconciliatory argument, in that it suggested that local people would suffer rather than benefit from rising wages, with the implication that maintaining the current wage level did not run counter to the values of human rights.

Donna Gibbs again questioned the reliability of media critics on the grounds that, according to her, they had been misled and misinformed by Sukaesih and some activist groups. She accused activists of launching malicious media attacks against the company, asserting that Nike would not pay attention to those who based their accusations and arguments on “*news conferences and mean-spirited media campaigns*” (Haq, 1996). As to be expected, the company did not receive a particularly friendly response from its adversaries, who had few expectations of an honest and constructive conversation. For instance, Medea Benjamin said: “*They certainly haven’t been very gracious in starting a dialogue.*” As a result, the tension between the company and its challengers remained high.

Nevertheless, Nike’s top management team did step up its efforts to respond to the opponents’ request for independent monitoring and multi-party collaboration. On the day when Sukaesih was denied entry into Nike’s headquarters, Donna Gibbs announced Nike’s intention to join the Apparel Industry Partnership (AIP), which was an anti-sweatshop coalition made up of major clothing manufacturers, labor unions and NGOs, and with the aim of developing “*global labor standards, which would include a system of independent monitoring*” (Tanner, 1996; Anabelle, 1996; Haq, 1996). This was the first time that Nike had formally engaged with a selection of stakeholders which included some of its challengers. It was, in a sense, a concession on the part of the sneaker giant to take part in the development of multi-stakeholder initiatives to reform labor practices industry-wide. Although some leading activists regarded these initiatives as a means to co-opt resistance, others, such as Medea Benjamin, co-director of Global Exchange, viewed this move by Nike as “*a sign of tangible progress*” (Haq, 1996).

However, in Nike's public communication, it had to adhere to its rhetorical line that the company was being unfairly targeted and that there was no major problem in its supply chain. Therefore, its management team would not admit that its decision to join the AIP was made under the pressure of NGO-sponsored media campaigns. Similarly, Donna Gibbs maintained that Nike already conducted effective independent monitoring of its subcontractors through Ernst & Young, although she expressed some reservations by saying "*We feel there's always room to improve and expand*" Nike's monitoring activities (Haq, 1996). To convey the company's good will and to build a consistent image of Nike as a company committed to CSR, the Nike spokeswoman added that it was a "*desire to improve such monitoring*" that had prompted the company to make its sudden decision to join the anti-sweatshop task force (Haq, 1996).

6.2.4 More challenging investigative reports on Nike's Indonesian factories

The above two major episodes, primarily organized by NGOs and activists, gave rise to media attention which peaked in 1996. Besides this media scrutiny, the quantity and quality of investigations into labor conditions at Nike factories, especially those in Indonesia, began to improve rapidly. More and more data were gathered and numerous critical findings based on on-site interviews and investigations were publicized. This could be attributed to a large extent to mounting media interest in the topic. As increasingly more major news media conducted their own investigations, exploratory articles and reports in major print and wire media began to accumulate, and the overwhelming majority of them confirmed the activists' claims about poor working conditions at Nike factories. These damning media reports further projected an image of Nike as unscrupulous, challenging its self-presentation and audiences' previous understanding of the company.

As noted, apart from the major areas of criticism in the pre-crisis period, such as low wages and unsafe working conditions, the abuse of female workers and corporal punishment drew increasing media attention. One of the aspects highlighted in media investigation reports was the physical pain endured by workers. Reports on unfair punishment continued to emerge, and they became a focal point of negative media

coverage on Nike's factory conditions. For example, Malkin (1996) wrote in her *Business Week* report,

"Workers say exhausted colleagues regularly faint from overwork. Punishment for misdeeds consists of petty humiliation. A supervisor who skipped work one Sunday to care for his sick wife and child was forced to clean toilets and then was demoted. Another worker had to run laps around the factory because shoes she assembled had defects (Malkin, 1996)."

Apart from the emotion-stirring or "sensational" aspects of sweatshops, many media reporters explicitly sought to specify the gap between what Nike had been claiming and what the actual practice was. In a way, this approach was derived from a new pool of rhetorical resources made available by Nike to its critics. As mentioned, Nike officials repeatedly claimed that the company had been providing decent working conditions for workers. Nike for its part began to articulate its CSR commitment, and it cited local regulations and its code of conduct to demonstrate its compliance. Therefore, in order to dispute Nike's claims, journalists and activists alike sought to expose instances of violations of local laws and the code of conduct, while rhetorically urging the company to fulfill its espoused commitment.

For instance, in order to emphasize that Nike was not at all what it claimed, Malkin (1996) not only detailed widespread violations of local laws and Nike's code of conduct in her report, but also quoted Sumantri, a factory worker, when describing the working conditions as "*hell*", not even remotely close to what Knight had claimed to be those of "*the best shoe factories in the world, the best conditions*" (Baum, 1996a). So, Malkin concluded, "*Nike has a long way to go before it lives up to its stated goal of providing a fair environment for all*" (Malkin, 1996). The investigator also drew attention to Nike's code of conduct. She shared Jeffrey Ballinger's view that Nike's code of conduct was "*a charade*" (Haq, 1996). According to her report, the code was at best window-dressing. While Nike claimed that all of its factories were required to display the code within their premises, "*only one worker out of more than a dozen interviewed at Nikomas had ever heard of Nike's code of conduct*" (Malkin, 1996). This type of media scrutiny not only hindered Nike's effort to maintain consistency in the public image it sought to convey—as a socially responsible company—but also

challenged its credibility and sincerity, which constituted another related controversy that reached its greatest intensity in the second part of the crisis from 1997 to mid-1998.

As can be seen from Phil Knight's 1996 letter to shareholders, Nike's response to accusations shifted from outright denial to the admission of isolated instances of labor abuse, although these, it claimed, did not involve major violations of laws and regulations. For instance, in regard to how local workers were treated by factory managers, Knight admitted that there had been a few instances of labor abuses, but he emphasized that the company had taken action to rectify the problems: "*We have heard those reports too, and over the years we've seen some tactics—like blowing whistles in workers' ears – that we found offensive, and we've used our influence to correct those situations*" (Nike Inc, 1996b). However, he refused to accept that those were widespread practices at Nike factories, as instead claimed by challengers, saying: "*Though our critics make much of patterns of abuse, the documented instances of managers abusing their authority are few...*" (Nike Inc, 1996b).

As Knight shifted from outright rejection of allegations to acknowledgement of abusive incidents, he stressed the size of Nike's outsourcing system and therefore the company's lack of capacity to eliminate such occurrences. He said, "*NIKE has a vast manufacturing network. Problems are bound to occur from time to time...*" (Nike Inc, 1996b). This was another way to emphasize that the labor abuses exposed were rare cases. Moreover, these remarks also implied that, because perfection could never be achieved, more such coverage was bound to occur and would not be worrying. This reflected the CEO's attempt to prevent potential damage to Nike's reputation caused by future revelations of abuse incidents. It also suggested that Nike executives did not expect the problem to disappear overnight, and that they were prepared to tackle it with a long-term effort.

6.2.5 The formation of the AIP

From August onwards, media attention to the controversy diminished. News coverage as regards the sweatshop problem largely focused on the formation of the AIP. On 2

August 1996, the Clinton administration officially launched the “White House Apparel Industry Partnership”. This was grounded on a shared framework for definition of the problem and its solution proposed by the administration, and it represented a major discursive convergence among Nike, governmental actors, large segments of the media and some NGOs in the negotiation process. The AIP was a voluntary task force whose eighteen members included representatives from the shoe and apparel industry, such as Nike and Reebok, labor unions like the Union of Needletrades, Industrial and Textile Employees, consumer groups and some other civil rights groups such as the Interfaith Center on Corporate Responsibility (ICCR) and the International Labor Rights Fund. As announced, the group was given six months to come up with solutions and then present recommendations to President Clinton (Anonymous, 1996; United States Department of Labor, 1997). Notably, the formation of the AIP indicated that corporate self-regulation combined with multi-stakeholder collaboration was institutionalized as a solution route for the sweatshop problem.

The launch of the AIP was a high-profile public display of the government’s commitment to resolving the issue of the involvement of U.S. corporations in labor rights violations in developing countries. The creation of the coalition itself lent legitimacy to the NGOs’ sweatshop allegations against large outsourcing corporations. As announced, the goal of the task force was twofold: to establish monitoring standards for domestic and overseas manufactures, and to develop new schemes to inform consumers that their purchases had been made under “*decent and humane working conditions*” as opposed to “*exploitative conditions*”. The statement read:

“First, they [members of the AIP] will take additional steps to ensure that the products they [companies] make and sell are manufactured under decent and humane working conditions. Second, they will develop options to inform consumers that the products that they buy are not produced under those exploitative conditions” (Hemphill, 1999).

Clearly, the definition of the goal mirrored the framing of sweatshops by Nike’s opponents: a humanitarian problem concerning companies’ exploitative labor practices. Another example is provided by President Clinton’s remarks in an AIP statement:

"...we know that the first job of business is to produce a profit. That is the foundation of our free enterprise system. But for the system to succeed, good corporations must also be good citizens" (Clinton, 1996). Giving at least partial endorsement to the anti-sweatshop groups' argument, he implied that the pursuit of profit by companies was an underlying cause of the existence and persistence of sweatshops, and thus called on the industry to strike a balance between profit-making and humanitarian concerns. The president also embraced the activists' perspective by relating sweatshop practices to human rights violations. He commented:

"Our nation has always stood for human dignity and the fundamental rights of working people. We believe everyone should work, but no one should have to put their lives or health in jeopardy to put food on the table for their families...Human and labor rights are not brand names. They are the most basic products of our democracy (Clinton, 1996)."

This meant that Nike, as the "targeted" company, faced increasing pressure from its institutional environment because one of its most significant constituents—its home government—had urged the company to solve a problem that it had previously dismissed by means (i.e. multi-party cooperation) which it formerly rejected. The frame authorized by the Clinton administration mingled the languages of capitalism, social responsibility and citizenship. With a different source of legitimacy, this framing increased the hybridisation of the CSR discourse, and it moulded the emerging discourse in a particular way by placing emphasis on voluntarism and corporate self-regulation.

Joining the AIP can be seen as Nike's move to grasp the conciliatory opportunity created by the Clinton administration. Significant symbolic meanings attached to Nike's obtaining AIP membership: Firstly, Nike admitted that there was a problem to be solved. A Nike spokesperson said: *"We're looking at all the options to solve this problem"* (Anabelle, 1996). Secondly, Nike acknowledged the legitimacy of some claims by the NGOs. Thirdly, it accepted those groups as its stakeholders and collaborators—at least in symbolic terms. To be noted is that the creation of the AIP also established the sweatshop problem as industry-wide rather than being specific to one or two companies. In other words, participation in the AIP enabled Nike to share its responsibility for the problem with other member corporations. However, this

dilution of responsibility may also have somehow buffered the practical organizational change required of the company and contributed to its continuing denial of major problems even after the controversy again amplified in 1997.

Despite criticism by some activists, the voluntary program initiated and promoted by governmental actors received positive responses not only from the industry and but also from the majority of the media. Mainstream media covered the launch of the AIP in a largely positive light, and their descriptions of the event and the partnership itself were mostly in line with the rhetoric provided by the government on the cause and aims of the coalition. For instance, *The Oregonian* (1996) noted that the task force had a mission to look “*at ways to combat sweatshop conditions*”. Similarly, Paula Green (1996) of *Journal of Commerce* reported that the AIP was expected to induce the clothing industry to step up its effort in facilitating a voluntary solution to the problem, “*...some of the industry's top players are throwing their support behind the government initiative to stamp out manufacturers that don't adhere to federal-wage and safety standards*” (Green, 1996). The voluntary-oriented solution model promoted by the administration was also affirmed by media interpretations. For example, *The Washington Post* cited the voluntary “No Sweat” initiative as reflecting President Clinton’s endeavor “*to use his office expansively, going beyond his formal executive powers to encourage good behavior among local governments or in the private sector*” (Harris & McKay, 1996). In this way, the media served to validate the government-initiated approach based on voluntary multi-stakeholder collaboration as a justifiable answer to the problem.

Specifically, Nike’s involvement in multi-party talks was greeted favorably by both the media and the company’s challengers. For instance, *The Oregonian* (1996) applauded Nike’s participation in the panel as a “*good move*” for the company. Likewise, journalist Jeff Manning (1996b) was impressed by Nike’s consent to collaborative engagement with its critics, saying “*...Nike's willingness to join is significant. It will be sitting at the same table with some of the labor and human rights groups that have accused Nike's subcontractors of abusing workers, of paying sub-poverty wages, and of brutalizing anyone within the factories who attempts to unionize workers*” (Manning, 1996b). As for reaction from activist groups, Medea Benjamin of Global Exchange

also welcomed Nike's new willingness to talk. According to her, the company had made an encouraging concession: "...it's very positive that Nike is engaging...For so long, they just ignored the issue" (Manning, 1996b).

Ultimately, Nike's becoming a founding member of the AIP can be regarded as the result of the second round of negotiations between Nike and its critics—only this time with far more active involvement of the media and key governmental actors than in the first round. For Nike, a company facing a legitimacy crisis, joining the AIP was one of the most crucial steps it took to maintain its legitimacy during the crisis. After the establishment of the AIP in August, media scrutiny started to drop considerably and remained at a relatively low level until January 1997 (See Figure 4). We may call this a temporary closure of the controversy. However, other follow-up actions illustrated in the following subsection may have helped Nike in further securing its legitimacy.

6.2.6 Nike's 1996 annual shareholders meeting and the establishment of the Labor Practices Department

At the September 1996 annual shareholders meeting, Nike faced challenge from a new source—its shareholders. After discussing with anti-sweatshop groups Press for Change and the ICCR, the General Board of Pension and Health Benefits of the United Methodist Church submitted an "Anti-Sweat" resolution to the annual meeting, calling on the company to address the problem of poor labor conditions. The resolution proposed that the company establish independent monitoring of its production facilities, a proposal which was eventually voted down—Nike merely agreed to consider it and to carry out investigations (Rehfeld, 1998; Shaw, 1999). However, this proved to be a PR nightmare for Nike.

Prior to the meeting, Phil Knight reacted angrily to the resolution's call for independent monitoring. He refused to discuss it and rejected charges that Nike factories were sweatshops, returning to the company's earliest response of outright

denial. Furthermore, when a church representative expressed his group's willingness to continue a dialogue with Nike on the issue, the CEO told him to speak to Donna Gibbs. However, the representative was informed that Gibbs was no longer with the company when he called her the following Monday (Shaw, 1999). The meeting was covered by CBS, a U.S. national TV broadcaster, and thus Knight's furious performance plus the turmoil caused by the resolution at the meeting were seen on 17 October by 11 million viewers of CBS's weekly show *48 Hours*.

In addition to reporting the shareholders' meeting, the same news program launched another major media assault on sweatshop practices featuring a Nike factory in Vietnam. Following CBS reporters' visit to the factory, the show documented interviews with 15 Vietnamese women who worked for Sam Yang Co., one of Nike's contracted factories (CBS News, 1996). Those female workers were reportedly punished for their poor sewing by Korean supervisor Madame Baeck, who used a Nike shoe to hit them on the head and neck. When asked about the beatings, Madame Baeck said, "*It's not a big deal. It's just a method for managing workers*" (CBS News, 1996). In addition, various sorts of physical punishment were also confirmed in the news program. Nike management quickly affirmed its moral standing on the matter. Its spokesperson Vizhier Corpuz said the company had taken steps to correct any "*wrongdoings*" publicized by the news program (Mesa, 1996).

Despite the setback noted above, the sneaker giant used the occasion of the annual meeting to make some significant discursive moves. On 16 September, Knight spoke at the meeting and issued a letter addressing the sweatshop charges to Nike shareholders and which was included in the proxy statement of Nike's 1996 Annual Report (Nike Inc., 1996b). This statement outlined the shoe giant's stance on the matter and placed far more emphasis on the company's humanitarian beliefs than did Knight's letter to *The Oregonian* before the crisis. These narrative materials show how Nike's senior management team reviewed the company's past actions, explained its present position, and envisaged future steps. A closer look at these statements provides further insights into Nike's rhetorical strategy and the team's sensemaking activity, and sheds some light on the development of the second phase of the crisis.

As mentioned, at this stage, Knight was still making attempts to discredit Nike's critics. He described the criticisms and media campaigns launched by anti-sweatshop groups as attacks, and accordingly depicted Nike's critics as attackers and antagonists. Therefore, even after Nike had joined the AIP and agreed to collaborate with some challengers, its CEO still strongly adhered to this version of organizational reality, as evidenced in his following remark: *"One of the difficulties we have had in responding to our critics on the issue of labor practices in developing countries has been the moving target of the criticisms. We respond in one area; they attack in another, somewhat related area"* (Nike Inc, 1996b). This evaluation gave rise to a major strategic shift to a more proactive, promotional approach, which will be analyzed in the next chapter.

The Nike management also continued its PR effort to disassociate the company from the sweatshop charges and began to position itself as a CSR leader. For instance, Knight said, *"The factories are clean. They're well lit and, as we've pointed out more than once, the workers in those factories receive double the minimum wage throughout Indonesia...What we'd really like to have is the best pay and the best conditions for these people because we believe the best product comes out of the best factories"* (Baum, 1996b). Although this passage was used to deny sweatshop conditions, ironically, it once again revealed the contrast between Nike's entrenched economic position and its critics' humanitarian point of view. When mentioning factory conditions, Knight made reference to factories that were *"clean"* and *"well-lit"*, which connoted more of efficiency. By contrast, when activists talked about workplace conditions, they had greater concerns about the workers' personal experiences of laboring in the factories, such as excessive overtime, physical punishment, and health and safety problems.

It seemed that the Nike management sought to use the hybrid CSR rhetoric to further reconcile some incompatible values advocated by its critics. A slight shift or softening of the Nike management's tone was apparent in its statements, and a few discursive concessions were made. Firstly, Knight formally admitted that the company did have the power to influence its suppliers, reaffirming the company's responsibility for the

welfare of foreign workers making shoes for the company. He stated, *"While we do not have 100 percent control over these factories, we clearly have strong influence and do not try to hide behind the ownership issue"* (Nike Inc., 1996b).

Additionally, as the company joined the AIP, Phil Knight for the first time delivered a clear message that Nike would engage in ongoing *"constructive dialogue"* with concerned groups. He announced: *"We are always willing to engage in constructive dialogue and hope this effort can lead to improved labor conditions around the world"* (Nike Inc., 1996b). This remark also demonstrated Nike's commitment to CSR. Nike's repositioning as a CSR leader is also exemplified by the following quotes:

"I have seen enormous progress in the quality of working conditions in Asian factories over the past 30 years. In addition, we are miles ahead in terms of establishing standards and monitoring them compared to most of the other importers... we can be a lot better. Nike likes being held to a higher standard (Baum, 1996b)."

"NIKE does not run from problems. To the contrary, we are believers in constructive engagement. When problems do occur, we deal with them quickly and effectively. If abusive practices continue, we do not hesitate to terminate the business relationship (Nike Inc, 1996b)."

Moreover, in regard to one of the AIP's missions, namely the use of independent monitoring, the CEO pledged to invite independent, third-party investigators other than Ernst & Young to inspect its overseas facilities and publicize the findings. He announced, *"Within the next year we will invite a group other than Ernst & Young to review the factories that make NIKE shoes. We know these are the best shoe factories in the world, and we will encourage this independent group to make its finding public"* (Nike Inc., 1996b).

Nike also started to acknowledge the existence of shortcomings. As mentioned, Knight responded in particular to abuse incidents reported in the media. Having admitted that isolated incidents did take place, he cited examples to prove that the company had used its influence to intervene promptly and effectively. He gave the assurance that actions

were and would be taken to prevent future occurrences. In other words, the company started to undertake a “*constructive engagement*” (Nike Inc, 1996b) with problems that it had previously denied. It also suggested that Nike should cease attempts simply to deny responsibility for its subcontractors. The letter read:

“For instance, when a manager in Indonesia struck a worker in 1994, he was dismissed within one day. Recently in Vietnam, a female Korean line supervisor hit a Vietnamese line worker with her hat. Although the worker was not injured, NIKE and its subcontractor found the behavior unacceptable, and the supervisor was dismissed. She remains in Vietnam, however, pending a legal hearing on the case (Nike Inc, 1996b).”

“NIKE does not run from problems. To the contrary, we are believers in constructive engagement. When problems do occur, we deal with them quickly and effectively. If abusive practices continue, we do not hesitate to terminate the business relationship (Nike Inc, 1996b).”

As also noted, the company had begun to incorporate more humanitarian elements into its rhetoric. Phil Knight now used a political frame and drew on a much broader discourse of neoliberalism in order to counter the accusation that Nike had calculatingly outsourced its manufacturing to countries governed by dictatorial authorities. To justify those choices of locations, the CEO referred to the neoliberal economic policy adopted by the U.S. government. He maintained that, in 1976, Secretary of State Cyrus Vance had set up the U.S.-ASEAN Business Council with a view to reinforcing the presence of American business abroad—this arrangement was intended to provide stability to the ASEAN countries. Since then, Nike had become one of the members of the council and had started to move its operations from Taiwan and Korea to other regions such as Indonesia and Vietnam. Knight quoted a statement by a senior official of the U.S. government that “*Nike’s presence in that part of the world is American foreign policy in action*” (Nike Inc, 1996b). These claims, on the one hand, suggested that Nike played a humanitarian role in providing stability to those regions; on the other, they used the U.S. authority and the myth of neoliberalism as sources of legitimacy for its business activities.

Although still adopting a hostile stance towards its critics from time to time, soon after the meeting Nike took a significant step by adjusting its organizational structure in

direct response to the sweatshop accusations. On 3 October, Nike announced that it had established a Labor Practices Department “*with a mandate to continue to evolve its monitoring of subcontracted manufacturing facilities and continue to upgrade conditions for workers in subcontractor factories around the world*” (Canada News Wire, 1996). According to Nike, the department was headed by Dusty Kidd and consisted of managers and inspectors based in Nike plants across the globe. It also announced that the new department would report to senior management and work with other departments, including its production department, and with foreign suppliers. Emphasis would be placed on code compliance in Indonesia, China and Vietnam, which accounted for 75 percent of Nike’s footwear production (Nike Inc., 1996a).

Except for Nike’s involvement in the AIP, the creation of the new department represented another round of organizational change with new structures incorporated. The stated intent of setting up this department was to “*evolve its monitoring*” and to “*upgrade conditions for workers*”, so that public concerns over sweatshops and social expectations of improvement in working conditions would be explicitly addressed. By means of this organizational restructuring, Nike sought to demonstrate its commitment to CSR practices. It announced:

“The creation of a dedicated Labor Practices Department is a further step in NIKE’s ongoing commitment to have products made only in the best facilities with the best working conditions in the sports and fitness industry (Canada News Wire, 1996).”

For one thing, the company signalled that it considered foreign labor practices to be a major responsibility of senior management—not just a PR issue. For another, by tying labor practices to production, Nike indicated that in addition to other production factors (e.g. quality, cost), it would take labor standards into account when making business decisions. Although there were some setbacks at the annual shareholders’ meeting, it appeared that those signals of positive change helped prevent further escalation of the crisis, at least until the beginning of 1997.

Discussion

This section first discusses the rhetorical strategies used by anti-sweatshop groups and by Nike to put forward arguments and counter-arguments in the debate. The former were largely derived from moral-based frames of reference and the logic of justice, while the latter were largely based on the traditional economic logic. The discussion

then focuses on the various rational myths and cultural accounts on which the two rhetorical communities drew, and illustrates the rhetorical contest, and how each party's rhetorical strategies shaped organizational changes. Finally, the section elucidates how rational myths provided organizational members and stakeholders with mechanisms to make sense of the controversy and to negotiate meanings.

1. Rhetorical strategies

Rhetoric was defined by Aristotle as “an ability...to see the available means of persuasion” (Aristotle, 1991: 36). This part of the case study demonstrates how rhetoric, the strategic use of persuasive language, gave rise to the “sweatshop” controversy and how the two contesting discursive communities—NGOs and Nike—used different rhetorical strategies in an attempt to challenge each other's claims and defend their own arguments. As suggested by some scholars, rhetorical discourse has a constructive effect on social actors' interpretations of social problems because it serves for the eloquent and persuasive espousal of a particular view of the world (Heracleous & Marshak, 2004). As illustrated, this chapter focuses on a phase when activists successfully constructed a “sweatshop” problem out of the outsourcing practices of large corporations in developing countries, and when Nike was first caught in the reconstruction of the institutionalized production model and labor standards. Owing to the presumably asymmetrical power relations between NGOs and multinational corporations, rhetoric was used as a particularly significant tactic in the activist groups' overall strategy to challenge the dominant labor practices of the clothing industry. NGOs also used media resources to reinforce the persuasive power of such rhetoric.

The negotiations between Nike and its challengers began in the early 1990s, and they saw a succession of shifts in Nike's narratives and use of various rhetoric and frames. Major organizational changes as outcomes of the two rounds of negotiation included Nike's launch of its first code of conduct, its participation in the AIP, and the establishment of the Labor Practices Department. An examination of the rhetoric used by activists and critics serves to show how these organizational changes were set in motion, or more specifically, how the sweatshop problem was first constructed and framed by Nike's challengers, and how these used languages legitimized the need for institutional change. Essentially, rhetoric was used by activists to secure shifts in

institutional logics (Suddaby & Greenwood, 2005), that is, to alter the criteria used to assess the legitimacy of the hands-off outsourcing practices of U.S. clothing manufacturers.

Throughout that period of time, in order to advocate their points of view, the challengers relied mostly on a set of value-laden, morality-based rhetorics to construct the issue largely from a humanitarian perspective. This rhetorical approach used by many Nike critics implied that they assumed superior moral objectives, in that they continued to argue that the company was placing self-interested economic considerations above human rights concerns. The rhetorical construction provided by the critics articulated what constituted unjust labor conditions, why they should be considered as violating dominant social values and norms, what caused such social injustice, and who should be responsible.

As illustrated, the anti-sweatshop critics frequently used stories of factory workers and presented certain figures to make their point. Their rhetorical approach was reflected in how they narrated the stories and interpreted those figures. For instance, the critics' humanitarian language was captured in their provocative descriptions of factory workers' experiences as well as in their use of monetary figures to demonstrate the income gap between Nike's rich men (e.g. Michael Jordan and Phil Knight) and poor factory workers, which implied inequality of status and class. Through such connotations, the rhetoric served to evoke typifications and associations of Nike as an exploiter and a bully (Heracleous & Marshak, 2004). Moreover, on many occasions, Nike's challengers referred to the widely recognized human rights norms to construct their framing of the sweatshop problem. For instance, some of them highlighted labor rights as a subset of human rights, contending that workers' rights and dignity must be respected. Moreover, some critics associated Nike's outsourcing practices with the human rights record of the Suharto regime. The humanity-oriented view of Nike's opponents was also apparent when they attempted to bring "*a human face*" (Campaign for Labor Rights, 1996) to the anti-sweatshop movement, and to further exploit the theme of abused woman workers.

By using rhetoric, the activists managed to alter the underlying logic by which corporate legitimacy was evaluated: legitimacy criteria became based more on fulfillment by companies of their moral obligations towards workers, and the dominant outsourcing model confined to legal terms started to undergo progressive reformation. The pre-crisis period section exemplifies how early accounts were crafted by anti-sweatshop activists to legitimate the need for institutional changes, and how they were connected to a much wider moral framework. However, it seems much less likely that activist groups would have achieved these shifts without the endorsement given by some media and governmental actors. As noted, by producing supporting texts that largely mirrored the activists' framing of the issue, these powerful actors contributed to legitimating the activists' construction of the "sweatshop" problem and brought about shifts in the dominant logic.

As the legitimacy crisis came to a head, the U.S. government and some major media outlets played an even bigger role in the unfolding and settlement of the controversy. For instance, at the beginning of the crisis, the mass media tended to focus on reporting abuses of child labor, and as such, this frame gained prominence. This prompted Nike to take rapid action to address the problem of child labor. Also, the Clinton administration's creation of the AIP reinforced the framing of the sweatshop problem as an industry-wide one that required multi-party collaboration, and it also contributed to establishing voluntarism as one of the defining features of the concept of CSR. This move, as will be detailed in the next chapter, gave rise to much of the controversy's subsequent development.

As illustrated, over time, the critics' use of moral-based rhetoric and their humanitarian framing of the problem remained markedly consistent, which may have contributed to bringing about institutional changes (Phillips *et al.*, 2004). In this case, the NGOs could not control the institutional outcomes because they were both empowered and constrained by the institutional environment (Hoffman, 1999). However, in a sense, the means available to them to influence the design of the new institutional order was also limited by the rhetoric that they used to frame the issue in the negotiation process.

As noted, the critics sought to shift assessment criteria from legal compliance to moral compliance. They portrayed Nike and other big brands as mainly responsible for creating sweatshop conditions and therefore as the primary parties responsible for remedying them. Although some critics condemned the failure of local governments to impose stricter labor policies, those host nations and local suppliers were largely described as heavily reliant on foreign investment. Such rhetorical strategies constrained the activist groups' subsequent moves: they had to focus their resources on pressuring Western corporations rather than governments or subcontractors, and this somehow gave rise to corporate self-regulation as a logical and more likely solution to the problem than direct government regulations. As a temporary closure to the controversy, some activist groups moved discursively to acceptance of the voluntary solution path, given that a group of them joined the AIP and others expressed positive views on the formation of the partnership.

Compared with the discursive consistency attained by concerned groups, Nike's use of rhetoric was adjusted several times as the controversy unfolded. Nike's rhetorical approach changed in accordance with the shifts in its discursive position. It appears that Nike discursively moved towards its critics as the controversy unfolded. This was reflected in its development of the hybrid CSR rhetoric integrating traditional economic considerations with humanitarian values. As shown, the first major shift in Nike's discursive position was made by its CEO Phil Knight when he responded to Nena Baker's report by accepting rather than avoiding Nike's responsibility for the behavior of its contracted factories. As the legitimacy crisis progressed, Nike shifted from denying "sweatshop" conditions outright to admitting the existence of child labor and isolated abusive incidents, although in the meantime it sought to naturalize and normalize these problems and incidents. Then, after the dramas of Jesse Jackson and Cicih Sukaesih, another major convergence emerged as the company joined the AIP. Lastly, although Nike continued to reject many of the criticisms, it agreed to selective dialogue with some anti-sweatshop groups, as symbolized by its move to join the AIP.

Although Nike's rhetoric at first drew largely on neoclassical economic framework, it is apparent that different lines of counter-argument were later used and developed by the company at different stages of the controversy. During the phase of responsibility

avoidance, Nike officials used entirely unsympathetic and insensitive traditional economic language to disassociate the company from the allegations (e.g. use of local labor-market contexts and the “irresistible” laws of economics to rationalize its detached, hands-off approach, the existence of the outsourcing system and the prevailing labor standards). Those neoclassical economic-based counter-arguments exemplified Nike’s early attempts to rationalize its commitment to the *status quo* in order to counteract radical organizational changes.

For instance, the Nike management pointed out that moving production back to the U.S. would entail a huge rise in prices (if Nike were to maintain its profit level), implying that the change would be significant and threatening for consumers, and possibly for the company’s bottom line. This again reflected Nike’s priority of profit-making. After admitting responsibilities for contracted workers, however, Nike leaders started to incorporate more sympathetic and accommodating accounts into their counter-rhetoric, and increasingly adjusted their language to reconcile the company’s business plan with the humanitarian values advocated by NGOs. This was especially the case when they found that the company was being “targeted”. In this way, the hybrid rhetoric of CSR emerged for the purpose of mediating among competing meanings. As will be further elaborated, in this process the CSR discourse was reproduced, shaped and given greater prominence as more and more supporting texts were produced by NGOs, corporations, governmental agencies and media bodies.

As Nike admitted responsibilities and introduced its code of conduct, the debate shifted to definition of acceptable labor standards and on the means to improve them. To be noted is that after Nike had accepted responsibilities for workers, seemingly moving from legal to moral compliance, it continued to exploit the ambiguous meaning of “moral compliance” to resist change in some aspects of the existing labor standards. For instance, the Nike management continued to argue that, given the local living standards, the company had been responsible enough to pay workers wages at the current rate. As the crisis erupted and escalated, it sought to add further layers and complexities to the framing of prominent issues such as wage.

In Phase I, the Nike management re-used some unsympathetic, traditional economic explanations to counter the critics' humanitarian framing of the problem. For instance, Nike leaders argued that both Michael Jordan's and workers' pay were decided by the supply and demand of the job market. However, this phase saw intensified use of the hybrid CSR rhetoric. Some alternative lines of rhetoric coming into use were enriched with principles derived from humanitarian norms. For instance, the Nike management began to argue that the company was providing desirable jobs for local people, and that it was actually contributing to local economies and improving local people's quality of life. For another example, in order to rebuff the activists' demand for higher wages, Knight reasoned that higher production costs as a result of increased wages would choke off foreign investments, and thereby cause job losses and damage local economies. He thus implied the detrimental social consequences of higher wages for local populations. This line of rhetoric also showed that Nike was extending its use of economic theories from justifying profit-maximization to demonstrating its interest in the wellbeing of others, seeking to establish connections with some core values of humanitarianism.

Although Nike increasingly adopted a humanitarian lexicon, its fundamental economic concerns continued to reveal themselves. For instance, as the company admitted the unintended use of child labor and isolated abusive incidents, Nike officials began to articulate some sympathetic explanations for those problems. Yet some of them also attempted to rationalize the occurrences by emphasizing the company's incapacity to eliminate all unpleasant incidents owing to the size of its massive global supply chain, which implied that those incidents were unwanted but unavoidable side-effects of the production process of a dominant player in the global marketplace like Nike. This, however, indicated that priority was being given to the market and efficiency, and revealed one of the company's core identities.

Another example was when Knight explained Nike's production-location choices. While he emphasized that Nike had been helping to bring stability to those developing countries, the CEO also drew on the broader discourse of neoliberalism to argue that the company was basically following the U.S. government's neoliberal foreign policies. This again revealed that Knight largely identified Nike as an active participant in the

free trade global economy. These narratives exemplified the ambiguity which accompanied the Nike CEO's early attempt to reconfigure the company's identity as a market leader and also a CSR leader. This merging of rhetorics into a hybrid CSR discourse was the outcome of the ongoing process of mediation between the market competition logic and humanitarian values.

2. Rational myths

In their respective attempts to justify the need for institutional changes and to defend the *status quo*, anti-sweatshop groups and Nike constructed their preferred institutional forms of labor practices from perspectives that were consistent with broader myths and institutionalized logics. In this case, in order to challenge the dominant economic norms, the anti-sweatshop activists relied on rhetoric derived from a variety of broader myths, among which morality was a key mythology. This is based on the religious models of Western societies: it challenges materialist norms and underlines the values of traditional religious moral codes, such as justice for others. It is highly rationalized in the modern world, and has arguably formed the basis of the modern concept of "human rights" and given rise to a growing interest in the wellbeing of others which overrides self-interest and materialism (Weber, 1958; Meyer & Jepperson, 2000; Elliott & Freeman, 2003; Suddaby & Greenwood, 2005).

Along with the contemporary human rights movement, there has arisen a range of moral myths (i.e. values and norms that are collectively recognized and generally respected, in this case, especially within the Western culture), such as human dignity, equality, freedom and basic humanitarian principles (e.g. impartiality, universality and neutrality) (Steiner & Alston, 2000; Robertson, 2000; Bustelo, 2001). Many of these moral myths were contextualized by Nike's critics from a case-based perspective (Hoffman, 2000), which defines morality in terms of the experiences of the people involved in a given context. They were grounded in the most fundamental concerns of human experience, such as suffering due to physical and emotional conflicts, and struggles between the weak and the powerful.

These care-based moral myths tended to elicit collective emotional, sympathetic responses from the audiences towards the workers. NGOs used these myths to contradict with traditional economic assumptions maintained by Nike. By so doing, the anti-sweatshop activists sought to resist the self-interested maximization of profit by large corporations and to improve the well-being of local workers. As for Nike, its initial counter-arguments drew largely on myths and logics derived from the goal-oriented and teleological economic rationality centered on the maximization of material wealth and self-interest, such as efficiency, mass production, free trade, unlimited growth, and market competition (Weber, 1958; Friedman, 1962). Later, the company integrated myths from diverse sources and developed a hybrid counter-rhetoric.

Some scholars see organizations as dramatic enactments of rationalized myths (DiMaggio & Powell, 1991b). In this case, a range of myths provided categories from which NGOs and Nike constructed reality, made sense of the controversy, and negotiated meanings. These widely promulgated and accepted myths provided institutional and cultural grounds for their arguments and actions, and served as sources of justification (Boltanski & Thévenot, 2006). For instance, the critics first established the fact that Nike paid Michael Jordan 5 million USD a year and a (female) worker 12 cents per hour (Baker, 1992). This allowed the development of rhetorical resources which called for myths. The activists then drew on the myth of equality (and perhaps also connect to the myth that women are a passive, vulnerable population group that needs extra protection against abuse and violence) to construct a “reality”: the unequal pay indicated human inequality which was created by Nike (the strong, the exploiter); the company economically disadvantaged women (the particularly weak and the exploited) in order to maximize profits.

Nena Baker (1992) described this “reality” as “*a funhouse mirror*” which exposed the contradiction between care-based morality and economic rationality. In other words, the moral myth of equality justified the demand for higher wages. The repeated use of the myth of women as passive and weak reinforced the framing of the sweatshop problem whereby the workers, the majority of whom were women, could not protect themselves, so that third-party intervention was necessary. This framing highlighted

the role of the NGOs in solving the problem while it downplayed the workers' involvement in the negotiation of their own rights with corporations and governments.

Nike's critics also used politically-charged metaphors such as "slave" "colonies" and "pyramid" to justify the need for organizational change. As suggested by Hill and Levenhagen (1995), metaphors are often emotionally-loaded and have persuasive power. More importantly, they are embedded in rational myths. The metaphoric use of "slave" and "colonies" in this context implied that the local population was subject to brutal force, and elicited negative moral connotations on how Nike, an oppressor or a colonist, created and accumulated wealth. It was able to evoke common negative sentiments because these metaphors were embedded in slavery and colonial mythologies largely associated with human suffering, tensions, struggles and disharmonies. The use of such politically-sensitive metaphors indicated not only that Nike's labor practices should not be allowed by contemporary society, but also that there was a driving force for radical change.

Similarly, as regards the geometrical metaphor of a "pyramid",⁵ the expression was laden with politically-charged connotations of hierarchy, social stratification, control and power, and it ran counter to the myth of equality. As noted, the pyramid symbol gave internally consistent meanings to the issue in debate: there was an inequality of power rooted in Nike's social relations with the factory workers, and its labor practices were suppressive and exploitative in nature. In other words, various myths were leveraged by the NGOs to construct "the reality" and justify their arguments and actions. These myths elicited emotions and moral sentiments in audiences and challenged their economic rationality. This may be particularly the case in the Western society where the moral myths used by NGOs were, arguably, most widely understood for cultural and historical reasons.⁶

To summarize, by using rhetoric embedded in rational myths and broader cultural views, the activists articulated their version of the reality: Nike and other big brands

⁵ The "pyramid" metaphor, however, has been integrated in the current CSR rhetoric with BoP, an idea that multination corporations can make substantial profits while helping to eliminate poverty across the globe by doing business with the world's most impoverished people, who make up the so-called "bottom of the pyramid" (Davidson, 2009).

⁶ From a relativist perspective, moral rules vary from culture to culture. They are historical products embedded in particular social and cultural contexts. For instance, the humanitarian claims of "universality" can be seen as an unwarranted attempt to impose Western values on other cultures, which is a sort of "cultural imperialism" (Linton, 1954; Steiner & Alston, 2000).

were greedy corporations that would stop at nothing to maximize their profits. They had been taking advantage of the outsourcing system and covertly exploiting factory workers. Nike was the worst third-world exploiter, in constant pursuit of the cheapest manufacturing locations with low-cost labor and lax regulations. In its search for increased profits and reduced costs, the company condoned human rights violations such as paying workers inadequate wages, forced overtime, and it ignored any negative impacts on the workers' mental and physical health. Moreover, since contractors were desperate to win contracts, and developing countries were heavily dependent on foreign direct investments, Nike had tremendous influence over these counterparts and hence the power to rectify the sweatshop problem. However, it chose to brush it aside, with the consequence that the problem persisted. Nike and other outsourcing companies should therefore be held responsible for the adverse outcome. As this causal link was established, the opponents concluded that the hands-off outsourcing policy was socially unacceptable and should be adjusted—Western companies should only be considered legitimate when they acknowledged their responsibilities for workers and assumed an active role in improving workplace standards.

As regards Nike, at the pre-crisis stage, it mainly used the rhetoric of traditional economic rationality to respond to its opponents. For instance, it drew on the dominant economic myths of self-interest, efficiency and market competition to interpret the reality (e.g. the pay gap between Michael Jordan and the female workers). In 1992 before the crisis hit, Nike began to incorporate some moral myths from the humanitarian paradigm: as when Knight expressed interest in improving workers' "*quality of life*" (Knight, 1992). Then, as the crisis began and unfolded, Nike developed a line of rhetoric that hybridized myths derived from different sources. For instance, it used a teleological perspective consistent with economic rationality to explain that the company was actually protecting human rights and advancing social welfare.

As another example, Knight drew on the political myth of neoliberalism to reconcile economic self-interest with the moral values highlighted by the critics. Neoliberalism as political rationality brought traditional economic rationality closer to other fundamental concerns of human experience because it promoted the notion of

economic efficiency not only in the production of goods and services, but in all areas of human life, such as welfare, health and education. In addition, neoliberal political rationality was not applied on a national level alone but also in the development of foreign policies (Beeson & Firth, 1998). In this case, according to the former U.S. Secretary of State Cyrus Vance, the aim was to provide stability to the ASEAN countries, which indicated Nike's constructive role in improving local people's wellbeing. By using rhetoric derived from this political myth, Nike sought to establish a positive correlation between the priority of economic efficiency and competition and the quality of human life as defined by prevalent human right norms. This kind of rhetorical hybrid largely characterized Nike's CSR language.

The key aspects of the reality that Nike's senior management sought to construct were that Nike was a socially responsible employer which paid decent wages and provided first-class working conditions; local workers were happy to have their jobs; the economies of the host countries were advancing as a result of the company's contribution; both local people and American consumers were benefiting from the current outsourcing practices; and the company was also prospering. Such narratives were stories about Nike's engagement in profit-making activities which also contributed to overall social and economic welfare. As these mediated accounts of "reality" gained authority over time, they turned into the myth of CSR.

In addition, one of the most consistent themes in Nike's construction of the reality was that it was being unfairly targeted and attacked. This self-constructed "reality" gave rise to another major rhetorical strategy adopted by Nike to "counter-attack" its critics. As shown in the case study, throughout the controversy, Nike officials persistently made confrontational counter-claims aimed at delegitimizing opponents, even after the company had joined the AIP. For instance, they repeatedly questioned the critics' credibility, accusing them of having a hidden agenda or choosing hype over truth and fairness, and typifying them as sensationalists and idealists. In contrast with the type of rhetoric that Nike used to frame labor issues, these counter-arguments were largely morality-based. For instance, the "sensationalist" accusations against media reporters were derived from the rational myth of news-makers as truth-tellers. Nike essentially

argued that it was morally wrong and unethical for news reporters to adopt biased viewpoints.

Likewise, the use of such phrases as “bully pulpit” and “mean-spirited”, as well as the mentioning of a hidden agenda which implied self-interest, also revealed that, when the Nike management sought to delegitimize critical claim-makers, it drew on a morality-based rhetoric. As mentioned, this kind of rhetoric often appeals to emotions. Nevertheless, while the activists’ use of moral-based arguments provoked negative public emotions towards Nike, the company’s use of the same line of rhetoric was only likely to generate shared emotions among internal members. This gave rise to a firmer belief within the company that Nike was being unfairly singled out and attacked, and even stronger commitment by Nike’s management team to “protecting” the company and “counter-attacking” opponents. This commitment contributed to the crisis, bringing about more opposition and making Nike even more of a “target”—which was especially the case in the second phase of the crisis. In this sense, Nike was caught in a reality of its own making, which will be further discussed from a sensemaking perspective.

In terms of strategy, as Nike shifted to injecting more layers and density into its counter-rhetoric, it also started to draw on diverse myths; and this had significant consequences on the unfolding of the controversy. This rhetorical strategy represented the Nike management’s attempt to change the conditions of the debate. Essentially, it was more accommodating to the critics’ frames of references. The tactic was not used to confront the critics’ arguments head-on; rather, it countered a claim made by the activists by arguing that it was merely one aspect of a multi-faceted issue (Ibbarra & Kitsues 1993). The strategy was derived from a broader counter-discourse that the sweatshop problem only reflected complex realities of the business world and global economic competition. However, while the Nike management continued to emphasize that its economic-based arguments were superior to the critics’ counter-arguments, it started to acknowledge some humanitarian considerations and, on some occasions, highlighted the existence of competing cultural values (jobs/stability vs. possible incidents of labor rights violations). This pointed to the ostensible contradiction between traditional economic rationality and certain moral values. In part, the debate

then shifted to whether these could be balanced in this particular case, to what extent, and with what weight.

In a sense, although this strategy was probably developed from an economic paradigm in the first place, the constantly added layers and enriched perspectives would inevitably involve increasingly more moral or other elements. After all, every rhetorical strategy is conceived in the context of a broader cultural and institutional framework (Friedland & Alford, 1991) consisting of various mythologies which include traditional economic rationality, human rights-based morality and many others. Knowingly or unknowingly, Nike increasingly expressed a commitment to values advocated by its critics which gave rise to discourse that was more attuned to its critics' framing of the problem, although in a somewhat incoherent, ambiguous manner at this stage. For instance, when the Nike management sought to reconcile its identity as a "champion" with the CSR discourse, it promoted the company as the labor reform leader of the industry. However, the management team also resisted "reform", insisting that there were no major workplace problems, and that Nike's monitoring system was effective.

In this way, the company reached a discursive reconciliation with its critics that resulted in progressive reforms of its labor practices. In other words, like those of its challengers, Nike's moves were increasingly limited by its rhetorical strategies. As the U.S. government proposed to form the AIP, it offered both sides an opportunity for reconciliation, and a closing agreement was drafted by the authority. As noted, President Clinton identified a goal whereby companies could achieve a balance between profit-making and labor rights through corporate self-regulation acceptable to anti-sweatshop groups. In other words, the AIP served as a platform for discursive convergence, which was reached on the basis of broad assumptions that economic values and humanitarian values could be balanced in this case, to an extent to be decided, and that corporate actors could commit to ensuring that balance. Here arose the myth of CSR.

3. Rational myths as sensegiving mechanisms

This section explores the crisis from a sensemaking perspective. As said, sensemaking involves the placing of stimuli in frameworks (Starbuck & Milliken, 1988; Weick, 1995: 4). The interpretation frameworks are central organizing schemes shared among organizational members to make sense of events (Gamson *et al.*, 1992; Weick, 1995; Balogun & Johnson, 2004), and they serve to link issues to meanings which in turn guide ensuing action, thereby bringing order to events (Drazin *et al.*, 1999). On this line of reasoning, those rhetorical tactics can be considered as ways to negotiate meanings. Examination of narratives and rhetoric reveals the sorts of cultural frameworks and mythologies on which social actors drew at different times to make sense of and give sense to relevant issues, and it also shed lights on how organizational members interpreted and enacted the environment which affected the unfolding of the crisis. In particular, rational myths provided sense for social actors to construct and negotiate meanings in the rhetorical battle featured in this chapter.

As mentioned, at the beginning of the controversy, Nike and its challengers largely drew on diverse frames of reference to organize their interpretations of the issues as well as each other's actions. While the activists based their interpretations of issues on cultural templates of social equality and humanity, the company at first drew on the neoclassical economic paradigm to make sense of them. For instance, in the debate on wages, the activists juxtaposed the workers' pay to that of Michael Jordan, which connoted social inequality, whereas Nike used economic terms to ascribe different meanings to the figure. As the controversy unfolded, the two parties started to share certain frames of reference in their rhetoric. As noted earlier, there emerged some major convergences in the meaning negotiation process as the two parties made their discursive moves, and the progress of the controversy was represented by the convergence symbolized by Nike's participation in AIP. Further examination from a sensemaking perspective may shed some light on how and why those convergences were realized.

The legitimacy crisis arose when Nike received widespread negative feedback from the audience, which triggered organizational sensemaking and sensegiving to repair the

breach of understanding. Senior members of Nike had to make sense out of highly discrepant meanings or contesting interpretation frameworks and give sense to audiences to achieve some intended outcomes. What interpretive schemes they drew on depended heavily on organizational values and culture as well as on the broader social context, and this determined what subsequent actions were taken by them. Nike leaders first sought to avoid responsibilities for workers, arguing that the company had no direct legal responsibility for subcontractors or factory workers. Then they began to accept responsibilities after publication of Nena Baker's report in 1992.

As media attention started to mount dramatically in mid-1996, Nike continued to deny sweatshop conditions for the most part, while seeking to disclaim and attack its challengers. Bad press was the result. As Nike's reaction generated more and more publicity, NGOs, on the one hand, amazed at the effect of the media, made even greater use of media attacks; on the other hand, because the public was paying increasingly closer attention to the controversies, the media searched for, or generated, more and more fodder to feed the audience's growing appetite. The reason for the escalation of the crisis might have been deeply rooted in Nike's past success and its senior management's strong corporate identities.

Previous subsections have provided insights into Nike's corporate identity projected in its corporate language. At the early stage, key organizational actors vigorously identified Nike as a "*successful U.S. marketing company*" (Knight, 1992), a profitable sporting goods company dedicated to helping athletes to achieve their best performance, with its core business function and greatest accomplishments in product design, advertising and marketing (Knight, 1992). In addition to athletes/consumers, Nike defined shareholders as key stakeholders, and financial indicators and investor satisfaction as key criteria to assess the performance of a company (Knight, 1992). This revealed its core value, which was derived from neoclassical economic rationality.

In general, Nike's corporate ideologies were characterized by a strong orientation to profit and a focus on market competition, which were reflected in its representatives' early use of economic terms to explain business activities, presenting themselves as rational decision-makers—market, efficiency, input/output, cost/profit were all that mattered as long as the company obeyed the law. As noted, people draw on

sensemaking structures to extract and interpret cues from their environment, and through perceptual filters, those structures may limit people's vision (Weick, 1995). In Nike's case, the company's strong ideologies influenced its top management's evaluation of the environment, thereby channelling responses available to the company and affecting the unfolding of the crisis.

Because Nike's top managers shared a strong organizational identity, they firmly clung to the institutionalized, taken-for-granted role as a successful, publicly-held sportswear company. According to conventional economic rationality, the most significant institutionalized expectation of corporate actors is to maximize shareholder wealth. This may have led to a set of dominant profit-oriented ideologies. Hence Nike executives adopted the most profitable business model, focusing on the company's core business functions, striving to sustain and improve its competitive advantages; and when threats to the company's image and bottom line were perceived, they took action to eliminate them.

Constrained by these strong ideologies, senior members of Nike at first failed to notice and extract cues about changes in the institutional environment which increasingly required certain adjustment or expansion of the company's role (e.g. assuming responsibility for the protection of workers' rights even if they were foreigners and not directly employed by Nike). Based on the Nike's management's shared experience and knowledge that the company's economic success was almost exclusively derived from innovative product design and marketing, they came to the conclusion that problems in the production area were peripheral and did not warrant much of their attention. They therefore adhered to the taken-for-granted belief in minimum compliance with government regulations and made an early attempt to deny its responsibility for contracted workers in defense of the company's extant labor policies and business boundaries.

When a large newspaper published forceful arguments to back the activists' sweatshop allegations against the company, it was likely that the Nike management perceived more pressure as it recognized the media as a significant sense-giving institution—as Knight (1992) said, *"The Oregonian...had a great opportunity to educate the*

public.....". That is to say, the very act of avoidance made the situation worse. However, in the meantime, it enabled the management to gain further understanding of the problem: simple shirking was no longer effective and some measures had to be taken to fend off the criticisms. Nike then began to accept responsibilities for workers, yet continued to deny sweatshop conditions. In correspondence to this move, the company introduced a somewhat feeble code of conduct. This was a turning point in the controversy. At this stage, institutional logic was shifted and local law was no longer considered a plausible benchmark for responsible corporate behaviors. Nike and other major outsourcing corporations were required to assume more responsibilities. Nike tried to promote a new set of benchmarks: its own code of conduct, which was expected to serve as the basis for the relationship among the company, the factory owners and management and the workers.

In this way, Nike showed its compliance by a display of institutionalization of the company's control over its foreign subcontractors' labor practices. Ultimately, the code of conduct was established as a set of visible policies that could be observed by audiences. It was a way to reassure the critics that the company was taking action to address their concerns: Nike would exert its influence over its subcontractors to ensure proper treatment of their workforce. The establishment of the code represented a partial and temporary settlement of the controversy in 1992. It was arguably a relatively low-cost tactic to fend off the sweatshop accusations. As noted previously, it seemed that Nike's first code of conduct as a self-regulating mechanism was, to some extent, useful in shielding the company from further scrutiny. It can be considered an institutionalization of shared meanings at this stage.

However, once those guidelines were institutionalized, they were exposed to external scrutiny. This means that they might have also turned into a platform for further controversy, which is exactly what happened. During the major legitimacy crisis in 1996, a great deal of debate and negotiation revolved around these codes, and the Nike management struggled to give credibility to its claims about the effectiveness of the code of conduct. In other words, as Nike accepted responsibility and adopted the code, anti-sweatshop activists finally had something for which they could hold the company accountable. When Nike encountered further scrutiny and was obliged to fulfill its

claims and promises after the Kathie Lee Gifford incident, the company was cornered by its own words.

As will be observed from Nike's corporate language in use, before mid-1996, and even after it had admitted responsibility, the sensemaking structures of the company's top management team did not undergo much change. It was after the onset of the crisis that those interpretation frameworks became fragile and began to reshape. As the sweatshop issue suddenly attracted high media attention in 1996, the Nike management started to take the problem more seriously. Although it continued to deny most charges, it made extensive efforts to respond, such as actively releasing corporate information to challenge the accuracy of its critics' claims, holding press conferences and making public statements. This shows that active sensemaking was triggered by the challenging environment. The Nike management was paying much closer attention to the problem, actively interpreting and enacting the environment.

Before the crisis, the company was in a defensive, reactive, denial mode whereby as critics made accusations and presented findings, the company issued PR statements to deny charges, picked up on whatever faults and inaccuracies it could find to counter their claims, and question their credibility. The mode of reactive defense was also evidenced by Nike's counter-arguments, which reflected their attempts to distance and detach the company from the controversy, such as dissociating it from suppliers by identifying them as independent manufacturers and deflecting the blame to invisible forces, such as the laws of economics that are beyond human control. The Nike management largely maintained this approach when the crisis began, which somehow resulted in the persistence of bad press. As mentioned, during the crisis, two major rhetorical strategies were used by the company: the first was to use more layers and complexity to redraw the black-and-white picture painted by NGOs. This strategy, as discussed, appropriated Nike's corporate language to become increasingly accommodating to the opponents' humanitarian point of view, which in a way facilitated the settlement of the controversy. The other strategy was to discredit the company's critics, which somehow intensified the crisis.

As noted, when describing the situation facing the company, Nike's top management team made recurrent reference to metaphors such as "target", "attack" and "bully". These connoted the company as a victim of unfair criticism, and of some sort of aggression and hostility. These metaphors, in large part, established the company's corresponding strategy to tackle the crisis. This theme may have arisen because the Nike management saw criticisms by activists and the media as threats to be contended with so as to protect the company's reputation, especially the Nike brand—the company's most valuable asset. These metaphors of sensegiving not only internally and externally communicated Nike leaders' typifications and evaluations of the environment; they were also laden with connotations and emotive contents that influenced social actors' interpretation, action and hence social reality (Hill & Levenhagen, 1995).

In this case, by using such metaphors, the Nike management connoted the critics as rivals and enemies that had to be defeated (as opposed to stakeholders or partners to be included). It established an organizational goal: to defeat or counter-attack those hostile forces. In the meantime, stronger commitment to this purpose was created among organizational members. Understandably, this was even more the case for Nike because it had a culture of conquest and winning. As shown in the case study, the labels of "target" and "attack" largely affected Nike executives' noticing, bracketing and interpreting cues, and much of the company language used to interpret relevant events and formulate solutions was driven by these labels. It was likely that they evoked negative, hostile emotions among company members, which motivated them to persistently reject, criticize and disrepute challengers. Their commitment was so strong that even after Nike joined the AIP, and by so doing recognized the legitimacy of the sweatshop problem and some NGOs, Nike managers still repeatedly used antagonistic language towards the company's critics. As noted earlier, this in turn resulted in Nike's continuous denial, long-term confrontation between critics, and escalation of the crisis. As Nike experienced increasing suspicion and opposition from more diverse social actors, it found itself in a reality ever more defined by those metaphors.

As the Nike management typified the sweatshop allegations as serious brand-image threats and recognized that the NGOs had launched a war it had to fight, the war itself

attracted increasingly more media attention. When anti-sweatshop groups found their strategy of targeting Nike to draw public attention to the sweatshop issue increasingly successful, they focused their efforts increasingly on launching media campaigns against the sneaker giant. As a result, Nike was singled out and increasingly scrutinized by activists and the media. A growing number of negative reports about Nike's labor practices were publicized by a wider variety of concerned groups and individuals, contributing to escalation of the crisis and creating more serious threats to the company's legitimacy.

Nike's high-profile clashes with Jesse Jackson and Cicih Sukaesih are good examples. They in part resulted from the robust stance that Nike had taken against its critics. As the company continued to deny allegations publicly, aggressively dispute its challengers' claims, and counter-attack their credibility, it unwittingly put the debate on a battlefield-like stage. This was probably what the anti-sweatshop groups intended in the first place, because this stage would provide them with the backdrop for all the dramas they could produce to pressure the company to admit the problem and deliver real change. As far as the two major publicity-generating episodes are concerned, human rights leader Jesse Jackson and anti-sweatshop groups Global Exchange and Press for Change, taking advantage of the tension co-created by Nike itself, launched two media campaigns responding to the company's persistent denial and hostility. When the Nike management was confronted with the situations imposed by Jesse Jackson and Cicih Sukaesih, it resumed its usual role on the stage, which was to defend the company's reputation and brand image.

As noted, it was likely that Nike's executives sought to eliminate negative media reporting in order to maintain consistency in its identity claims. The "real" problem which the management understood was a PR crisis that threatened Nike's image, rather than the labor practices of its subcontractors. It therefore spent a great deal of time and energy on solving a PR problem, as it perceived it, by means of PR efforts. Nike top management's expectation was probably that the "real" problem would be resolved once pressure groups and the media had stopped targeting and challenging the company. Therefore, its attention was focused on finding ways to avoid bad press, which they probably understood as the key to preventing further damage to the brand.

One way to achieve this was to keep the critics at a distance and minimize the supply of material on which they could work to generate more bad press, which is why Nike said it would not provide a “*bully pulpit*” for those “*mean-spirited*” challengers. Nevertheless, Nike’s reaction—the unfriendly rejection of its critics—was used by challengers to attract media coverage of the confrontation between them. This further intensified media and public scrutiny, which was welcomed by the anti-sweatshop groups. This success strengthened the NGOs and activists’ confidence in this strategy. As a consequence, more anti-Nike media campaigns were set off. The Nike management, constrained by its on-stage role, was trapped in a scaling-up of the contention that would cause more damage to the brand. The Cicih Sukaesih episode illustrates Nike’s struggle to find a way out of the impasse.

NGOs’ campaigning successfully mobilized the media to join their effort to explore the sweatshop problem. As more and more members of the media engaged in on-scene investigation, more quality data on workplace conditions were assembled. In response to Nike officials who repeatedly boasted about how proud they were of Nike factories and how Nike was leading the industry in providing the best working conditions in the world, many investigators used their reports to prove the contrary, and highlighted instances of abuse that violated local laws and Nike’s code of conduct, which the company continued to disavow. As an expanding segment of the media turned against Nike, it became even more difficult for Nike to dispute such claims. The company began to admit there were a very small number of abusive incidents, and tried to isolate those occurrences from the overall performance of its production operation abroad, emphasizing that Nike had taken action to correct the exceptional situations and improve its labor standards and oversight system.

The company later decided to make some concessions, at least in appearance. Nike’s participation in the AIP represented a shift in its response to its critics’ requests. When countering Jesse Jackson’s protests, it seemed that the Nike management still attempted to isolate the problem and keep the labor issue internal. On becoming a member of the AIP, it agreed to multi-stakeholder collaboration, a form of which was promoted not only by the U.S. government but also by many of its critics as essential for formulating solutions to the sweatshop problem. By joining the task force, Nike

also engaged in developing independent monitoring schemes, which was one of the major demands repeatedly made by anti-sweatshop groups.

As noted, Nike management had been strongly resistant to the activists' ideas of "independent monitoring", since this would indicate that Nike's monitoring system was inadequate. Agreeing to join the AIP came at a time when the Nike management came to realize that using outside auditors as assurance of compliance would be challenged again and again by NGOs and other critics with their reports. At this point, Nike's initial steps to take part in a multi-stakeholder coalition and build an independent monitoring system reflected the company's attempts to demonstrate its conformity with social expectations, and they were largely counter-tactics intended to deflect criticisms and prevent further PR problems.

In a way, Nike was a victim of its own success in the sweatshop controversy (McCall, 1998), and the company was caught in a reality of its own making, namely that it was unfairly targeted. A key turning point in the crisis was the US government's action as a mediator to create and promote the AIP. Ultimately, the partnership was founded on the assumption that humanitarian values and economic rationality could co-exist, and it represented an institutional structure that provided framework for sensemaking: its formation legitimated the sweatshop problem, established it as an industry-wide problem and institutionalized a voluntary-based, multi-party collaboration solution to the controversy, thereby injecting some order into the confusion.

For Nike, in face of the sweatshop-related legitimacy crisis, joining the AIP was one of the most crucial steps that it took to stabilize the situation and secure its legitimacy. Apart from the aforementioned point, from a sensemaking point of view, after acquiring an identity as a founding member of the AIP, Nike seemed to sharpen its focus on deploying a line of strategy that was consistent with this identity. For instance, the company started continuous dialogue with some of its challengers, integrating a discourse on responsible labor practices into its corporate language, engaging in the development of independent monitoring methods, and setting up new departments and

appointing new staff to address concerns as was to be expected of an AIP member, especially in the second phase of the crisis.

For Nike, a new identity (though weak at the beginning) implied new commitments, expanded capacity and adjusted expectations, and therefore a new way to enact the crisis. Although, at that time Nike still focused much of its time and resources on countering the critics' claims and alleviating the risk to the brand, the firm started to pay closer attention to CSR. The creation of the AIP and some of Nike's corporate language reflected a belief that Nike and the entire clothing industry was now a part of the solution to labor problems. Nike increasingly adopted a strikingly proactive tone in promoting socially responsible labor practices.

Before the crisis, except for the code of conduct, the company had not made much effort to implement CSR practices. Little had been done to ensure that CSR considerations were integrated into the company's organizational and decision-making structure. When the crisis hit, it appeared that the Nike management began to grapple with the problem of how to present Nike to the public as a socially responsible company concerned about conditions at its contracted factories. At the end of Phase I of the crisis, it even set up the Labor Practices Department to develop internal CSR capacities. This kind of recognition and the expanded presence of CSR frameworks in the company's structure led to a further increase in CSR policies, departments and personnel incorporated into the company during Phase II of the crisis, when the company sought to reposition itself as a labor reform leader, emphasizing its CSR commitment.

However, although joining the AIP may have alleviated the crisis for Nike, the creation of the coalition led to divergence in the development of the controversy in 1997. For instance, some anti-sweatshop groups were skeptical and feared that some AIP member NGOs would be co-opted by corporations and the government: the AIP was perhaps simply a government-promoted buffer for the industry. This might well be the case for Nike. For instance, the creation of the AIP institutionalized the sweatshop

problem as an industry-wide issue. This in a way reinforced Nike's claim that it was being unfairly singled out and targeted, which may have contributed to the company's persistent denial of the problem at later stages of the crisis. Moreover, the solution path of corporate self-regulation and Nike's repeated claims about the effectiveness of its monitoring system prompted further debate on independent monitoring in Phase II.

Conclusion

To conclude, this chapter has examined the emergence and development of the sweatshop controversy in Phase I. It has focused on the period from mid-1996 to the end of 1996 when Nike was targeted by the media and forced to cope with a legitimacy crisis associated with the controversy. The main findings of this part are illustrated in Figure 7. As a series of rhetorical battles between anti-sweatshop groups and Nike began at an early stage of the controversy, NGOs and the top management of Nike presented diverse understandings of the prevailing outsourcing practices of multinational corporations: NGOs took a humanitarian perspective to construct the labor problem, while Nike heavily relied on traditional economic language to frame the issue. In the negotiation process, the two sides drew on different rhetorical strategies which were embedded in various rational myths. These dominant myths provided meanings and purposes for the critics and members of Nike alike. It was through a web of existing myths that social actors made sense of complex events and negotiated social orders. Although Phase I saw some changes in organizational structure, it was predominantly characterized by a rhetorical contest between the two sides. In the next stage of the controversy, as described in Phase II, Nike made extensive efforts to repair legitimacy by more proactively and intensively engaging in material forms of organizational change.

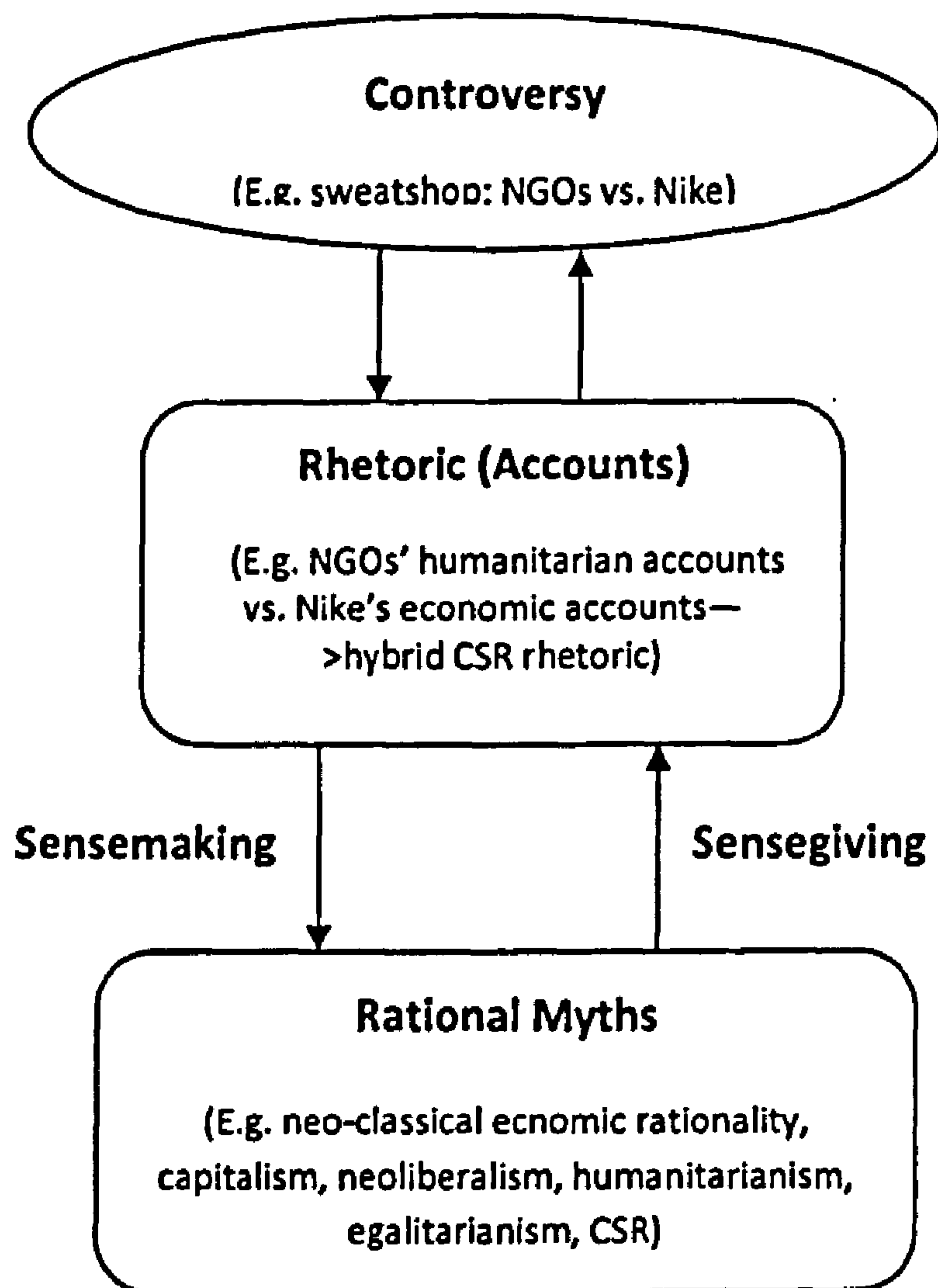


Figure 7. Relationships between rhetoric, rational myths and sensemaking/sensegiving in negotiation processes of a controversy with illustrations from Phase I

Chapter 7 Case Study (Phase II)

Introduction

This chapter examines the period from the beginning of 1997, when media reporting on Nike's labor practices began to increase again, to mid-1998 after Phil Knight's keynote speech committing Nike to a set of new labor standards, which put an end to the crisis. As can be seen from Figure 8, the crisis was marked by contentious encounters. The uproar was largely due to the "battle of reports" between Nike and its critics. The focus of the debate shifted from the sweatshop problem in general to specific issues concerning living wages and independent monitoring. On the one hand, the challengers continued to establish Nike as a bad employer and the sweatshop problem as a humanitarian crisis, featuring individual cases of human rights violations. On the other hand, the critics also sought to question Nike's credibility and establish it as hypocritical; and this constituted a divergent controversy focusing more on Nike's sincerity and representation than on the labor issue. These two strategies reinforced each other, driving another round of organizational changes at Nike.

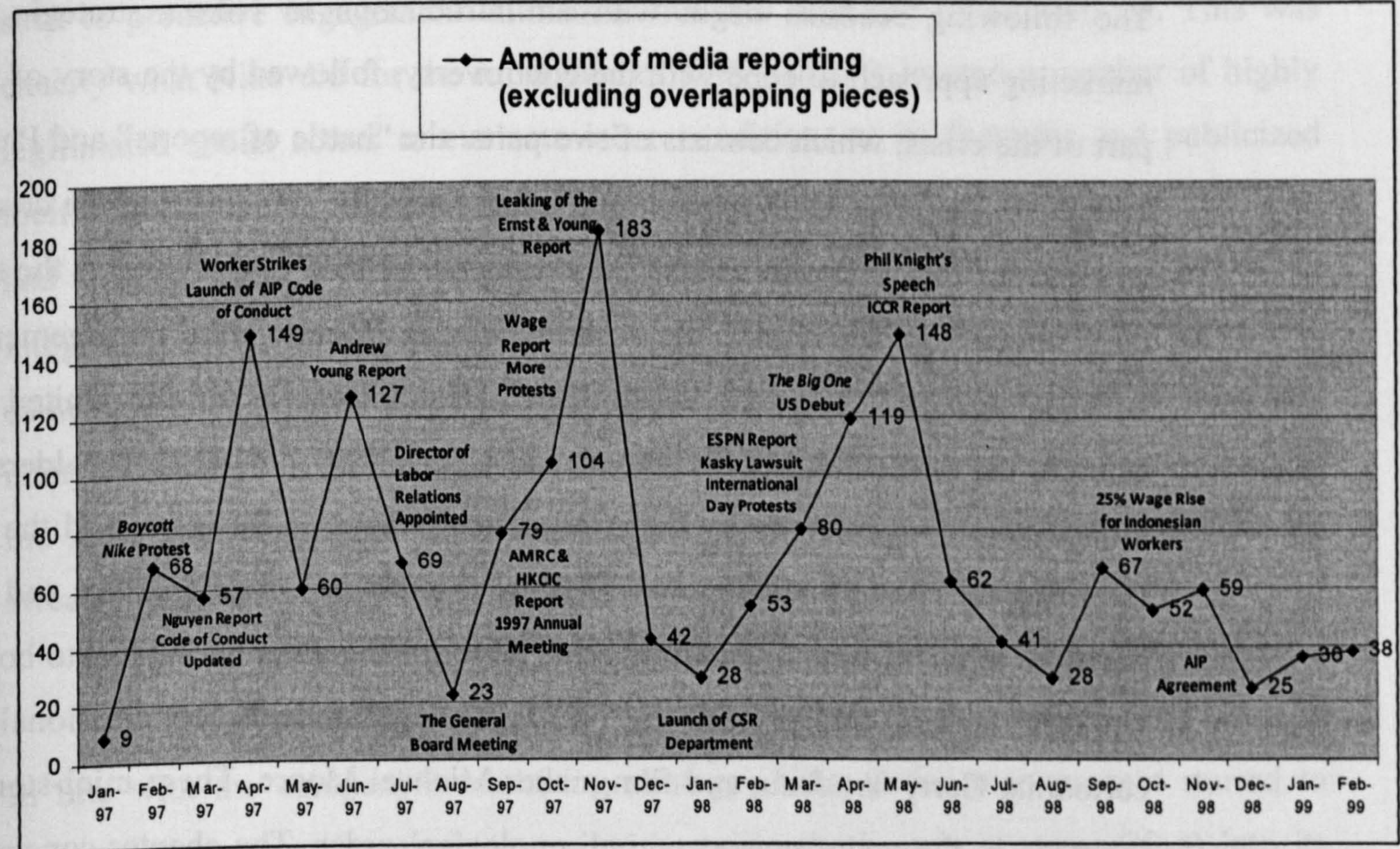


Figure 8. Amount of media reporting linking Nike to sweatshop practices from January 1997 to February 1999

In this part of the crisis, although Nike continued to battle for discursive territory, it turned its focus to undertaking extensive organizational changes in material terms in order to repair legitimacy. Firstly, to offset its media-created image as an exploiter of Asian workers and increasingly as a hypocrite, Nike sought to reposition itself as not only a market leader but also a CSR leader. The company augmented its marketing strategy to promote this image, although it seemed to be a failure because even more scrutiny was generated. However, Nike's identity-claim somehow shaped other aspects of organizational changes, including the new labor initiatives that eventually settled the crisis. Increasingly, Nike's rhetoric of change shifted to the substance of change as the company expanded its efforts to restructure the organization. As the crisis unfolded, the CSR discourse further established its authoritative status and became a widely-shared belief—a myth. As it incorporated, and in the meantime reproduced, the institutional myth of CSR, the company integrated increasingly more CSR constructs into its structures, adopting CSR policies, setting up CSR departments, and hiring professionals in the field. These moves helped repair Nike's legitimacy and resolve the crisis of legitimacy.

The following sections begin with an introduction to Nike's strategic shift to a marketing approach to cope with the controversy, followed by the story of the second part of the crisis, which consists of two parts: the "battle of reports" and Phil Knight's 1998 National Press Club speech. The latter marks the settlement of the crisis in 1998, whereas the former covers almost the entire year of 1997 and highlights the episodes of the Thuyen Nguyen report, the Andrew Young Report, Nike management meeting with the General Board of Pension and Health Benefits of the United Methodist Church, the AMRC & HKCIC report and Nike's 1997 annual shareholders' meeting, the workers' wage survey by the Amos Tuck School of Business, and the leaking of the Ernst & Young audit report which drove press coverage on Nike and sweatshop practices to an all-time high. During this period, Nike was also subject to boycott calls, workers' strikes, and protests by NGOs, college students, congressional members, cartoonist Garry Trudeau, and film maker Michael Moore. These mini-stories will be included in the major episodes in chronological order. The chapter concludes with a section which discusses the redefining of corporate identity and organizational sensemaking.

7.1 Nike's strategic shift

The second part of the crisis can be better understood when linked to the company's strategic shift as Phil Knight announced at the 1996 shareholders' meeting. As noted, after the launch of the AIP, the level of media reporting remained relatively low for the rest of 1996. It could be assumed that the controversy had been settled for the time being. However, Nike's joining of the AIP was an admission that there was an industry-wide sweatshop problem. To further re-establish the company's legitimacy and protect its reputation, the Nike management changed its strategy from a reactive to a more proactive approach in order to defend the company, and it started to deploy some of its advertising and marketing tactics to counter the critics' claims, challenge their credibility and, most importantly, promote the company as a CSR leader. However, the strategy backfired on several occasions.

As said, at the 1996 shareholders' meeting, Knight described the company as a *"moving target"* (Nike Inc, 1996b). Based on this evaluation, the CEO declared his commitment to *"getting our story out"* (Nike Inc, 1996b), thus making Nike's strategic shift to proactive engagement with its critics and response to accusations. This was exactly what Nike did for the most part of 1997 when it invited a number of highly legitimated social actors to evaluate labor conditions at its factories and publicized their largely positive findings, seeking to deliver a clear, consistent message that Nike had always been a CSR leader. As mentioned, Nike's marketing expertise in integrating different communication tools (e.g. newspaper and TV advertising, PR campaigns) had allowed it to build a strong brand image which had given the company many advantages in the marketplace. It seemed that Nike management began to apply the same marketing logic and, accordingly, a promotional approach to deal with the sweatshop problem, which was largely a social rather than market problem.

In line with the company's marketing strategy, Nike senior management started to incorporate sporting imagery (e.g. winning, being the best in a competition) into its language when responding to the labor issue. For instance, metaphorical phrases connoting racing and competitions, such as *"miles ahead"*, were used when Knight positioned Nike as a labor reform leader in the sportswear industry. He said: *"...we are*

miles ahead in terms of establishing standards and monitoring them compared to most of the other importers...NIKE likes being held to a higher standard' (Nike Inc, 1996b). For another example, the launching of the Labor Practices Department was compared to a step forward in Nike's march towards victory. As Knight was quoted:

"Every year we continue to raise the bar...First, by having our own production people in the factories on a daily basis, then with Ernst & Young audits, and now with a group of Nike employees whose sole focus will be to help make things better for workers... In labor practices as in sport, we at Nike believe There Is No Finish Line (Nike Inc., 1996a)".

The company leader increasingly came to frame the challenge as a race, a contest that Nike intended to win as it always had done in the marketplace. Phil Knight's use of one the most famous punch lines in Nike's advertising history—*"There Is No Finish Line"*—to communicate the company's long-term commitment to perfecting its labor practices also indicated a more aggressive promotional strategy deployed by Nike in the new phase. This also represented Nike's decision-makers' attempts to reconcile the hybrid frame of CSR with its corporate culture. However, this strategic turn resulted in more headline-grabbing contentious episodes, which will take us to the second stage of the crisis.

7.2 The battles of the reports

In January 1997, media reporting of the dispute over Nike's labor practices returned to almost the same level as before the outbreak of the 1996 crisis. However, a month later, media coverage again started to mount. On 22 February, hundreds of activists protested with signs declaring *"Just Don't Do It"* and *"Boycott Nike"* on the opening day of a new Niketown store (Carr, 1996). Media attention was again drawn to the sweatshop charges against Nike. In line with its new strategy, Nike responded by promoting its side of the story: it invited external parties to inspect its production sites and publicized their reports (if positive). Then, for most of 1997, the crisis unfolded through a series of "battles" in which Nike and its inspectors released reports on factory conditions

while anti-sweatshop groups responded by publishing their own reports on those conditions, questioning the validity of Nike's audits and challenging Nike's sincerity.

The issue of wage continued to be a focal point of the debate on labor standards. In this period, disputes over wage largely centered on whether companies should pay workers a living wage instead of a minimum wage. This represented a substantial reframing of the issue. Another contentious issue, and also a focus of debate among members of the AIP, was on monitoring methods: what was the most effective means to monitor factories and ensure compliance, and what was the best way to generate the most reliable findings on labor conditions? Nike claimed that its own internal monitors along with external auditing firms were adequate, whereas the activist groups argued that those monitors were hired by Nike and therefore lacked objectivity. To establish their points, the NGOs, together with many other contesting actors, such as media critics, congressmen and college students, increasingly portrayed Nike as deceitful and unscrupulous. Combined with their construction of the sweatshop problem, this further challenged Nike's moral propriety.

The Thuyen Nguyen report

The fight began with Nike's permission for an independent investigator to visit its overseas factory locations, as promised by Knight at the 1996 shareholders' meeting. On 2 March, Thuyen Nguyen, a Vietnamese-American businessman, received approval from the company to carry out a two-week factory inspection in Vietnam (Herbert, 1997a; Ballinger, 2000). He also made unexpected visits to four factories, during which he interviewed workers outside the factory sites and collected evidence. Following his inspection, Nguyen issued a damning report titled "*Nike in Vietnam: An Eye-witness Account*" on 20 March. It documented widespread abusive practices in the factories. Nguyen explicitly accused Nike of "*exploiting the Vietnamese workers in many areas, including wages, working conditions, health and safety practices*" and held the company accountable for having "*violated consistently*" its code of conduct (Nguyen, 1996).

Pay levels were a major focus of the investigation. In particular, Nguyen proposed that living wages should be incorporated into the company's labor policy. He claimed that workers' earnings could barely cover their daily meals and urged Nike to *"adopt a fair living wage practice for all workers, one that would enable workers to meet basic needs, as well as save for the future"* (Nguyen, 1996). Ideas similar to paying workers "living wage" such as meeting workers' "minimum physical need" had already been raised in 1992 but not often picked up. Given that Nguyen placed emphasis on this notion, an increasing number of critics and labor-rights advocates followed suit and made the same demand. However, Nike dismissed it, arguing there were not enough studies which could be used to define the level of a living wage.

Besides wages, further demands based on humanitarian considerations were made. For instance, health and safety issues were also raised. Nguyen used provocative descriptions to highlight that the workers' health was being ignored: it was *"a common occurrence for workers to faint from exhaustion, heat, fumes and poor nutrition during their shifts...several workers even coughed up blood before fainting"* and health care was *"inadequate"* (Nguyen, 1996). There were also harsh restrictions on bathroom breaks (no more than one per 8-hour shift) and water breaks (no more than two per shift).

Abuses of women workers were another significant problem highlighted in the report, which stated that verbal abuse and sexual harassment occurred frequently, and that various forms of corporal punishment were widely used:

...100 workers at the Pouchen factory were forced to stand in the sun for an hour because one worker had spilled a tray of fruit on an altar."

"Women workers have complained about frequent sexual harassment from foreign supervisors. Even in broad daylight, in front of other workers, these supervisors try to touch, rub or grab their buttocks or chests (Nguyen, 1996)".

The report featured a particularly grievous instance of the abuse of female workers: 56 women workers were forced to run laps around the factory in the hot sun, which was a punishment for not wearing the regulation shoes to work. Twelve of them collapsed during the run and were taken to hospital. Emphasized in particular was that the incident occurred on International Women's Day, thereby implying a serious violation of women's rights.

"One day during our two week visit, 56 women workers at a Nike factory were forced to run around the factory's premises in the hot sun because they weren't wearing regulation shoes. 12 fainted during the run and were taken to the hospital. This was particularly painful to the Vietnamese because it occurred on International Women's Day, an important holiday when Vietnam honors women (Nguyen, 1996)."

In particular, Nguyen's report challenged Nike's credibility by highlighting the gap between Nike's claims and what he found practice. For instance, he emphasized that the dehumanizing abuses were by no means *"isolated incidents"* as the Nike management maintained. The report also contradicted Knight's claim that Nike led the industry in terms of providing the best workplace conditions for local workers. Nguyen wrote: *"Other non-Nike shoe factories we visited in Vietnam pay higher wages and have much better working conditions"* (Nguyen, 1996). Moreover, Nguyen deliberately juxtaposed Nike's PR statements and his findings, doing so under the headings of *"Nike Claims"* and *"Reality"* respectively. He concluded: *"Nike is clearly not controlling its contractors, and the company has known about this for a long time"* (Dobnik, 1997).

Nguyen's report echoed the humanitarian construction of the sweatshop problem, and it was depicted as substantiating earlier charges brought by some media reporters and various interest groups; or in Bob Herbert's (1997a) words, *"the same kinds of demoralizing and debilitating abuses that a wide array of Nike critics have been spotlighting for a long time"*. The report attracted little attention until Herbert read it and wrote a column titled *"Brutality in Vietnam"* (Herbert, 1997a), and three days later another critical column—*"Nike's Boot Camps"* (Herbert, 1997b)—which quoted Nguyen's description of the factories as *"military boot camps"* and Nike workers as being *"treated little better than slaves."* The article also featured several instances of corporal punishment and sexual harassment, including workers *"having their mouths taped for talking"* and a practice called *"sun-drying,"* when workers were forced to *"stand in the hot sun for extended periods while writing their mistakes again and again, like schoolchildren"* (Herbert, 1997b).

As will be seen, both Nguyen's report and Herbert's columns were replete with tragic stories about Nike workers, and both critics also sought to disprove Nike's claim that they were isolated incidents. Increasingly, the sweatshop problem was framed by challengers as one giving rise to many individual cases of human rights violations which constituted a large-scale humanitarian crisis. Therefore, not only did the Nike management have to continue its use of counter-rhetoric to reframe the wage issue, it was also forced to address individual worker-abuse events. In this case, it sought to disassociate the company from the revelation by denying any knowledge of it, attributing blame to local managers. It later noted that the incidents had been corrected and measures had been taken to prevent them from happening again.

For instance, McClain Ramsey, Nike's spokeswoman, first emphasized the company's moral stance—it was “*outraged*” and “*horrified*”—and then laid the blame on the factory managers involved. She said, “*Nike is definitely outraged that that was allowed to happen in a factory. I know that the manager has already been suspended. Nike has called for a full investigation, as have the authorities...I mean Nike is completely horrified*” (Herbert, 1997a). Similarly, another spokesperson, Lee Weinstein, said, “*Of course we're appalled by the findings*” (Tedeschi, 1997a), and noted that the misbehaving supervisor had been immediately suspended and then fired by Nike, and also prosecuted, adding that Nike's own monitoring staff would notify the plants immediately if any labor abuse incident was confirmed and that appropriate punishment would be promptly imposed on anyone responsible for abuses (Tedeschi, 1997a; Herbert, 1997a).

In the same month, probably in response to Nguyen's report, Nike updated its code of conduct to include “*the right to a workplace free of harassment, abuse or corporal punishment*” and limits on hours of work (Nike Inc., 1997a). These could be seen as the institutional outcomes of the new round of negotiation in the crisis between Nike and its critics. As shown, Nike was quick to respond to accusations of physical abuses of woman workers. As discussed in the last chapter, this was perhaps because the media tend to pick up stories of this kind, which made it a particularly prominent theme in the construction of the sweatshop problem.

Nevertheless, the Nike management continued to dismiss the claim that there was a widespread pattern of abuse at its overseas factories. Again it argued that those cases were exceptions and anyway unavoidable considering the size of Nike's production

system. For instance, Nike's spokesperson Jim Small said, "*We've had a handful of incidents, and statistically, 15 incidents is not a lot*" (Kotarumalos, 1997). Nike officials also increasingly sought to highlight the company's commitment to CSR. For instance, Weinstein demonstrated Nike's willingness to work together with outsiders and argued that Nguyen's visit reflected Nike's commitment to improving labor standards: "*He (Nguyen) was there at our invitation and we've been willing to meet with third party groups [like Nguyen] that can help us*" (Tedeschi, 1997a).

In April, in part as a result of Nguyen's report and Herbert's *New York Times* articles, public attention to the sweatshop problem again intensified dramatically. Human rights groups and labor unions engaged more actively in promoting their concern over sweatshop practices. For instance, the Union of Needletrades Industrial & Textile Employees placed advertisements in the press to encourage consumers with a faith in human rights, fair wages and eliminating child labor to "*wear what they believe*" (Miller, 1997b).

When the AIP unveiled its plans on 14 April, the sweatshop problem attracted further media attention and it was likely that Nike came under more external pressure. At the White House ceremony launching the AIP plans, President Clinton called widely-reported labor abuses "*deplorable and unacceptable*" (Smith, 1997). He again urged companies to strike a balance, and to integrate responsible labor practices into their daily business operations as the norm. He said, "*We support the proposition that businesses are in business to make a profit... But in our society ... we know that human rights and labor rights must be a part of the basic framework within which all businesses honorably compete*" (Ross, 1997).

The AIP announced a far-reaching agreement with the coalition that set workplace standards for footwear and apparel factories used by U.S. manufacturers. This was an industry-wide voluntary code on wages and working conditions banning forced and child labor (the minimum age being 14), guaranteeing minimum or prevailing industry wages tied to individual country standards, prohibiting any form of worker abuse or harassment, allowing unionization, restricting overtime (a maximum 60-hour working week with at least one day off), and requiring the independent monitoring of working

conditions. Companies complying with the code would be rewarded with a “No Sweatshop” label for their products (United States Department of Labor, 1997). The CSR discourse thus gained further prominence and embodied increasingly shared beliefs on how corporations should behave.

Nevertheless, the members of the AIP could not agree on a crucial issue: who would conduct the monitoring? The group was given another six months to discuss and decide the matter. As mentioned, this became a central point of debate during the “battle of the reports”. While Nike insisted that it had an effective monitoring system in place and resisted any form of change, some labor rights advocates were determined to promote a competing independent monitoring system. Some NGOs launched media campaigns challenging Nike’s credibility and trustworthiness in order to prove their point that auditors hired by companies could not produce reliable findings. However, this was also an opportunity for Nike because there surfaced divergences of opinions among its challengers, which it could exploit.

It was not surprising that anti-sweatshop groups could not agree on the form of monitoring. As noted, when the AIP was formed to settle the controversy in 1996, corporate self-policing was established as a solution. However, some activist groups were more skeptical of the effectiveness of corporate self-regulation than others. These groups believed that corporations would always choose economic values over moral values and therefore emphasized the need to monitor factory conditions aggressively. They proposed that human rights groups, instead of accounting firms, should be in charge of monitoring. Even though the NGOs in the AIP voted in support of the code of conduct, there was dissent from those left out of the coalition.

The introduction of the AIP code did not settle the controversy as the formation of the AIP itself had done in 1996. In a sense, many sub-crises arising at this stage derived from the earlier settlement loosely secured by the creation of the AIP. The partnership was criticized not only for sidestepping the issue of independent monitoring but also for maintaining the *status quo* on issues of wage and overtime (Rosato, 1997; Shorrock, 1997a). For instance, Medea Benjamin of Global Exchange, specifically citing Nike as

an example, said, *"We don't see that this moves us forward at all... Now Nike can still pay its Vietnamese workers 20 cents an hour, push them to do countless hours of 'voluntary overtime', use as its 'independent monitor' the accounting firm Ernst and Young that has no sensitivity toward workers, and be rewarded for this behavior with a 'no sweatshop' label..."*(The Toronto Star, 1997). As shown by later developments, Global Exchange was identified by the Nike management as the major detractor with which the company had to contend.

Another dispute within anti-sweatshop groups concerned whether workers should be paid living wages. Some labor-rights advocates sought to establish that a living wage be included in a package of moral compliances required of companies. For instance, Lora Jo Foo of Asia Law Caucus said, *"If this task force is serious about eliminating sweatshops, it must call on companies to pay a living wage, not just the minimum they can get away with"* (Shorrock, 1997a). But another activist, Michael Posner, also a member of the AIP, disagreed. He held that members had to be realistic about their inability to decide a living wage in every country of the world, which was also one of Nike's arguments (Shorrock, 1997a). As more disagreements of this kind arose, it became easier for Nike to identify which challenging groups or individuals to engage with, and which to avoid or marginalize.

Worker strikes in April also heightened media interest in the labor issue. Earlier, in January 1997, the Indonesian government had raised the minimum wage from 2.25 USD to 2.46 USD as from 1 April. On 23 April, 10,000 Indonesian Nike workers went on mass strike to demand pay rises (Reuters, 1997). Two days later, 4000 workers at a Nike factory staged a demonstration in Jakarta calling for wage increases (The Associated Press, 1997; Stewart, 1997). Nike's spokesman, Jim Small, denied that those factories were paying below-minimum wages and said, *"Obviously from Nike's perspective, we're concerned...We have people who are working with factory management to find the root cause of the strike... Nike officials are meeting with the factory management and are encouraging a solution to this"* (Hill, 1997). This statement clarified Nike's role in the negotiations. Small was saying that Nike was monitoring the talks but was not involved in them, because the workers were employed by subcontractors, not by Nike. Hence, it was up to the factory owners to decide

whether to raise the workers' wages. Once again, the Nike management attempted to avoid responsibility and maintain its distance from the controversy.

The Nike management responded to the disputes by using its CSR rhetoric and claiming that the company had fulfilled its responsibilities because it paid workers more than the minimum wage. Small said that the workers on strike were already earning more than the minimum wage and had been annoyed because they had expected a higher pay rise than they received. After one of the wage disputes was settled with workers winning a 10.7 percent pay rise, Nike said it would not pay more to the affected subcontractors as a result (Kotarumalos, 1997). Such responses by Nike were intended to suggest that workers already received fair wages. For instance, when talking about Indonesia's threefold increase in the minimum wage, Jim Small drew on a discourse of global economic competition to comment: *"there's concern what that does to the market-whether or not Indonesia could be pricing itself out of the market"* (Kotarumalos, 1997).

In the meantime, some members of the media began to follow the activists' lead in questioning Nike's credibility and portraying it as reluctant to communicate openly and with a penchant for hiding the truth. For instance, the Associated Press (1997) stated: *"Nike representatives in Asia failed to return repeated telephone calls. Numerous earlier requests to visit Nike factories in Vietnam have been ignored."* It continued: *"... [Nike] have taken foreign reporters on tours of the factories, which appeared clean and orderly. Nike refused to let the U.S. civil rights leader Jesse Jackson visit a factory in another town near Jakarta in July [1996]"*. Such coverage implied that there were inconsistencies between the image that Nike was trying to convey and its real conduct behind the scenes. Such media reporting contested the company's motives and cast doubt on its credibility.

Then, in May 1997, despite a drop in media coverage of the controversy, the exploitation charges against Nike reached a critical mass. Garry Trudeau, the creator of the comic strip *Doonesbury*, published a series of strips criticizing low wages and poor working conditions at Nike factories. Nike was caricatured as a sweatshop exploiter in

the cartoons, which were seen by millions of readers daily in 1,500 newspapers worldwide. On 15 May, elsewhere in the media, a documentary by Michael Moore—*The Big One*—was released at the Cannes Film Festival. The sections of the film on Nike and its labor policies consisted of interviews with Asian workers, as well as with Phil Knight, who appeared with the film-maker on camera and was confronted with questions about why Nike manufactured its costly footwear outside the U.S. The film turned out to be to a massive PR disaster for the sportswear giant.

Knight was portrayed as a “*corporate crook*” in the film and “*found himself saying unbelievably callous, stupid, and uninformed things about Nike’s third-world working conditions*” (Kuttner, 1998). Knight later claimed that he had been misrepresented in the film, and to put his side of the story, he published the original version of the interview, which had been simultaneously recorded, on Nike’s official website. The situation deteriorated even further for Nike when Moore later reported that Knight had sent his PR director to pressure him to cut two scenes from the documentary. This exposure further established Nike as insincere and deceitful. When Moore refused, Nike accused him of twisting the facts to promote his film (Cobb, 1998). As noted, this was another type of counter-claim frequently used by the Nike management: accusing critics of spreading misinformation and chasing publicity.

The Andrew Young Report

It is very likely that the Nike management was hoping for a somewhat positive independent review to offset the negative coverage on factory conditions when it let Nguyen inspect those factories. After the release of Nguyen’s report, Nike revealed that Nguyen had breached his agreement with Nike to present his report to the company before publicizing it (Tedeschi, 1997a). The outcome was probably not anticipated by Nike’s management. Nguyen’s report was not the only one that backfired on the company. The Andrew Young audit was another episode that slipped out of Nike’s control.

Several days after the protest outside Niketown in February, Nike appointed GoodWorks International, a consulting firm run by Andrew Young—a civil rights hero, former mayor of Atlanta and a former ambassador to the United Nations—to review its operations in Indonesia, Vietnam, and China. Nike announced that it would make all facilities and internal documents available to Young’s team, and that it would then allow the inspectors to make their findings public. However, speculation and criticism arose from the outset: some critics dismissed the move as “*elitist*” and as “*being done more for PR than for addressing the problem*” (Miller, 1997b; Himmelstein, 1997).

On 24 June, after a 15-day trip, Andrew Young released his report, which was largely positive about factory conditions. It declared: “*factories ...were clean, organized, adequately ventilated and well lit... certainly did not appear to be what most American would call 'sweatshops'*”. In particular, it said that there was “*no evidence or pattern of widespread or systematic abuse or mistreatment of workers*” (Young, 1997). However, the report did not address the issue of wages. Young explained that he had no intention to explore the topic because his company was not qualified to evaluate pay levels in foreign countries (Young, 1997). He offered some mild criticisms and made six key recommendations, including implementing an independent monitoring system, taking more steps to impose the code of conduct (for instance by distributing business cards with Nike’s code translated into local languages), and improving the grievance system (Young, 1997).

In particular, Young noted there were communication problems between local employees and foreign managers, who often lacked language or cultural skills necessary to attend to the concerns of local workers. He provided excuses for Nike by concluding that Nike’s management team had not been aware of the issue until it surfaced through highly publicized allegations of workplace abuse. To deflect criticisms and mitigate the blame directed at the company, the Nike management drew on Young’s findings to develop a counter-argument that attributed some of the most egregious forms of labor abuse, such as severe corporal punishment and sexual harassment, to cultural clashes between workers and their supervisors.

The Nike management later ran full-page advertisements in major newspapers across North America to promote Young's findings. The advertisements quoted the report's statement: "*It is my sincere belief that NIKE is doing a good job in the application of its Code of Conduct. But NIKE can and should do better* (Young, 1997)". Beneath the quote, Nike responded with its "Just do it" attitude by saying "*Nike agrees, Good isn't good enough in anything we do*", and its management also pledged "*We can and will do better*" and to "*exceed his recommendations*" (Barrett, 1997; Tedeschi, 1997b; Himelstein, 1997). This was a classic Nike advertisement. As said, to tackle the controversy, Nike resorted to a marketing strategy and marketing tools with which it had secured economic success for many years. Nevertheless, this time the outcome did not even come close to what the Nike management desired: it seemed that the louder it spoke, the less it was heard and the harsher the criticisms that it received. As soon as the report was made public, it became a major target and provoked another barrage of bad press. Serious criticisms directed at both Nike and Andrew Young because of the report lingered for a long time.

After the release of Young's report, Nike, probably in hope of obtaining more positive media exposure, started another round of organizational restructuring. In July, Nike appointed a director of labor relations: Vada Manager, who had a background in public policy, business and media relations, and who had previously held a similar post at Levi's. According to Nike's announcement, his main responsibility was to explain to activist groups, the media and the public at large, what in fact Nike was doing in regard to labor issues. It was now that the Nike executives realized that the problem would not magically disappear with another wave of press releases—long-running efforts were needed to address the issue. It was consequently necessary to integrate a new managerial structure into its existing system.

The new appointment can be seen as part of Nike's overall promotional strategy aimed at protecting its brand image from "*long-term negative connotation*". Manager said, "*There is a growing recognition that this issue, being left unchecked and unanswered, can have a long-term negative connotation....The company needs to be more aggressive communicating the positive things that it has done in the last few years*" (Tedeschi, 1997c). And this is exactly what he did when he reiterated that Nike was an

active partner in the AIP and the only shoe manufacturer in Asia paying more than minimum wages; and also when he announced that Nike was “*actively looking to improve labor conditions*” in all its plants, and that the company had begun training programs in its factories in order to improve conditions (Tedeschi, 1997c).

The Nike management continued to describe the company as being unfairly targeted. For instance, Manager said that, because Nike was “*the market leader*”, it was picked by activist groups as their main target to “*get at the rest of the industry*” (Porter, 1997). As expected, Nike officials continued to make frequent attempts to discredit the challengers. For instance, Vada Manager said that many of Nguyen’s allegations “*had no merit whatsoever*”, and he criticized some activist groups for spreading false information about the company, which “*obscure[d] Nike’s commitment to human rights*” (Shorrock, 1997b; Tedeschi, 1997c). The amount of media reporting diminished significantly from July to August, but then in September a major news story broke concerning alleged distortions and inaccuracies in Young’s report.

The Andrew Young report provided an excellent opportunity for NGOs and the media to portray Nike, a multi-billion dollar shoe company, as making every effort to hide its disreputable labor records and to erase its negative image in order to mitigate threats to its bottom line. Nike was thus depicted not only as an unscrupulous exploiter, a bad employer taking advantage of vulnerable workers, but also as an immoral corporate actor which engaged in deliberate concealment or misrepresentation of the truth. The two lines of accusation against Nike were both derived from an ethical, moral paradigm, and they reinforced each other. For instance, human rights groups alleged that Young’s report was a PR document and served for damage control by Nike—“*little more than a hastily assembled effort at damage control*” (Anonymous, 1997). Moreover, Medea Benjamin of Global Exchange not only called the report “*meaningless*” (Himmelstein, 1997) but also criticized Young’s “*morally reprehensible*” involvement with Nike: she said, “*It’s bad enough that Nike— a corporation with \$6.5 billion in annual revenue and over \$600 million in profits— refuses to pay its workers a liveable wage. It’s morally reprehensible for a former civil rights leader to justify that*” (Shorrock, 1997c).

As the drama unfolded, even harsher criticisms of the report were brought into the public domain. A major assault was made by Stephen Glass (1997) in an article "*The Young and the Feckless*" published in *The New Republic*. He described the report as "*a classic sham, marred not just by shoddy methodology but by frequent misrepresentations*". Glass criticized Andrew Young for adopting unprofessional investigative methods, using misleading photographs, almost entirely relying on translators employed by Nike, and listing people as interviewed and participating in the report who had either not been consulted or merely contacted by fax, or in a brief phone call. The author claimed that, in the opinion of professional analysts, the report was "*highly unorthodox*", "*bizarre*", and "*totally unprofessional*" for a factory analysis (Glass, 1997).

The Andrew Young audit was largely constructed as a "*p.r. job*" in Glass's (1997) article, which speculated on dishonest collusion between Nike and Andrew Young. For instance, Glass cast doubt on Young's real reason for omitting discussion of the minimum wage, writing "*Young deliberately avoided the most obvious and controversial question—whether Nike paid its employees fair wages.*" He also rejected Young's explanation that the wage issue was too complicated and beyond his company's capacity for control. He argued:

"...as Nike's critics rightly point out, salary compensation is the one area of foreign labor on which so much has been written that even a novice could quickly get a basic handle on what fair wage estimates are (Glass, 1997)".

In addition, Glass pointed out that the report consisted of 75 pages, but this was because a very large font and frequent boldface displays had been used: there were in fact fewer than 7,000 words. Furthermore, he noted that the report's physical aspect had "*the distinct feel of a public relations ploy*", rather than that of a serious analysis.

In more direct manner, Glass severely questioned Nike's motives for hiring GoodWorks International to produce the report, and he implied that the company had decided to hire Young, not because he was a labor expert, but because Nike wanted a PR person. He further suggested that Nike had an "under-the-table deal" with Young's company. In this way, Nike's credibility and, in particular, the genuineness of its CSR efforts was called into question. Glass wrote:

“...Young was not just another pretty public servant summoned from an idyllic private life to answer duty’s call. He was a businessman. And his fledgling business was to stimulate investment in developing countries—a mission statement that, it seems, includes helping companies deal with the p.r. messes that can come with such overseas endeavors...With Young at the helm, GoodWorks was perfectly positioned to take advantage of an emerging niche market: recently, Texaco, General Motors and Mitsubishi had all invited well-respected former government officials to serve as independent arbiters of complaints made by employees or consumers (Glass, 1997).”

Nike was GoodWorks’s first big client, its first chance to send corporate America evidence that GoodWorks did, from the businessman’s point of view, good work. And when, four months after Knight’s announcement, Young’s firm published its seventy-five-page, full-color report on Nike’s Asian operations, the client certainly had reason to feel it had gotten its money’s worth (Glass, 1997).”

Glass’s speculations were endorsed by many other Nike critics and media professionals. Some journalists noted that Young refused to disclose how much Nike had paid him and his company (Himmelstein, 1997), implying collusion between the two companies. Likewise, Herbert (1997c) called Young’s visit to Asia *“a carefully guided tour”*, indicating that it was controlled by Nike. Also, some critics labeled Young’s report as *“a whitewash”* (Wolper, 1998), and some media reporters described Nike’s move of hiring Andrew Young as an attempt to *“quiet”* its critics, to *“combat bad press”* (Himmelstein, 1997; Medcalf, 1997), or to soothe Wall Street analysts (Tedeschi, 1997b).

In other words, Nike’s motives for hiring Young were widely portrayed by the media as the intention to offset its negative image and maintain market performances—and ultimately to secure profits. As a result, Nike’s subsequent moves were bound to be closely watched. For instance, whenever it made a public statement, spectators, especially critics and journalists, would wonder how truthful its claims were, or they would discount them *a priori*; or when Nike invited another third-party investigator to monitor its overseas factories, they would wonder whether it was another show for PR purposes.

For Nike's part, the company started to address Young's recommendations with wallet-sized code of conduct cards in the native languages of factory workers and managers. In response to the problem of cultural differences between expatriate managers and local workers, Nike also announced that it would increase the number of native managers in factories. According to the Nike management, Young's most significant contribution was to bring the risk of cultural clashes to its attention (Wolper, 1998). Again, this reflected that Nike management was especially concerned with issues of physical abuse and corporal punishment. In response to the unanticipated criticisms of Young's report, Vada Manager sought to link the validity of the report to Young's highly legitimized position, saying "*Are you questioning the integrity of Andrew Young*" (Glass, 1997)? Similarly, when *The Washington Post* journalist Nat Hendoff called a Nike publicity manager regarding Young's audit, she replied, "*Why, who could possibly question Andrew Young's integrity*" (Hendoff, 1997)?

During these "battles of reports", there seemed to be a high degree of anxiety and confusion among organizational members. For instance, Martha Benson, communication director for Nike and the company's only spokesperson in Asia at that time, was obviously out of touch with Nike's strategic shift. It seemed that there were communication problems within the company. She said Nike had no plan for PR campaigns to explain to the world about the issues in Vietnam, saying "*We are about sports, not Manufacturing 101*" (Marshall, 1997).

However, according to Benson, the company had changed its policy to make itself "*more accessible in Asia to the media*", albeit mainly to Asia-based industry journalists, who would "*understand the context*" and would not "*apply Western standards to local wages*". She also revealed that the company had hired a local consultant to deal with the local press. This represented the company's attempt to seek alliances in order to reinforce its framing of the problem, especially the wage issue. Nevertheless, Benson by then had little idea of how to deal with the escalating crisis situation. She asked, "*What can I do*" (Marshall, 1997)?

Meeting with the General Board of Pension and Health Benefits of the United Methodist Church

In August, the Nike management agreed to meet with representatives of the General Board of Pension and Health Benefits of the United Methodist Church. Notably, it was after this meeting that some significant organizational changes were initiated. The General Board had filed shareholder resolutions about the company's labor practices for two years in a row. Although Nike initially challenged the resolution, it later switched tactics and opted to talk with a group of representatives led by Vidette Bullock-Mixon, director of corporate relations and social concerns of the Methodist Church fund. At the meeting, the representatives presented their negative findings on wage and working conditions to Nike's senior management. Vada Manager then gave credit to Mixon for informing the company of the fact that some of its Asian suppliers had breached the local minimum wage law. He said: "*We wouldn't have known if she didn't tell us*" (Rehfeld, 1998). This episode was an example of Nike's selective engagement with "mild" anti-sweatshop groups while discursively marginalizing more radical groups.

As a result of the talks, one day before the 1997 shareholders' meeting, the Nike management announced its decision to sever its ties with four factories in Indonesia and to review its contracts with factories in Vietnam (Rehfeld, 1998). In addition, Nike also unveiled plans to set up a Corporate Responsibility Department. In the end, the General Board withdrew the resolution with other proponents, saying that Nike had been "*responsive to*" their concerns about fair labor practices.

According to the group, Nike's responsiveness had been demonstrated by the company's move to engage with them through "*comprehensive conversations about initiatives being taken and in future plans*", and through its agreement to comply with five conditions proposed by the General Board: to conduct a study on wages and the cost of living, to continue working with independent monitors and NGOs; to hold quarterly conference calls with proponents of the shareholder resolutions; to allow some proponents to visit its factories; and to allow Mixon to address the shareholders at the annual meeting (Mixon, 1997).

Nike's move to meet with this group of concerned shareholders can be seen as the seizing by the company of another opportunity to reconcile with critics. A major reason why the Nike management agreed to dialogue with the General Board was most likely that it was a shareholder capable of influencing other investors. It was also probably because the General Board, as a Nike shareholder, was less likely to deploy confrontational tactics or "*publicity stunts*" (Knight, 1997b) that would cause potential damage to the brand.

Also, having representatives of the General Board present at the annual meeting would help demonstrate Nike's commitment to collaborating with concerned groups to improve factory conditions. The meeting, although largely symbolic, led to some practical changes at Nike's production end, established new routines, and set new organizational restructuring in motion. These represented the outcomes of another round of negotiations between Nike and its challengers. Although the controversy was not settled, the meeting *per se* and those resulting changes did help Nike to obtain some support from the opposite side in both the short and long term, as will be shown in later paragraphs.

The AMRC & HKCIC report and Nike's 1997 annual shareholders' meeting

Another headline-grabbing episode occurred on 22 September 1997, when Global Exchange held a press conference to release a critical report by the Asia Monitor Resource Centre (AMRC) and the Hong Kong Christian Industrial Committee (HKCIC). The press release was made to coincide with Nike's 1997 annual shareholders' meeting. It countered Nike's repeated depiction of its CSR efforts by pointing out that, despite its code of conduct, its use of external auditors, and its participation in the AIP, labor rights violations still persisted. According to the report, "*conditions have not improved, and in some cases are even worse*" (AMRC & HKCIC, 1997).

The AMRC & HKCIC report again documented extensive labor rights violations and contained disturbing stories of treatment of workers in Nike factories. Countering

Nike's denial of widespread problems, it emphasized that there was "*a systemic abuse of workers*" (AMRC & HKCIC, 1997) and highlighted "*a wide gulf*" between Nike's words and deeds (AMRC & HKCIC, 1997). One of the most significant problems raised by the report was the widespread use of toxic chemicals that could seriously harm the workers' health. The report read, "*one worker in the factory had died from inhaling poisonous chemicals...many glues present serious health risks to workers. Benzene, a glue which is a recognised toxic chemical and is banned in the United States, is widely used... The factories also use large quantities of thinners, which can cause cancer of the blood*" (AMRC & HKCIC, 1997).

At Nike's 1997 annual shareholders' meeting, Knight not only had to address the labor issue but also to mitigate damaging speculation about the company's motives and protect its credibility. For instance, the CEO sought to counter criticisms of Nike's use of GoodWorks as auditors. Knight described Young as "*a man of great intellect, enormous accomplishment, and unquestioned integrity*" and that the headline-making incidents which contradicted Young's findings were no more than "*exceptions*" to the rule of good practices:

"...Ambassador Young...found, as we believe any truly independent monitor will find, that basically Nike is acting as a good citizen ...that the incidences that you hear about and have gotten so many headlines are just that. They are basically exceptions to what goes on in those factories (Knight, 1997b)."

Knight also made great efforts to convince Nike's critics and other stakeholders of the genuine nature of the company's CSR endeavors. For instance, throughout his speech, he reiterated the company's intention to be a "*good citizen*" that was "*operating morally*", with the phrase "*good citizen(s)*" appearing five times in his speech (Knight, 1997b). Again, the CEO highlighted the improvement that Nike had made to working conditions. In addition to tangible facilities—"the spacing for the workers has improved dramatically, the lighting in the factories has improved" (Knight, 1997b)—introduced in response to problems revealed in some NGO reports, Knight particularly mentioned an intangible, health-related improvement: the upgrading of the air quality

in the factories: "...most especially the air quality has improved enormously..." (Knight, 1997b).

In addition, Knight continued to position Nike as a labor reform leader. He said: "*In 1992, NIKE became the first company in our industry to have a Code of Conduct--in 1994, we became the first company... to have that Code of Conduct monitored by an independent third party... We were the first in our industry to join the President's Apparel Industry Partnership*" (Knight, 1997b). The chairman also tried to discursively construct a historical consistency in the company's image as a responsible, good corporation providing both high-quality shoes and high-standard working conditions. He said:

"Back in those days, we put a lot of emphasis on the quality of the shoe; the environment demanded it, and it was really part of our heritage and what we wanted to do. Good shoes are made in good factories; good factories basically have good labor relations... So this is not something that is a new issue to us, it is something that has been around for 25 years (Knight, 1997b)."

By stating "*Good shoes are made in good factories*" (Knight, 1997b)", Knight was essentially claiming that Nike was profiting from its socially responsible production model. This was the first time that the chairman of Nike had established a positive link between CSR and the company's profitability. This further established the myth of CSR.

Knight again demonstrated greater openness to critics. Compared with one year before, his rhetoric reflected a less antagonistic attitude to critics, especially to NGOs, whose criticisms were no longer called "attacks"—at least not all of them. Instead, the NGOs were just "*being critical of*" the company. Knight said, "*we try to reach out to the non-governmental organizations that are being critical of us. And we have tried to do that over this last summer. We tried to do it before that, but we tried a little harder to do it over these last few months, and with some success*" (Knight, 1997b).

Nevertheless, while Nike management decided to embrace some critics, at least in discursive terms, it also tried to marginalize others. Vada Manager claimed that many criticisms against Nike were based on inaccurate information circulated by some

“fringe groups” (Gonzalez, 1997). Also, at the annual meeting, Knight did not miss the opportunity to criticize some *“extremist”* groups, saying *“there are certain extremist organizations that we simply cannot have reasonable dialogue with...”* (Knight, 1997b).

In particular, Phil Knight increased his efforts to denigrate Global Exchange, which was holding a press conference on the same day as Nike’s annual meeting. He accused the group of spreading misleading and incorrect information and staging *“public stunts”* (Knight, 1997b). The CEO further sought to delegitimize Global Exchange by implying that it was motivated by a left-wing agenda. He maintained that Global Exchange had three main causes—*“supporting the Chiapas rebels in southern Mexico, supporting Fidel Castro’s regime in Cuba and criticizing Nike”* (Manning, 1997b).

The workers’ income survey by the Amos Tuck School of Business

In response to the debate on a living wage, Vada Manager referred to Andrew Young’s report in arguing that Nike’s overseas workers could make reasonable savings in addition to meeting their daily expenses (Tedeschi, 1997b). However, the claim was ineffectual because Young admitted that his investigation had deliberately avoided the wage issue. Some critics and local unions noted that the wages paid by Nike were not sufficient to cover an individual worker’s basic daily costs, let alone those of their families (Himmelstein, 1997). To counter the critics’ claims, Nike suggested that more research was needed; whereupon the Nike management announced on several occasions that it had ordered another independent study to address the living wage issue (Tedeschi, 1997b).

On 17 October, Nike again tried to promote its version of story. It held a press conference at which another report was presented. This was a wage survey by a group of MBA students and professors at Dartmouth’s Amos Tuck School of Business commissioned by Nike to inspect a number of its factories in Vietnam and Indonesia. The report summarized the situation thus: *“Nike contract factory workers in both Indonesia and Vietnam consistently earn wages at or above government-mandated minimum wage levels”* (Calzini et al., 1997). According to the report, some workers in

these two countries could save more than 40 per cent of their earnings from working in Nike factories. Around four out of five households had televisions and more than 60 per cent of them owned motorbikes (Calzini *et al.*, 1997). These figures implied statistically that Nike workers were largely living decent lives with the wages paid by Nike factories and therefore that the company had fulfilled its moral duty to its workers.

Nike's challengers responded with their criticisms. Dara O'Rourke, a research associate and an expert on labor rights and monitoring, also an environmental consultant for the United Nations Industrial Development Organization, published a critique of the wage survey through the Transnational Resource Action Center (TRAC) which faulted its methodology in detail. The main criticisms made by O'Rourke concerned a lack of worker input, which, he maintained, seriously undermined the reliability of the findings. He wrote:

"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...It should seem obvious that using management provided wage data without cross-checking information against actual pay-stubs is highly problematic (O'Rourke, 1998)."

Despite the Nike management's unremitting attempts to draw public attention to the company's CSR efforts, external pressure continued to grow. Women's groups and students joined labor rights advocacy groups to demonstrate their opposition against Nike's labor practices, urging the company to increase cooperation. At about this time, Nike was further established as a hypocrite. For instance, in October, a coalition of women's groups issued a letter to Phil Knight urging Nike to allow independent monitoring and raise daily pay from 1.60 to 3.0 USD (Greenhouse, 1997a).

In particular, these women's groups denounced Nike as "*hypocritical*" (Carlin, 1997). They argued that the company's advertisements featured empowered women athletes wearing Nike shoes; yet it was also involved in depriving and abusing already disempowered female workers in third-world countries as a means to increase profits.

The letter declared: *“While the women who wear Nike shoes in the United States are encouraged to perform their best, the Indonesian, Vietnamese and Chinese women making the shoes often suffer from inadequate wages, corporal punishment, forced overtime and/or sexual harassment”* (Carlin, 1997). Likewise, Eleanor Smeal, president of Feminist Majority, said: *“The message in the empowerment ad is strong, but there’s a disconnect between that message and the way Nike pays and treats its workers, especially its women workers”* (Greenhouse, 1997a).

In response, Vada Manage drew on one of Nike’s most frequently used lines of counter-rhetoric, which pointed to Nike’s contributions to local economies and social welfare. He countered the claim that Nike was depriving woman workers by arguing that Nike had created thousands of jobs for developing countries and contributed to improving local people’s quality of life. He said, *“Nike has created some 500,000 superior jobs with good wages around the world in developing economies...The job opportunities that we have provided to women and men in developing economies like Vietnam and Indonesia have provided a bridge of opportunity for these individuals to have a much better quality of life”* (Greenhouse, 1997a). Like many others, this mixture of rhetoric used by Nike contributed to reinforcing the mediated myth of CSR.

College students represented another new force opposed to sweatshop practices. For instance, a campus campaign was launched at the University of North Carolina to protest against Nike’s overseas labor policy after the company and the university signed a 7.1 million USD agreement which required the university’s sports teams to wear uniforms with the *Swoosh* logo (McCall, 1998). Because the logo was so enormously recognizable that it often appeared in Nike’s advertising campaigns without the brand name, it had increasingly become the focus of the nation-wide protests against Nike. In October, the students organized another anti-Nike campaign, the Nike Awareness Campaign in Capital Hill, demanding better pay and working conditions for Asian workers (Wolper, 1998).

On 31 October, *The New York Times* (1997) covered a story on a meeting by the former North Carolina basketball coach Dean Smith with student protestors. In a letter

sent in mid-October to the Nike Awareness Campaign, the coach wrote: "*Given the fact that we are in a capitalist society, we still do not want to overlook not only what a corporation produces and its profitability but also how it impacts the environment, touches human life and whether it protects or undermines the dignity of the human person.*" As noted, similar remarks had been made by President Clinton at the launch of the AIP in 1996, and again in 1997 when the AIP code of conduct was announced. A few months later, a college basketball coach, one of Nike's many important stakeholders, made the same request. This reflected how CSR had become a dominant discourse and a belief widely shared among members of society.

Negative public perceptions of Nike accumulated, and there were growing social expectations that companies should protect "*the dignity of the human person*", even if that person was not directly employed by those companies, and even if they were thousands of miles away. It was understood that the solution to the problem required companies to forgo some economic values. In response to these protests, Nike management again demonstrated its openness and readiness to communicate with different parties. For instance, Vizhier Corpuz, Nike's spokeswoman, said that Nike was willing to take the chance of further explaining the working conditions in its overseas plants (The New York Times, 1997).

The leaking of the Ernst & Young audit report

Towards the end of 1997, the "battle of the reports" was about to conclude with its final episode, during which the amount of media reporting rose to its all-time peak and Nike was subject to most intense media scrutiny. On 6 November, an audit report, commissioned by Nike and conducted by Ernst & Young at one of Nike's factories in Vietnam, was leaked by a former Nike employee to Dara O'Rourke. The TRAC obtained the report from O'Rourke and released it to the public. The report immediately made front-page news in *The New York Times* (Greenhouse, 1997b). It was revealed that the report had been completed in January 1997 and prepared in January 1996, for Nike's internal use only.

The media as well as critics largely described the audit report as destroying Nike's credibility, because it revealed the Nike had long been aware of the sweatshop conditions but had constantly denied and hidden them (Greenhouse, 1997b; Keown, 1997; Manning, 1997d; O'Rourke, 1997). For instance, journalists (e.g. Manning, 1997d) highlighted that Ernst & Young was described in the report as "*sub-contracted*" (Ernst & Young, 1997) by Nike rather than acting as the "*independent third party*" claimed by Knight (1997b).

Many news reports depicted the Ernst & Young report as confirming many of the negative findings presented by NGOs and media investigators, such as poor implementation of the code of conduct, serious violations of local laws, excessive overtime and corporal punishment, which contradicted Young's report and many of Nike's longstanding claims (Greenhouse, 1997b; Manning, 1997d). Some reporters, for instance Greenhouse, also opened a relatively new front for Nike's critics: air quality issues. The journalist wrote, "*In an inspection report that was prepared in January for the company's internal use only, Ernst & Young wrote that workers at the factory near Ho Chi Minh City were exposed to carcinogens that exceeded local legal standards by 177 times in parts of the plant and that 77 percent of the employees suffered from respiratory problems*" (Greenhouse, 1997b).

As expected, Nike's critics did not miss this golden opportunity to add fuel to the fire. Dara O'Rourke commented, "*Although flawed in a number of ways, the audit notes continuing violations of labor laws on maximum working hours, unprotected chemical exposures, poor treatment of workers and management control of the trade unions*" (Knight, 1997a). More importantly, after the leaking of the audit, the effectiveness of using accounting firms to review labor practices in foreign factories was further questioned. Based on the report, O'Rourke claimed that accounting firms lacked the professional skills required to fully examine and report labor and environmental conditions (Knight, 1997a). Likewise, Joshua Karliner, director of the TRAC, said, "*Even though this report is damning, what Dara O'Rourke found was much worse... An accounting firm really isn't qualified to do this type of audit*" (McCall, 1997).

Apart from auditing firms' lack of proficiency in monitoring labor practices, the incident also aroused considerable doubts concerning the independence and trustworthiness of auditing firms hired by companies. For instance, Jay Mazur,

president of the Union of Needletrades, Industrial and Textile Employees, underlined the importance of independent auditing, saying "*The fox cannot watch the chickens. This is a pivotal issue for us. If they're sincere and if they want the monitoring to be independent, it can't be controlled by the companies*" (Greenhouse, 1997c). Such interpretations served to further establish corporate self-regulations as ineffective and Nike as insincere and hypocritical.

Initially, neither Nike management nor Ernst & Young was prepared for the unanticipated disclosure of the report—Vada Manager said he could not explain the discrepancy, and the auditor declined to comment on the report (Greenhouse, 1997b). The subsequent reactions from the media and other constituents were overwhelming. For instance, *The Oregonian* sent a reporter and photographer to Nike's overseas factories. A congressional delegation led by Senator Bernie Sanders sent a letter to Phil Knight urging a dialogue with the shoe giant on how it could "*move forward to treat its Third World workers with respect, dignity, and decent wages*" (Knight, 1997a).

In particular, the delegation called for freedom of access to Nike's facilities. The congress representatives leveled serious exploitation charges against Nike: "*We are deeply disappointed and embarrassed that a company like Nike...could be so directly involved in the ruthless exploitation of hundreds of thousands of desperate Third World workers, most of whom are women*" (Lever, 1997). Echoing the longstanding arguments of anti-sweatshop groups, Sanders said, "*It doesn't take a Ph.D. in economics to know that the bulk of your money is made by paying desperate Asian workers US20 cents or US30 cents an hour, and then selling your product in the U.S. for \$100US or \$150US*" (Financial Post Daily, 1997).

Nike held a press conference to address the audit report. Nike officials released the full report to the media. The company made an attempt to turn off, or at least to turn down, the volume of the alarm triggered by the leak. Some Nike officials sought to normalize the problem by arguing that the audit was just another report that had uncovered problems so that the company could take steps to fix them. For instance, Roy Agostino

of Nike said the audit report was part of a “normal” process of “*diagnosing areas that need improvement and arranging to remedy those areas*” (Lever, 1997).

Some Nike officials emphasized that the audit had been completed some time previously, and that Nike had implemented measures to tackle problems revealed in the report. Roy Agostino claimed, “*An action plan was mapped out to address each and every one of the concerns... Overtime has been slashed, a new ventilation (system) has been installed. The factory has been converted from a chemical-based solvent facility to a water-based solvent facility, which reduces chemical matter in the atmosphere*” (Lever, 1997). Vada Manager also cited other reports vindicating the company to counterbalance the damage caused by the leak. He said, “*There’s a growing body of documentation that indicates that Nike workers earn superior wages and manufacture product under superior conditions*” (Greenhouse, 1997b).

Many of these responses reflected that the company was in continuing denial of the ineffectiveness of its monitoring system. For instance, Vada Manager said, “*This audit demonstrated the integrity and stringency of our third-party monitoring process... A select few have criticized us for not paying them to conduct our monitoring, and challenged the independence of auditing firms... Clearly, this report is not a whitewash. By the recommendations cited in this audit and the steps Nike has taken to improve the working conditions, it is clear that our system works*” (PR Newswire, 1997). He also said, “*We have uncovered these issues clearly before anyone else, and we have moved fairly expeditiously to correct them*” (Varadarajan, 1997). It seemed that Manager essentially sought to turn the tables by arguing that the very fact that Nike had hired Ernst & Young indicated the company’s commitment to improving working conditions in its overseas plants, rather than attempting to “*whitewash*” its labor record in Asia.

These comments represented the Nike management’s attempt to restore the further breached consistency in the public perception of the company’s image and CSR performance. Similarly, Dusty Kidd defended the company’s monitoring system, pointing out that none of its competitors had hired auditors to conduct similar monitoring activities before Nike had done so: “*Nike was the first company in our*

industry to utilize on-going independent monitoring and has been doing so since 1994...These vigorous third-party audits guide us to the areas where we must exert pressure to ensure that improvements are made" (PR Newswire, 1997).

In addition, in stark contrast with the Nike management's previous "*I don't know that I need to know*" attitude toward contracted workers, Nike officials used far more moral, sympathetic language, repeatedly expressing the company's concern over the welfare of workers in an attempt to convince its audiences that the company truly cared about its workforce. For instance, Vada Manager said, "*We believe that we look after the interests of our workers*" (Varadarajan, 1997). Similarly, Kidd noted that Nike had used Ernst & Young to monitor factories because of the company's commitment to ensuring the well-being of factory workers, "*Nike was the first company in our industry to utilize on-going independent monitoring and has been doing so since 1994, because we care about our workers health and safety in the workplace...*" (PR Newswire, 1997). Nike thus highlighted some aspects of CSR commitment (e.g. improving working conditions) in its language, and this provided more rhetorical resources for anti-sweatshop groups to push the company to assume more responsibilities for workers.

Apart from using discursive tactics to alleviate the damage, Phil Knight adopted a seemingly open-door policy. He sent a letter to congressional critics inviting them to Nike's facilities. The company also announced that it would fly several students from the University of North Carolina, where debate over Nike's labor issue was particularly heated, to inspect overseas working conditions. Notably, labor practices were elevated from a minor problem attracting little attention from Nike management to a company "*priority*", as highlighted by Knight in his letter to those congress members. The chairman wrote that Nike products must be made "*in the best working conditions...We won't stand for anything less. That's why we have made labor practices a priority*" (Financial Post Daily, 1997).

Despite the somewhat modest posture by Nike, the battle continued, and so did challenges against Nike's credibility. To counter Nike's claims that considerable

improvements had been made to factory conditions, O'Rourke said he had visited one of the factories covered in the Ernst & Young audit three times in 1997 and found that *"the problems have not been solved in the factory"* (Knight, 1997a). He revealed that workers continued to complain about working conditions and again pointed out that Nike used audits as PR gambits to cover up problems rather than truly intending to improve workplace conditions. He said, *"I found conditions are much worse than Nike admits... Workers told me that forced overtime is continuing (as was) unprotected exposure to chemicals ... and harassment by management. Nike decided to use these audits more as a public relations strategy rather than to fix the problems in their factories"* (Knight, 1997a). In particular, as a further challenge against Nike's assertion that it had fixed the health and safety problems exposed by the audit, O'Rourke claimed that he had still found hazardous working conditions six months after the audit (Knight, 1997a).

On 24 November, under the extreme media scrutiny caused by the leak of the audit report, Nike, along with several other apparel manufacturers of the AIP, began discussions with NGOs to seek agreement on how enforcement of the AIP code could be monitored. As the AIP prepared its final report to President Clinton, the role of independent monitors in foreign factories used by U.S. companies became increasingly crucial in the debate. As mentioned, after the Ernst & Young report had been disclosed, using auditing firms for monitoring purposes was further established as ineffective and unreliable. Therefore, the plan under consideration tended to rely on external groups consisting of representatives from church organizations, universities and labor unions. The coalition also agreed to include pressure groups in the governing board to certify auditors. Moreover, auditors such as Ernst & Young must collaborate with pressure groups *"to avoid the problems of the Nike audit"* (Bernstein, 1997). Then, in December, news coverage linking Nike with the sweatshop controversy diminished considerably, although the company was selected as the one of *Multinational Monitor's* "10 Worst Corporations of 1997" and was named *"the devil"*. The magazine concluded, *"Don't negotiate with the devil. Beat the devil"* (Mokhiber & Weissman, 1997).

This series of battles between Nike and its critics essentially concerned who was telling the truth about the situation of factory workers and the company's attitude

towards them. Although the company tried to tell its side of story, denying charges of low pay and poor working conditions and publicizing the CSR progress that the company had made, it seemed that each of Nike's proclamations was overshadowed by another exposure of labor abuses or anti-Nike protests. After the leaking of the Ernst & Young report, it appeared that the Nike senior management came to realize that it was losing control over its version of the story and had to take substantial action to counter the negative coverage. In this process, in addition to producing reports, the company sought to demonstrate its CSR commitments not only by discursive means alone; it also increasingly resorted to material forms such as modifying its organizational structures and monitoring its contracted factories internally and externally. As for the two focal points of the debate—the living wage and independent monitoring—it seemed that the apparel industry led by Nike had at least conceded on the latter.

7.3 Phil Knight's 1998 National Press Club speech

The year 1998 began with another significant reform in Nike's organizational structure. A Corporate Responsibility Department was established, integrating departments of Community Affairs, Environmental Action Team and Labor Practices and Maria Eitel, former PR executive of Microsoft Corporations, was appointed as the new Vice President for Corporate Responsibility (Nike Inc., 1997b). By creating and filling an executive-level CSR position, Nike demonstrated that CSR practices had been integrated into the company's core function. Maria Eitel said, *"Phil made clear from the day I started that this is a huge priority...We don't believe that corporate responsibility is a separate function that can be put into a box. It has to be integrated into everything we do at the company. It's a company of honest, caring people who want to learn from the past, and make the company the best it can be"* (Cobb, 1998). As shown, the Nike management continued to incorporate more CSR talks in its narratives, seeking to project Nike as *"a company of honest, caring people"*. The staff led by Eitel soon doubled to 95, one of Nike's few areas of expansion (Cobb, 1998).

Nevertheless, what made the real difference was Phil Knight's speech at the National Press Club on 12 May outlining ground-breaking future plans. There were four major media-attention grabbing events in that year before Knight made his keynote speech.

As can be seen from Figure 8, from January onwards, media coverage constantly rose until May. On 2 April, ESPN's "*Outside the Lines*" aired a report featuring physical abuses of workers at Vietnamese factories producing Nike shoes. The television program was especially devastating for the shoe giant because viewers of this sports channel were among Nike's key customers.

About a week later, Michael Moore's "*The Big One*", including footage in which Phil Knight sounded as if he was "*defending child labor*", made its debut in the U.S. (Press, 1998). On 18 April, labor rights activists organized a worldwide protest against Nike, declaring an International Day of Solidarity with Nike Workers. Around 200 protesters joined the march, which was led by a giant puppet of Phil Knight (Rossi, 1998). Two days later, activist Marc Kasky together with a group of consumers and lawyers filed a lawsuit intended to challenge Nike's credibility with the charge that Nike had violated California's false-advertising laws by misleading the public about conditions at its Asian factories (Egelko, 1998).

Then, on 12 May, Phil Knight gave a speech at the National Press Club in which he responded directly and dramatically to the sweatshop accusations that had plagued Nike since mid-1996. The bold gesture by the top executive of Nike drew huge media attention (as can be seen from Figure 8, media reporting in May 1998 was almost as high as that of November 1997 marked by the leaking of the Ernst & Young report. Since few significant events took place in that month, it can be assumed that Knight's speech was the prime reason for the coverage.

Knight (1998) formally committed Nike to complying with strict standards for its contracted factories which were specified as the following six "*new initiatives*": including NGOs in factory monitoring and disclosing summaries of the results; raising the minimum age of workers in footwear factories to 18 and in apparel factories to 16; using U.S. Occupational Safety and Health Administration indoor air quality standards for all footwear factories; expanding an educational program for workers in footwear factories; offering micro-enterprise loans to workers in Vietnam, Indonesia, Pakistan, and Thailand; and funding university research on labor issues.

The summary of the initiatives was as follows:

“...expanding its current independent monitoring programs to include non-governmental organizations (NGOs), foundations and educational institutions and making summaries of the findings public (Knight, 1998)”;

“...increasing the minimum age of footwear factory workers to 18, and the minimum age for all other light-manufacturing workers (apparel, accessories, equipment) to 16 (Knight, 1998)”;

“...adopting U.S. Occupational Safety and Health Administration (OSHA) indoor air quality standards for all footwear factories (Knight, 1998)”;

“...expanding education programs, including middle and high school equivalency courses, for workers in all Nike footwear factories; increasing support of its current micro-enterprise loan program to 1,000 families each in Vietnam, Indonesia, Pakistan and Thailand; and funding university research and open forums to explore issues related to global manufacturing and responsible business practices such as independent monitoring and air quality standards (Knight, 1998).”

In his speech, Knight (1998) described Nike's and his situation thus: *“There has been a cloud that has been over Nike's head the past few years... Nike products have become synonymous with slave wages, forced overtime, and arbitrary abuse...Philip Knight has been described in print as a corporate crook, the perfect corporate villain for these times. One columnist said, 'Nike represents not only everything that's wrong with sports, but everything that is wrong with the world'”* (Knight, 1998). As Knight later explained to *Business Week* in his first major interview about Nike's new strategy, *“There are some things you can do as a 100 million USD company that you can't get away with as a 9 billion USD company. We're not as rebellious as we were five years ago (Lee, 2000).”*

Although those were indeed significant commitments for Nike, Knight's speech still retained many of Nike's standard counter-claims. For instance, Knight accused some critics of distorting facts. He quoted Garry Trudeau as saying, "*I'm not interested in facts. I'm not a journalist; I'm a social satirist*" (Knight, 1998). He again highlighted the benefits that Nike brought to consumers and the economic development of third-world countries. He also sought to normalize the problem by linking it to a larger social order when he described sweatshops as indicators of an unavoidable early stage in the economic development process. He said:

"...we had experiences that caused us to really believe in the benefits of international trade. The uplifting of impoverished people, the better values for consumers in industrialized nations...The thing that we have learned more than anything else in this process is that when Nike has gone into a country with its manufacturing operations, wages have increased and poverty has decreased. Nike of course is not solely responsible for that, but we have been a part of that process, and we are proud of it and not ashamed of it (Knight, 1998)."

Knight again attributed abusive incidents to cultural clashes, saying, "*The management of the Vietnamese work force by foreign managers has complicated the whole process, and it has come under a great spotlight, which has given our critics lots of anecdotes to talk about. Essentially, those critics will hang around restaurants, outside factories and in pubs to get those anecdotes, to illustrate how dreadful this whole globalization process is in general and how evil Nike is in specific*" (Knight, 1998). Trying to naturalize the occurrence of abuse incidents, he again highlighted Nike's inability to guarantee abuse-free factory conditions due to the size of its production system, "*We have about 530,000 workers working on Nike shoes and clothes on a given day. There are going to be incidents...There are too many workers, too many interactions daily...*" (Knight, 1998). As mentioned previously, many of these counter-arguments were derived from the Nike senior management's recognition of the company as a global market player whose actions were dictated by the reality of global market competition, and this reality was constructed on the myth of neoliberalism.

Nevertheless, Nike's discursive concession was still evident, and especially when Knight emphasized the voluntary nature of the new initiatives. He pointed out that any

responsibility that Nike recognized towards its contractors was derived from an “*emotional partnership*” and from Nike’s commitment to its responsibility for factory workers—moral considerations, rather than a “*legal partnership*”, therefore. The chairman said: “*It is not a legal partnership; it is an emotional partnership between our factories and us. And it does involve the way we think about the business, including the responsibility that we believe we have for the men and women who manufacture our products—we see them as our employees and our responsibility*” (Knight, 1998). However, this again reinforced the framing of CSR as voluntary.

With those new initiatives, it is fair to say that Nike was ahead of almost all other consumer goods companies at the time. Moreover, in regard to the minimum working age and air quality standards, the company even went beyond the local laws of some of its sourcing countries as demanded by activists. Notably, in addition to establishing, monitoring and promoting voluntary labor standards, Nike extended the notion of improving working conditions to include a contribution to public life. According to Nike’s new commitments, the company was providing various public goods and services in support of the development of local communities, such as worker training and education and micro-enterprise loans for workers. Perhaps the increasing emphasis placed by the company on its contribution to the economies of developing countries, which was initiated out of rhetorical considerations, had induced it to offer those public services to local people.

Knight’s promises received positive responses from anti-sweatshop activists. Even long-term Nike critic Jeff Ballinger commented, “*We’ve turned a conceptual corner*” in the sense that the chairman had displayed willingness to concede in part to the activists’ central demands for independent, third-party monitoring using NGOs and disclosure of audits (Moberg, 1998). Nike also managed to secure some positive reviews from activist groups with which the company had engaged earlier. For instance, back in March 1998, a delegation of the ICCR (an NGO member of the AIP associated with the General Board of the Methodist Church) had visited factories producing Nike goods in China, Indonesia and Vietnam which the company had approved in order to convince the General Board to withdraw its shareholder resolution. The report by the ICCR, released about one week after Knight’s speech, gave credit to

the company and confirmed some of the improvements Nike claimed to have made, in such areas as health and safety and overtime (Ramey, 1998).

Perhaps more importantly for Nike, it finally garnered some upbeat media coverage. Knight's speech might have been a well-conceived ploy. As shown in the next paragraph, some of the initiatives proposed by Knight (e.g. using NGOs for monitoring) would eventually be included in the AIP agreement to be released in November. However, Knight did not wait until then to make concessions. The CEO stole the limelight and took a bold step in dramatizing Nike's compromising act by staging a one-man play focusing media attention solely on Nike, and those ground-breaking plans also offered some dramatic elements for the media. As noted, media reporters are also dramatists (O'Connell & Mills). Therefore, not surprisingly, many major media outlets provided positive interpretations of Knight's speech and Nike's new initiatives.

For instance, CNN reported "*Nike changes the way it runs overseas factories*" (Moret & Arena) and "*Corporate critic Michael Moore congratulates Nike*" (Kagan, 1998); *Federal News Service* (1998) announced "*Nike acts to improve working conditions*", while the *Chicago Sun-Times* applauded the company: "*Nike puts best foot forward; Raises minimum worker age, vows better plant conditions*" (Dunphy, 1998) and *Business Week* titled its complimentary article "*Nike Finally Does It*" (Bernstein, 1998). In this way, the media served to confirm Nike's leading efforts to promote CSR practices and gradually moved the spotlight away from the company. As public discussion of Nike's new initiatives diminished, the amount of media coverage fell considerably in June and July and stayed at a modest level throughout the rest of 1998 and the beginning of 1999, although allegations were still occasionally raised by NGOs and other monitors.

It is worth noting that, in mid-October, Nike announced a 25 per cent minimum wage increase for its factory workers in Indonesia (The Associated Press, 1998). Also, in November, the AIP released its Charter Document including a code of conduct, guidelines for internal and external factory monitoring, and plans for the creation of the Fair Labor Association (FLA) to oversee compliance and accredit independent

monitors. President Clinton called the pact a *"historic step toward reducing sweatshop labor around the world"*, and Phil Knight described the agreement as signaling the end of the sweatshop controversy because all contesting actors had *"sought a level playing field within the global marketplace"*. The former Nike CEO said, *"This is a historic agreement for everyone involved—manufacturers, workers and nongovernmental organizations—all who sought a level playing field within the global marketplace. It is a good beginning with more work still to be completed"* (Dobnik, 1998). These more elaborate institutional outcomes were likely to keep the shoe giant away from public scrutiny, at least for the time being.

Discussion

In the second phase of the crisis, Nike addressed the challenge of its image being transformed from that of a trend-setting rebel to an exploiter by trying to erase a negative image created and reinforced by the media—and it received increasingly more negative feedback from the audiences. In response, Nike resorted to proactive organizational change in both discursive and material forms aimed at repairing legitimacy. It used marketing tools to promote its CSR commitment, seeking to reposition itself as a CSR leader of the industry. Along with a rhetoric of change came the substance of change: Nike stepped up collaboration with some of its critics and adopted new CSR practices by establishing CSR departments and hiring CSR professionals. Some of these moves, such as incorporating new structures and staff into the company, had facilitated organizational sensemaking and thereby helped settle the crisis; while some approaches, such as engaging with challengers and using marketing tools to publicize its CSR efforts, generated more controversies at certain points.

Nevertheless, Nike might still have benefited from such engagement, because it promoted active sensemaking and enactment with the environment. In addition, it seemed that by embracing the myth of CSR in both corporate language and organizational structure, Nike did manage to repair its legitimacy in the end. The institutional outcome of Nike's move to position itself as a CSR leader was significant in that it not only led to revolutionary labor reform that eventually resolved the crisis,

but also contributed to the increasing assumption by multinational corporations of their role as providers of local public goods and services. The discussion below is divided into two parts: the repositioning of corporate identity, and organizational restructuring, both of which are linked to the intensified material forms of organizational change that characterized the second phase of the unfolding crisis.

1. The repositioning of corporate identity

As the company incorporated increasingly more elements of moral compliance into its language, the Nike management furthered its efforts to repair legitimacy by deploying a marketing strategy to reconfigure its corporate identity as a CSR company. As shown in Phase I, Nike's previous strategies, as evidenced by many Nike officials' comments in 1996, were to disassociate the company from the sweatshop controversy and to challenge the credibility of critics linking sweatshops to Nike. The second stage of the crisis saw a reconciliation of the CSR frame with Nike's "winning" corporate culture. Nike's strategy was to "embrace" the issue by tacitly acknowledging the sweatshop problem and by co-opting existing public discourse about the problem to promote its actions, such as engaging with critics, establishing CSR departments, and hiring CSR professionals. Nike repositioned itself as an industry leader in the global labor reform, seeking to promote CSR values and simultaneously repair its legitimacy.

However, the Nike management attempted to achieve consistency in its corporate identity as a CSR company. In correspondence to its counter-argument that Nike was being unfairly targeted by NGOs and the media, its top management team sought to convey the following message: Nike had always been a socially responsible company. However, since its conduct had been unfairly challenged and its image distorted, it needed to further demonstrate its long-term commitment to CSR values, which was why PR campaigns were launched and new departments were set up to reveal the company's true self. Therefore, Nike officials continued to defend its labor record and the effectiveness of its monitoring system—in other words, to deny the problem. Instead of remedying the situation, the marketing strategy used to redefine Nike's corporate identity intensified the crisis because it created more rhetorical resources for

NGOs to further establish Nike as a third-world exploiter, and even challenge Nike's credibility.

In a sense, the first half of Phase II was marked by a contest between Nike and its challengers on the truthfulness of each other's claims. In Phase I, Nike made continued attempts to challenge the accuracy of its critics' claims and raised questions about their credibility; whereas in Phase II, after several rounds of the "battle of reports", anti-sweatshop groups, with the help of other Nike critics, managed to cast serious doubt on the credibility of Nike's claims by questioning the company's motives and ethical conduct. Nike was portrayed as constantly concealing the truth in order to protect its image and ultimately its profits. The NGOs' brand-damaging strategy was widely deployed by other challengers of the company. It yielded more than Knight's loss of temper on several occasions—among some Nike critics, the Nike brand also became a synonym for hypocrisy.

As more and more reports surfaced to evidence widespread violations of Nike's own code of conduct and local laws, the company's spokespersons started to admit that there had been a small number of abuse incidents. However, they emphasized that Nike had taken action to correct the exceptional incidents, as well as to improve its labor standards and oversight system. While continuing to discredit its challengers, Nike made ever more extensive use of accommodating counter-discourses in response to criticisms, for example by normalizing the "sweatshops" as a symbol of an early stage in an economic development process, claiming that the company was contributing to local economies, arguing that Nike was truly helping local workers by providing economic benefits to them. This line of rhetoric emphasized the company's CSR stance and was in line with its strategy to reposition as a CSR leader.

Moreover, the company also sought to project an image of responsible behavior when running its manufacturing system and as leading the industry in promoting CSR values. In Phase II, Nike considerably expanded its efforts to prove the genuineness of its CSR commitments to its critics and other stakeholders. For instance, at first, Nike mainly used discursive means to promote itself as a labor reform leader, such as the active use

of various forms of media (e.g. newspapers, TV and the Internet) to publicize its CSR efforts and status. As the crisis intensified, Nike started to implement increasingly more CSR practices. As will be itemized in the next subsection, besides introducing and updating its code of conduct, the company also changed its organizational structure, for instance by establishing CSR departments, creating executive level CSR positions, and increasing the number of staff to ensure code compliance. In other words, the myth of CSR was leveraged in order to regain legitimacy.

Despite Nike's effort to redefine itself as a CSR leader, from the activists' point of view, profits were the most fundamental interest of corporations, whilst those profit-driven business organizations led by Nike were responsible for the social injustices occurring at overseas manufacturing sites. They strove to mobilize media reporters, academics, students, consumers, investors and governmental agencies to condemn sweatshop practices and take action to eliminate them. It is fair to argue that the anti-sweatshop movement was successful in achieving this end. In the turmoil, Nike became the most visible target of criticism. This was evidenced by numerous media reports exposing and criticizing poor working conditions at Nike's subcontracted production locations. Public hearings attended by Nike top management were held and some congressional representatives even wrote letters to Nike's chief executive to push for change. On the audiences' side, a number of consumer boycotts against Nike were staged and student activism burgeoned in 1997. As the crisis unfolded, increasingly more reports and investigations by NGOs, the global media and other institutions evidenced gaps between Nike management's claims and its deeds.

Nike was put in a particularly difficult situation when critics accused the corporation of using a PR gambit with the sole intent of erasing its negative image and avoiding further negative publicity, rather than sincerely committing itself to an improvement in working conditions as claimed by the company. That is to say, the challengers not only contested Nike's claims about factory conditions, but also called into question the credibility and integrity of Nike as a large corporation expected to be accountable to the public. In this way, Nike's corporate identity as a highly profitable marketing company with a long history of commercial success was further challenged, while its efforts to present itself a CSR leader were severely undermined.

In addition, the NGOs increasingly drew on individual stories, such as those about woman workers being physically abused, and thereby constructed the controversy as many individual cases of human rights violations constituting an urgent large-scale humanitarian crisis. This implied that immediate, radical changes were required. Since Nike self-identified as a socially responsible company, it came under extraordinary pressure to address individual cases, and it responded by emphasizing that they were isolated incidents. This, however, exposed further ambiguities and inconsistencies in Nike's claims.

The leaking of the Ernst & Young report was the most damaging event for Nike, and also the one that attracted the most media attention in negative terms. The audit was described as revealing many direct contradictions of the company's previous self-proclamations and confirmed many accusations raised by activist groups. The event was virtually the climax of the crisis, and it represented a compound result of Nike's past actions with impact upon the environment. Nike's decision makers finally realized that its brand name, as well as its legitimacy, were in a critical situation. The gap between its words and its exposed deeds became so wide that mere PR campaigns could no longer save Nike. There then came a time when the substance of change became most evident: the company not only furthered its organizational restructuring by setting up new CSR departments and creating an executive-level CSR position, it also proposed a series of somewhat groundbreaking initiatives to address the problem. In May 1998, after another series of brand-tarnishing events, Nike, while continuing to promote its CSR efforts, decided to respond proactively to its challengers' demands: its chairman and CEO made a striking public reply to the sweatshop allegations by announcing a number of pioneering labor initiatives which represented the company's recognition of some of its critics' claims and major concessions to their demands.

Although Nike's reconfiguring of its corporate identity encountered major difficulties in the "battle of reports", at the later stage of the crisis it may have brought about substantial organizational changes in a manner that contributed to a long-term settlement of the controversy. As noted, Phase II began with Nike's shift to a marketing strategy with which to promote its CSR commitment aggressively. It also witnessed a turning-point in the debate on the labor issue. After the formation of the AIP, a multiparty voluntary solution model was institutionalized by the government,

which brought a variety of significant institutional constituents to a problem-solving process. This stage was largely a matter of negotiation and the reaching of compromises in order to reach a settlement among different social groups.

The focus of the dispute then shifted to discussion of some key technical problems, such as who should monitor factories. To strengthen its own arguments, each side had to prove that the monitoring methods they were proposing were effective. Monitoring therefore became a major point of conflict in the crossfire between Nike and its challengers. It led to one of the significant compromises made by Phil Knight in 1998, when he announced that NGOs would be included in factory monitoring. After the major blow dealt by the leaking of the Ernst & Young audit report, Nike decided to make its move before the AIP: it accepted the independent monitoring approach demanded by anti-sweatshop groups. Since Nike had been determined to hold the line on its monitoring system, this particular initiative was widely recognized by anti-sweatshop groups as significant CSR progress by the sneaker giant.

It is also worth noting that in correspondence to Nike's identity claim as a labor reform leader, the company's business boundary continued to expand, not only because it accepted responsibilities for contracted workers although it did not have legal obligations to do so, but also because Nike started to integrate itself into the development of local communities with the launch of its six new initiatives. As noted, Nike began this process by providing health care and recreational facilities, and then expanded such schemes to include training, education and small loans for workers (Knight, 1996; 1998). Traditionally, these were public services provided mostly, if not exclusively, by local governmental authorities and at times by non-profit organizations. Nike's proactive and somewhat revolutionary move to take up those roles was indicative of its concession to the activists' demand for the company to go beyond legal and national boundaries. Therefore, those new commitments undertaken by Nike also gained the NGOs' recognition as a step forward. In addition to Nike's landmark initiatives, the AIP code of conduct and the monitoring system announced by the coalition in November 1998 also aided resolution of the crisis, in that it contributed to shielding Nike as well as the clothing industry against imminent media scrutiny.

In other words, with the new initiatives announced in 1998, Nike was turned into a provider of public goods and infrastructure services. The distinction between the role of business organizations and that of governmental bodies became blurred, and the boundaries of business organizations were enlarged to encompass the public sphere. Probably due to institutional isomorphism, this became a trend as other major brands, such as Reebok and Gap, followed suit (United Nations, 2005). These corporate behaviors were largely approved by the U.S. and local governments, as well as by some influential media actors. As a growing number of multinational enterprises engaged in public sector supply, such activities became established as important components of corporations' apparatus to secure legitimacy, and were gradually diffused as norms on socially responsible corporate conduct by large companies operating abroad.

This institutionalization had other implications as well. For instance, some of the roles in civil services normally performed by government agencies were replaced by private, for-profit entities, which further reduced the former's influence in public affairs while increasing corporations' multi-level involvement in international public life and their power to shape it. To some extent, Nike's strategic shift to position itself as leading the industry in labor reform eventually realized itself on a cross-industry level.

Nike's move to reconfigure its identity can be further examined from a sensemaking perspective. As suggested by Albert and Whetten (1985: 292), organizational identity is the organization's "central, distinctive and enduring aspect" that "reveals the identity of the organization". It is also "the object of belonging and commitment", and it provides "a cognitive and emotional foundation on which organizational members build attachments and with which they create meaningful relationships with their organization" (Schultz, 2002). Therefore, organizational members are more likely to take serious action in response to perceived attacks on the organization's identity than to other negative cues. As noted, the Nike management largely typified sweatshop accusations as threats to the Nike brand image, and categorized criticisms of its labor practices as attacks. To respond, Nike management focused on fighting for discursive territories, as featured in Phase I, whereas in the second phase, it simultaneously attempted to emphasize the company's commitments to CSR not only by incorporating

increasingly more CSR elements into its language, but also by more intensively undertaking material reforms, such as creating CSR departments and hiring new staff to address CSR issues.

As mentioned, in narrative terms, the Nike management repeatedly proclaimed itself an industry leader in developing, enforcing and promoting high-standard labor conditions. It was likely that such arrogant self-proclamations were all welcomed by anti-sweatshop groups, because, with these claims, they could hold the company to higher labor standards. Since Nike declared itself as a CSR leader, it was subjected to more scrutiny likely to uncover more shortcomings, so that the company became even more of a target. In part, the promotional tactics gave rise to the serial episodes of report battling and further entrapped the company in the swirl. Indeed, the move to apply the company's most recognized marketing expertise to tackle "the attacks" in itself indicated that the vision of Nike senior management was still largely confined to areas related to brand image and risk management. Only a small number of cues were noticed and extracted from the production end, which was why the shift in strategy initially failed to deliver good results.

Some key facets of Nike's organizational identity and culture may also have contributed to its strategic switch to positioning itself as a CSR leader and using promotional tactics to "get its side of story out". As noted, the company had a tradition of being a winner, a conqueror, and an identity as the leader of the sportswear industry. As can be seen from the company's increasing use of sporting metaphors to describe its foreign labor practices, it seemed that the company applied those concepts in order to deal with the labor issue. It is likely that Nike's management team was not entirely satisfied with the results of the previous reactive strategy, given that the company continued to receive bad press, which was something that Nike could not afford. The fear might be that, as an image-driven company, if Nike's image was contaminated too severely for too long, at some point the company would be struck by a fatal blow. Not surprisingly, the Nike management labeled media campaigns launched by NGOs as attacks, and engagement with its challengers as a contest. But the clock was ticking, so that the team increasingly focused on finding a way to rescue the brand, and with

means that it was most confident about. Consequently, Nike's executives applied the company's core expertise in marketing and advertising to solve the problem.

Moreover, the Nike management continued to maintain that the company was being unfairly targeted, and sought to communicate to its stakeholders that Nike had always been a socially responsible company, and that now that Nike's brand name was under attack, it had to promote the ethical side of its identity, which in fact had always been present. However, as the top management team attempted to convey an impression of consistency in Nike's identity, it focused on advertising major future improvements without admitting past and present problems. Ironically, this created a sense of inconsistency in its counter-narratives over time, which again provided rhetorical resources for anti-sweatshop groups to establish Nike as deceiving and shifty, thereby further challenging the company's social acceptability.

Even after Nike had made major concessions to labor rights advocates in 1998, its language did not shift much from its prior discursive position. For example, before Knight announced Nike's six-point new initiatives, he still sought to counter critics' claims by using a range of discursive tactics such as discrediting challengers, highlighting Nike's economic contributions to third-world countries, emphasizing that the abuse incidents uncovered were exceptions rather than indicators of mass labor rights violations, and admitting the company's inability to monitor its colossal manufacturing networks without any lapses. It seemed that Nike management's attempt to maintain coherence in its corporate language was in line with its efforts to project a consistent image of Nike as a company devoted to CSR commitment. Those efforts never ceased, as most evidenced by the company's endless strings of PR campaigns intended to safeguard its reputation.

One could argue that those PR efforts were merely intended to save "face" (Goffman, 1955). However, as suggested by some scholars, the sensegiving efforts involved in Nike's image building and the related PR engagement were likely to have impacts on how organizational actors framed and interpreted issues and events (Gioia & Chittipeddi, 1991; Weick *et al.*, 2005). Although major discursive shifts seemed to lag

behind, small-step changes in the company's narratives could nevertheless be observed. For instance, the Nike management made increasingly less use of the word "attack" to describe challengers' actions. Also, as Vada Manager said, the company more actively engaged with its critics "*rather than saying that they're wrong*" (Lee, 2000). These developments showed that the company was becoming more accommodating to the activists' points of view. Some activist groups, such as the ICCR, in their turn began to acknowledge the improved working conditions at Nike factories and thereby certified the genuineness of Nike's CSR efforts. However, this did not come easily.

From the beginning of 1997, Nike shifted from alienating anti-sweatshop groups to increasing engagement with different external constituents, and it started to collaborate with some anti-sweatshop groups in an attempt to signal change to its critics and other constituents. This was a somewhat painstaking process for the sneaker giant: not all such engagements produced fruitful results (at least not in immediate terms), and some created further embarrassment for the company. Nevertheless, Nike's moves to bring in multiple stakeholders may well have created significant components of the crisis: they induced different social actors to enact the crisis more proactively, and to extract cues from key elements of the broader social and institutional context. It seems that such moves eventually brought the legitimacy crisis to a more decisive end than otherwise.

In fact, collaboration with activist groups had been expected by the audiences from the moment when Nike became a founding member of the AIP, which institutionalized NGOs as an important group of stakeholders in the company. As an AIP member, the company had an obligation to fulfill certain roles, such as engaging with multi-stakeholders. At the beginning of 1997, Nike had given permission to a concerned individual, Thuyen Nguyen, to inspect its Vietnamese plants. The event proved contrary to the Nike management's expectations because damning results were published by Nguyen without the company's authorization. More damagingly for Nike, his report was picked up by Bob Herbert of *The New York Times*, whose articles generated even more negative publicity. This unpleasant experience may have resulted in the company's greater vigilance when choosing its auditors thereafter. It then opted for highly legitimized authorities, such as Andrew Young's firm and academics from

Dartmouth's Amos Tuck School of Business. Moreover, the Nike management continued to exclude NGOs from factory auditing and monitoring, probably for fear that the challengers would take the opportunity, if made available to them, to launch more media "attacks" to tarnish the brand.

The perception of fear may be linked to Nike senior management's commitment. Phil Knight's main purpose, as he claimed or implied many times, was to protect the company's brand name. He was perhaps at that time much less committed to improving working conditions at Nike's Asian plants, which was why the Ernst & Young report was neglected for almost a year and would have probably remained neglected if it had not been for the leak. Not surprisingly, this commitment led to the conclusion that the best way to achieve the desired results was to convince the company's stakeholders that the problem as claimed by activists did not exist, and that the company was making improvements to working conditions.

Three factors, in addition to the one mentioned above, may have contributed to Nike's decision to send Andrew Young—a person with well-established integrity—to conduct "*an independent investigation*" of its Asian factories in order to counter Thuyen Nguyen's negative findings. Firstly, hiring an auditor to produce a report and then informing the public of the positive results was likely to cost the company less time and resources than making concrete changes in its labor policies. Secondly, Nike, faced with a crisis of legitimacy, became sensitive to "*external criteria of worth*" (Meyer & Rowan, 1991: 51). Its likely expectation was that the employment of external criteria of worth would lead to approval of its legitimacy by the audiences. Thirdly, the company enjoyed too much experience of success with advertising plots and propagandas. Young produced a largely positive report, which seemed compelling enough to convince the public, but only for the time being.

As argued by Weick (1988), spontaneous reactions may solve some of the immediate problems, but they also create new problems, thus prolonging a crisis and making it worse. Soon after the release of Young's report, a series of news stories showing inaccuracies in Young's findings were published. As a result, Young's report was criticized as being based on inadequate investigation and bias, and it thus brought about more exposure of poor working conditions in Nike's Asian factories. New controversies were also generated—suspicions of collusion between Young and Nike

arose, which further undermined the company's credibility. Because of the management's strong commitment, the company was determined to devote large portions of its time and resources to launching face-saving PR campaigns while practical changes lagged behind. This proved damaging for Nike.

As for the NGOs, they examined the audit reports released by Nike and its partners and forcefully faulted them as methodologically flawed, defective and misleading, thereby questioning Nike's motives for hiring those auditors and challenging the company's sincerity. Moreover, the NGOs countered Nike's claims with reports based on their own investigations, and they synchronized the release of their reports with media campaigns, for instance by holding a press conference on the same day as Nike's annual shareholders' meeting. The Nike management probably felt threatened by those media "attacks". In response, it attempted to marginalize some particularly publicity-oriented activist groups such as Global Exchange. As it counter-attacked the credibility of the "fringe" groups, Nike started to engage with NGOs expected to be less aggressive or less harmful, such as the ICCR, a member of the AIP and in association with the General Board of the Methodist Church—one of Nike's shareholders. These moves later proved to facilitate the resolution of the crisis.

On the one hand, the Nike senior management's dialogue with the "moderate" groups served to signify the company's recognition of those groups as important stakeholders, and demonstrated its willingness to engage with NGOs and improve its CSR practices. On the other hand, the company's ongoing collaboration with these groups was likely to secure their approval of its CSR commitments—as it did when the ICCR published a largely positive report on its factory conditions. As a matter of fact, such opportunities to marginalize certain activist groups were created by Nike's participation in the AIP. From the moment when the AIP was founded, the NGOs willing to collaborate with corporations were identified. Some activist groups incompatible with the AIP solution model were excluded. Hence disagreement among these NGOs was bound to emerge, and Nike grasped this opportunity to marginalize those most pressuring groups. Although Nike was eventually induced to make major concessions, by marginalizing those groups the company was more likely to prevent another explosion of negative media coverage on its labor practices.

2. Organizational restructuring

During the crisis, besides Nike's elaboration of the CSR discourse in its language and its self-definition as a labor reform leader, a crucial step taken by the management to repair legitimacy was incorporating CSR constructs into its structure. These new sets of words and structures were all intended to mount an impressive display of the company's CSR commitment and thereby repair its legitimacy. In Phase I, major transformations of the company's appearance included joining the AIP and the creation of the Labor Practices Department—which was integrated into Nike's corporate structure with the declared aim of attending to labor issues at its contracted factories. In the second stage of the crisis, such organizational restructurings derived from the CSR myth became more frequent and extensive. It seemed that the new CSR departments and staff contributed to settling the controversy not only because the change of appearance and the incorporation of CSR institutional myths served to repair legitimacy, but also because the new structures and new members facilitated organizational sensemaking and sensegiving, and therefore the resolution of the crisis.

Apart from association with the AIP, the creation of the Labor Practices Department represented Nike's early attempt to address the accusations internally by changing parts of its business practices regarding its suppliers and implementing an initial organizational restructuring. This was a gesture made by Nike leaders to demonstrate the company's commitment to ethical conduct and compliance with moral rules. When the new department had been set up, and its functions and relations with other departments defined, the company's role structure became more sophisticated, and as a result more shared meanings could be achieved.

Because the department headed by former PR director Dusty Kidd was established to directly address issues related to labor practices in Nike's outsourcing networks, and because it was required to report to its senior management, it can be assumed that more cues in the manufacturing area were noticed, extracted and interpreted. This led to the sharing of more plausible meanings among organizational members. This, in its turn, led to the emergence of a more elaborate role structure (e.g. new departments, new

staff), which enabled the company to cope with evolving diverse social expectations more effectively.

The Nike management made extensive efforts to signal to its stakeholders that it viewed CSR as the key to Nike's business, and that it was seeking to incorporate CSR practices into all aspects of its operations. As the crisis escalated, the management took further steps to reshape the company. Nike not only updated its 1992 code of conduct in March 1997, but also appointed Vada Manager as director of labor relations in July, and created the post of Vice President for Corporate Responsibility at the beginning of 1998. Because Vada Manager had a background in business and media relations, his duty as announced by Nike was to communicate its CSR performance to the company's critics and other constituents. As shown in the case study, he also played an active role in repositioning Nike as a labor reform leader.

It seemed that the PR expert was hired and the post was created mainly for PR purposes, in line with Nike's promotional strategy to "get its side of the story out". Then, after the Nike executives' meeting with the General Board, the management team announced that it would create a new department called Corporate Responsibility Department. Subsequently, after the leaking of the Ernst & Young audit report, the major organizational restructuring was completed: the department was established by integrating departments of Community Affairs, Environmental Action Team and Labor Practices. Maria Eitel, a former PR executive of Microsoft Corporations, was appointed as the new Vice President for Corporate Responsibility. Compared with the previous structural changes, this was a step forward in Nike's incorporation of the institutional myth of CSR. The executive-level position was established to directly address CSR issues, which demonstrated that CSR practices had been integrated into Nike's core function.

The new structures mentioned above were undoubtedly integrated into the company in order to signal to the outside world that it was making long-term efforts to improve its CSR practices. These formal structures reflected and reproduced the CSR myth, which facilitated reconciliation with competing meanings in the negotiation process with its

audiences. Internally, the restructuring was also indicative that constant negative publicity had diverted the Nike executives' focus from the company's core business, which was perhaps why they decided to redefine its core function to include CSR commitments. The shift of management attention to structures led to action in restructuring the organization; and as more structures were created, shared meanings increased internally and, probably, externally.

In other words, it is likely that those new divisions and new staff contributed to helping the company resolve the crisis, because the more elaborate role system reduced the sense of uncertainty and ambiguity among organizational members and enhanced the creation of shared meanings within the company. As organizational actors achieved better understanding of the crisis situation, they gathered more cues from the environment, extracting and enacting them to produce opportunities non-existent before they took action. Improved sensemaking facilitated the management and negotiation of meanings: more shared meanings among organizational actors and audiences were achieved, and order was gradually restored.

For instance, as the controversy unfolded, a split arose within anti-sweatshop groups over the AIP code of conduct and the feasibility of paying workers living wages. This made available to the company a grey discursive terrain on which it could position itself when responding to the challenges posed by the anti-sweatshop movement, and when deciding which elements of the movement to engage with and which to avoid. Nike did not miss this opportunity to prevent the formation of a united front of NGOs and turn it to its advantage. As the crisis developed, Nike selectively engaged with moderate civil rights groups (e.g. ICCR) willing to collaborate with corporations and employed a head-on counter-rhetoric to marginalize those (e.g. Global Exchange) in favour of radical means of monitoring and regulations. The Nike management even adopted the metaphors of "attack" and "target" to describe the actions taken by the small number of radical NGOs that it wanted to marginalize. This development in turn released Nike from constant scrutiny.

For another example, as mentioned, before Vada Manager was appointed as leader of a team dealing with labor relations, Nike only had a small number of employees concerned with the issue—Martha Benson was by then the company's only spokesperson in Asia. Before local consultants joined the company, most of Nike's personnel lacked the experience and cognitive structures to deal with local issues that might contribute to accelerating or alleviating the legitimacy crisis. There were probably significant cues which they failed to notice and act upon. This low level of competence, and the small number and narrow diversity of organizational actors tackling the issue, resulted in a limited outlook which inhibited effective crisis management (Weick, 1988).

As the crisis unfolded, both the quantity and quality of the staff assigned to the task of resolving it were considerably improved. Nike not only increased its number of staff, but also hired important personnel from other companies with varied expertise and backgrounds. Such changes in capacity broadened the company's range of vision. More significant cues were noticed and extracted from the environment, and order was enacted on the environment, thereby increasing the likelihood that the crisis would be brought under control.

Vada Manager provides another example. Initially, the new director was just another senior member of the staff promoting Nike's CSR commitment. However, with his expertise and increased involvement in tackling the crisis, the company's capacity to deal with the latter was improved. Two months after Manager joined the company, he noted that his team was paying special attention to Internet websites identified as playing a central role in spreading half-truths about the company. The director may have made those comments out of PR considerations. However, while the company was monitoring those websites, its attention was also drawn to the local press and activist groups disseminating negative information that was widely shared by international news media. Later, Nike was said to have changed its strategy to building a more dynamic relationship with the local press, and it also hired a local consultant to explain labor issues to local media.

Firstly, Nike's move to engage with the local media more actively helped legitimize its counter-discourse of applying local contexts to evaluate labor conditions. Secondly, it facilitated the company's communication with a wider range of international media

organizations, thereby enhancing its responsiveness to changes in the institutional environment. The latter move may indeed have led Nike out of the crisis and prevented future ones from occurring.

Meanings were more efficiently processed and constructed as a result of the improved role system within the company. Confusions were reduced, breaches were normalized, and order was gradually restored. Knight thus involved himself less and less in awkward situations as he had done at the 1996 shareholders' meeting and in Michael Moore's interview. In his 1998 speech, the Nike CEO was comfortable enough to show a few moments of cynicism, ridiculing himself as "*a corporate crook*" and "*the perfect corporate villain for these times*" (Knight, 1998), and later admitting with ease that "*There are some things you can do as a 100 million USD company that you can't get away with as a 9 billion USD company*" (Lee, 2000).

Conclusion

In Phase II of the crisis, in order to repair legitimacy, Nike stepped up organizational changes in material form: new departments were created, its top management team was reorganized to include new members, greater responsibility for workers was recognized, and the company's business boundary was expanded. Moreover, Nike began to collaborate with some NGOs and critics. One aspect was evident: Nike's progressive incorporation of the institutional myth of CSR. Notably, its response to the crisis at this stage was characterized by intense organizational change driven by an active repositioning of identity. In this process, the Nike management at first used mainly discursive means to establish the new identity, and then moved to combining this means with intensive organizational restructuring in material forms. From a sensemaking perspective, the discursive and material approaches were closely integrated and complemented each other, contributing to resolution of the crisis.

In times of organizational change, ambiguity often arises, so that organizational members are likely to engage in efforts of sensemaking and sensegiving (Gioia &

Chittipeddi, 1991). Because sensemaking is grounded in identity construction, this is especially the case when identity reconfiguration is involved. Throughout the crisis, the Nike management conducted active sensegiving, such as when it engaged in the rhetorical battle with anti-sweatshop groups in Phase I, and when it tried to redefine Nike as a CSR leader in Phase II. It seems that, especially in the second stage, Nike leaders had difficulties in managing meanings as they sought to re-identify the company (for example, Phil Knight lost his temper several times in public and Martha Benson asked "What can I do?"). The difficult situations that arose during the repositioning of identity were in part due to Nike top management's entrenched identity as a market-oriented company and its strong commitment to protecting the company's brand name. However, as Nike increased its engagement with multi-stakeholders, incorporating more and more new structures, organizational sensemaking was improved, which in turn helped Nike out of the crisis.

Chapter 8 Discussion

Based on the theoretical framework introduced earlier, this chapter discusses the key findings of the case study, which are summarized in Figure 9. This discussion combines the two phases to give an overall picture of how a crisis of legitimacy arises and unfolds. The chapter is divided into three main sections which respectively address each of the following research questions: How do legitimacy crises unfold? How do relevant organizational actors make sense of, and respond to, crises of legitimacy? How do societal and institutional elements affect organizational sensemaking during crises of legitimacy?

8.1 How do legitimacy crises unfold?

This question promotes the following three observations based on the case study. First, the nature of the triggering event and the way it may affect the unfolding of the crisis need to be re-examined. The triggering event can be conceptualized as a point when a legitimacy crisis erupts, instead of the “starting point” of the crisis. As illustrated in the case study, the legitimacy crisis took root long before the triggering event, and the tone of the crisis had been set years before the onset of the crisis. Second, the unfolding pattern of a legitimacy crisis is characterized by a sequence beginning with a potential breach of the social contract which is followed by a controversy and reconciliation. Third, the unfolding pattern of a legitimacy crisis can also be characterized by a shift in the intensity of the discursive and material moves made by the focal organization: organizational actors may at first intensively deploy rhetorical strategies combined with some passive material moves. As the crisis unfolds, they are likely to increase the use of material approaches, such as proactively changing organizational structures and procedures.

8.1.1 “Triggering event” as the accelerator of the manifestation of a potential crisis rather than as the “starting point” of a crisis

The case study suggests that the concept of “triggering event” should be more cautiously applied to legitimacy crises. According to Weick (1988), a triggering event punctuates the normal state and marks the beginning of a crisis, and it is a place where vital interventions can be made. Moreover, Weick (1988) argues that the initial response to the crisis not only sets the tone for the rest of the crisis, but also determines the path of the unfolding crisis. This conceptualization of triggering event has been established on the definition of crises as exceptional situations and turning points. However, this case study has shown that, in the context of a legitimacy crisis, the tone and the track of the unfolding crisis may be set long before the crisis arises.

In the case examined, the legitimacy crisis arose because Nike’s labor practices were widely perceived by the audiences as no longer conforming to social expectations. It appears that the crisis was largely triggered by the Kathie Lee Gifford episode, which gave rise to intense media reporting on the sweatshop issue which especially targeted Nike. However, before the triggering event, there was already a visible, progressive shift in social expectations. This is illustrated by the fact that, back in the 1980s, the “sweatshop” issue had already been raised by activist communities, and media attention to this issue increased throughout the pre-crisis stage. However, Nike was not singled out until the triggering event, and there was no widespread negative perception about Nike and its labor practices. Perhaps for the shoe giant, the only exception was a mainstream newspaper report by Nena Baker in 1992, which made it urgent for Phil Knight to announce acceptance of responsibility for Nike’s factory workers overseas. However, this did not cause major disruptions to Nike’s normal business operations. Therefore, the incidents in 1992 did not constitute crisis situations for Nike. In a way, introduction of the code of conduct might have prevented or postponed a crisis.

In other words, Nike’s manufacturing practices had not been crucially challenged (in terms of number, variety and influence of the social actors) until the Kathie Lee Gifford scandal. The main reasons why this episode triggered the crisis may be the active involvement of the mass media, and the visibility and success of Nike. The episode in which a celebrity was accused of exploiting child labor already had an eye-

catching effect. When Gifford mentioned Michael Jordan as another famous person involved in such scandals, the media shifted their focus to Nike. Joel Joseph, chairman of the Made in the USA Foundation, added fuel to the fire when he seized the opportunity to use national media outlets to further publicize the sweatshop accusation against Nike. The effect of media attention was thus amplified (King, 2008), and Nike became more of a target for the anti-sweatshop movement.

From a social issue life-cycle perspective (Downs, 1972; Ackerman, 1975; Bigelow & Fahey, 1993), most social issues evolve from a period in which the issue is unthought-of or relatively insignificant, to a period of increased social awareness, heightened expectations for action and potential conflict, then to a period when new standards or solutions concerning the issue become ingrained in the normal operation of organizations and institutionalized within society. In this case, from the late 1980s until the triggering event, social awareness of the sweatshop issue had been on the rise, growing from being unnoticed to attracting increasingly more public attention. Social expectations slowly evolved, requiring apparel companies to take responsibility for overseas factory workers. Over time, with the vital endorsement of some powerful media and governmental agencies, anti-sweatshop groups successfully constructed the prevailing labor practices of U.S. clothing manufacturers as “sweatshop” operations—a way to exploit vulnerable people that was socially unacceptable. Before the Kathie Lee Gifford incident, anti-sweatshop groups, together with some media and governmental actors, continued to raise such expectations.

In other words, the crisis was triggered at the stage when there were ever-increasing social expectations for action and when the mismatch between Nike’s performance and the evolving social expectations became increasingly marked. The Kathie Lee Gifford incident suddenly made this mismatch publicly visible and led to the outbreak of the crisis. The incident was thus the triggering event of the crisis; it can be said that the crisis was “triggered” by the incident. However, it is perhaps not apposite to define it as the “starting point” of the crisis, because the seed had been planted during the slow, but observable, mismatching process that preceded the crisis. The outbreak of the Nike crisis only represented a point in the mismatching process, which was accelerated abruptly and perhaps accidentally by the so-called triggering event.

Accordingly, the path of the unfolding of the crisis had been decided long before the

triggering event, and it is likely that there were many junctures during the pre-crisis stage when effective intervention could have been implemented. During the period from the 1980s to 1992, the issue was first raised by, and discussed within, activist communities and NGOs, and there was little hard evidence. This represents the first period of the social issue life cycle, or the “latent” stage (Zadek, 2004: 128). With hindsight, there were more things that could have been done at this stage, but Nike only reacted passively and reactively to the criticisms of its labor practices: denying the existence of the problem, and denying responsibility for overseas workers.

The year 1992 marked a shift from the “latent” to the “emerging” stage of the sweatshop issue; a shift which was characterized by political and media awareness of the issue and by an emerging but weakly established body of research (Zadek, 2004: 128). Also, as said, there were potential conflicts in this period. Around 1992, there was already some media coverage of sweatshop conditions at subcontracted factories, and a small number of influential investigations were carried out by activists and media reporters. Then, prompted by the publication of Nena Baker’s report, Nike made concessions and extended its effort to intervene: it not only accepted responsibility, it also launched its first code of conduct. There were potential damaging conflicts at this stage. In other words, the publication of Nena Baker’s report could have been a triggering event if Nike had not taken the further step of introducing a code of conduct. This seems to have been an effective measure taken by Nike to prevent escalation of the incident.

Nonetheless, social expectations were still evolving. As shown by Figures 5 and 6, the sweatshop accusations against the U.S. clothing industry had in fact incrementally gained media attention since 1992, although there was no widespread bad press directed at Nike until 1996. Investigative reports on the issue appeared in mainstream media outlets from time to time; anti-sweatshop groups became more organized over the years; and governmental agencies such as the U.S. Labor Department took action to improve workplace standards in subcontracted factories. In other words, media and political awareness continued to grow, and so did social expectations for large corporations to reform their foreign labor practices. This was a process of social legitimacy erosion—the existing labor practices became unacceptable to society. The above were all observable features signaling this shift in social expectations. Over those years, as the issue evolved, a broader segment of audiences became aware of it.

Accordingly, Nike was more likely to receive negative feedback from its key stakeholders and to be hit by a legitimacy crisis.

With hindsight, if the Nike management had detected the trend and undertaken ongoing examination of its operations and the environment, it might have stepped up its efforts to manage the risk before the problem slipped out of control under the effect of the triggering event. However, the Nike management sought to maintain the *status quo* and did not take action to match its performance with these increased social expectations of higher labor standards. This inaction intensified the mismatch and heightened the company's vulnerability to challenges against its legitimacy. When the Kathie Lee Gifford scandal, followed by Joel Joseph's accusation, suddenly directed close media attention to Nike's labor practices, the company found itself facing widespread criticisms which caused major disruptions to its normal operations. In other words, the Kathie Lee Gifford episode, or the so-called triggering event, only provided an opportunity for the mismatch to be exposed and for the vulnerability to be exploited. In this sense, the event did not trigger the crisis; rather, it accelerated the manifestation of a potential crisis rooted in the mismatch.

As suggested by Weick (1988), the initial response to the triggering event may largely determine the track of the unfolding crisis. However, the initial responsive actions available to the organization may be constrained by prior actions and decisions. As shown in the case study, an organization's initial response is unlikely to stray too far from its earlier responses to the issue. This is because the relatively stable core value and culture of the organization and its leaders' commitment, which have affected the organization's past actions, are also likely to further affect its initial response to the crisis, although the extent to which they do so may vary depending on the nature of the triggering event.

Moreover, actions taken prior to the triggering event may also have a direct impact on the crisis and become significant components of the crisis. For instance, Nike's acceptance of responsibility prepared the ground for the subsequent development of the controversy. Knight's announcement that Nike recognized its responsibility for foreign workers represented an institutional repositioning initiated by the company. When the Nike management decided to accept responsibility, it not only made a concession to its challengers, but also contributed to reinforcing the anti-sweatshop

activists' framing of the issue (Goffman, 1974). The acceptance of responsibility and the introduction of the code of conduct institutionalized a new social relationship among Nike, its contracted factories, and the workers.

This repositioning implicitly redefined the nature of the factory workers' involvement in Nike's business operation, although not in legal terms; and Nike's business boundary was expanded as a result. Once Nike had admitted responsibility, criticisms by anti-sweatshop groups of working conditions at Nike's subcontracted factories became relevant to its performance, which was expected to be open to evaluation by stakeholders. That is to say, the crisis was triggered and driven by the circumstance that Nike had accepted responsibility for workers. As a result, during the main crisis, the debate shifted from whether Nike should guarantee the rights of the foreign workers employed by its contractors to how far it would have to go to ensure workers' rights in terms of wage levels, working hours and factory conditions. Viewed in this light, the analysis of the unfolding of a crisis should not be disconnected from those early developments and their implications.

To sum up, a legitimacy crisis may be caused by a contestable social issue that becomes mature. It seems that a legitimacy crisis is more likely to arise during the "emerging" stage of the societal issue than during the preceding "latent" stage. The triggering event makes the crisis visible, but the crisis is likely to take root and start to develop a long time before the event. It is therefore probably more constructive to treat legitimacy crises as evolutionary processes instead of exceptional situations, "decisive moments", or "crucial times" (Turner, 1976; Shaluf *et al.*, 2003). As illustrated in the case study, the triggering event is sometimes hardly the starting point of the crisis. A legitimacy crisis may involve a broader process of social legitimacy erosion that creates the potential for a mismatch between social expectations and corporate behaviors. The triggering event only represents the point in this process when the crisis suddenly manifests itself as the mismatch is exposed.

Initially, the social issue may be vague, ill-structured or difficult to define (Turner, 1976, Zadek, 2004). However, as said, although a social issue may evolve slowly, there are always some societal elements visible throughout the trend. If the organization fails to measure and fill the gap between its behaviors and the evolving social expectations, a crisis may arise. Moreover, the organization's initial response to the "triggering

event”, and much of the subsequent development of the crisis, are largely affected by its past actions and decisions. This implies that effective management of a legitimacy crisis largely resides in detecting and managing potential disruptions.

8.1.2 The unfolding pattern of a legitimacy crisis: breach, controversy, reconciliation

A legitimacy crisis begins with a potential breach of the social contract followed by an unfolding controversy; and it concludes with some sort of reconciliation (See Figure 9). A potential breach of the social contract means that the organization’s behaviors are no longer perceived by its audiences as compliant with social values and norms. It may also imply a breach of the evolving social expectations. Such a breach may trigger a legitimacy crisis. As illustrated in the case study, during the pre-crisis stage, the sweatshop issue was first raised by the activist communities. It initially attracted little attention from Nike and the clothing industry. However, there emerged a controversy surrounding the outsourcing practices of US-based corporations as anti-sweatshop activists sought to establish these as a social problem.

During the pre-crisis period, the sweatshop issue increasingly gained public awareness, and social expectations of higher labor standards were on the rise. Although the Nike management was pressured in 1992 to adapt to the change in social expectations by adjusting its position—from avoiding to accepting responsibility—and incorporated some formal structures (the code of conduct), the crisis still arose a few years thereafter. This was because Nike failed to address the growing social expectations. The problem then became that the prior measures taken were not sufficient to fill the gap between Nike’s behaviors and social expectations as the issue evolved. In other words, social expectations were breached. The triggering event attached a further significance to the sweatshop controversy which gave rise to the crisis of legitimacy.

The triggering event of the crisis came when the breach was recognized to such a large extent that it caused major disruptions to the company’s existing order and normal operations, because these disruptions constituted crisis situations. For instance, news reporters, NGOs, and other stakeholders started to engage in various activities to

condemn the company's labor practices. Moreover, the Nike management was pressured to hold a series of press conferences and issue statements in response to accusations. This was the point when Nike's legitimacy was seriously threatened and when the legitimacy crisis intensified. The crisis revolved around the sweatshop controversy, which required Nike to address relevant issues in an attempt to reestablish acceptability to its audiences.

During a controversy there are likely to be a number of sub-conflicts and settlements. The controversy involves ongoing negotiation which results in convergences and/or divergences among understandings of relevant issues which in turn drive the unfolding of the controversy. This is illustrated by the case study, in that, from mid-1996, when the crisis erupted, to mid-1998, when the sweatshop controversy came to a major closure, there were confrontations of many different types between Nike and its critics, such as NGOs, local workers and media professionals. The first stage of the crisis was characterized by a rhetorical contest between Nike's traditional economic arguments and its critics' humanitarian morality-based ones. The first part of Phase II also saw the "battle of the reports".

There were also settlements, however, such as when Nike joined the AIP, which more or less settled the controversy for the time being. These conflicts and settlements were outcomes of the ongoing negotiation between Nike and a variety of stakeholders. Settlements may lead to further conflicts which lead to another round of negotiation. There were convergences of understandings at times, such as when Knight announced Nike's acceptance of responsibility for its overseas workers and when the Nike management expressed its commitment to CSR practices. There were also divergences, such as when Nike and its critics disagreed on wage levels and monitoring methods and when anti-sweatshop groups differed in their opinions on whether to cooperate with corporations.

The controversy may be amplified or diminished throughout a crisis. It may come to a temporary end if reconciliation is achieved among the different parties. More often than not, the reconciliation takes material forms: new standards and solutions are

incorporated into the operation of the focal organization, or even institutionalized within society. In the case study, the controversy was settled twice. The first time was towards the end of 1996 after the formation of the AIP, when the U.S. government provided a platform for reconciliation between anti-sweatshop groups and Nike and some other major companies. It offered an opportunity for the collective shaping of the sweatshop issue.

The controversy was temporarily settled on the basis of an emerging CSR discourse that mediated between corporations' traditional economic rationality and anti-sweatshop groups' humanitarian values. The solution, which loosely reflected the basic principles subsumed under the heading of "CSR", was institutionalized through the establishment of the AIP. The second reconciliation was achieved in mid-1998 when Phil Knight announced six groundbreaking labor initiatives which indicated major concessions by Nike. These labor reforms were designed to meet new demands raised by anti-sweatshop groups. The reconciliation was materialized as these new policies—the practical tools and instruments—that reflected some underlying and previously established assumptions of CSR were incorporated into Nike's organizational structure.

Despite reconciliation, a controversy may be amplified all over again, and another crisis may arise if social expectations are further breached. The previous settlement may create new problems that exacerbate the mismatch between the organization's behaviors and social expectations. As illustrated in the case study, although the formation of the AIP settled the controversy for the time being, the discursive divergence between Nike and its critics and many of the company's internal deficiencies were left largely unresolved and neglected. This contributed to widening the gap between Nike's publicly perceived behaviors and social expectations, which gave rise to a series of sub-crises in the second phase. For instance, the creation of the AIP served to define the sweatshop problem as an industry-wide issue. This diluted Nike's responsibility, and in a way confirmed Nike's version of reality in which the company was being unfairly targeted. This may have led to the company's persistent denial in Phase II. As will be discussed in the next subsection, there are two main approaches—discursive and material repair—that can be adopted by organizations to

cope with a legitimacy crisis; and organizations may use different combinations of these two approaches at different stages of a crisis.

8.1.3 The pattern of discursive and material moves in the unfolding of a legitimacy crisis

The case study suggests that, although an organization may take some material steps at an early stage, it is at first likely to focus on making a discursive response. As the crisis unfolds, the intensity of rhetorical interactions may decrease, with a concomitant increase in the adoption of material reforms (See Figure 9). This is perhaps because crises of legitimacy are discursively constructed, so that the initial challenges to an organization's legitimacy are likely to be rhetorical and paradigmatic. Although the discursive and material strategies are likely to complement each other throughout the process, an organization may at first use mainly discursive tools to counter rhetorical challenges and reactively undertake some less organized forms of organizational restructuring. Guided by the underlying assumptions and norms established in this period, the organization may later proactively intensify material changes likely to be more systematic and structured. Towards the end of the crisis, the discursive contest dwindles away, which means that reconciliation has been achieved and the controversy has been settled.

As shown in the case study, the Nike crisis can be divided into two phases according to the intensity of the discursive and material moves. In Phase I, Nike actively engaged in a rhetorical battle, in the sense that the company competed with its critics on discursive terrain. More specifically, Nike's top management used rhetoric and narrative accounts to defy its opponents' framing of the problem and defend the existing practices. Although Nike also undertook some material actions during this period, such as joining the AIP and setting up the Labor Practices Department, the intensity of material changes at this stage was much less significant than in Phase II (See Tables 4-6 and Figure 9). Hence Phase I was primarily characterized by intense rhetorical interaction which paved the way for further material changes in Phase II. The transition from the first to the second phase was marked by Nike's strategic shift from a rhetoric-based

strategy to proactive identity repositioning and organizational restructuring tactics: for instance, the adoption of CSR structures, procedures, and personnel.⁷

As noted, an organization’s initial focus on rhetorical strategies may follow from its pre-crisis approach to the focal issue. As illustrated by the case study, in 1992 Nike began to acknowledge its responsibility for labor conditions in foreign subcontracted factories. But it denied that there was a “sweatshop” problem in its factories; and it also challenged the credibility of its critics. When the crisis hit the company in 1996, Nike’s top management team took the same position. It denied the problem in two respects: firstly, it denied any major sub-standard aspects of labor conditions in its manufacturing locations; secondly, it denied that the existing standards required of its contractors (as specified in the Nike code of conduct) were inadequate, contrary to the claims of many of its critics. Accordingly, Nike’s discursive responses were mainly centered on these two aspects.

Table 4. Pre-crisis Stage (1980s to mid-1996)	
Discursive Moves	Material Moves
<ul style="list-style-type: none"> Deny knowledge and responsibility <p><i>“They are our subcontractors... It’s not within our scope to investigate (allegations of labor violations)... I don’t know that I need to know (about the labor disturbances).”</i></p>	
<ul style="list-style-type: none"> Accept responsibility <p><i>“We do accept responsibility for the working conditions in factories we contract with to make our products.”</i></p> <p><i>“We carried that sense of responsibility with us ... [we] tried to upgrade...the quality of life...of employees.”</i></p> <ul style="list-style-type: none"> Attack critics <p><i>“The Oregonian, by assigning a reporter to take an in-depth look at Nike, had a great opportunity to educate the public about how a successful U.S. marketing company really works. Instead, the story not only completely lacked context, it also was an example of gross sensationalism for which we all are the poorer.”</i></p>	<ul style="list-style-type: none"> Launch Code of Conduct (1992) Hire Ernst & Young (1994)

⁷ This process is probably more subtle and complex (see Humphreys & Brown, 2008). However, this dissertation does not intend to explore this aspect further without the requisite data.

Table 5. Phase I (from mid-1996 to end of 1996)	
Discursive Moves	Material Moves
<ul style="list-style-type: none"> Deny the existence of major problems but admit isolated incidents <p><i>"...Again we endeavor to have impeccable oversight but unfortunately we don't live in a perfect world and all we can do is aggressively monitor the situation."</i></p> <ul style="list-style-type: none"> Attack critics <p><i>"One has to question the credibility of an individual whose organization (Made in the USA Foundation) is largely financed by labor unions opposed to free trade with developing nations."</i></p> <p><i>"...Unfortunately, our previous experience with the Rainbow Coalition (led by Jackson) leads us to believe that your visit would lack that unbiased approach. It is not our desire to open our contract factories merely to provide a bully pulpit to someone who fails to provide a neutral viewpoint regarding the issues."</i></p> <ul style="list-style-type: none"> Use hybrid CSR rhetoric <p><i>"Nike has been concerned with developing safe and healthy work environments wherever it has worked with contractors in emerging market societies"</i></p> <p><i>"Underdeveloped countries must trade or see deeper declines in living standards. History shows that the best way out of poverty for such countries is through exports of light manufactured goods that provide the base for more skilled production...In Indonesia, thanks to Nike and other multinational corporations, real wages have risen 55 percent since 1990."</i></p>	

<ul style="list-style-type: none"> • Accept basic assumptions and norms set by the AIP: human dignity, workers' rights, human rights, multiparty collaboration, and corporate self-regulation. <p><i>"Our nation has always stood for human dignity and the fundamental rights of working people... Human and labor rights are not brand names. They are the most basic products of our democracy."</i> (by President Bill Clinton at the formation of AIP)</p> <p><i>"...they [members of the AIP] will take additional steps to ensure that the products they [companies] make and sell are manufactured under decent and humane working conditions. Second, they will develop options to inform consumers that the products that they buy are not produced under those exploitative conditions."</i></p> <ul style="list-style-type: none"> • Express willingness to collaborate with critics <p><i>"We are always willing to engage in constructive dialogue and hope this effort can lead to improved labor conditions around the world."</i></p> <ul style="list-style-type: none"> • Express CSR commitments <p><i>"NIKE does not run from problems. To the contrary, we are believers in constructive engagement. When problems do occur, we deal with them quickly and effectively. If abusive practices continue, we do not hesitate to terminate the business relationship."</i></p> <p><i>"The creation of a dedicated Labor Practices Department is a further step in NIKE's ongoing commitment to have products made only in the best facilities with the best working conditions in the sports and fitness industry."</i></p>	<ul style="list-style-type: none"> • Join the AIP. • Establishes Labor Practices Department
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Table 6. Phase II (from 1997 to mid-1998)	
Discursive Moves	Material Moves
<ul style="list-style-type: none"> • Reposition the company as a CSR leader and express CSR commitment <p><i>"...we are miles ahead in terms of establishing standards and monitoring them compared to most of the other importers...NIKE likes being held to a higher standard."</i></p> <p><i>"Every year we continue to raise the bar...First, by having our own production people in the factories on a daily basis, then with Ernst & Young audits, and now with a group of Nike employees whose sole focus will be to help make things better for workers... In labor practices as in sport, we at Nike believe There Is No Finish Line".</i></p> <p><i>"It is my sincere belief that NIKE is doing a good job in the application of its Code of Conduct. But NIKE can and should do better."(Nike advertisement quoting Andrew Young)</i></p>	<ul style="list-style-type: none"> • Use external auditors other than Ernst & Young: Thuyen Nguyen, GoodWorks International; Amos Tuck School of Business • Update Code of Conduct • Appoint Vada Manager as director of Labor Relations
<ul style="list-style-type: none"> • Establish positive link between CSR and profitability <p><i>"Good shoes are made in good factories; good factories basically have good labor relations."</i></p> <ul style="list-style-type: none"> • Make CSR a priority <p><i>"Phil made clear from the day I started that this is a huge priority...We don't believe that corporate responsibility is a separate function that can be put into a box. It has to be integrated into everything we do at the company. "</i></p>	<ul style="list-style-type: none"> • End contracts with four subcontractors • Create Corporate Responsibility Department and the post of Vice President for Corporate Responsibility
<ul style="list-style-type: none"> • Highlight moral compliance with CSR <p><i>"It is not a legal partnership; it is an emotional partnership between our factories and us. And it does involve the way we think about the business, including the responsibility that we believe we have for the men and women who manufacture our products—we see them as our employees and our responsibility."</i></p>	<ul style="list-style-type: none"> • Announce six new labor initiatives

At this early stage of the crisis, the Nike management tended to adopt an unreceptive, unsympathetic discursive position against its critics, calling them sensationalists and idealists. Major episodes in this phase show that Nike's top management team mainly used rhetorical strategies and other discursive means to deny any involvement by the company in socially unacceptable practices and tried to alienate and avoid contact with activist groups. At first, Nike mainly drew on the neoclassical economic paradigm to interpret the reality, whereas its critics continued to use humanitarian arguments and various myth-based metaphors to challenge the legitimacy of Nike's existing labor practices. Nike's reactions—rejecting its critics—gave rise to more confrontational events and further exacerbated the hostile atmosphere between the two sides. Those contentious events drew media attention, and thereby intensified media and public scrutiny and escalated the crisis.

Under increased pressure, Nike later used more accommodating and sympathetic accounts to respond to its critics as it integrated the hybrid rhetoric of CSR into its language. There emerged a certain level of discursive convergence. Towards the end of Phase I, the U.S. government, by creating the AIP, offered an opportunity for the discursive convergence to be further developed and institutionalized. Nike seized this opportunity to settle the controversy for the time being. By becoming a member of the AIP, Nike incorporated some CSR constructs into its structure and, accordingly, shifted from attacking its critics to accepting collaboration with some of them.

In other words, the first stage was largely paradigmatic and metaphoric, although, during Phase I, Nike did take some material steps to respond to legitimacy challenges, such as joining the AIP and launching a new department—the Labor Practices Department. These steps were largely reactive and less well planned. The second phase saw more attempts by the focal organization to undertake organizational restructurings more attuned to the CSR myth. As said, the end of the first phase was marked by Nike's strategic shift from a reactive to a proactive approach. Nike's top management team started to deploy a marketing strategy derived from its "winning" organizational culture in order to respond to accusations. Notably, repositioning the company as a CSR leader was also part of the strategy.

In Phase II, some discursive struggles took place during the process of identity repositioning that revolved around the “battle of reports”. A major interconnection between the two stages was that, during Phase II, Nike drew on some basic CSR assumptions established in Phase I for the purpose of proactively intensifying organizational changes of diverse material forms (See Tables 5 & 6). For instance, Nike began to use different external monitors (although some of them probably served PR purposes). It also updated its code of conduct and created a new post: that of director of Labor Relations. It then established the Corporate Responsibility Department and created an executive-level position for the department: the Vice President for Corporate Responsibility. Discursive means were used to give meanings to these material moves and to highlight the genuineness of Nike’s CSR efforts. These discursive and material approaches will be further discussed from a sensemaking perspective in later subsections.

To summarize, the unfolding of the legitimacy crisis featured in this case study consisted of two phases. Initially, although limited, reactive material changes were made, and Nike mainly used discursive tools to engage actively in a rhetorical battle with its critics. As the outcomes of the battle, some new assumptions and norms emerged under the name of CSR. Nike’s top management then stepped up its efforts to undertake proactive organizational restructurings, the purpose being to demonstrate its renewed conformity to social expectations. The divide between Phase I and II was marked by an increase in the intensity of discursive shifts and material changes. The unfolding process of a legitimacy crisis can be better understood from the micro perspective of sensemaking. As will be shown in the next section, this perspective also yields more insights into why discursive moves precede material ones.

8.2 How do relevant organizational actors make sense of, and respond to, crises of legitimacy?

This question leads to consideration of the crisis from a sensemaking perspective. I present the following three points in relation to this question. Firstly, the unfolding of a legitimacy crisis can be characterized as a sensemaking process which begins with

disruptions in the social order, followed by ongoing negotiation on that order and its repair. Secondly, a legitimacy crisis is characterized by an overflow of meanings that must be processed through adjusted and more elaborate interpretation frameworks. Thirdly, the sensemaking perspective provides more insights into the two main approaches adopted by organizations to resolve legitimacy crises: discursive and material repair.

8.2.1 The unfolding of a legitimacy crisis as a cycle of disruption and repair

A legitimacy crisis is triggered by major disruptions to the social order, and order is negotiated and re-negotiated until it is repaired (See Figure 9). As noted in the previous section, a crisis of legitimacy arises when social expectations are breached. Concerned social actors give negative feedback to the organization in different ways. When the organization receives unexpected, significant negative feedback, its top management is likely to perceive threats to the organization's identity and legitimacy. The negative feedback and evolving social expectations cause disruptions to internal members' understanding of the organization and social reality, and they affect broader organizational routines. This triggers organizational sensemaking and sensegiving intended to re-establish order. These activities in their turn enact the environment. Social order is negotiated and renegotiated in this process, and through the ongoing negotiation, the problematic relationship between the focal organization and external audiences is mediated, and the social order is repaired (Strauss, 1978).

As shown in the case study, the crisis of legitimacy faced by Nike was triggered by a recognized breach of the social contract: Nike was widely perceived by society as involved in the exploitation of vulnerable people and therefore as departing from social expectations. This mismatch was exposed through the Kathie Lee Gifford episode which aroused media and public scrutiny. When Joel Joseph singled out Nike, the company was subjected to widespread criticisms of its existing labor practices which caused major disruptions to the social order within which Nike operated. The legitimacy crisis was triggered as a result. Such feedbacks challenged relevant organizational actors' understandings of what the company stood for and what it did. Organizational sensemaking was activated to normalize the breach of understandings.

Through ongoing sensemaking and the negotiation of meanings, shared understandings were progressively achieved among different parties, and the disrupted order was repaired.

As illustrated in Figure 9, the unfolding of a crisis is largely characterized by an ongoing process of sensemaking by relevant organizational actors and stakeholders. An organization may respond to a legitimacy crisis in different ways as the crisis unfolds, and the way in which an organization's decision-makers make sense of the crisis and relevant issues may also evolve over time. At different stages of the controversy, organizational actors and external audiences may draw on different frameworks to describe and understand relevant issues and events, and their interpretations drive responsive actions. This case study has shown that, when social actors seek to disclose or close the gap of understandings, and when they seek to challenge or maintain the legitimacy of an organization or its practices, they are likely to draw on pre-existing belief and meaning systems provided by rational myths to construct their interpretations. This is because such myths provide rationalized justifications for their arguments and actions (Meyer & Rowan, 1991). In this process, different meanings are created and must be processed and negotiated. New belief systems—new myths—may arise to mediate conflicting meanings.

The above observations are all exemplified in the case study. At the beginning of the sweatshop controversy, Nike and anti-sweatshop activists offered highly conflicting interpretations of the existing labor practices. To challenge Nike's labor practices, anti-sweatshop activists relied largely on a morality-based rhetoric to advocate their point of view, condemning the large corporation's foreign labor practices from a humanitarian perspective. These critics based their interpretations of the issue on frames of reference that were most familiar and acceptable to society and highlighted some of the most fundamental social value and norms. For instance, they framed workers' pay levels as a matter of social injustice.

Anti-sweatshop activists also tended to use rhetoric that invoked typifications and associations of Nike as an exploiter and bully. In this way, Nike was portrayed as a company that allowed and even promoted social injustice and inequality, behavior which was widely recognized as a serious violation of social norms. This represented a concrete breach of the social contract. Later, at the pre-crisis stage, there emerged a

certain degree of shared understanding between the two parties, and during the crisis period, attempts by relevant organizational actors and stakeholders to bridge the gap of understandings became most conspicuous.

Soon after the triggering event, Nike's practices were harshly criticized by a variety of social actors. The sweatshop controversy intensified and gave rise to disruptions to the *status quo*. As the hands-off outsourcing practice was established as socially unacceptable, and as Nike was perceived by society as continuing to engage in such practices, the social contract was breached. This turned into a crisis situation constituting a threat to the company's legitimacy. The existing order was disrupted, and this triggered ongoing organizational sensemaking intended to reduce uncertainty and ambiguity.

At the pre-crisis stage, Nike leaders drew on neoclassical economic rationality to counter the activists' humanitarian perspective highlighting human rights. That is, initially, the two parties provided distanced, more or less conflicting, framings of the issue. The development of the controversy was characterized by a process in which there emerged an overlap between the framings of the issue adopted by the focal organization and its critics. For instance, the Nike management shifted from using self-interest economic arguments to showing interest in its overseas workers' lives as it extended its use of economic theories to interpret Nike's relationship with local communities.

The legitimacy crisis represented the period of time in which the controversy attracted most interest in the public forum and, therefore, when the issue was most heatedly debated. As shown in the case study, as the crisis unfolded, interpretations of the sweatshop issue became increasingly shared among Nike, the U.S. government, activist communities, consumers and media agencies. Notably, in this case, a CSR discourse was leveraged by the company to mediate conflicting meanings derived from a morality-based, humanitarian framework and the neoclassical economic paradigm centered on profit maximization and market competition. The CSR discourse, which later became a myth, merged the underlying assumptions of the two set belief systems together, and it glossed over the ambiguity and complexity inherent in this hybridization of meanings. The discourse served as a launch pad for many of Nike's later moves to change its personnel, practices and structures.

However, an increasingly shared interpretation of relevant issues does not necessarily mean that crisis situations are under control. As shown in the case study, although more and more shared interpretations of the issue were achieved over time, and some of them were even institutionalized at some point (e.g. the formation of the AIP), the crisis intensified from time to time regardless of the level of shared understandings of the issue achieved. In fact, they may even have provide a platform for further amplification of the crisis, as exemplified in Phase II when Nike used self-selected external inspectors to promote itself as a CSR leader in the industry. As will be further discussed, the case study suggests that more shared interpretations of the issue indicate a stronger demand for the focal organization to embark on more systematic and consistent discursive and material forms of organizational change so as to settle the legitimacy crisis.

8.2.2 The interplay between frameworks and meanings during a crisis of legitimacy

A major finding in this respect is that, during a crisis of legitimacy, organizational actors are likely to experience an overflow of meanings—rather than a loss of meanings—which they cannot process with the existing interpretation framework. Weick (1993) uses frameworks and meanings to understand sensemaking during organizational crises. He suggests that organizational members may experience a sudden loss of meaning during crises. Things are simply inconceivable and unthinkable; that is, the collapse of sensemaking. This theory is based on an investigation of the Mann Gulch Disaster—an extremely rare, life-threatening crisis in which intra-organizational communication was the focus. However, in the case of a legitimacy crisis triggered by a controversy which is unlikely to affect survival prospects of the organization, but involves intense inter-organizational interactions, it seems that organizational actors are more likely to be overwhelmed by an overflow of meanings than by a loss of meaning.

In other words, cosmology episodes in legitimacy crises are likely to be caused by an “overload” of meanings rather than by a loss of meanings. As many scholars observe, most of today’s organizations, especially multinational corporations, face a fragmented institutional environment filled with a multitude of social groups with disparate values

and contesting beliefs about the appropriateness of organizational behaviors (Meyer *et al.*, 1987; Kostova & Zaheer, 1999; Hoffman, 1999). In the Nike story, the management team faced accusations from a variety of challengers. For instance, some of them were anti-sweatshop activists, some were factory workers, some were journalists, and some represented governmental agencies and consumers. They had diverse expectations, made disparate demands, and raised different kinds of accusations—some were general and others involved specific abuse cases. Their actions generated a large volume of meanings that organizational actors found hard to absorb. It was less likely that leaders of Nike suffered from a loss of meaning. Instead, it seemed that they were unable to process an overwhelming flux of meanings through their long-established interpretation frameworks, especially because a large amount of these were derived from a competing belief system. Therefore, in crisis situations, these taken-for-granted frameworks are subject to change.

Before the crisis, the interpretation frameworks of Nike's top management team remained stable even after it had admitted responsibility for the company's overseas workers. As the crisis hit and escalated, these frameworks became vulnerable. To reduce confusion and restore order, as the Nike leaders engaged in sensemaking, they needed to channel floods of meanings into categories that were familiar and acceptable to both internal and external participants. The evolution of Nike's responses to the crisis was characterized by the ongoing testing of the categorization's acceptability to audiences. For instance, Nike's top management team first categorized the company as a victim of unfair media targeting, but this was not well received by audiences. Later, the team tried to rebrand the company as a CSR leader through material organizational changes derived from institutionalized CSR templates, a move which was in the end approved by a majority of the audiences.

In the meaning-negotiation process, organizational actors' interpretation frameworks may be adjusted, tested and become more elaborate. They can be drawn upon to improve the processing and channeling of inflowing meanings and to create more coherent outflowing meanings to be shared among different social groups, so that the understanding gap can be filled. As shown in the case study, Nike management's frameworks underwent incremental adjustment as the crisis unfolded, from completely

efficiency-and-profit-oriented to being more compatible with the neo-classical economic and humanitarian framings of the issue set by each party at the beginning of the controversy. By means of these more elaborate frameworks, the Nike management managed to create more systematic meanings for its CSR rhetoric. As the CSR discourse emerged and evolved, many of its assumptions took shape and became increasingly shared among different social groups. This can be best exemplified by the founding of the AIP, which generated a new belief system centered on the notion of CSR.

In Weick's interpretation of the Mann Gulch Disaster, crisis situations may give rise to a loss of identity, which leads to a loss of meaning. As said, a crisis of legitimacy "is directly an identity crisis (Habermas, 1957: 46)". The "identity crisis" in this case indicated confusions of identity rather than loss of identity. At the beginning of the crisis, Nike's management team tried to confirm its identity as a successful marketing company and industry leader by maintaining the *status quo*. It stuck to taken-for-granted frameworks to process flows of meanings. However, these frameworks turned out to be ineffective because the team's responsive actions guided by their interpretations amplified the crisis and generated more meanings which had to be processed by the team. The overflow of meanings destabilized the traditional frameworks and caused confusion and ambiguity concerning the organization's identity which could further lead to a problematic, uncoordinated management of meanings.

In Nike's story, the reorganization of interpretation frameworks and the establishment of the new frameworks were driven by an identity shift. The "identity crisis" prompted Nike's top management to re-evaluate and revise aspects of the company's identity. A new identity implied changes in commitments, capacity and expectations; and therefore, a new way of enacting the environment. Major reconstruction of identity began in Phase I, when Nike decided to join the AIP, which was largely a reactive identity shift. As Nike acquired an identity as a founding member of the coalition, its management had to modify its interpretation frameworks accordingly and start to process meanings through a new set of frameworks under dynamic development. The resulting interpretations guided subsequent actions, in that the Nike management

started to dialogue with some of its critics. In this way, some order was injected to reduce confusion.

Nike's identity was further revised as the company's decision-makers repositioned it as a CSR leader. This was more a proactive, intended identity shift. The company's interpretation frameworks were reshaped accordingly, and some previously minor components started to gain prominence. Meanings were channeled and interpreted through the further revised frameworks. However, initially, the newly-adopted identity was in the process of construction and had not been established, so that the frameworks had not yet been fully developed, integrated and shared among members of the top management team. The instability of the frameworks was reflected by the inconsistent and insensitive words and deeds of Phil Knight and other Nike senior managers.

In particular, at the beginning of Phase II, the Nike management continued to typify its relationship with critics as competition rather than cooperation. This typification in part contributed to the lengthy "battle of reports". As a consequence, there emerged a widening gap between the company's self-claimed identity and its external image. Another wave of meanings was generated by various social actors to fill this gap. Hence the team's frameworks had to be further reconstructed in order to absorb these new meanings. Because the existing frameworks lacked the necessary capacity or adaptability, confusion and uncertainty increased in this subtle process of identity shift.

At this point it was crucial for Nike's management team to sharpen its focus on organizational restructuring. The team started to introduce new organizational forms in order to further establish and confirm Nike's new identity as a CSR leader: they set up CSR departments, adopted CSR policies and hired CSR professionals. These new structures and procedures incrementally amplified and upgraded the frameworks. In other words, these new structures provided more effective means with which to process complex, competing meanings and to create well-structured, systematic ones, thereby facilitating organizational sensemaking and sensegiving.

According to Weick (1993), when organizational actors focus on restructuring, they pay less attention to meanings for the time being. Hence, in the present case, if the Nike management had focused on restructuring at the outset of Phase II, it would probably not have sought to override competing meanings by starting the “battle of reports”, which created more incoherent and competing meanings and intensified the crisis. From another perspective, organizational restructuring may also attract the attention of external audiences. They are thus less focused on sorting out conflicting meanings and therefore produce fewer competing meanings. For instance, when Nike joined the AIP, the media and most critics focused on understanding what the AIP represented, and on evaluating what they could achieve with it, rather than raising more accusations against Nike. The former had created more collectively shared meanings, and the latter would probably create more competing meanings. When restructuring takes place, organizational actors are also required to give coherent meanings to the material reforms so as to demonstrate their conformity social expectations. By so doing, they can channel meanings onto an intended path, and meanwhile develop their existing frameworks further. As the organization’s structure becomes better defined, shaped and grow more elaborate, so do frameworks. Meanings can then be processed more efficiently. As meanings are more effectively channelled and absorbed, and as more shared meanings are created, frameworks are further improved and more orders are enacted into the environment.

For instance, rather than attacking all the accusers, Nike management started to categorize its critics and treat them differently. Instead of saying that it was simply economically rational to manufacture in developing countries, Nike leaders started to argue that the company was actually improving local people’s wellbeing because it contributed to those regions’ economic growth. In addition, the company shifted from defending its subcontractors’ behaviors to severing ties with some of them. It also began to diversify tactics in order to handle different sources of information (e.g. NGO websites, U.S. media, and local media). As meanings were managed better, frameworks were further developed, confusion was reduced, and identity became more clearly defined and established. The Nike management’s dramatic move at the end of the crisis can be understood as an extended effort to confirm its identity which finally eliminated most of the confusion. As a result, legitimacy was repaired and order was

restored. A new set of frameworks was formed and, perhaps, more or less stabilized until the next major disruption.

In summary, this case study suggests that during a legitimacy crisis, organizational members are more likely to encounter overwhelming fluxes of meanings that must be processed than a loss of meaning. During a legitimacy crisis, organizational sensemaking becomes problematic because the existing frameworks lack the capacity to bridge the gap among disparate understandings. Effective sensemaking requires adjustment of the interpretation frameworks on which organizational actors can rely to construct not only plausible but also socially acceptable meanings in order to reestablish connection with the outside world. As will be further discussed in the third section, social actors tend to draw on pre-existing beliefs and assumptions derived from various myths to construct and process meanings during the negotiation of a legitimacy crisis. As noted, shifts in frameworks may entail changes in organizational structures (Weick, 1993). This leads to the following discussion on the discursive and material approaches used by organizations to repair legitimacy.

8.2.3 Exploring organizational responses to legitimacy crises from a sensemaking perspective

The sensemaking perspective provides further insights into how organizations respond to legitimacy crises. Firstly, the result of the research reported here is consistent with Elsbach's (1994), which demonstrates that there are two main strategies by which organizations respond to legitimacy threats: one is the discursive approach—that is, providing rational, credible and socially accepted accounts to legitimize their actions (Suchman, 1995; Phillips *et al.*, 2004); the other is material change, such as incorporating institutionalized structures (DiMaggio & Powell, 1991; Meyer & Rowan, 1991). Both approaches involve the extraction of legitimating characteristics from the institutional environment. How socially-accepted accounts can be crafted to defend, excuse, explain, justify the organization's activities depends on what rhetorical resources are available in the broader cultural and institutional system. Likewise, material reforms like organizational restructuring also tend to draw on institutionalized organizational forms. In other words, the focal organization may actively provide

legitimizing accounts and/or adopt institutionalized organizational forms to signal conformity to prevailing myths in an attempt to defend or repair its legitimacy.

Secondly, as mentioned previously, at the early stage of a legitimacy crisis, the focal organization and other relevant social actors may engage in an intense rhetorical contest. After basic norms and assumptions are established, the organization may then turn to focusing on material reforms in order to signal compliance with these new norms to external constituents. Besides sensemaking, relevant organizational actors also conduct active sensegiving throughout the crisis. However, in line with the above unfolding pattern of the crisis, organizational actors may have different goals to achieve with these activities at different stages of the crisis.

As illustrated in the case study, during Phase I, sensegiving was mainly intended to influence the audience's understanding of the "sweatshop" problem *per se*. After some CSR assumptions had been institutionalized through the formation of the AIP, in Phase II Nike's top management had a clearer focus on changing public perceptions of the company as a whole. That is to say, Nike leaders turned their communication efforts to repositioning the company as a CSR leader. Discursive and material moves are intertwined, especially in the process of identity construction. Nike's approach to proactively repositioning itself as a CSR leader thus consisted of two dimensions: technical means to develop and maintain institutionalized characteristics that could associate the company with such a positioning; and discursive means to communicate and advertise such organizational changes to audiences. The varied approaches, whether discursive or material, were not mutually exclusive. They were used separately as well as in combination throughout the unfolding of the crisis. Some of them reinforced one another while other combinations were simply counterproductive.

Thirdly, while discursive steps are necessary to move the negotiation forward, material arrangements are essential for settling legitimacy crises. As shown in Figure 9, a legitimacy crisis begins with intense discursive struggles over a controversy. As the crisis unfolds, increasingly more material changes are implemented, with a concomitant decrease in the intensity of the discursive contest. The legitimacy crisis is settled when discursive struggles diminish to an insignificant level. This is usually achieved as organizations make increasingly more material arrangements so that they can progressively consolidate discursive moves. Material changes always follow

discursive shifts. This is perhaps because the latter are usually fluid whereas the former imply stability and reflect the institutionalization of the dominant discourse. Therefore, material changes are more likely to bring about the settlement of controversies.

As shown in the case study, even when shared interpretations of the sweatshop problem had been achieved among Nike and concerned groups, crisis situations could still erupt. What may serve to prevent or settle a crisis and repair organizational legitimacy seems to be a shift in organizational structures, procedures and practices—in other words, material forms of organizational change—that are governed by the collectively-established shared meanings that are sometimes embodied in an emerging discourse. In the present case, it was Nike's introduction of its first code of conduct that arguably prevented a possible crisis; and it was Nike's participation in the AIP and its revolutionary labor policies initiated in 1998 that settled the controversy respectively in Phase I and II (See Tables 5 & 6).

Fourthly, as more shared understandings are achieved, an effective settlement of the controversy is likely to require more consistent and extensive material reforms. At an early stage, a legitimacy crisis may be resolved through a rhetorical settlement on assumptions and norms. At later stages, reconciliation may require multi-party agreement on the use of practical tools and instruments to solve the problem. For instance, in Phase I, the formation of the AIP, which only preliminarily institutionalized some CSR assumptions, was enough to settle the controversy. However, in Phase II, neither the introduction of the AIP code of conduct nor Nike's high-profile creation of an executive-level CSR position was effective in resolving the crisis. The main reconciliation was achieved with Phil Knight's 1998 announcement of new labor initiatives which specified the practical tools and new standards which the company was set to adopt.

Lastly, also to be noted is that changes in organizational structures and role systems not only serve to improve the organization's acceptability to its stakeholders, they also facilitate intra-organizational communication and sensemaking, thereby improving the focal organization's capacity to manage the crisis. As illustrated in the case study, Nike's leaders initially typified the problem that they were facing as a PR one, and their priority was to prevent any kind of damage to the Nike brand name. As the crisis unfolded, this strong commitment provided a tenacious justification—namely that the

company was unfairly targeted and attacked—for the Nike management's actions to protect its image. The crisis was caused by negative media reporting that threatened the company's reputation. The Nike management's expectations since the pre-crisis period had been that the PR problem could be fixed by PR means. Therefore, when bad press suddenly erupted, the management continued to see the problem as a PR crisis and stepped up its PR efforts to minimize the impact of the bad press and to prevent further media targeting.

As Nike continued to deny the existence of “sweatshop” conditions and employed an “attack the accuser” approach, more bad press was generated as a result. Because of a “self-fulfilling prophecy” mechanism (Weick, 1988), the crisis then appeared to be even more of a PR one, reaffirming the Nike management's evaluation and expectation. In this way, the shoe giant was caught in a spiraling controversy that caused further damage to the brand until Nike joined the AIP. However, the AIP was only offered a buffer for Nike, and the key problem remained unresolved. It seemed that the Nike management's decision to adopt a more aggressive marketing strategy was driven by a confirmed expectation that the crisis could be resolved by PR tools.

In the second phase, it was when more personnel were employed or assigned tasks to deal with the crisis and address the labor issue that the Nike management gradually found the right track to lead the company out of the crisis. In other words, improved capacity—increased number and diversity of organizational members—resulted in more effective crisis management. Improved capacity meant that more significant cues were extracted and interpreted. As Nike enacted the environment with enhanced capacity, problems were better defined and structured. More effective interventions were placed in the flow of events, such as the hiring of local consultants to facilitate communication with local and international media and the appointment of Vada Manager to monitor NGO websites. Such actions made the company better prepared for further challenges and contributed to ending the controversy, or at least preventing it from amplifying.

To combine the above discussion with the one presented in the last subsection, organizational restructuring has an impact on both inter and intra-organizational communications during a legitimacy crisis. In other words, the value of material forms of organizational change in the effective management of legitimacy crises can be

evaluated from both outside and inside the organization. On the one hand, organizations may undertake material changes to create meanings intended to induce reinterpretation by audiences of their structures and practices. Material changes may give rise to more collectively shared meanings among organizational actors and different social groups. Moreover, because material reforms often attract stakeholders' attention, they may also reduce the creation of competing and ill-structured meanings by audiences. On the other hand, a focus by organizational actors on restructuring reduces the potential production of incoherent meanings by themselves. In addition, changes in organizational structures and role systems may create more shared meanings among organization members and lead to more elaborate frameworks, thereby facilitating organizational sensemaking (Weick, 1993). In the next section, the discussion integrates the sensemaking and institutional perspectives and further illuminates the discursive and material approaches used by organizations in response to legitimacy crises.

8.3 How do societal and institutional elements affect organizational sensemaking during crises of legitimacy?

This question relates to the following three findings concerning the relation between macro-societal and institutional forces and micro-sensemaking process. First, social actors are likely to draw on a variety of broader myths—existing shared meaning and belief systems—to resist or drive social and institutional change (See Table 7). Second, in particular, rational myths serve as sensegiving mechanisms in that they provide social actors with devices to make sense of complex issues and events and to negotiate meanings. Third, the interaction between institutional elements and sensemaking highlights the interconnection between cultural and strategic aspects of the legitimation process.

Table 7. Rational Myths	
Anti-sweatshop Groups	Nike
Human rights-related, care-based moral myths (cover broad areas of human life and human experience)	Economic-based myths derived from neoclassical economic rationality (mainly cover economic areas)
Human dignity, human rights, labor rights, women's rights, equality, justice, universality, impartiality, freedom. etc	<ul style="list-style-type: none">• Self-interest profit maximization (sole responsibility is to maximize profits for shareholders)• Efficiency (cost-effectiveness)• Market competition• Demand/supply
Political myths: Slavery and colonial mythologies (connote exploitation and suppression)	
Other myths: Women as a passive, vulnerable group in need of protection against abuse and violence (establish Nike as exploiting particularly vulnerable people)	
<hr/>	
	Political myth: Neo-liberalism (Cover economic and other areas of human life such as welfare, education, and health)
	Imply interest in others' well-being, and link to contributions to local economies and therefore to improving local people's well-being.
<hr/>	
CSR as Mediated Myth	
Ensure respect for human rights and labor rights while pursuing profits and competing in the global market	
Multi-party collaboration	
Corporate self-regulation	

8.3.1 Myths as discursive resources used by social actors to drive or resist change to the *status quo*

Myths provide discursive resources, such as taken-for-granted meanings, socially accepted categories and templates with which social actors can describe, understand, envisage, and control the world around them. Although social actors often reproduce myths to stabilize their worldviews, they may also draw on different myths to challenge prevalent meaning and belief systems. In the context of a legitimacy crisis, social actors may draw on a variety of myths to construct and negotiate reality. The negotiation process involves both discursive shifts and material changes which may give rise to a new set of shared understandings and beliefs. This is where new myths emerge.

To drive socio-institutional change, social actors can mobilize broader myths and cultural accounts through discursive means in order to create meanings that challenge organizational actors' interpretation frameworks. Similarly, to resist change, organizational actors may draw on larger, guiding belief systems to stabilize and reinforce their frameworks. Once their frameworks become vulnerable, organizational actors may resort to other myths and integrate them with the ones in use to reconstruct their frameworks. These other myths are not likely to be randomly chosen—they must be able to provide meaning systems and categories that enable organizational actors to improve the processing and management of fluxes of meanings.

When a wider range of mythologies are integrated into the given context, they all provide categories for organizational sensemaking and sensegiving. In other words, relevant organizational actors are likely to draw on cues extracted from a larger pool of myths to modify their interpretation frameworks. This, in turn, provides guidance for subsequent sensemaking activities. In this process, new interpretations may be produced and give rise to a new discourse, which, through ongoing negotiation, may be further developed and increasingly gain prominence. This discourse may become a new myth, especially when it is institutionalized through material arrangements.

As shown in the case study, the sweatshop controversy initially unfolded as a rhetorical battle between anti-sweatshop groups and Nike. The challengers drew on a range of

moral myths derived from human rights norms and the humanitarian paradigm to interpret Nike's hands-off outsourcing practices. At the early stage of the crisis, faced by this discursive challenge, Nike's leaders mainly directed their sensemaking to resolving the controversy through discursive solutions. For them, myths and logics derived from neo-classical economic rationality, such as market competition and efficiency in maximizing profits, played a major role in stabilizing their existing interpretation frameworks. These myths also provided discursive material for organizational sensegiving. For instance, outsourcing practices were described by many corporate actors as means for Nike as well as other major players in the industry to improve their cost-effectiveness, which to some extent helped them to retain and enhance their pragmatic legitimacy.

As the crisis unfolded, the Nike leaders' frameworks and underlying assumptions proved no longer effective in processing and managing meaning—that is, economic rationality seemed to hinder sensemaking. The reason for this will be discussed below. The traditional frameworks became unstable and started to reshape. The Nike management began to integrate some humanitarian values and assumptions and appropriate them into the existing frameworks. This is evidenced by the fact that the Nike management at first incorporated some humanitarian accounts into its language knowingly or unknowingly (as discussed in Chapter 6, some humanitarian talks were perhaps not intended. For instance, some were only by-products of Nike's rhetorical strategy to change the conditions of the debate).

Later, the Nike management developed a line of rhetoric that hybridized myths derived from different sources, such as bringing in the political myth of neoliberalism to reconcile economic self-interest with the humanitarian values highlighted by the challengers. In this way, they managed to establish connections with norms and values of human rights and humanitarianism. In other words, the Nike leaders drew on cues extracted from a larger pool of mythologies to revise, update and elaborate their interpretation frameworks. Because the general direction was to reconcile basic humanitarian principles and assumptions with those of neoclassical economic rationality in the understandings of the Nike management, a hybrid CSR discourse reconciling traditional economic gains with humanitarian values emerged and increasingly gained prominence. This discourse was further authorized after the collective construction of the notion of CSR in this context under the formation of the

AIP. Underlying assumptions and norms were established, and they gave rise to a mediated myth taking the name of CSR.

This was when Nike management started to focus on seeking material solutions. This was because, once Nike had accepted the broadly defined CSR myth, it had to demonstrate conformity to it in order to secure legitimacy. At this point, it is unlikely that this emerging myth had been widely shared among organizational actors within the clothing industry. It is therefore also unlikely that this belief system would provide much sense for organizational members. For Nike leaders, it was perhaps hardly unthinkable to run the company without CSR-related organizational structures. However, under tremendous external pressure in the legitimacy crisis, Nike's management team still decided to establish structures and procedures that reflected the CSR myth in order to demonstrate its conformity.

The rest of the story was that Nike repositioned itself as a CSR leader and adopted increasingly more schemes under the label of CSR. At the end of the crisis, Phil Knight initiated major labor reforms guided by the CSR assumptions established earlier. All of these actions reproduced the myth of CSR in this context. In other words, starting from and through discursive means, and increasingly through material changes, social relations were shaped and reshaped, new organizational forms were built and maintained, and new values and beliefs emerged and solidified.

8.3.2 Rational myths as sensegiving mechanisms

Based on the discussion presented above, this subsection further highlights rational myths as sensegiving mechanisms. During legitimacy crises, both organizational actors and audiences' sensemaking relies on accounts embedded in existing rationalized myths. Rational myths serve as sensegiving mechanisms for social actors, because they provide socially accepted categories, pre-fabricated meanings and rationales that allow social actors to legitimate their activities and/or justify their behaviors during a controversy. In relation to this finding, this study also confirms that institutions trigger, prime and edit sensemaking (Weber & Glynn, 2006). The following subsections will demonstrate how societal and institutional elements, various myths in particular, affect

sensemaking in these ways at different times of a legitimacy crisis.

In brief, in the context of a legitimacy crisis, myths are powerful stimuli that trigger collective sensemaking. They lend legitimacy to, and provide justifications for, social actors' arguments and activities. During the reconstruction of interpretation frameworks and organizational structures, relevant organizational actors may draw on a broader pool of myths that provide legitimate, socially-accepted categories with which they can adjust and elaborate their interpretation frameworks and organizational structures, so that sensemaking can be improved. Notably, rational myths help to gloss over the ambiguity, uncertainty and complexity involved in these processes. Finally, the integration of various myths into organizational language and structures affects the unfolding and resolution of a legitimacy crisis by influencing both intra and inter-organizational communications.

To begin with the cause of a crisis of legitimacy, this study shows that contradictions among different sets of myths may trigger crises of legitimacy and therefore sensemaking. In the case study, the sweatshop controversy was rooted in the contradictions between human rights-related, care-based moral myths and economic myths derived from neo-classical economic rationality, such as self-interest, efficiency in maximizing profits, and market competition. The contradictions were exposed and intensified by anti-sweatshop groups (and other powerful actors, such as media and governmental agencies) drawing on the former to understand Nike's hands-off outsourcing labor practices which were guided by the latter. The triggering event accelerated the evolution of the controversy and turned into major disruptions which triggered sensemaking.

Various myths were used by anti-sweatshop activists to disclose contradictions between corporations' behaviors and some existing widely-recognized social norms and values, thereby justifying the need for changes in highly institutionalized outsourcing practices. These myths were contextualized in the critics' narratives in a way that they largely ran counter to the neoclassical economic rationality. The latter had long served as a source of justifications for Nike's behaviors and for decision-makers' interpretation frameworks which supported their understandings of the company and its environments. The myths deployed by the challengers were widely shared by members of society, and these myths provided cultural and institutional

grounds for their interpretations of the reality, or their framing of the sweatshop issue. In other words, these myths constituted a large meaning and belief system with which to challenge the somehow competing neoclassical economic assumptions. They not only lent legitimacy to the challengers' framing, but also provided potent stimuli to collective sensemaking, which means that they had the power to induce other social actors, including the Nike's decision-makers, to reorganize their understandings of reality.

For instance, the critics drew on the myth of human equality to ascribe meanings to the pay gap between Michael Jordan and Nike's overseas workers, and they also used politically-charged, myth-embedded metaphors such as "colonies" and "pyramid"—which connoted hierarchy, control and power and ran counter to the myth of equality—to establish the link between Nike and exploitation and social injustice. These myths elicited emotions and empathy among social actors and challenged their economic rationality. By using accounts embedded in myths, broader historical and cultural views, NGOs justified their arguments that Nike was running "sweatshops" in developing countries, and exploiting vulnerable local people. Those broader institutional and cultural belief systems connected time and space and provided meanings and rationales with which social actors could interpret phenomena and construct accounts to describe social reality. In this way, Nike's labor practices were increasingly perceived by society as undesirable and inappropriate. In other words, the company's moral legitimacy was called into question.

As the crisis began, myths served as sensegiving mechanisms: that is, they provided sense for social actors to create and manage meanings. When sensemaking was triggered, relevant organizational actors tried to order these stimuli into their interpretation frameworks (Starbuck & Milliken, 1988; Weick, 1995), but they found it difficult to organize and connect them with major components of the existing frameworks built on neo-classical economic rationality. In this process, they generated meanings to counter the challengers' framing of the issue. In other words, at the beginning of the crisis, Nike leaders' sensemaking was largely enabled and conditioned by myths derived from the neo-classical economic paradigm. Therefore, the latter continued to use the traditional frameworks to process and manage meanings flowing out of a competing framework. However, the patterns of meanings generated only brought about more negative feedbacks—that is, more powerful stimuli which

demanded more effective sensemaking work. As discussed earlier, this required adjustment of the existing frameworks.

Then, as discussed in the last sub-section, organizational actors undertook a series of adjustment and elaboration of frameworks. In this process, organizational actors branched out and drew on a wider variety of myths to justify and legitimate the interpretation frameworks that were undergoing dynamic development. More importantly, these myths helped to gloss over the ambiguity and complexity induced by this framework reconstruction. For instance, in the process of developing the hybrid CSR discourse, Nike cited the myth of neoliberalism to reconcile the traditional economic assumption of profit-maximization with humanitarian values. This myth in support of globalization helped to normalize the inconsistency inherent in Nike's allegedly upgraded but somewhat problematic oversight system: Nike management repeatedly argued that, owing to the size of its supply chain as a major player in the global market, perfect oversight to ensure zero human rights violation was impossible (Baum, 1996; Nike Inc., 1996b).

As some of the myths deployed by NGOs were appropriated and mediated with those provided by neoclassical economic rationality, a new set of beliefs regarding how corporations should behave emerged, and they became more elaborate and legitimate with the endorsement of a range of influential social actors. Here arose the mediated myth of CSR. It started to offer some broad assumptions and vaguely defined guidelines for the Nike management to devise reformation schemes to tackle the crisis. This new myth provided justifications for, and lent legitimacy to, Nike's discursive shifts and material-reform activities under the name of CSR, such as repositioning itself to facilitate Nike's pursuit of social acceptability. Similarly, this myth also helped to gloss over the uncertainty and ambiguity involved in the process of identity-repositioning and organizational structuring.

As mentioned, when Nike's legitimacy was threatened, its identity was also called into question. Confusion arose over identity questions such as what the company really stood for and what it was actually doing. Nike leaders needed to reevaluate the environment as well as the company, and then decide on a new definition of who they really were. To bring all those answers back to categories consistent with its self-claimed identity, organizational leaders first had to construct narratives to legitimate

the new identity claim. These accounts had to be familiar and acceptable to both internal and external participants. In the end, the Nike management decided to reconcile its “champion” culture with its early discursive shift to incorporating the CSR myth. Therefore, the company was repositioned as a labor reform leader.

Both the myth of CSR and the winning, conquering culture of Nike provided discursive resources for sensemaking by organizational leaders to promote the company’s new identity (e.g. the use of such culture-related metaphors as race and competition and the slogan of “There Is No Finish Line”). As regards organizational culture, Ravasi and Schultz (2006) argue that it provides a platform for identity shifts in the sense that it serves to bridge the past and the future. Therefore, Nike’s legitimating accounts of the new identity claim, which integrated the rational myth of CSR and Nike’s defining culture, not only provided a sense of continuity to gloss over inconsistency between the previously established and the intended identity, but also served to rationalize the link between them.

As regards the CSR myth, this not only served to signal change and conformity to social expectations. It also provided cues for Nike to revise its identity, develop and update its strategy throughout the rest of the crisis. The Nike management started to promote the company’s commitment to social responsibility and incorporate related constructs into the company. At later stages of the crisis, the company adopted increasingly more new structures with the CSR label, including CSR policies, departments and personnel. However, as regards how to proceed and what specific organizational structures and procedures to adopt, they can be appropriated to suit other aspects of the company’s business functioning. For instance, the management team could still opt for different moments to implement each scheme and decide which attributes of the schemes should be highlighted and which should be left out, perhaps taking account of pragmatic concerns and structural contexts. In other words, myths primed sensemaking because they allowed some degree of flexibility (Weber & Glynn, 2006).

To link with the previous discussion on sensemaking and organizational structures, the study suggests that the incorporation of rational myths into organizational language and structures may affect the unfolding and resolution of a legitimacy crisis by influencing both external perceptions and internal sensemaking. Nike’s move to

integrate CSR discourse and constructs served to signal conformity to social expectations and improve social acceptability. It thereby contributed to repairing legitimacy and resolving the crisis. On the other hand, the adoption of CSR structures and personnel facilitated organizational sensemaking, and it therefore brought about more effective approaches to manage the crisis. In other words, institutionalized structures not only serve to display conformity to social expectations when an organization's legitimacy is under threat, but also help reduce ambiguity and uncertainties during crisis situations. These external and internal effects jointly contribute to the resolution of the legitimacy crisis.

8.3.3 Cultural and strategic components of legitimation

This study has highlighted that the process of legitimation involves both cultural and strategic components. This can be discussed from two perspectives. The first is the perspective of how rational myths may affect sensemaking: although myths constrain sensemaking, there is always "room for slippage and embedded choice" (Weber & Glynn, 2006: 1649). In other words, although cultural elements and institutional forces may play a significant role in legitimation, the process still involves actors' agency, which may also shape outcomes of the process. Second, from the perspective of how sensemaking affects myths, this study suggests that, although myths are all socially and culturally embedded, some myths, when embedded in certain contexts, are more powerful than others. In other words, actors' agency may affect the choices of myths, how they are used, and the actors who use them. These all affect the strengths of myths in use. In the process of legitimation, the strengths of myths used by two rhetorical communities may to some extent decide the power relations between them. Accordingly, the evolution and the rise of myths during this process may also be influenced by social actors' agency.

To begin with the first perspective, as shown in the case study, although sensemaking is largely enabled and constrained by rational myths, these myths do not dominate these processes because there is still room for situational, pragmatic and structural considerations. It is perhaps more accurate to posit that rational myths shape the

products of organizational sensemaking and therefore the focal organization's responses to crises of legitimacy. As proposed by Suchman (1995), organizations' responses to legitimacy challenges are both strategic and constrained by societal and institutional forces.

During a legitimacy crisis, the focal organization is likely to engage in developing strategies to respond. Whether a strategy is needed and in what it consists are products of sensemaking. Myths among other historical and cultural elements serve to provide and filter cues and thereby affect organizational members' interpretations of events and evaluation of themselves and the environment. Therefore, rational myths not only affect the construction of narrative accounts because the former can provide institutional grounds for the latter; they also shape the overall strategies that organizations devise to respond to crises of legitimacy.

Moreover, ambiguities and inconsistencies embedded in various myths may also give flexibility for organizational actors to address other concerns and further refine their strategies throughout the process. Organizational actors can exploit ambiguities and inconsistencies and manipulate those myths by reinterpreting them or some aspects of them. For instance, the notion of CSR in this case was vaguely defined when it first emerged, and when ambiguities were available for the Nike management to exploit. At first, Nike spokespersons argued that the company had fulfilled its responsibility by paying workers minimum wages. As the crisis unfolded, Nike leaders continued to expand and enrich their conceptualization of CSR, and at the end of the crisis, they moved to defining the provision of public services for local people as a way to fulfill corporate responsibility. This is when myths edit sensemaking by retrospectively amending and modifying meanings (Weber & Glynn, 2006).

In other words, institutional myths may provide a framework of patterned meanings with which organizational leaders can symbolize their actions or connect their actions to other socially accepted categories. However, decision-makers still have a certain level of control over the myths and can inject into the framework some of their own designs driven by other contextual elements. Moreover, it seems that, whilst institutional myths such as CSR enable and condition social actors' meaning construction, they are also constituted by meanings. Hence myths are constantly evolving and can be modified through the production of meaningful texts.

The cultural and strategic side of legitimacy can be further examined from the second perspective. As shown in the case study, owing to the extremely asymmetrical power relations between NGOs and multinational corporations, the former made intense use of rhetorical tools to challenge the latter. As noted, a main approach used by NGOs was to mobilize various myths: these were widely-shared belief systems that provided justifications for their arguments and activities. The challengers' sensemaking and other activities were constrained by these belief systems. However, they could still strategically use myths to achieve certain goals. In this case, the critics first established facts, which allowed the development of rhetorical resources, and then identified the most powerful myths that they could possibly use.

In line with their humanitarian positioning, NGOs tended to draw on myths related to some of the most fundamental concerns of human experience. For instance, the slavery and colonial mythologies on which they drew were largely associated with human suffering, emotional and physical conflicts and struggles between the weak and the strong. These myths were powerful in this context because they could evoke collective sympathy from a broad segment of audiences because a vast majority of them shared these fundamental concerns. In this case, NGOs sought to bring more powerful social actors onto their side so that they could more effectively challenge corporations. This is how stakeholders' agency affects legitimation. These myths gained further in strength when media and governmental agencies gave their endorsement. This is another way to increase the strength of myths. As regards Nike's neo-classical economics-based myths, these were perhaps most widely shared within the industry and less likely to elicit positive sentiments towards Nike among audiences. These myths were weaker than many of those used by the challengers in this context, because many media bodies served to undermine the authority of these myths.

In addition, both socio-institutional contexts and actors' agency may affect the onset and evolution of myths. As mentioned earlier, the emergence of new myths may begin with the reconstruction of interpretation frameworks. These frameworks are likely to be composed of elements drawn from various myth-based beliefs, because these myths provide substance for the re-construction of frameworks. In this sense, it can be said that the development of frameworks is constrained by the broader cultural and institutional context, and so too are the forms of new myths. To be noted, however, is that frameworks are not passively formed. They are also products of sequenced

interaction and negotiation among different social actors with various motivations and interests. Significant stakeholders' agencies may undermine certain frames while reinforcing others which may later become components of a new myth. As illustrated in the case study, as more of these powerful actors, such as media professionals and governmental actors entered the scene, their agencies increasingly affected the unfolding of the crisis and the ongoing development of the myth of CSR.

Conclusion

This chapter has answered the three research questions that began this study. The core findings are summarized in Figure 9 below, which depicts the unfolding of the legitimacy crisis and the interaction between sensemaking and institutions during the sweatshop controversy. The study has added to our knowledge about the legitimacy crisis phenomenon, particularly in regard to how one arises, unfolds and ends, and how organizations may respond to it. The discussion has also assessed the generalizability of some relevant findings on standard crises to legitimacy crises, such as the concept of triggering event and cosmology episode.

In addition, this study has examined the connection between micro-level sensemaking and macro-institutional processes in the context of a legitimacy crisis. As will be further discussed in the next chapter, the findings of the study enhance our understanding of the micro-foundations of institutions in three ways. First, the unfolding of a crisis of legitimacy can be viewed as a sensemaking process that involves the construction of meaning aimed at repairing a potential breach of the implicit contract between organizations and the broader social order. In particular, organizations respond to changing institutional pressures during a crisis of legitimacy by combining discursive and material strategies. Second, the framing and resolution of legitimacy crises involve the interaction between social actors' sensemaking and rational myths. Rational myths provide socially accepted categories that shape stakeholders' accounts and justifications and support their interpretation of social reality. In this sense, rational myths perform the role of sensegiving mechanisms. Thirdly, the study has illuminated the interplay between actors' agencies as strategic components and institutional contexts as cultural components in the process of legitimation.

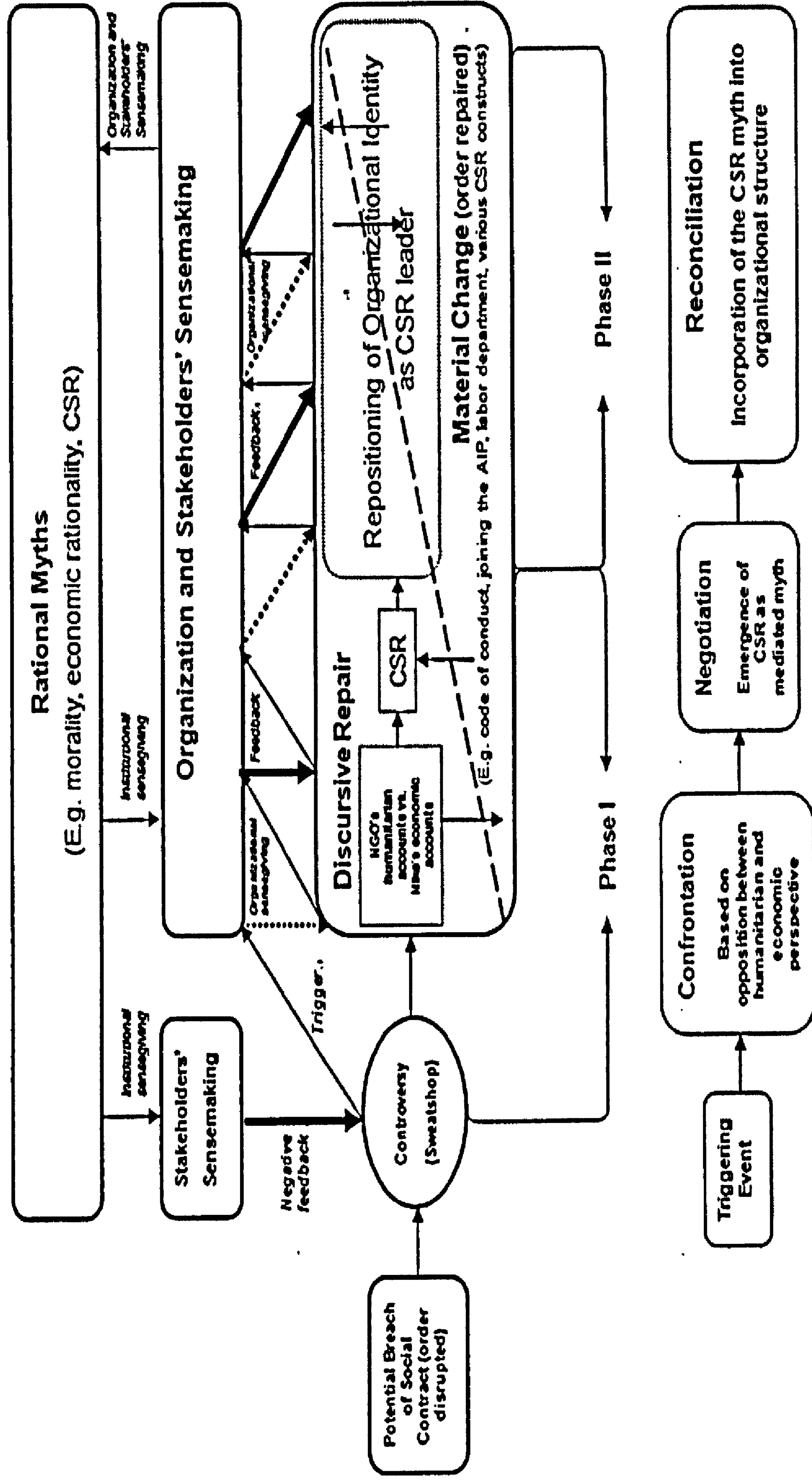


Figure 9. Unfolding of legitimacy crisis at Nike

Chapter 9 Conclusion

Introduction

The purpose of this study has been to explore the phenomenon of the legitimacy crisis. This is a variant of organizational crises which, although increasingly common and managerially relevant, is still under-explored. A legitimacy crisis signals a problematic relationship between the focal organization and its socio-institutional environment which calls for repair. To investigate the phenomenon, the study has developed a theoretical framework that integrates the sensemaking and institutional perspectives. This framework highlights that the resolution of a legitimacy crisis requires public sensemaking to repair the disrupted order, and that its unfolding is a process of meaning negotiation between the focal organization and its stakeholders. In particular, as the crisis destabilizes the institutional foundations of sensemaking such as rational myths, repairing the order entails reconstituting the connection between sensemaking and institutions. To operationalize this theoretical framework, I have conducted a single longitudinal case study featuring Nike in the 1990s' sweatshop controversy, using a narrative approach and documenting the narrative unfolding of the crisis as the unit of analysis. An extensive collection of publicly accessible archival data constituted the bulk of the data base. Data sources included news articles, press releases, corporate documents and NGO reports.

The case study sheds lights on the nature and key characteristics of legitimacy crises, including their distinctiveness and their connection with standard crises. More importantly, the study has developed the integrated theoretical framework to investigate the causes, the unfolding patterns, and the means used to resolve legitimacy crises. Moreover, it has examined the interplay between sensemaking and institutions in the context of a legitimacy crisis. The findings highlight the significant role that rational myths play in manifesting the interplay between sensemaking and institutions, especially in the case of a complex social phenomenon like a legitimacy crisis.

Accordingly, the main contributions of this study concern two broad areas: first, the study has added to the literature on organizational crises in general because it has re-examined the nature of triggering events and the larger temporal dynamics of crises. Second, it has developed a theoretical framework which combines the sensemaking and institutional perspectives to conduct an empirical study on a legitimacy crisis. The findings derived from this theoretical framework not only develop our knowledge about the legitimacy crisis phenomenon, they also further our understanding on the relations between sensemaking and institutions, thereby contributing to closing the gap between the sensemaking and institutional theories. The findings highlight that myths are important societal and institutional elements which enable social actors to make sense of complex issues and events, and to mediate a reconstruction of interpretation frameworks which in its turn leads to institutional changes. In particular, they serve as sensegiving mechanisms for social actors, and their effects penetrate the interplay between frameworks and meanings in sensemaking processes, as well as operating throughout the process of organizational restructuring in the context of a legitimacy crisis. Moreover, by examining the myths inscribed in the rhetorics of relevant social actors, the study has empirically verified that the construction of legitimacy comprises both strategic and cultural components.

As regards managerial implications, this study identifies the subtle and often hidden movements in social trends that may create the potential for organizational crises. Some of these movements resemble underground streams that flow slowly and quietly, and which may go unnoticed for a long period of time. However, there are likely to be some brief upsurges that are visible. These are significant signals that can be spotted and acted upon. Under the effect of the triggering event, these slow-moving rivulets of meanings combine and give rise to overwhelming, out-of-order fluxes of meanings, so that a crisis ensues. The effective management of meanings requires the enhanced sensemaking that is the key to resolving the crisis. This study provides insights into how sensemaking can be facilitated through restructuring during the unfolding crisis and thereby improves crisis management. The following sections first present the theoretical contributions and managerial implications of the study, and then discuss its limitations and suggest directions for future research.

9.1 Theoretical contributions

9.1.1 Contributions to the crisis literature in general

This section presents the two main contributions of this study to the existing literature on crisis studies. First, it has sketched out a research field—crises of legitimacy—which has seldom been explicitly explored. In addition, the research reported consisted in an empirical study conducted in this field which adds to our knowledge about the legitimacy crisis phenomenon. Second, the study raises questions about the traditional view of the nature of triggering events and suggests that the temporal dynamics of organizational crises should be reconsidered. Both contributions provide alternative perspectives for future crisis studies.

9.1.1.1 A legitimacy crisis as a distinctive crisis phenomenon

Based on the review on the existing literature on organizational crises, this study has identified legitimacy crises as constituting a significant component of standard crises, as well as being a distinctive type of organizational crisis. It has also outlined the differences and similarities between legitimacy crises and the conventional crises which are prevalent in crisis studies. This conceptualization of legitimacy crisis provides a fresh perspective for the pursuit of crisis studies: because almost every organizational crisis involves some form of a legitimacy crisis, the latter can be approached as a distinctive crisis phenomenon, whether it represents a period of an organizational crisis or the whole of it. Accordingly, although the theoretical framework presented in previous chapters was developed on the basis of a study on a legitimacy crisis revolving around the “sweatshop” controversy, it also has implications for the management of legitimacy issues raised as a result of standard crisis events.

Traditionally, crises are defined as rare, out-of-control events that seriously threaten the survival of an organization (Nystrom & Starbuck, 1984; Weick, 1988; Shrivastava, 1992). The legitimacy challenge to the affected organization that seemingly follows all threatening crisis events is usually treated as a critical aspect of the crisis, or as a crucial problem to tackle during or after the crisis, and it has been highlighted in the literature from the perspective of crisis and post-crisis communication (e.g. Benoit & Lindsey, 1987; Benson, 1988; Marcus & Goodman, 1991; Massey, 2001; Jaques, 2009).

This study has further identified some legitimacy challenges as milder variants of the traditionally-defined organizational crisis. This opens up a research field which has not previously attracted much scholarly attention. As conceptualized in this dissertation, legitimacy crises are “ordinary” crises that are likely to arise when organizations’ behaviors are no longer perceived to be desirable or appropriate by their stakeholders. The main difference between a legitimacy crisis and a minor legitimacy problem is that the former causes major (not localized or minor) disruptions to the organization’s normal operations which must be resolved quickly, but the solution is as yet unknown.

In other words, crises of legitimacy may be simply triggered by more commonplace disputes or contestable issues, as exemplified in the present case study, or they may arise following extreme incidents, such as lethal accidents or major disasters. Although the organization’s survival may not be threatened by a legitimacy crisis, at least not in the short term, the latter may last for a long time and seriously undermine the organization’s competitive advantages (Baron, 1995). This conceptualization not only underlines the significance of legitimacy crises, it also highlights that crises are common and, as will be further discussed, that there are always places where effective interventions can be undertaken before the outbreak of the crisis, regardless of how abruptly it erupts.

9.1.1.2 Revisiting the temporal dynamics of crises

This study emphasizes the need to reexamine the nature of triggering events in organizational crises and thereby revisit the larger temporal dynamics of organizational crises. The study suggests that the examination of a crisis can be more constructive and revealing if researchers pay more attention to the wider processes of the crisis, rather than focusing on the dramatic events that make it visible. Organizational crises are traditionally conceptualized as rare, exceptional, and surprising events that may threaten the survival of organizations. Triggering events are often highlighted as the starting points of crises that punctuate the normal state of the affected organization. It is believed that the organization's initial response to the triggering event sets the tone for the rest of the crisis (Weick, 1988; Shrivastava, 1992). Many traditional studies of organizational crises tend to treat them as resulting from a triggering event—be it a natural disaster or a major industrial accident.

It may be true that the nature of the triggering event can considerably influence the unfolding of the crisis. However, the assumption that crises are triggered by unpredictable, accidental events tends to downplay the possibility of detecting and preventing potential crises. It thus induces researchers and practitioners to focus more on how to tackle exceptional crisis situations than on how to prevent them before they occur. The latter, as suggested by Mitroff (2000), is the most desirable way to manage crises. Moreover, an event-oriented approach emphasizes external, random factors that contribute to the rise of a crisis and hampers efforts by researchers and managers to search for potential causes internally and historically.

The case study reported in earlier chapters focused on a crisis triggered by a more common, ordinary event which rendered it less affected by the revealing, expressive effect of rare, extreme triggering events. It provided an opportunity to reassess the prevailing assumption concerning triggering events and approaches to crisis studies. The crisis featured in the case study proved to be more an evolving process that bridged the past and the future. The crisis resulted from the accumulated effect of past actions undertaken during the considerably lengthy pre-crisis period, rather than from the event that triggered it. In other words, the origin of a crisis may be traced back to

long before the triggering event. Initial responses to the event may subsequently constitute a significant component of the crisis. However, pre-crisis decisions and actions may also significantly affect the path of the unfolding crisis.

Similarly, the closure of a crisis is often typified as an event that marks the beginning of another period of normality. Nevertheless, it only represents a temporal shift in a developing process, and the supposed end-point of a crisis may generate the outbreak of another crisis. This raises questions as to how organizational crises should be investigated. Traditionally, researchers focus on the events that make the crisis most visible, and they tend to overlook the gradual accumulation of various internal and external organizational or social elements that may have already created a potential crisis. This approach can be misleading when investigators use it to establish the causes and consequences of crises or to evaluate the effectiveness of crisis management, because their focus is on the manifestations of the crisis, especially on its starting and end points. However, when investigation of the crisis is extended to cover a larger process, it may become apparent that the crisis began to take root a long time prior to its eruption, and perhaps has not really come to an end. Hence its causes and consequences may need to be redefined and the crisis management performances need to be reassessed.

In other words, an important theoretical implication of this dissertation is that studies on crises in organizations should not be confined to examination of the extraordinary events that make crises visible. Exhaustive investigation of organizational crises requires researchers to pay attention not only to the sudden eruption of exceptional incidents but also to the progressive expectation-mismatching process that takes place before the crisis and in post-crisis periods. Only when this extended temporal scope is fully encompassed in the investigation of the crisis can its cause, its unfolding pattern, and the possible post-crisis future be explored.

Although some researchers (e.g. Mitroff & Pearson 1993; Schwartz & Gibb, 1999) have already recognized the importance of paying attention to the pre-crisis “repeated trail of ‘early warning signals’” (Mitroff, 2000: 50), this dissertation further highlights

the processual nature of crises, and accordingly, calls for a more systematic process-based approach to the exploration of organizational crises. In particular, the study suggests that the mismatches between social expectations concerning a company's behavior and social perceptions of its behavior (Sethi, 1975; 1979) often result from unnoticed or unattended, subtle movements in social trends. Movements of this kind warrant attention from both scholars and practitioners. Moreover, perhaps more studies should be conducted on non-crisis events: those that display the potential to trigger a crisis which is avoided by means of organizational actions or because of other internal and external factors.

9.1.2 Integrating sensemaking and institutional theories in the examination of the legitimacy crisis phenomenon

Other contributions of the study derive from its theoretical integration of the sensemaking and institutional perspectives. Having considered that legitimacy crises occur at the intersection between sensemaking and institutions, the research reported by this study developed an integrated framework which combined the building blocks of sensemaking and institutional theories to investigate this under-explored phenomenon. This approach is a major contribution of this study, and in its turn furnishes another contribution: a rounded understanding of the subject, and especially of the processes surrounding crises of legitimacy and crisis responses by organizations.

In addition, the research also helped close the widely-recognized gap between sensemaking and institutional theories (Taylor & Van Every, 2000; Weick *et al.*, 2005; DiMaggio & Powell, 1991; Lawrence & Suddaby, 2006). The theoretical framework presented in this dissertation not only demonstrates how certain institutional elements, such as rational myths, affect micro-processes of sensemaking in the context of a legitimacy crisis, but also provides insights into the micro-processes of institutionalization such as the process of legitimation, which the research confirmed as consisting of both strategic and cultural components (Suchman, 1995). This study provides a promising theoretical base for future research in these areas.

9.1.2.1 Identifying the unfolding patterns of a crisis and response patterns by organizations

Explanation of the processes surrounding legitimacy crises makes a major contribution to our knowledge about legitimacy crises. Besides the processual nature of organizational crises as discussed above, this sub-section presents a set of unfolding patterns exhibited by a legitimacy crisis. Firstly, the process can be characterized as beginning with a breach of the social contract which implies violations of societal norms and expectations and causes a significant decrease in the organization's social acceptability. This leads to amplification of a controversy that triggers a crisis. The rest of the crisis is largely characterized by a rhetorical confrontation between concerned groups (which uphold competing or incompatible myths and belief systems). This is followed by negotiation where contradictions are mediated, and the crisis concludes with a temporary reconciliation.

This study further theorizes, from the sensemaking and negotiated order perspective, the unfolding pattern of a legitimacy crisis as a cycle of disruption and repair of the social order within which the focal organization operates; a cycle which is driven by ongoing negotiations of meanings. In other words, the unfolding of a legitimacy crisis can be seen as a meaning negotiation process in which the social order is disrupted, negotiated, renegotiated and repaired through ongoing communication associated with deliberate sensemaking work (Taylor & Van Every, 2000; Weick, 1995). For the focal organization, this unfolding is a sensemaking process that involves the ongoing construction of meaning in response to changing institutional pressures. During the organization's communication and negotiation with audiences, social reality is constructed, shaped and reshaped.

In addition, the study identifies the pattern of organizational responses to an unfolding legitimacy crisis. According to the findings of the case study, there are likely to be two phases: the first is characterized by intense discursive moves made by the focal organization, along with some reactive material forms of organizational change. The second phase is marked by more intense, proactive material reforms and a progressively diminishing discursive struggle. Elsbach (1994) has identified discursive

moves and material repair as two main approaches adopted by organizations to respond to legitimacy challenges. The present research adds to the literature in that, because the case study is contextualized in a legitimacy crisis, it is able to bring out the shift in approaches used by organizations in the unfolding process.

This research highlights that, although organizations may employ both approaches throughout a crisis, the intensity of use of these two different but often integrated approaches may vary at different stages of that crisis. As shown in the case study, discursive attempts to repair the social order often lead to increased modifications of the organizational structure. Legitimacy crises are settled through accumulations of discursive convergences which are progressively integrated into the organization's structures or institutionalized within society through material arrangements. An explanation for this empirical finding is that material arrangements signal socially expected reliability and stability, and they indicate the institutionalization of discursive moves. They thus contribute to repairing breached social expectations and to improving the focal organization's acceptability to audiences.

In short, a legitimacy crisis is caused by a potential breach of the social contract. The controversy that triggers the crisis may begin with intense discursive conflicts between the focal organization and its audiences, the ongoing outcomes of which—the discursive convergences—may be incrementally consolidated through material arrangements. This leads to diminished discursive struggles and increased material changes undertaken by the focal organization. Reconciliations are achieved when discursive struggles are reduced to, and remain at, a considerably low level. At this point the controversy is said to have been settled for the time being. All of the aforementioned patterns that characterize a legitimacy crisis are highly generalizable and have significant implications for future studies in this field.

9.1.2.2 Revisiting the collapse of sensemaking in the context of a legitimacy crisis

This study puts forward a different view on the sensemaking difficulties that organizational actors may experience during organizational crises. The existing

literature tends to describe the organizational crisis process as the collapse of sensemaking due to a sudden disintegration of fundamental organizational assumptions (Reason, 1991; Pauchant & Mitroff, 1992; Weick, 1993). Weick (1993) calls this phenomenon a “cosmology episode” in which organizational members suffer sudden, devastating losses of meanings because meanings and frameworks destroy each other, a process which leads to an interrelated collapse of sensemaking and structure.

The present study instead suggests that, owing to the multiplicity of stakeholders and the complexity of events, organizational actors are more likely to experience difficulties in processing fluxes of intricate and sometimes contesting meanings with the existing frameworks than they are to suffer losses of meaning during a legitimacy crisis. In other words, organizational actors do not lose meanings and frameworks. Instead, they find it difficult to absorb and process meanings by drawing on their established frameworks and underlying assumptions. This requires adjustment and elaboration of these frameworks so that meanings can be processed and managed better. The case study shows that incremental adjustments seem more likely than radical changes in the context of a legitimacy crisis as a milder form of an extreme crisis. It appears that, in order to manage meanings more efficiently, organizational actors are likely first to try and modify the existing frameworks and assumptions before deciding to replace them completely. Therefore, a hybrid framework may emerge so that competing meanings can be mediated. As will be elaborated in the next section, these characteristics of sensemaking during a legitimacy crisis have significant implications for the management of meanings during such a crisis.

9.1.2.3 Linking rational myths, frameworks and meanings to shed light on the relations between micro sensemaking processes and institutional forces

Drawing on its integrated theoretical framework, this study not only provides insights into the interaction between frameworks and meanings in sensemaking processes during a legitimacy crisis, it also connects micro-level sensemaking to broader social and cultural systems. In particular, this study has identified rational myths as crucial observable elements that link sensemaking and institutions. Myths are sensemaking products that contain socially accepted and institutionalized meanings. They therefore

provide an empirical entry point for investigation of the connection between sensemaking and institutional processes. The research findings show that social actors draw on socially-accepted meanings, pre-fabricated frames and narrative templates to understand social reality and to justify their arguments and actions. Rational myths represent one of the most influential sources of cues on which decision-makers can draw to craft accounts of events and explain reality during a legitimacy crisis.

The analysis in previous chapters has not only underlined the value of adopting a combined and dynamic perspective in exploration of complex social phenomena like legitimacy crises, as summarized in Figure 9; it has also contributed to our understanding of the interaction between micro-level sensemaking and macro institutional processes, thereby further closing the gap between sensemaking and institutional theories. This is another major contribution of this dissertation, which derives from the theoretical integration of the sensemaking and institutional perspectives within the empirical setting of a legitimacy crisis.

Through close examination of various myths inscribed in the rhetorics of relevant social actors, this study has illustrated how societal and institutional elements, rational myths in particular, affect social actors' sensemaking. Rational myths serve as sensegiving mechanisms for social actors. As shown in the case study, the discursive and material constructs adopted by the focal organization during a legitimacy crisis are likely to exhibit characteristics reflecting certain rational myths. This is because rational myths provide institutionalized scripts and accounts that social actors employ to interpret issues and events, and to justify their arguments and actions (Zilber, 2002).

Rational myths provide institutional grounds for accounts by organizations, and they are sources of justification for decisions and actions (Boltanski & Thévenot, 2006). This research has shown that myths may be utilized by social actors for different purposes. For instance, in order to defend the legitimacy of a current practice, organizational leaders may selectively extract meanings from certain myths to support their claims, justify the appropriateness of the practice, and challenge a competing point of view. When they seek to repair legitimacy, they may choose to incorporate

some elements of rationalized myths into their organizational structures, the purpose being to signal recognition of, and conformity to social expectations.

The effects of myths penetrate social actors' sensemaking throughout the entire crisis. This study has empirically demonstrated how various myths are involved in the triggering, priming and editing of sensemaking (Weber & Glynn, 2006) through the construction of frameworks and meanings in the context of a legitimacy crisis. Notably, rational myths may initially serve to stabilize existing understandings of reality. As organizational actors encounter difficulties in managing meanings, they revise and elaborate their interpretation frameworks and organizational structures by extracting and incorporating socially-accepted meanings and categories from a wider selection of rational myths, and by appropriating and mediating the major components of the existing frameworks with the ones being integrated. In this way, the capacity of their framework is improved, and so too is sensemaking. In particular, myths also serve to gloss over the ambiguity and complexity involved in the process of framework reconstruction.

9.1.2.4 Explaining the interconnection among frameworks, meanings, structuring and rational myths from a cross-level perspective in the context of a legitimacy crisis

By applying an integrated framework to investigate an "ordinary" crisis, this study has extended our understanding of the interrelations among frameworks, meanings and structures in the context of a legitimacy crisis. It has not only carried forward Weick's (1993) theories on how to improve sensemaking during crisis situations, but it has also added to the existing institutional theories on how organizations maintain, defend and repair legitimacy by changing organizational structures (Scott, 1992; Elsbach, 1994; Suchman, 1995).

Based on the case study, and on Weick's (1993) work on sensemaking and structuring in crisis situations, the dissertation proposes that organizations may seek to initiate, complement and reinforce shifts in frameworks by restructuring the organization's role

system: this can be achieved by changing organizational personnel, structures, rules, and procedures. In the context of a legitimacy crisis, these new sets of structures, rules and procedures in their turn guide further adjustment and elaboration of frameworks. Organizational sensemaking can thus be improved, which facilitates the restoration of order; or in other words, contributes to resolving the crisis.

This study has gone beyond this proposal by explaining that organizational restructuring serves to facilitate sensemaking not only by improving the framework's capacity but also by reducing the potential production of inconsistent meanings from the inside, as well as the potential creation of competing meanings from the outside. In other words, change in organizational structures can improve the efficiency with which meanings are processed and managed and help generate more collectively shared understandings among organizational actors and other relevant social groups, thereby contributing to resolution of the crisis.

Moreover, the existing literature on institutions suggests that the adoption of organizational forms which display certain institutional characteristics may help maintain legitimate status and settle legitimacy problems because such acts signal to constituents that the organization has an improved capacity to meet their demands (Scott, 1992; Elsbach, 1994; Suchman, 1995). As shown in the above discussion, this study has further elucidated, from a sensemaking perspective, the effect of incorporating these structures (as a form of organizational restructuring) in resolving crises of legitimacy. Combining the sensemaking and institutional perspectives, this dissertation has provided cross-level explanations of how the incorporation of various myths into organizational language and structures may affect intra and inter-organizational communications, and therefore the unfolding and resolution of a legitimacy crisis. These observations demonstrate the advantages of combining the micro sensemaking perspective with the macro institutional perspective in generating better understanding of highly complex social phenomena.

9.1.2.5 Exploring the strategic and cultural components in legitimation, myth-leveraging and myth-making

The findings of this study confirm the presence of actors' agency and cultural and intuitional constraints in the social construction of legitimacy. They are consistent with both the strategic perspective of legitimacy (Dowling & Pfeffer, 1975; Pfeffer, 1981), and the cultural view of legitimacy which holds that how legitimacy is defined and pursued is largely constrained by wider social and institutional contexts (Meyer & Scott, 1983; Zucker, 1987; Meyer & Rowan, 1991). In other words, this study provides empirically evidence to support Suchman's (1995) emphasis on the value of combining the strategic and cultural views of organizational legitimacy. This, in turn, validates the benefit of integrating the cognition-based sensemaking approach with the macro-institutional perspective to explore complex social phenomena.

Furthermore, this study has drawn on this combined view to evaluate the strengths of myths and the processes of myth-making. As illustrated in the case study, the power of myths is partly determined by the larger social and cultural contexts. However, the strengths of myths may also vary according to who leverages those myths and how they are leveraged. This research has also identified media and governmental agencies as two of the most powerful actors able to affect the strength of myths. Accordingly, the emergence and the evolution of myths are not only constrained by broader social and institutional contexts but also affected by micro sensemaking conducted by relevant social actors.

As mentioned earlier, the case study suggests that legitimacy crises are likely to entail incremental adjustments, rather than the destruction and complete replacement of interpretation frameworks. Therefore, the rational myths that first arise as outcomes of a legitimacy crisis are likely to be mediated ones—in this case, the myth of CSR—able to provide socially-accepted categories with which relevant social groups can reconcile meanings and bridge the understanding gap. Social actors must rely on existing myths to revise their interpretation frameworks, and this may give rise to certain integrated myths. However, this is not done passively. Although elements of actors' frameworks may be drawn from the broader belief systems, the combination and mediation of these elements at any given time may be affected by actors' agencies and other social factors which may consequently impact on the emergence and evolution of myths.

9.2 Managerial implications

As mentioned, the findings of this study not only have implications for the management of legitimacy crises featured in the case study but also shed light on how organizations can tackle legitimacy challenges (or legitimacy crises) resulting from extreme crisis events such as a major natural disaster or a fatal technical failure. The practical implications of this study are presented in the following two subsections. They consist of two main categories which are interrelated: crisis prevention and preparation, and crisis responses. The study proposes that the effective management of legitimacy crises relies heavily on prevention and preparation, and particularly on ongoing, proactive signal detection covering a wide range of social and institutional changes that are often slow and subtle. The study also provides a number of guidelines for devising discursive and material responses built on sound preparations.

9.2.1 Crisis prevention and preparation through the proactive signal detection of slow and subtle social and institutional movements

Many scholars have emphasized the significance of crisis prevention and preparation (e.g. Pauchant & Mitroff, 1992; Coombs, 1999; Schwartz & Gibb, 1999; Mitroff, 2001; Friedman, 2002; Chong, 2004). This dissertation further proposes that if practitioners adopt a process-based perspective to understand triggering events and organizational crises, they can probably manage crises more effectively. As said, people tend to see crises as sudden and sometimes accidental outbreaks of damaging events. This understanding is likely to provide organizational leaders with excuses not to take precautionary measures, because crises seem virtually unpredictable and unpreventable. Accordingly, they may tend to focus on finding the best way to respond to emergencies and exceptional events. However, the origin of a crisis may be rooted in the past, and the temporary closure of the crisis may pave the way for the onset of future damaging events. Effective crisis management should therefore involve actions to examine the past and envision the future.

More significantly, this study highlights the social and institutional nature of legitimacy crises. In other words, these crises result from significant mismatches between evolving social and institutional expectations in regard to business behavior

and socially perceived business performance (Sethi, 1975; 1979); mismatches which have been progressively accumulated in the past and may continue to grow. Some scholars have proposed that it is crucial for managers to detect and act upon early warning signals (e.g. Schwartz & Gibb, 1999; Mitroff, 2000). Accordingly, this dissertation further defines what these “warning signals” represent in the context of a legitimacy crisis and sheds light on how these signals can be detected.

Like many organizational crises, a legitimacy crisis may also occur abruptly. However, as exemplified by the case study, there is likely to be a progressive expectation-mismatching process prior to the outbreak of the major crisis. This means that there are always time and space for precautionary actions to be taken. The mismatch between social expectations and an organization’s perceived performances may arise when the organization suddenly behaves in a manner directly contrary to long-established social expectations or when the organization fails to keep up with evolving social expectations—the movements of social trends. Apparently, the first scenario can be self-controlled, whereas the second scenario requires close attention to these movements at all times.

The movements of social trends are often subtle, obscure and highly unpredictable when they first start, and the triviality and ambiguity surrounding these movements may last for a long period of time. They are like underground streams that flow slowly and quietly. More often than not, managers focus on other things that they presume to be more significant and more urgent (Schwartz & Gibb, 1999): they may probably keep their heads up and stride along, leaving those subtle movements unnoticed. However, the streams may occasionally meet and some of them may hit rocks, giving rise to brief upsurges that are visible and audible. These are significant “signals” that may be spotted and acted upon. For instance, if the behaviors of an organization or of others in the same field are considered inappropriate by some members of society, people within/outside the organization may talk about it and the press may report it. However, if these visible waves continue to be ignored—which means that the company fails to take prompt action to keep up with the emerging social expectations—under the effect of the triggering event, these gentle streams of meanings may quickly merge into a devastating flood of meanings that drowns the company.

A proactive organization may go even further by actively examining the larger, external environment. This means looking for “signals” that are not explicitly linked to the behaviors of organizations in the same field. Changes in various areas of people’s lives, such as the introduction of new technologies, may significantly affect the movements of social trends. These are major streams with high potential to collide with others and thereby affect a wide range of organizations in different sectors. Also to be noted is that the community of social activists represents those lively streams that often hit rocks and merge with others. In other words, they are “nontraditional sources of knowledge” on which organizations can draw to monitor and envision shifts in social trends (Zadek, 2004: 127).

Furthermore, this study has highlighted that organizations must comply with socially accepted meanings—myths—in order to secure and repair legitimacy. Accordingly, another proactive way to detect signals is to examine various myths, especially emerging ones, evaluate their potential strengths, and identify possible contradictions among different ones. Having been prepared by these signal detection activities, organizational leaders may engage in early myth-leveraging and myth-making activities to prevent and prepare for crises. Notably, proactive “signal detection” of this kind is valuable not only because it facilitates crisis prevention and preparation, but also because it may create opportunities for companies to develop or enhance their competitive advantages. It is a measure which companies can use to turn threats into opportunities.

It is important to bear in mind that signal-detection requires constant effort. As mentioned, expectation-mismatches may continue to arise and accumulate during as well as after a crisis. This is why the legitimacy crisis studied was characterized by many twists and turns, and this is partially also why companies with a history of legitimacy crises (e.g. Nike, Shell and Procter & Gamble) are likely be repeatedly targeted and singled out. The role of organizational leaders as sensegivers is particularly significant in this case, because in order to prevent the continuous accumulation of expectation-mismatches, they must vigorously engage in sensegiving activities to fill the understanding gap of that may rapidly arise and widen. Finally, it is advisable for practitioners to pay attention to non-crisis events, and learn lessons not only from past crises but also from hypothetically prevented ones.

9.2.2 Responding to legitimacy crises

Apart from promoting the idea of special signal detection for crisis prevention and preparation, this study also provides a series of useful guidelines for practitioners to follow when making strategic decisions during a legitimacy crisis. If the crisis involves an ill-defined, contestable issue, evaluations of the maturity of the issue (see Zadek, 2004) as well as of the movements of broader social trends are crucial. Responsive approaches (discursive and material moves) should be tailored accordingly. Different approaches are needed at different stages of the crisis. It is important to reassess issue maturity periodically during the crisis, and even after its settlement. In general, the more mature the issue, and the more material arrangements have been made, the less it is desirable to use discursive strategies and the more it becomes necessary to make consistent and extensive material reforms in order to settle the crisis.

Above all, communication is crucial for remedying relationships with various stakeholders. Crises of legitimacy can only be resolved through negotiation, and productive negotiation requires active sensemaking work (as a form of communication). When organizational leaders encounter legitimacy crises, they should take measures to facilitate sensemaking and communication. The following implications are derived from the assumptions established by this study: managing a legitimacy crisis is to manage fluxes of meanings. The more efficient processing and management of these overwhelming meanings requires upgraded frameworks. The better management of fluxes of meaning requires reducing the production of competing meanings by external audiences and reducing the production of inconsistent meanings by internal participants. Some powerful actors such as the media play a significant role in myth-leveraging and myth-making, which are likely to affect the unfolding and resolution of the legitimacy crisis.

On this reasoning, if frameworks can be reconstructed to adapt in some way to those fluxes of meanings, it is likely that the organization will be able to manage the crisis more efficiently. Organizational actors can achieve this through a deliberate reconstruction of frameworks which involves both discursive and material changes. By discursive means, organizational actors can utilize a variety of rhetorical resources to

formulate their discursive responses and draw on a wide range of myths to revise and develop their frameworks. The strategic use of pre-fabricated scripts and accounts provided by prevailing myths is possible, but this again requires sound preparations. Discursive means can contribute to resolving a crisis if they are used to channel and mediate different flows of meanings, rather than to generate more competing and inconsistent meanings. Moreover, the accounts provided to all internal participants and external audiences should always be consistent (Coombs, 1999; Ginzel *et al.*, 2004): otherwise, more competing and incoherent meanings are likely to arise and further intensify the crisis.

Although discursive means to repair legitimacy are essential, this study suggests that organizations should not rely on discursive approaches alone. Material reforms are crucial in settling a crisis. In particular, if an organization fails to consolidate its discursive moves through material arrangements for a certain period of time, the fluid nature of discourse will give rise to more competing and perhaps inconsistent meanings. In this way, social expectations may be further breached, leading to an escalation of the crisis. For instance, in the first half of Phase II of the crisis studied, Nike had been established as insincere and hypocritical after a prolonged period during which it promoted itself as a CSR leader while making very few material arrangements to reflect that identity. Therefore, during a legitimacy crisis, when an organization undertakes a dynamic identity shift, it is important that the organization's structures, rules and procedures reflect its new identity claim in a proper and timely manner.

As regards material moves, as discussed previously, both the sensemaking and institutional theories highlight the value of myth-based organizational restructuring (e.g. creating new departments, hiring new personnel, adopting new rules) in resolving legitimacy crises. Such restructuring serves to facilitate intra and inter-organizational communications and the production of socially shared understandings, thereby contributing to resolution of the crisis. However, this does not mean that once an organization has embarked on material changes, it is moving towards settlement of the crisis. As shown in the case study, the effects of material reforms in settling a crisis may be offset by the misuse of discursive strategies. The study suggests that, during organizational restructuring, attention should be paid to the restructuring process rather than to the discursive and paradigmatic struggles surrounding the controversy. On the

one hand, this reduces the likelihood that internal members will produce incoherent meanings, and on the other, it shifts the attention of stakeholders from the discursive contest to the restructuring and thereby reduces the probability that they will produce more competing meanings. Otherwise, the restructuring is likely to be unsuccessful because its effects in mediating meanings are counteracted by the rise of more competing and inconsistent meanings whose absorption requires further elaboration of the framework. This in turn requires more discursive and material repair, and further prolongs the crisis.

Finally, it is desirable for organizational leaders to envisage the myths which are likely to extend the current focus of attention of the most influential actors such as the media, and to observe how and when these actors would be involved in myth-leveraging and myth-making during the legitimacy crisis. These may mark the twists and turns of an unfolding crisis, which can be threats or opportunities to the organization. As regards the media, some previous studies provide implications. For instance, O'Connell and Mills (2003) describe media reporters as dramatists. According to them, journalists were devoted to "the transmission of experience rather than information" and news should present the attributes of good drama and facilitate emotional identification (O'Connell & Mills, 2003: 327). Therefore, in the case examined, a majority of media professionals chose to report emotion-provoking stories of children and women workers. In other words, myths that can achieve dramatic effects may be most likely reproduced by the media. Again, this kind of prediction heavily relies on sound preparation which involves extensive, proactive "signal detection" activities.

9.3 Limitations

The limitations of this study lie in two areas: the use of the single-case-study strategy and its dependence on secondary data. Although this study has the usual shortcomings of such a research design, as discussed in Chapter 4, the single-case-study approach and the use of public accounts and archival material as empirical data can be justified in light of the study's focus on processes, the research questions asked, and the theories used to answer them.

Firstly, as a single case study, its findings have limited generalizability. Because crises are largely contextually driven, studies conducted in different empirical settings are likely to yield different results. For instance, the organization featured in the case study was a multinational business corporation. Smaller companies or organizations in the public sector may have different experiences of legitimacy crisis. Furthermore, the legitimacy crisis selected took place in the 1990s. Owing to factors in the wider historical and social context, such as the trend in social movements, the unfolding pattern of a legitimacy crisis may vary in different periods of time. This longitudinal case study on a legitimacy crisis, however, has covered a number of sub-crises and therefore enabled within-case comparisons and associations to be made. In addition, given the widespread nature of the phenomenon under study, the results can be generalized to a number of settings, such as multinational and global corporations and companies targeted by NGOs or under media scrutiny.

Secondly, the research relied solely on a range of publicly accessible documentary data, such as news articles, activist reports and corporate documents. This approach may lead to bias and undermine the reliability and the validity of the results (Feagin *et al.*, 1991; Silverman, 2003). However, as detailed in Chapter 4, these data types were consistent with the objectives of the research and with the narrative approach adopted. In addition, measures were taken to offset these weaknesses. For example, the analysis combined and triangulated data collected from different sources in order to avoid bias and to improve reliability. The use of public accounts as empirical data also limited the observation of actors and actions that affected the unfolding of the crisis but were not reported publicly. The adoption of other qualitative methods, such as interviews or participant observation, may further improve the validity and reliability of the results. Of particular importance would be the inclusion of internal documents and feedbacks from key actors in the case.

9. 4 Suggestions for future research

Legitimacy crises constitute an under-explored research field. Although this study has provided useful insights into this social phenomenon, its findings are preliminary and

many unanswered questions remain. Further replication and extension may bring more clarity of understanding. The above-mentioned limitations of the research may serve as stimuli for future inquiry. For instance, to enhance the generalizability of research findings, researchers could employ a multiple-case-study strategy, say, focusing on companies operating within different industrial sectors or different cultures, or examining more recent cases, such as Toyota's most recent recall crisis (Lea *et al.*, 2010), and comparing them with earlier ones. Investigation of real-time crises may also provide fresh perspectives and yield more insights. In terms of method, researchers could combine the use of archival data with interviews, survey data and observations in future studies.

As mentioned previously, studies of non-crisis events are likely to add to our knowledge of crisis theories and practices. Another issue to be addressed by researchers in future studies is whether certain properties of the triggering event affect the unfolding pattern of the legitimacy crisis, and perhaps the process and outcomes of organizational and institutional changes; and if so, why. For instance, the way in which an organization responds to legitimacy crises caused by natural disasters—which, according to Coomb (1999), imply low responsibility—is likely to be different from the way in which it responds to those caused by misdeeds, which imply high responsibility. A related research focus would be on how organizations respond to losses of the three different types of legitimacy: pragmatic, moral and cognitive (Suchman, 1995). This study has examined a legitimacy crisis involving losses of moral legitimacy. Investigations on losses of pragmatic and cognitive legitimacy are likely to yield different results.

Another critical extension of research would be further investigation of “the power of the media” in the context of a legitimacy crisis. This study has already highlighted the role of media agencies in affecting the strength, emergence, and evolution of myths. As indicated in the case study, the definition of legitimacy and the criteria used to evaluate it may be, to a large extent, affected by how relevant issues and events are reported in the media. For future studies, the role of the media in sensemaking might again be an interesting entry point—how the media affect the sensemaking of relevant organizational actors and audiences and the unfolding of the crisis. As O'Connell &

Mills's (2003) argue, the public understanding of major organizational crisis—the “reality”—are constructed by the media.

In terms of future theoretical development, this dissertation has addressed the issues of how to bridge the gap between sensemaking and institutional theories, and of how to combine these two streams of thought in empirical research by developing a framework which integrates building blocks from the sensemaking and institutional theories. This study has confirmed the value of adopting a combined perspective to investigate crises of legitimacy. As argued by Scott (2001), only on the basis of an integrated perspective highlighting the embeddedness of sensemaking in its social and institutional context can an organization be more appositely understood. The relations between micro sensemaking processes and macro institutional forces warrant more scholarly attention. More integrated frameworks of this kind should be developed to explore other social phenomena. Besides crises of legitimacy, there are other promising empirical settings for investigations of interactions, such as strategic organizational changes, which may also entail a problematic relationship with institutional environment, involve communication and negotiation with a variety of stakeholders, and may lead to institutional changes.

Finally, although legitimacy challenges may not necessarily manifest themselves as organizational crises, they are still critical issues for organizational management. However, the existing literature shows that more systematic approaches to this topic are needed. The theoretical framework proposed in this dissertation, although developed to investigate the phenomenon of legitimacy crises, provides theoretical insights into legitimacy-related topics. Legitimacy problems represent an even larger research field in need of further exploration, and all the above suggestions are challenges for both academics and practitioners.

**Appendix 1. Publications and the number of articles for each publication used to
build the data set**

Publication names	Number of articles	Publication names	Number of articles
ABC News Transcripts	1	ADweek	2
Agence France Presse	4	Business Asia	1
Business Journal	1	Business Week	8
Canada Newswire	2	CBS News Transcripts	1
Challenge	2	Chicago Sun-Times	9
Chicago Tribune	2	CNN News Transcripts	2
Dayton Daily News	1	ESPN News Transcripts	1
Far Eastern Economic Review	1	Financial Times	9
Forbes	3	Greener Management International	1
Institutional Investor	1	Inter Press Service	5
International Journal of Commerce & Management	1	Journal of Commerce	9
LA Daily	1	Marketing Magazine	1
Marketing News	3	Mediaweek	1
News & Records	1	Newsday	1
Newsweek	1	PBS News Transcripts	3
PR Newswire	4	Reuters	4
South China Morning Post	3	Sports Goods Business	6
Supply Management	1	The Associated Press	34
The Boston Globe	2	The Buffalo News	3
The Commercial Appeal	1	The Economist	6
The Guardian	1	The Los Angeles Times	6
The New Republic	1	The New York Times	44
The OC Weekly	1	The Oregonian	17
The Plain Dealer	4	The San Francisco Examiner	1
The Toronto Star	8	The Washington Post	6
USA Today	4	Wall Street Journal	10
Wellington Newspaper	1	World Policy Journal	1
Total	248		

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