

**HUMAN RESOURCE MANAGEMENT
AT LEVI STRAUSS & COMPANY:
TECHNIQUES OR STRATEGY?**

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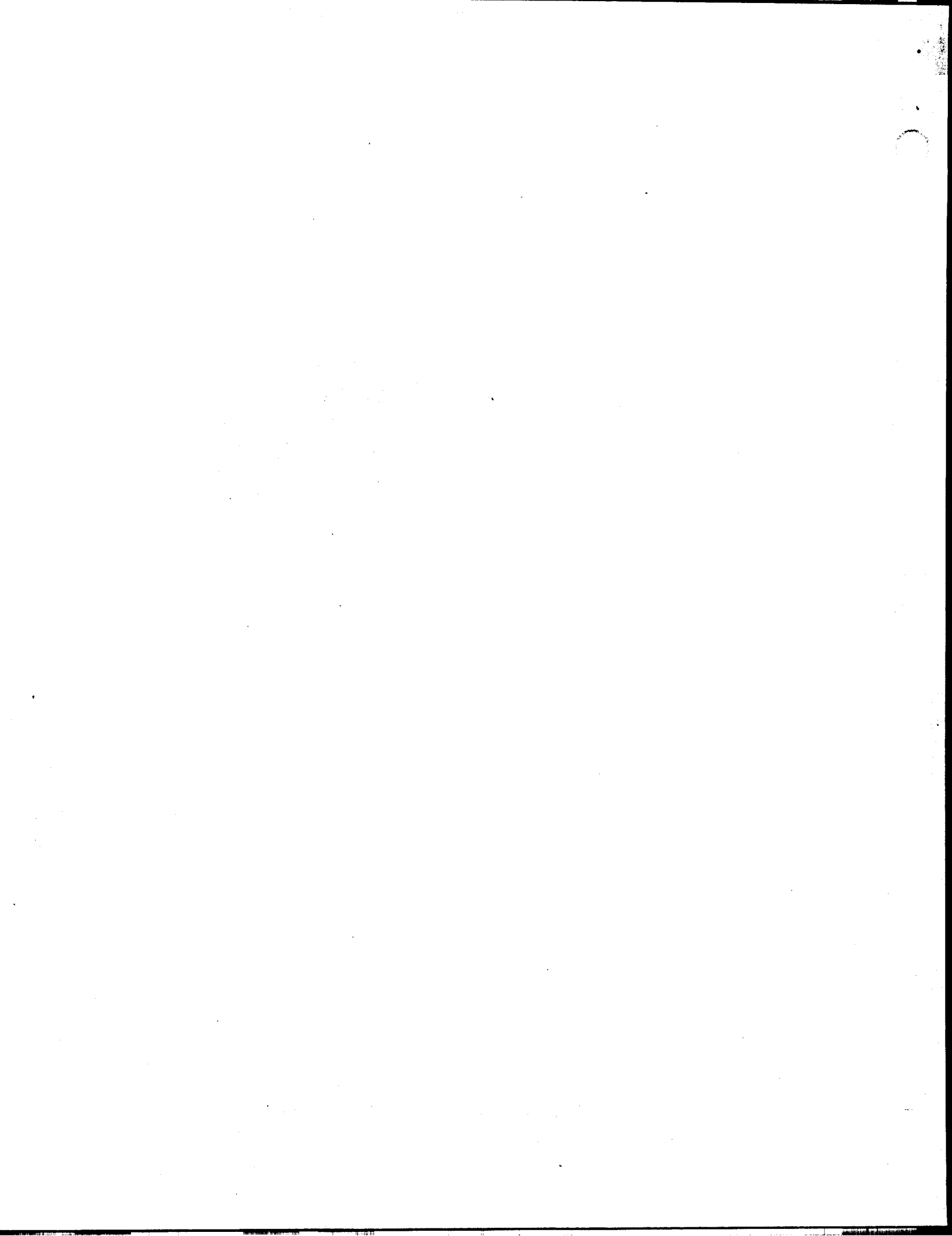
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HUMAN RESOURCE MANAGEMENT AT LEVI STRAUSS & COMPANY: TECHNIQUES OR STRATEGY?

With increasing global competition, Levi Strauss & Co. (LS&CO.), an apparel manufacturing giant with global name-brand recognition, is feeling the squeeze. During the late 1990s, its sales fell and market share declined precipitously, prompting company executives to announce another round of plant closures and layoffs, this time affecting half of LS&CO.'s plants in the United States and Canada and nearly a third of its domestic workforce. Much of that production will be shifted to contractors abroad. This is the latest in a series of major layoffs and plant closures that the company sought to avoid through a number of human resource management initiatives implemented earlier in the decade. Examples of those initiatives, representing fundamental change for the company, include movement from an individual-based to a team-based manufacturing system, unprecedented cooperation with labor unions, a new Partners in Performance compensation and performance plan, and the widely touted Global Success Sharing incentive and reward program for company employees. The decisions to close plants and lay off workers and the way those decisions have been implemented also represent important human resource management initiatives.

Company History

Founded in the 1850s, LS&CO. was the original producer of denim jeans, and the Levi's® trademark has become virtually synonymous with blue jeans in the vernacular. When the current CEO and great-great-grandnephew of Levi Strauss, Robert Haas, assumed leadership of the company in 1984 from his uncle, Peter Haas Sr., he was faced with recent sharply declining profitability. Haas diagnosed the chief problem as misguided diversification and responded by closing or selling one-quarter of LS&CO.'s factories and reducing its work force by nearly 15,000 employees in order to restore the focus on blue jeans. Furthermore, in 1985, Haas and his senior management ended LS&CO.'s 14-year stretch as a publicly listed company through a leveraged buyout. Just over a decade later, in 1996, the family owners borrowed over \$3 billion in order to purchase outstanding stock from employees and other shareholders in order to secure family control over the business. Moreover, family shareholders were given an option to cash out or vest all power in the hands of four individuals – Bob Haas, his uncle, and two cousins – until 2011. Under Haas's leadership, sales mushroomed from \$2.6 billion in 1985 to \$7.1 billion in 1996. However, sales fell slightly in 1997 to \$6.9 billion and more notably in 1998 to \$6 billion. Moreover, LS&CO.'s share of the market for men's jeans dropped from 48 percent in 1990 to 26 percent in 1997.

Company Structure

LS&CO. is headquartered in San Francisco, CA and operates through three worldwide divisions: LS&CO., the Americas; LS&CO., Europe, Middle East, and Africa; and LS&CO., Asia Pacific. According to Donna Goya, Senior Vice President for Human Resources, LS&CO. seeks to act like a global company by soliciting and adopting good ideas from employees worldwide. Likewise, the company encourages country executives to modify programs as needed in order to make them work in their particular cultural environments.

Reputation

LS&CO.'s reputation as an employer of choice is well established. Particularly relative to other employers in the apparel manufacturing industry, LS&CO. is generous with its employees in terms of wages and benefits. These efforts have received considerable formal recognition; LS&CO. has regularly appeared on lists of the 10 most admired companies and the 25 companies with the most

socially responsible programs.¹ In 1992, *Money Magazine* selected LS&CO. as the top employee benefits provider in the United States. Known as an innovator in terms of human resource policies, LS&CO. offers domestic partner benefits, financial support for childcare, and flexible work hours to its employees.

LS&CO. not only espouses a high-minded set of values, it actively seeks to realize those values in the workplace. In 1987, LS&CO.'s senior management crafted a new mission statement reflecting the values the company wanted to promote. An accompanying aspiration statement addressed how those values can be incorporated into company operations.² Since 1989, roughly half of LS&CO.'s production workers and most managers have taken three courses included in an employee training/management development curriculum designed to promote the company's core values: diversity, leadership, and ethics.

LS&CO.'s core values and concern for employee well-being have not been limited to domestic operations. LS&CO. was the first U.S. multinational company to establish policies regarding child labor, working conditions, and the environment in every country in which it operated. Haas has received recognition from the United Nations for the company's efforts to raise work standards abroad. In an oft-cited example of corporate responsibility, upon learning of child labor in its Bangladesh and Turkey manufacturing plants, LS&CO. opted to pay for those children to remain in school until they reached an age appropriate for entering the workforce. LS&CO. also made a commitment to pull its operations out of China and Burma due to human rights abuses in those nations. LS&CO.'s decision in mid-1998 to begin reentering China reflects the company's determination that China has made progress in recent years with respect to employment conditions.

LS&CO. also has a reputation for being a good corporate citizen more broadly. It has spent billions of dollars on charitable contributions and makes a concerted effort to be a positive presence in communities where its plants are located. The Levi Strauss Foundation receives 2.5 percent of company profits annually and directs those funds to worthwhile organizations. In 1992, for example, the Foundation distributed \$6.6 million in donations to organizations in 40 communities in the United States.

LS&CO.'s external relations record is not entirely unblemished, however. The company received some criticism for the way it handled the closure of a Texas plant in 1990.³ More recently, employees at a LS&CO. manufacturing plant in Texas won a discrimination suit against the company in 1997, charging that the company's return to work programs were designed to get injured employees to quit their jobs so that the company could avoid paying workers' compensation.⁴ When the company appealed the case, the judge ruled for a re-trial. The day after that ruling, LS&CO. announced a settlement with the five plaintiffs in the original case and all other employees pursuing lawsuits over the same issue. The company refutes the allegations made in both of these instances, maintaining that its actions vis-à-vis employees are not only appropriate but also far exceed industry standards.

¹ Kate Ballen, "America's most admired corporations," *Fortune*, v125, n3 (Feb. 10, 1992): 40, and Howard J. Green, "Doing well by doing good," *Time*, v147, n21 (May 20, 1996): 42.

² Levi Strauss's mission statement and aspiration statement appear as exhibits 1 and 2.

³ Laurie Udesky, "Sweatshops behind the labels; the 'social responsibility' gap," *Nation*, v258, n19 (May 16, 1994): 665.

⁴ Ralph T. King, "Levi Strauss loses \$10.6 million case to five workers," *Wall Street Journal*, n182 (Sept. 11, 1997): B7 (E).

Strategy

In addition to being part of its company philosophy, LS&CO.'s generous treatment of its employees is part of its business strategy. According to Goya, Sr. VP of Human Resources, "I really think that our senior directors do understand now that people can give you the competitive edge."⁵ The vital role of human resources in the company's business strategy is attested to by the fact that senior HR executives are part of the senior management committee, permitting them to participate actively in formulating company objectives and identifying how the strategic use of human resources can contribute to meeting those objectives.

Because image is vitally linked with brands in the apparel industry, LS&CO. has undertaken many initiatives to foster a positive image and goodwill among its current employees, former employees, communities in which it has plants, and the populace at large. Nevertheless, some members of upper management have been critical of this approach, suggesting that the company is in danger of losing sight of its key objectives – selling jeans and making profits – as it tries to "save the world."

Another key component of LS&CO.'s strategy has been to market its jeans aggressively abroad. In England, for example, with an innovative marketing campaign launched in 1985 associating its jeans with "mythical America," the sale of Levi's® jeans skyrocketed with approximately an 800% gain in that year. While Levi's® jeans have generally been considered a functional wardrobe staple in the United States, they are selling at designer apparel prices in other countries. Levi's® jeans carry a retail price of roughly \$80 a pair in Asia and Europe, compared to between \$30 and \$60 in the United States. The profit margin on jeans sold abroad is therefore considerably greater than the profit margins on jeans sold domestically. To illustrate, in 1992 sales of jeans outside the U.S. accounted for 38 percent of company revenues but 53 percent of company profits.

Similar efforts have been made to upgrade domestic customers' perception of Levi's® jeans. Whereas Levi's® jeans used to be sold mainly in outlets such as J.C. Penney and Sears, the company's strategy has been to shift toward selling jeans in (new) LS&CO. stores and in more upscale department stores, such as Macy's. Retail prices of jeans sold in upscale department stores and LS&CO. stores tend to be \$10 - \$20 higher than at traditional outlets. Jethro Marshall, Marketing Director for Diesel Jeans, has criticized these efforts on the basis that LS&CO. is attempting to charge prices for jeans that are associated with the exclusivity of designer fashions but without limiting the types of outlets in which its jeans can be purchased.⁶

LS&CO.'s strategy has also emphasized limited diversification. The company's Dockers® brand of casual pants, launched in 1986, has been very successful, at least in part because of the trend in the United States toward casual attire in the workplace. A subsequent launch of Slates® dress slacks in 1996 also showed promising results. However, there is evidence that LS&CO. has recently been losing sales to competitors in the business casual market such as The Gap, Polo, Nautica, Haggard and Savane.

A strategic initiative undertaken in 1993, with the assistance of Andersen Consulting, was an enormous reengineering project called the Customer Service Supply Chain initiative. The purpose of the initiative was to decrease the amount of time for product launches and re-supplying stock to retailers. The project was aborted in 1995, but not before costs associated with the project had reached \$850 million, far in excess of the initial budget. Moreover, the emphasis on efficient distribution eclipsed consideration of whether the products that were being delivered were in tune with customer

⁵ Jennifer J. Laabs, "HR's vital role at Levi Strauss," *Personnel Journal*, v71, n12 (Dec. 1992): 35.

⁶ Helen Sage, "Niche labels rip into Levi's," *Marketing Week*, March 7, 1997.

demand. Currently LS&CO. is transitioning to a brand management strategy and aggressively seeking to become fashionable among a new generation of jeans wearers.

In 1994, the company launched an ambitious plan to open 200 of its own stores by the year 2,000. However, in 1998 LS&CO. announced that it planned to sell 25 of the stores it had opened up to that point, and the company is reevaluating its strategic thrust toward selling merchandise through company-owned stores.

Competition

Despite LS&CO. continuing to be the market leader in terms of sales of jeans, its market share is shrinking. In addition to LS&CO.'s traditional rivals, Lee, Wrangler, J.C. Penney and Sears are now producing their own brands of jeans that compete with LS&CO. for shelf space in retail stores and for the attention of consumers, especially in lower income brackets. And, as LS&CO. seeks to redefine its image as a designer-type brand, it faces stiff competition from the growing ranks of designer labels such as Ralph Lauren, Versace, Tommy Hilfiger, and Donna Karan. Further, LS&CO. was slow to respond to changing fashion trends among younger consumers who prefer baggier, wide-legged pants – a niche being met by brands such as Diesel, JNCO, and The Gap.

While LS&CO. has sought to maintain a strong production base in the United States, its competitors have shown fewer qualms about taking advantage of significantly cheaper labor costs abroad. LS&CO.'s effort to retain U.S.-based production has also been partially responsible for several of the company's human resource management initiatives during the past decade.

Key HR initiatives

Teamwork

In 1992, LS&CO. decided to abandon its piecework production system⁷ in favor of a team production system. The change proceeded slowly and was not put into effect in all of LS&CO.'s plants until 1997. Under the old piecework system, known as progressive bundling, individual workers performed one task, such as sewing pockets on pants, repeatedly. A base salary was supplemented by a per-piece incentive pay rate. Under the team production system, an entire garment is manufactured by a team of 10 to 35 members, with incentive pay contingent on team rather than individual performance with respect to both rate of output (i.e., productivity) and product quality. The company proceeded slowly in the transition given the magnitude of the change and the learn-as-you-go approach to its implementation. The company did not adopt a "one size fits all" approach to teamwork, but rather sought to include representatives from management, supervisors, and production workers in determining how the process would work in a given plant. Training consisted of topics such as effective teamwork, communication, problem identification, brainstorming, conflict resolution, production, budgeting, work flow, and product mix.⁸

LS&CO. introduced the team production system to achieve certain objectives. They sought to reduce manufacturing time on a garment from approximately 10 days to no more than a week, thereby

⁷ On the recent re-emergence of piece rate pay systems in U.S. manufacturing, see Peter Passell, "Paid by the widget, and proud," *The New York Times*, June 16, 1996. On the analytical foundations of such pay systems, see David Lewin and Daniel J.B. Mitchell, "Alternative Pay Systems," Chapter 8 in *Human Resource Management: An Economic Approach*, 2nd edition, Cincinnati, Ohio: South-Western College Publishing, 1995.

⁸ Jennifer J. Laabs, "Employee participation drives production," *Personnel Journal*, v71, n12, Dec. 1992, p. 37.

permitting faster domestic product delivery by LS&CO. than could be achieved by competitors with predominantly overseas labor forces and, in addition, decreased costs associated with inventories of unfinished garments. Further, the new production system was designed to empower workers by giving them greater decision making autonomy, team management responsibilities, and more task variety so as to reduce boredom and the risk of injury associated with repetitive movements. While this initiative was also intended to preserve jobs, no formal job guarantees were extended to workers affected by the new system.

Some positive results were realized through the team production system. For example, the decrease from 9 to 7 weeks in the average shipment turnaround time on orders can be attributed in part or in whole to the new system. Furthermore, production workers' responsibility and voice in the production process increased and work-related injuries declined.

Nevertheless, implementation of the team production approach has been plagued by a number of difficulties. Incentive pay based on team production fell short of earnings previously achieved by high performing workers under the piece rate system. To address this problem LS&CO. bought out top performers with a lump sum designed to lessen their resistance to the team system on the basis of reduced income. That payout, however, did not eliminate tension and ill-will between relatively more efficient and less efficient team members. Similarly, injured workers or those who needed to be away from work for other reasons sometimes found themselves the targets of harassment by team members. Some workers also felt that the seven days of training they received were inadequate to permit them to meet the challenges of the new system, particularly with less formal supervision than prevailed under the old system.

The productivity objectives sought by LS&CO. have not been realized either. Per-hour pants production dropped by 33 percent in 1993 and, though it has improved since then, has not returned to levels achieved prior to introduction of the team production system. In the initial aftermath of this change, the cost of producing each pair of pants actually increased by up to 25 percent, and sources within LS&CO. differ in their assessments of whether or not costs today are any lower than they were under the prior piecework system.⁹

In 1993, LS&CO. turned to Sibson & Co., a prominent consulting firm, for recommendations to make the team production system work better. The consultants recommended that LS&CO. begin afresh with more worker input on team production methods and compensation arrangements. Some plant managers opposed these recommendations and, despite LS&CO.'s expressed intention to retain team-based production, have reverted to certain pre-team piecework practices in the production of jeans. By so doing, they created systems that are a hybrid of the piecework and team production systems.

Voice Mechanisms

Union – Given the fundamental change from an individual piece rate to a team-based production system, LS&CO. solicited the help of the union in making this transition. In exchange for the new system, LS&CO. permitted the Union of Needletrades, Industrial & Textile Employees (UNITE!)¹⁰ to enroll new union members with no company interference. In this regard, LS&CO. circumvented the usual process by which unions gain representation and members, which is through a National Labor

⁹ Ralph T. King, "Jeans Therapy: Levi's factory workers are assigned to teams, and morale takes a hit," *Wall Street Journal*, May 20, 1998.

¹⁰ UNITE! was created through the merger of the Amalgamated Clothing and Textile Workers' Union (ACTWU) and the International Ladies' Garment Workers' Union (ILGWU) to form the largest apparel union in the world.

Relations Board-conducted election, opting instead to recognize as union members employees who signed so-called authorization cards. At LS&CO.'s nonunion plants targeted for the new team production system, the company and union jointly presented information on union membership to employees in order to help them make their own decisions about representation. Ronald Martz, General Manager of the LS&CO. plant in Texas where this new production system was being implemented, stated that, "The more workers in the union, the greater their voice, and that drives the process forward."¹¹ By using the union as an avenue for employee voice, LS&CO. also avoids running afoul of public policy that prohibits companies from forming employee involvement committees that function like company-sponsored unions.¹²

Task Forces – LS&CO. also seeks employee input on a wide array of work-related issues by involving them in task forces. Employees may serve on a task force through volunteering, being selected by the Human Resources Department, or being recommended by their supervisors. Task force members come from of a wide array of levels, functions, and locations, and are flown from field locations to the home office to participate in task force meetings. Each task force has a senior management sponsor, and Bob Haas himself served as the sponsor for the work-family balance task force.

Partners in Performance

The Partners in Performance program, which deals with compensation for salaried employees, received considerable input in 1990 from a task force consisting of about 100 employees. The goal of the task force was to align LS&CO.'s compensation practices more closely with the company's aspiration statement. The task force's recommendations were approved by LS&CO.'s Board of Directors in 1991, and steps were then taken to prepare for the program's implementation. Partners in Performance is designed to align both personal and team performance objectives with the company's strategic objectives. Under Partners in Performance, employees receive 360-degree performance appraisals every six months and the results of the appraisals are used to make merit adjustments to employee pay. Through this program, moreover, employees are held accountable for the degree to which they promote the company's values and exhibit the expected behaviors outlined in LS&CO.'s aspiration statement.

Global Incentive Compensation

With the leveraged buyout in 1996, LS&CO. terminated its employee stock ownership plan. However, in the same year, company executives announced an unprecedented incentive program as a means of sharing wealth with employees. Called Global Success Sharing, this program offers salaried and hourly employees worldwide the equivalent of their 1996 base salary as an additional cash payment if the company achieves a 5-year target of \$7.58 billion cumulative cash flow, that is, by the end of the 2001 fiscal year. When announced, and given LS&CO.'s rapid sales growth during the first half of the 1990s, this target seemed readily achievable. Rapidly declining sales during the second half of the 1990s, however, threatened achievement of the cumulative cash flow target. Hence, it is especially important to note that a partial cash payment will be awarded to employees if the company falls short of the target but achieves at least \$5 billion cumulative cash flow over the five-year period. A payment this substantial, affecting approximately 37,500 employees, is possible because LS&CO.

¹¹ Louis Uchitelle, "A new labor design at Levi Strauss," *New York Times* (Oct. 13, 1994): C1.

¹² For further information on this law and analysis of a major court decision under it, see David Lewin and Daniel J.B. Mitchell, Chapter 12 Appendix in *Human Resource Management: An Economic Approach*, 2nd edition, Cincinnati, Ohio: South-Western College Publishing, 1995.

is a private company with its stock held predominantly by a few individuals. The potential maximum total payout under this plan, approximately \$750 million, would be difficult if not impossible to make if LS&CO. had to satisfy public shareholders' demand for a "high" return on equity. Fundamentally, this plan was designed to motivate and recognize LS&CO.'s workforce since, according to Haas, "motivated employees are our source of innovation and competitive advantage."¹³

In spite of the workforce stability implied by the multi-year Global Incentive Compensation program, LS&CO. has recently engaged in a series of layoffs. Nevertheless, and also under the program, workers who are laid off between 1996 and 2001 are eligible for a cash payment if the company meets its cumulative cash flow target. Indeed, even employees who voluntarily leave the company during this period are eligible to receive a more limited cash payment if they worked at LS&CO. for at least three years during the period.

Layoffs/Plant Closures

Earlier it was noted that when Bob Haas took over as CEO of LS&CO. (1984), he closed 40 jeans manufacturing plants resulting in the lay off of some 1,200 workers. Later, in 1990, a Dockers® pants manufacturing plant in San Antonio, Texas was closed resulting in the lay off of about 1,150 workers. Also as noted earlier, the company received some criticism for its handling of the Texas plant closure; the criticism came from a group of laid off employees who called themselves Fuerza Unida. Speaking on behalf of the group, Irene Reyna claimed that financial and other forms of assistance offered to laid-off employees by the company did not materialize in time to help most of those who were displaced.¹⁴

But these plant closures and layoffs paled in comparison to the two-pronged work force downsizing initiative announced by LS&CO. in 1997. The first phase of this initiative, announced in February, involved the elimination of 1,000 white-collar jobs, which was intended to produce an overall labor cost savings of \$80 million. LS&CO. refrained from filling open positions and relied on voluntary attrition, including early retirement, to achieve a major portion of this white-collar work force reduction. The company gave salaried employees approximately five months to decide if they wanted to choose this option, which included a substantially "sweetened" early retirement plan and continuation of medical care coverage and certain other benefits for a specified period of time following an employee's separation from the company. Terminated employees were retained in a pool considered for other positions within the company. The second phase of this initiative was announced in November of the same year and involved the closing of 11 plants affecting nearly 6,400 workers, or roughly a third of LS&CO.'s North American manufacturing workforce. A \$200 million supplemental benefits package, including severance pay and career counseling, accompanied this phase of the work force reduction plan, which amounted to an average of \$31,274 for each manufacturing employee.

In ongoing reorganization efforts, LS&CO. made a two-year commitment to reduce overhead as a percent of revenues by twenty percent during 1998-1999. Coupled with the earlier elimination of salaried positions in 1997, approximately 1,000 such positions have been eliminated in San Francisco with an additional 1,000 jobs eliminated from operations in the United States and abroad.

LS&CO.'s plant closures have not been limited to its North American operations. In 1998, the company announced the closure of four Western European manufacturing plants. This action followed

¹³ Martha Groves and Stuart Silverstein, "Levi Strauss offers year's pay as incentive bonus," *Los Angeles Times* (June 13, 1996): A1.

¹⁴ Laurie Udesky, "Sweatshops behind the labels; the 'social responsibility' gap," *Nation*, v258, n19, May 16, 1994.

prior, failed efforts to forestall plant closures, including curtailing the use of outside contractors and using downtime and reorganized work schedules to decrease production (in light of decreased product demand).

In early 1999, and in another major blow to its domestic workforce, LS&CO. announced its intention to close 11 of its remaining 22 company owned-and-operated facilities in the U.S. and Canada and to use independent contractors in other nations with cheaper labor costs. Approximately 5,900 employees, or 30 percent of LS&CO.'s North American workforce, will be affected by these plant closures. Employees will have 8 months advance notice of plant closings and, as with prior closures and work force reductions, a sweetened benefits package has been put into place. This package, valued at \$245 million by the company, includes severance pay, extended medical care coverage, and funds for employee education, training, and entrepreneurial ventures. In addition, some monies will be directed to a Community Transition Fund to help affected communities deal with the consequences of plant closures. Currently, 60 percent of LS&CO.'s manufacturing is done overseas, and that percentage clearly will rise as the announced North American plant closures are implemented.

Looking to the Future

When Bob Haas assumed the leadership of LS&CO., he initiated actions that resulted in a decade-long revival of the company. Today, however, LS&CO. again finds itself at a pivotal juncture in its history. Increasingly pressed by competitors, LS&CO. has recently changed almost all of its senior management, recruiting externally to replace executives of long-standing with younger, more aggressive personnel who did not necessarily have prior experience in the "jeans" business. These key personnel changes are intended to enhance the company's competitiveness, but at that same time have the potential to undermine the reputation the company has built so painstakingly over many decades.

In this vein, and focusing on the latest round of plant closings, the *Los Angeles Times* concluded that LS&CO. is "now a case study of a dominant company in decline," yet it went on to say that "most analysts think the company is strong enough to rebound."¹⁵ Because LS&CO.'s recent business strategy has not been able to stem the company's movement from a rapid growth company to a declining company, Haas, Goya, and other senior executives must reformulate the business strategy—perhaps even reinvent the company. In this regard and keeping in mind one of its long-standing core values, LS&CO. executives must determine how human resources can contribute to the company's performance in an increasingly global competitive business environment. Should LS&CO. maintain, modify or abandon the various human resource management initiatives undertaken during the last decade? Answers to this question will depend heavily on the business strategy formulated by Bob Haas and the new senior executive team at LS&CO.

¹⁵ Abigail Goldman and Stuart Silverstein, "Levi to move half of N. America operation," *Los Angeles Times* (February 14, 1999): A13.

welcome to
Levi Strauss & Co.



MISSION STATEMENT

The mission of Levi Strauss & Co. is to sustain responsible commercial success as a global marketing company of branded apparel. We must balance goals of superior profitability and return on investment, leadership market positions, and superior products and service. We will conduct our business ethically and demonstrate leadership in satisfying our responsibilities to our communities and to society. Our work environment will be safe and productive and characterized by fair treatment, teamwork, open communications, personal accountability and opportunities for growth and development.

Levi's

ASPIRATION STATEMENT

We all want a Company that our people are proud of and committed to, where all employees have an opportunity to contribute, learn, grow and advance based on merit, not politics or background. We want our people to feel respected, treated fairly, listened to and involved. Above all, we want satisfaction from accomplishments and friendships, balanced personal and professional lives, and to have fun in our endeavors. When we describe the kind of LS&CO. we want in the future, what we are talking about is building on the foundation we have inherited: affirming the best of our Company's traditions, closing gaps that may exist between principles and practices and updating some of our values to reflect contemporary circumstances. What type of leadership is necessary to make our Aspirations a reality?

Teamwork and Trust

Leadership that exemplifies directness, openness to influence, commitment to the success of others, willingness to acknowledge our own contributions to problems, personal accountability, teamwork and trust. Not only must we model these behaviors but we must coach others to adopt them.

Diversity

Leadership that values a diverse work force (age, sex, ethnic group, etc.) at all levels of the organization, diversity in experience, and a diversity in perspectives. We have committed to taking full advantage of the rich backgrounds and abilities of all our people and to promote a greater diversity in positions of influence. Differing points of view will be sought; diversity will be valued and honesty rewarded, not suppressed.

Recognition

Leadership that provides greater recognition — both financial and psychic — for individuals and teams that contribute to our success. Recognition must be given to all who contribute: those who create and innovate and also those who continually support the day-to-day business requirements.

Ethical Management Practices

Leadership that epitomizes the stated standards of ethical behavior. We must provide clarity about our expectations and must enforce these standards throughout the corporation.

Communications

Internally, leadership that builds an environment where information is actively shared, sought and used in ways that lead to empowerment that works, improved performance and meaningful feedback. Externally, leadership that strengthens our corporate reputation with key stakeholders. All communications should be clear, timely and honest.

Empowerment

Leadership that promotes ways of working in which responsibility, authority and accountability for decision making are held by those closest to our products and customers, and every employee has the necessary perspective, skills and knowledge to be successful in his or her job. We all share responsibility for creating the environment that will nurture empowerment at all levels of the organization.

Business Vision

We will strive to achieve responsible commercial success in the eyes of our constituencies, which include stockholders, employees, consumers, customers, suppliers, and communities. Our success will be measured not only by growth in shareholder value, but also by our reputation, the quality of our constituency relationships, and our commitment to social responsibility. As a global company, our businesses in every country will contribute to our overall success. We will leverage our knowledge of local markets to take advantage of the global positioning of our brands, our product and market strengths, our resources and our cultural diversity. We will balance local market requirements with a global perspective. We will make decisions which will benefit the Company as a whole rather than any one component. We will balance local market requirements with a global perspective. We will make decisions which will benefit the Company as a whole rather than any one component. We will strive to be cost effective in everything we do and will manage our resources to meet our constituencies' needs. The strong heritage and values of Levi Strauss & Co. as expressed through our Mission and Aspiration Statements will guide all of our efforts. The quality of our products, services and people is critical to the realization of our business vision.

Products

We will market value-added, branded casual apparel with Levi's™ branded jeans continuing to be the cornerstone of our business. Our brands will be positioned to ensure consistency of image and values to our customers around the world. Our channels of distribution will support this effort and will emphasize the value-added aspect of our products. To

preserve and enhance consumers' impressions of our brands, the majority of our products will be sold through dedicated distribution, such as Levi's® Only Stores and in-store shops. We will manage our products for profitability, not volume, generating levels of return that meet our financial goals.

Service

We will meet the service commitments that we make to our customers. We will strive to become both the "Supplier of Choice" and "Customer of Choice" by building relationships that are increasingly interdependent. These relationships will be based upon a commitment to mutual success and collaboration in fulfilling our customers' and suppliers' requirements. All business processes in our supply chain — from product design through sourcing and distribution — will be aligned to meet these commitments. Our sourcing strategies will support and add value to our marketing and service objectives. Our worldwide owned and operated manufacturing resources will provide significant competitive advantage in meeting our service and quality commitments. Every decision within our supply chain will balance cost, customer requirements, and protection of our brands, while reflecting our corporate values.

People

LS&CO. will be the Employer of Choice by providing a workplace that is safe, challenging, productive, rewarding and fun. Our global work force will embrace a culture that promotes innovation and continuous improvement in all areas, including job skills, products and services, business processes, and Aspirational behaviors. The Company will support each employee's responsibility to acquire new skills and knowledge in order to meet the changing needs of our business. All employees will share in the Company's success and commitment to its overall business goals, values and operating principles. Our organization will be flexible and adaptive, anticipating and leading change. Teamwork and collaboration will characterize how we address issues to improve business results.



Levi's

OWNERSHIP HISTORY

Levi Strauss & Co. was founded in 1853. For its first 100 years, as today, LS&CO. was a private company. Relatives of its founder owned almost all of its stock and company employee held virtually all of the remaining shares. In 1971, to finance further growth and diversification, the company traded shares publicly, though descendants of the founder retained a controlling interest of the outstanding shares.

In August 1985 the publicly held shares were repurchased in one of the largest leveraged buyout transactions in U.S. history for a total of \$1.6 billion. In 1996, the company strengthened its status as a privately owned company by purchasing employee-held shares as well.

Today, the company is owned by descendants of the family of founder Levi Strauss. Shares of company stock are not available for public trading, except in Japan, where stock of Levi Strauss Japan K.K. is publicly traded.

BRIEF HISTORY

Levi Strauss was a Bavarian immigrant who arrived in San Francisco in 1853. He planned to open a dry goods business similar to the one owned by his brothers in New York.

Levi built up a very successful business over the next twenty years. In 1873, he and Nevada tailor Jacob Davis patented the process of putting rivets in pants for strength, and Levi's® jeans were born.

When Levi Strauss died in 1902 his four nephews inherited a thriving company which was wholesaling a wide range of dry goods and manufacturing sturdy work clothes; including the "waist overalls" that we know today as jeans.



COMPANY OVERVIEW

Levi Strauss & Co. (LS&CO.) is one of the world's largest brand-name apparel marketers with 1998 sales of \$6 billion. The company manufactures and markets branded jeans and casual sportswear under the Levi's®, Dockers®, and Slates® brands, and employs approximately 30,000 people worldwide.

The company has 37 production facilities and 27 customer service centers throughout the world. The company generally manufactures goods in the regions in which they are sold.

STRUCTURE

Levi Strauss & Co. is a global corporation made up of three business units:

Levi Strauss, the Americas (LSA) includes the United States, Canada, Mexico and Latin America.

Levi Strauss Europe, Middle East, Africa (LSEMA) is divided into three geographic areas: Europe, Middle East and Africa.

Asia Pacific Division (APD/ACFR) is comprised of both wholly owned-and-operated businesses and licensees throughout Asia and the Pacific.

OWNERSHIP

Levi Strauss & Co. is a privately held corporation owned by the family descendants of company founder, Levi Strauss. Shares of company stock are not available for public trading except in Japan, where stock of Levi Strauss Japan, K.K. is publicly-traded.

EMPLOYEES

The company employs approximately 30,000 people worldwide: approximately 21,800 in the Americas Division, 7,700 people in the European division and 1,900 people in the Asia Pacific Division.

MANAGEMENT

Robert D. Haas, a great-great grandnephew of company founder Levi Strauss, is Chairman of the Board and Chief Executive Officer.

Peter A. Jacobi, President and Chief Operating Officer.
Linda S. Glick, Chief Information Officer.
Gordon D. Shank, Chief Marketing Officer.
William B. Chiasson, Chief Financial Officer.
Albert F. Moreno, Senior Vice President and General Counsel.
Donna J. Goya, Senior Vice President of Global Human Resources.
John Ermatinger, President of Levi Strauss, the Americas (LSA).
Carl von Buskirk, President of Levi Strauss, Europe, Middle East, Africa (LSEMA).
R. John Anderson, President of Levi Strauss, Asia Pacific Division (APD/ACFR).

The Board of Directors includes the following individuals:

Angela G. Blackwell
Robert Friedman
Tully M. Friedman
James C. Gaither
Peter E. Haas
Peter E. Haas, Jr.
Robert D. Haas
Walter J. Haas
F. Warren Hellman
Peter A. Jacobi
Patricia Salas Pineda
T. Gary Rogers
G. Craig Sullivan

PRODUCTS

Levi's®, Dockers®, and SLATES® branded products are sold in more than 30,000 retail outlets in more than 60 countries.

HISTORY

The company was founded in 1853 when Levi Strauss, a Bavarian-born immigrant, arrived in San Francisco from New York to start a wholesale dry good business.

Levi Strauss was the company's first President, from 1853-1902. He was followed by:

Jacob Stern 1902-1924
Sigmund Stern 1924-1928
Walter Haas, Sr. 1928-1955
Daniel Koshland 1955-1958

Walter Haas, Jr. 1958-1970
Peter Haas 1970-1981
Robert Grohman 1981-1984
Robert Haas 1984-1989
Thomas Tusher 1989-1996
Peter Jacobi 1996- Present

HEADQUARTERS

Levi Strauss & Co. has its worldwide and LSA headquarters in San Francisco at Levi's Plaza.

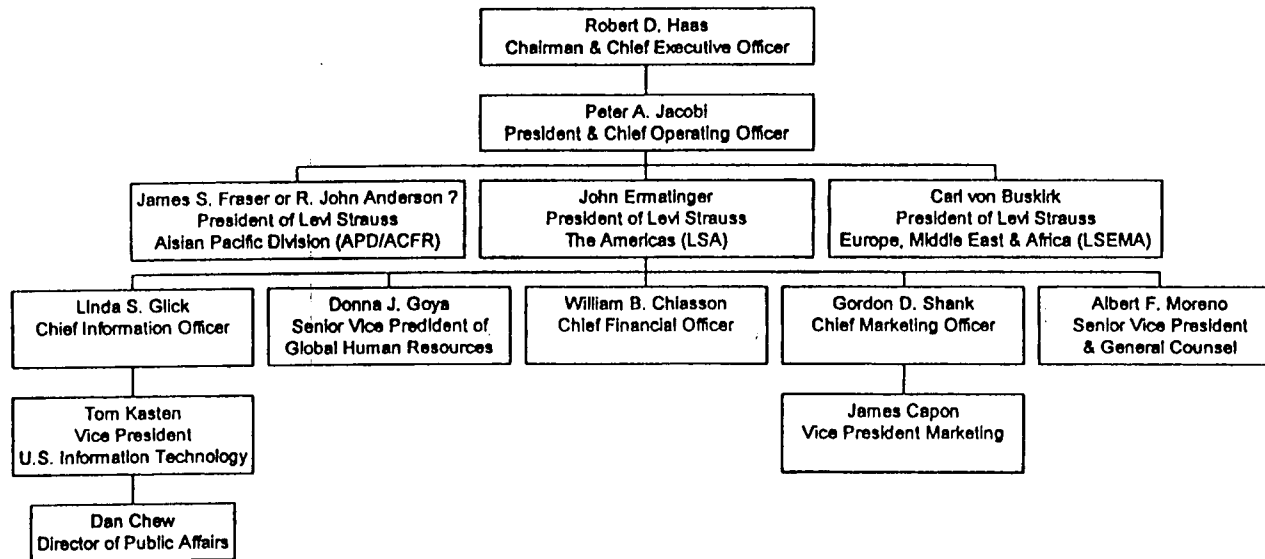
The mailing address is:
P.O. Box 7215, San Francisco, CA 94120
telephone: 415-501-6000

The company's regional headquarters are located in:

LSE: Avenue Arnaud Fraiteur 15-23, 1050 Brussels, Belgium
telephone: 322-641-6011

APD: 60 Martin Road, No. 05-01, TradeMart Singapore, Singapore
239065
telephone: 65-735-9303

Levi Strauss Organization Chart



Levi's

SELECTED BRAND NAMES

501
Dockers Classic
Dockers Equipment For Legs
Dockers K-1
Dockers Premium
L2
Red Line
Red Tab Basics
Red Tab Dry Goods
Red Tab Elesco
Silver Tab
Slates
Slates Collection
Sta-Prest
Vintage

COMPETITORS

Bugle Boy
Calvin Klein
Fruit of the Loom
The Gap
Guess?
Haggar
J. Crew
J. C. Penney
NIKE
OshKosh B'Gosh
Oxford Industries
Polo
Tommy Hilfiger
VF
Warnaco Group

The Levi's logo is positioned at the top left of the page. It consists of the word "Levi's" in a bold, sans-serif font, enclosed within a dark, irregular shape that resembles a pocket or a piece of denim.

CORPORATE SOCIAL RESPONSIBILITY

Levi Strauss & Co. has a long history of commitment to its employees and to the communities where it has a business presence. This heritage traces back to the founder, Levi Strauss, who devoted substantial time and resources to charitable and philanthropic activities.

The company encourages its employees to take an active part in their communities. In 1968, Levi Strauss & Co. pioneered an employee volunteer effort called "Community Involvement Teams" or CITs. In 1984, the White House honored this program and presented the company with the President's Volunteer Action Award for Corporate Volunteerism. There are now more than 100 CITs worldwide.

Levi Strauss & Co. and the Levi Strauss Foundation operate a global giving program, making charitable gifts to community organizations in over 40 countries. In 1999, the combined charitable budget is \$20 million. These resources support programs that help people achieve economic self-sufficiency, fight the spread of AIDS, confront discrimination and racism, and give youth a voice in their communities.

The company's long-standing commitment to corporate citizenship and ethics is reflected in its business operations. Levi Strauss & Co.'s commitment to equal employment opportunity and diversity pre-dates government-mandated programs. In 1998, Levi Strauss & Co. received the Ron Brown Award for Corporate Leadership, the first Presidential Award to honor companies for outstanding achievements in employee and community relations. Levi Strauss & Co. was recognized for Project Change, an anti-racism initiative of the Levi Strauss Foundation.

Levi Strauss & Co. has played a leadership role in educational programs and policies regarding AIDS in the workplace. The company has received numerous awards and recognition for its efforts to combat the HIV epidemic. In 1997 it received the first National Business and Labor Award For Leadership on HIV/AIDS from the United States Centers for Disease Control.

In 1992, the company's Board of Directors approved the enactment of guidelines for all business partners working with the company. These guidelines, known as the Global Sourcing and Operating Guidelines, concern issues and practices that are controllable by the businesses such as fair employment practices, worker health and safety and environmental standards, among others. Relationships with businesses that are unwilling or unable to meet these guidelines are terminated. Levi Strauss & Co.'s ground-breaking code of conduct earned the company the America's Corporate Conscience Award for International Commitment from the

Council on Economic Priorities.

In 1996, Levi Strauss & Co. was rated the fifteenth most-admired corporation in the U.S. and first most-admired among apparel firms – in Fortune magazine's annual survey. Also, Levi Strauss & Co. was listed in Hispanic Magazine in the "1994 Hispanic 100."



Levi's

HUMAN RESOURCES

Levi Strauss & Co. is a unique place to work.

From our founder's creation of student scholarships in the 1890s, to integrated factories in the 1940s, to the creation of a Global Environmental Council in the 1990s, we empower our employees by setting examples and creating a company where values are put to work. From compelling corporate citizenship programs to innovative benefits, we're creating an atmosphere that attracts top talent.

We believe in reward and recognition.

Recognition takes various forms -- from department recognition to company-wide awards distinguishing exceptional performance --and recognition programs are actively used to honor and reward employees for their accomplishments.

We encourage flexibility.

We're constantly looking for innovative programs that support flexibility in our business. Our work schedules offer employees flexibility, enabling them to more effectively integrate the increasing demands of work into the rest of their lives. Time-off-with-pay and leave of absence programs give employees flexibility and trust to take the needed time for vacations, illness, medical appointments, emergencies or other personal needs.

Our casual businesswear dress code is as much about expressing ourselves as it is about taking pride in our brands. We're driving the shift in offices across the world towards comfortable, casual businesswear. As the authority in casual business apparel, it's only natural that we too have the opportunity to dress smart and promote casual businesswear in our daily work lives.

It's more than a label.

It's our intention to put the label on the brand, and not on the individual. We know one size never fits everyone. We stand behind controversial social issues we believe are important to the quality of life we expound. Examples include: corporate initiatives such as the Levi Strauss Foundation, which donates a portion of corporate revenues to support communities where we work, and employee-sponsored Community Involvement Teams (CITs), which enable employees to volunteer and help people and communities in need.

We constantly challenge ourselves to create a company where people can

acquire new skills and know-how, where employees can share in the successes and take on responsibilities that stretch our thinking. Open minds, open doors and new opportunities will push Levi Strauss & Co. into the next century.

At the heart of this is our belief that employees can work as partners to build a company that is effective, ethical and fun. Leveraging open communication, an entrepreneurial spirit and high visibility in the marketplace, we will make it a rich and rewarding journey for you.

Our Benefits

We pride ourselves in offering a highly competitive benefits package. In fact, in its second annual review, Money Magazine(US) named LS&CO. as the company with the best employee benefits in the U.S.

We offer traditional benefits such as health benefits (including medical, dental, vision plans, life insurance, and accidental death and dismemberment insurance), pension and investment plans, time off with pay, paid holidays and short and long term disability plans. However, we are known for our highly innovative compensation and benefits programs that place us apart from the crowd.

A few highlights of our innovation in benefits:

Health Benefits for unmarried partners — LS&CO. was the first Fortune 500 company to offer medical and dental benefits to eligible unmarried couples and their dependents. Why? Because our policies said we do not discriminate against employees based on marital status or sexual orientation and we believe that treating all our employees equally is the right way to do business.

Partners in Performance — With this performance management and pay program for employees around the world, employees are accountable and rewarded for their contributions to the success of the business and for bringing LS&CO.'s Aspirations to life. Partners makes incentive pay available to employees at all levels of the organization, so everyone who contributes can share in LS&CO.'s financial results.

There's much more that we can share with you. Bottom line: we provide an excellent work environment.

TODAY FROM REUTERS NEWS SERVICE (5/5/00)

"YOUNG DON'T SEE COOL IN LEVI'S NAME"

Washington, D.C. (Reuters) – Young shoppers no longer think Levi Strauss & Co. clothes are cool, helping to sap sales and profits, said the maker of Levi's jeans and Dockers pants.

"Consistent with...declining financial results, our market research indicates that during this period we experienced significant brand equity and market position erosion in all of the regions in which we operate, including a substantial deterioration in the perception of the Levi's brand by younger consumers," it disclosed in a filing on Thursday with the (U.S.) Securities and Exchange Commission (SEC).

San Francisco-based Levi Strauss, whose business has been in decline for the past three years, saw operating income fall 75% to \$102.3 million from \$411.5 million in 1997. Net sales dropped 25% to \$5.1 billion in 1999 from \$6.9 billion in 1997.

The company cited other factors for its declining financial performance, including intense competition from designer and private label clothes, poor presentation in stores and supply chain problems.

According to a 1999 company-paid study by an international market research firm, the Levi's brand was the most recognized casual clothing brand in all 17 markets studied in the United States, Canada, Germany, Italy, France, the United Kingdom, Japan and Australia.

Levi Strauss has undertaken a restructuring, including a shift to manufacturing one-third of U.S. jeans internally in 1999 from two-thirds in 1997, and hiring a new senior management team.

Levi Strauss has also reduced its work force by 18,500 since 1997, and closed 29 of its owned-and-operated production and finishing facilities in North American and Europe.

At February 2000, total debt was \$2.4 billion, and it had \$365.5 million in additional borrowing capacity under bank credit facilities.

The credit facilities mature in January, 2002, when Levi Strauss will be required to refinance borrowings.

"We cannot assure you that we will be able to obtain replacement financing at that time or that any available replacement financing will be on terms acceptable to us," it said in the SEC filing.

The company warned that it may have to sell assets or surrender them to lenders to avoid defaulting.

The company is privately held by descendants of the family of founder Levi Strauss, a Bavarian immigrant.

