

CORPORATE RESPONSIBILITY FOR SUSTAINABILITY IN POST-GLOBALIZATION: THE NIKE INC. LESSON

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"I am going to make a bold statementwe are entering into an era of post-globalization...."

- Hannah Jones, VP of Sustainable Business and Innovation, Nike Inc.

In the opening plenary from the 2011 Conference on Sustainable Business & Social Impact at Duke University's Fuqua School of Business.

Abstract:

Given the litany of economic, social, and environmental problems plaguing societies around the globe, issues of corporate responsibility and sustainability are likely to become ever more salient. If business as usual continues, many companies will face difficult questions of resource allocation, and some may find their business models under attack. Spanning almost 20 years, NIKE's sustainability journey has been dynamic, marked by an ever-evolving set of challenges and opportunities. This study explores its CR strategy which has matured from a risk management, philanthropic and compliance model to a long-term strategy focused on innovation, collaboration, and transparency to prepare the company to thrive in a sustainable economy. We examine Nike's metamorphosis from the irresponsible practices and denial for taking accountability of its acts in the early years to a leader in corporate responsibility and progressive practices in the current times. The study of Nike sustainability timeline manifests that commitment to sustainable business and Innovation is the way to be in coming times which it defines as an era of Post-Globalization. An era, in which new business models will emerge based on the overwhelming pressures fueled by regulation, scarcity, consumer behavior and innovation. Nike saga is the harbinger of the reality that there is a paradigm shift in terms of expectations from a company along triple bottom line and earlier the companies embrace it, better placed they will be, in terms of good business sense, in near future.

Keywords: Corporate Responsibility, Sustainability, CSR, Post-Globalization, Innovation

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Introduction`

The company

Nike, Inc. is an American multinational corporation that is engaged in the design, development, manufacturing and worldwide marketing and selling of footwear, apparel, equipment, accessories and services. The company is headquartered near Beaverton, Oregon. It is one of the world's largest suppliers of athletic shoes and apparel and a major manufacturer of sports equipment. Its Fiscal 2013 revenues from continuing operations were \$25.3 billion, up 8 percent, or 11 percent excluding the impact of changes in foreign currency. As of 2013, it employed more than 48,000 people worldwide. In 2010 the brand alone was valued at \$10.7 billion, making it the most valuable brand among sports businesses.

The company takes its name from Nike, the Greek goddess of victory. Nike markets its products under its own brand, as well as Nike Golf, Nike Pro, Nike+, Air Jordan, Air Force 1, Nike Dunk, Foamposite, Nike Skateboarding, and subsidiaries including Brand Jordan, Hurley International and Converse. In addition to manufacturing sportswear and equipment, the company operates retail stores under the Niketown name. Nike sponsors many high-profile athletes like Tiger woods and Michael Jordon and several reputed sports teams around the world, with the highly recognized trademarks of "Just Do It" and the Swoosh logo.

Its products are sold in almost all countries and are manufactured in contract factories in over 40 countries around the world. Amongst several awards and recognitions, for the years 2006, 2007, 2008 -- Nike has been recognized three times by Fortune magazine on its "100 Best Companies To Work For" list for employee benefits like paid sabbaticals, on-site childcare, and a 50 percent discount on company products, as well as for corporate responsibility efforts in addressing conditions in overseas contract factories. Also, 2008 -- For the third consecutive year, Nike was ranked as the Fortune's Most Admired Company in America in the Apparel industry. (Nike Inc, 2014)

History

Nike Inc., right from its inception, pioneered a revolution in athletic footwear that redefined the industry. It was started when athlete Phil Knight met track coach, Bill Bowerman, at the University of Oregon in 1957. They formed Blue Ribbon Sports (Nikes forerunner) in 1962 to import high- tech sports shoes from the Japanese company Onitsuka Tiger. Blue Ribbon Sports began to subcontract its own shoe line in 1971 and launched the Nike brand soon after in

1972. The company continued to produce innovative training shoes and became a major player in the American athletic shoe market. In 1978 it became officially known as Nike Inc. and sales of its product expanded to South America and Europe. Nike also developed a line of apparel to add to its footwear range. Nike offered 2 million shares of common stock to the public in 1980 and continued its rapid growth and expansion throughout the decade and into the 1990s. Despite a major economic recession in the early 1990s, Nikes turnover surged from US\$750 million in 1987 to \$4 billion in 1993. By the spring of 1997, Nikes stock had hit \$76 and futures orders reached record highs. (Mathew, January 2001).

But within this success story lay a central irony that would only become apparent in the late 1990s. While the marketing of Nike's products was based on selling a high profile fashion item to affluent Americans who only wished they could "Just Do It" as well as Woods or Jordan, the manufacture of these sneakers was based on an arms-length and often uneasy relationship with low-paid, non-American workers. For according to Knight's original plan, not only would Nike outsource, but it would outsource specifically to low cost parts of the world. (Spar, September 6, 2002)

Outsourcing-

Poor working conditions have been present for centuries. Often times little or nothing is done unless a tragedy occurs to persuade the public to rally for worker rights. This was definitely the case in the United States during the Industrial Revolution and even late in the 20th Century. These conditions have for most purposes disappeared in the United States, with the exception of some in the agricultural sector. However, internationally, mainly in poor third world countries, that is far from the truth. Large corporations from the United States have moved a large portion of their factories overseas to circumvent the strict working regulations within the United States. The third world countries such as Vietnam, China, South Korea, and Taiwan provide access to readily abundant cheap labor. These corporations could now reap the benefit of the United States consumer market, while keeping their costs extremely low in offshore production. (Matt Wilsey)

Nike's success came in part from its ability to consistently find low cost labor to make its products by outsourcing the production line to the third world countries. On May 12, 1998, Nike Chairman and Chief Executive Officer Phil Knight gave a talk touching upon Nike's reasons for

moving factories out of the United States and into mainly third world countries in Asia. The following are excerpts from that lecture-

The Company that became Nike began life in 1964 as an importer and distributor of Japanese track shoes made by Onitsuka Company, Ltd., of Kobe, Japan. When we started Nike, we had two other manufacturers in Japan make our shoes for us. ...When the Nixon administration cut the yen dollar loose from its exchange rate that had existed since the end of World War II In that process, basically all Shoemakers quit making shoes in Japan. We began making shoes in Taiwan and Korea, and in a bold experiment in 1977 we made up to 15% of our shoe products in two owned facilities in Maine and New Hampshire. The early success we had in making shoes in the United States happened during a severe recession. As New England came out of that recession, we began to lose workers to other industries until in 1984, the two factories became so uneconomical, we closed them ...and shoemaking has moved again to Southeast Asia. A lot of people say, "Why don't you bring shoemaking back to the United States?" Our studies show that using the same production techniques, the average cost at retail for a pair of Nike shoes if we did that would go up \$100. The average retail price for a pair of Nike shoes is between \$70 and \$75, so therefore it would go up to \$170 or \$175. (Knight, 1998)

By 1982, 86% of Nike's athletic footwear came from Korea and Taiwan. Eventually, costs rose in those countries as well and Nike moved again -- this time to Indonesia, Vietnam, and China. In 2002, the 700 factories manufacturing for Nike employed 500,000 workers in 51 countries. Only 22,658 people were direct employees of Nike, and most of these were in the United States. While keeping labor costs low, Nike was able to invest in innovative product designs and marketing itself. By hiring high-profile celebrities athletes like Michael Jordan as company spokespeople, Nike became one of the most recognizable brands in the world. (Locke).

However, Nike's control over and awareness of the factory conditions decreased with each successive production level outsourced to sub-contractors. This lack of awareness was poignantly reversed in June of 1996, when the conditions of Nike's factories became a nationwide media topic. (Nike Corporation: Jumping the Hurdles of Social Responsibility Disclosure)

Criticism

Nike does not own any of its subcontract factories known as Sweatshops, which results in price competition among its subcontractors and releases Nike from bearing any legal

responsibilities relating to the manufacturing process. By the 1990s, it began to draw attention from critics concerned with the labor conditions in its factories. Media reports and investigations from labor activists exposed a range of abuses in factories producing Nike products. In July 1996, Life magazine ran a story about child labor in Pakistan, and published a photo of a 12 year old boy stitching a Nike soccer ball. In 1997, (a worker named) Nguyen Thi Thu Phuong died while making sneakers. As she was trimming synthetic soles in a Nike contracting factory, a co-worker's machine broke, spraying metal parts across the factory floor and into Phuong's heart. (Larimer, 1998).

In 1997, a memo from the respected accounting firm, Ernst and Young, was leaked to the New York Times, which described hazardous conditions in Nike sweatshops. Toluene, a chemical solvent linked to damage to the liver, kidney, nervous system, and eyes, was found present at a Nike factory in Vietnam and proper protective gear was not provided to workers. According to the Ernst & Young report, a majority of workers suffered from a respiratory ailment caused by poor ventilation and exposure to toxic chemicals. The plant did not have proper safety equipment and training, and workers were forced to work 15 more hours than allowed by law. (Spar, September 6, 2002). In the August 1992 issue of Harper's magazine, Ballinger published an annotated pay-stub from an Indonesian factory, making the soon-to-be famous comparison between workers' wages and Michael Jordan's endorsement contract. He noted that at the wage rates shown on the pay stub, it would take an Indonesian worker 44, 492 years to make the equivalent of Jordan's endorsement contract.

DeTienne and Lewis in their paper mention about the article by Bob Herbert, a New York Times columnist, who boldly criticized Nike labor conditions with a harsh op-ed piece. The accusations alleged that Nike built its wealth and products with the "slave" labor of young Asian women. The article said Nike used "sweatshops" of "wretched origins," and compared the corporation to a giant pyramid that crushed the backs of oppressed laborers (Herbert, 1996). This column created a nationwide stir among consumers, activists, and international corporations. Soon afterwards, Nike found itself in a sweltering spotlight, with several nonprofit groups' studies hitting the newsreel. The accounts described human rights abuses, violence to laborers, and hideous working conditions within Nike's Asian facilities (Savage, 2002). The news rooted itself quickly in consumers, and protests and small boycotts sprang up around the country. Over 40 demonstrations occurred at nationwide Niketowns, with one Niketown grand

opening being marred by the arrest of 19 demonstrators (Emerson, 2001). Nike's image was stained, and it was pressured to respond. (DeTienne & Lewis, 2005). By 1998 Nike stock price was beginning to suffer. After an annual growth of 34% in 1995, quarterly earnings were down 70%. By 1999, earnings were back up 70%. Nonetheless, Nike realized that it had to take the problem, or at least the public relations aspect of it, seriously. (Klein, 2000)

The company's first reaction was defensive. But the external environment had enough momentum to pressurize Nike to hire high-profile firms or individuals to conduct the audits. However, Nike was hesitant to disclose information about the contract companies it worked with. Also, these audit companies and individuals had little actual auditing experience or credibility in labor circles, and the approach backfired.

Dusty Kidd, Vice President Corporate Responsibility, Nike Inc. admitted-

"Nike made a real mistake. I think we reacted negatively to the criticism. We said wait a minute, we've got the best corporate values in the world, so why aren't you yelling at the other folks? That was a stupid thing to do and didn't get us anywhere. If anything it raised the volume higher."

Turning Point

In a May 1998 speech, to the National Press Club, a humbled Knight admitted that "the Nike product has become synonymous with slave wages, forced overtime, and arbitrary abuse." Knight's confession marked a turning point in Nike's stance towards its critics. For the first time, he and his company appeared ready to shed their defensive stance, admit labor violations did occur in Nike factories, and refashion themselves as leaders in the effort to reform third world working conditions. (Spar, September 6, 2002)

In 1998, Nike established a Corporate Responsibility department, acknowledging that acting responsibly was far more than just reaching compliance; it was an aspect of the business that had to be managed like any other. Nike's challenge was to adjust its business model to embrace responsible practices – effectively building tomorrow's business success without compromising today's bottom line. Further, the development of Nike's Code of Conduct for labor practices arose out of a mixture of internal concerns and aspirations for improvement of labor conditions, and external media and activist pressure on the company.

Nike is, of course, a business, and as such is accountable to its shareholders. But the company has taken significant steps in evolving a strategy and practice that shifts it from being an object of civil activism to a key participant in civil society initiatives and processes. Nike realized that it had to manage corporate responsibility as a core part of the business. Technically, it was relatively easy to re-engineer procurement incentives. The review team proposed that Nike grade all factories according to their labor conditions and then tax or reward procurement teams based on the grade of the supplier they used. But commercially and culturally, it wasn't so simple. Nike's entrepreneurial culture extended from brand management to procurement. Any challenge to that spirit was considered by many as an affront to a business model that had delivered almost continual financial success for three decades. (Zadek, 2004)

Nike has come a long way since, as is evident from the following timeline of Nike's practices as a responsible business.

Timeline of Responsible practices by Nike

(Data collated from <http://www.nikeresponsibility.com>)

- 1992 - Nike publishes its first code of conduct for contract factories, setting standards on overtime work, compensation, forced labor, and health & safety.
- 1996 - Nike focuses on shifting from petroleum-derived solvents (pds) to water-based adhesives in footwear, reducing the use of solvents by 95% and helping to avoid exposing workers to harmful fumes.
- Nike is the first company to join the apparel industry partnership (AIP) at President Clinton's request, a model of collaboration between industry and other stakeholders. AIP later becomes the Fair Labor Association.
- 1997 - Nike commits to fully phasing out sf6, a global warming gas used in air-sole cushioning units. Nike completes the phase out of all f-gases in Nike-branded footwear in 2006.
- 1998 - At a historic address at the national press club, Nike co-founder and then CEO Phil Knight announces Nike's commitment to raising age standards in contract factories, adopting US OSHA clean air standards, increasing factory monitoring and expanding education programs for workers.

- 1998-Nike begins the phase out of polyvinyl chloride (PVC), a material linked to environmental concerns, in footwear.
- 2000-Nike endorses principles of the UN global compact, a multi-sector initiative that embraces nine universal principles of human rights, labor rights and environmental practices.
- 2001-Nike is one of the first companies to publish a corporate responsibility report, leveraging the early global reporting initiative (GRI) framework and focusing on the environment, labor practices, community affairs, employees and engagement with stakeholders.
- 2001-with the full support of the board, Nike is one of the first companies to establish a board-level committee for corporate responsibility.
- 2002-nike develops an environmentally-preferred rubber for footwear outsoles that contains 96% fewer toxins by weight than the original formulations.
- 2005-in a move towards greater industry transparency and collaboration, Nike paves the way as the first company in the industry to voluntarily disclose the names and locations of all contract factories producing Nike product.
- 2005-nike's European distribution center in Laakdal, Belgium, raises the bar for sustainable logistics. Six wind turbines and more than 4,000 solar panels supply enough power to run the facility solely off of energy credits, while natural air-conditioning systems and building design allow for reduced energy consumption. Nike's European headquarters in the Netherlands is also powered by 100 percent renewable energy credits.
- 2006-nike's considered design ethos, a commitment to "sustainability without compromising performance," is born. The philosophy and tools encourage designers to make sustainable choices at the beginning of the design process.
- 2008-nike launches the air Jordan xx3 - the most innovative shoe Nike has designed to-date, incorporating sustainability without sacrificing performance. Innovation was at the heart of the design which resulted in Nike developing a ground-breaking, water-based bonding process that allows the carbon fiber plate to be attached without the use of solvent-based cements. This is a first for Nike performance footwear.
- 2008-Nike releases the trash talk - the first performance basketball shoe that gives a second life to waste from the factory floor. The shoe's upper is pieced together from leather and

synthetic leather waste from the factory floor using zig-zag stitching, the mid-sole uses scrap-ground foam from factory production and the outsole uses environmentally-preferred rubber.

- 2009-the move from a CR function to the SB&I team reflects the evolution of Nike's CR strategy from a risk management, philanthropic and compliance model to a long-term strategy focused on innovation, collaboration, and transparency to prepare the company to thrive in a sustainable economy.
- 2009-nike initiates the formation of a new coalition of consumer companies, business for innovative climate and energy policy (bicep), to advocate for strong U.S. climate and energy legislation and unlock innovation through collaboration.
- 2009-recognizing the importance of innovation partnerships for sustainable growth, Nike creates the SB&I "lab" with the mission of accelerating sustainable innovation through external partnerships and strategic investments.
- 2010-nike introduces the most environmentally-friendly and technologically advanced football jerseys to date for national teams playing in South Africa. For the first time, all of the national teams sponsored by Nike - including Brazil, Portugal and the Netherlands - wore jerseys made entirely from recycled polyester, each one produced from up to eight recycled plastic bottles.
- 2010-In an effort to increase transparency in the industry, Nike releases an interactive map featuring factory-level data and worker statistics.
- 2011-Nike helps set a new standard of environmental performance for the global apparel and footwear industry with the release of a joint roadmap towards zero discharge of hazardous chemicals in the supply chain by 2020, and outlines actions being taken as a company toward the goal.
- 2012-nike announces a strategic partnership with Dyecoo textile systems BV, developer and builder of the first commercially available waterless textile dyeing machine, which significantly reduces water consumption, reduces energy use, requires no auxiliary chemicals, no need for drying, and makes the process twice as fast.
- 2012-nike unveils its new factory rating system, the manufacturing index, which looks at a contract factory's total performance, including how a factory approaches sustainability. This Index elevates labor and environmental performance alongside traditional supply chain measures of quality, cost and on-time delivery.

- 2012-nike releases its most innovative marathon singlet yet, made from recycled bottles and dyed without water, worn by Kenyan marathon world champion Abel Kirui.
- 2012-nike introduces the high-performance Nike fly knit racer, the production of which significantly reduces waste because yarns and fabric variations are precisely engineered only where they are needed for a featherweight, formfitting and virtually seamless upper.
- 2012-Demonstrating a commitment to a more transparent and sustainable future, Nike establishes new sustainability targets for 2015-2020 that elevate sustainable innovation within the company's business strategy. The goals are structured in two levels: continuous improvement targets to "Make today better" and broader innovation commitments to "Design the future."
- 2013-Illustrating the power of collaboration, LAUNCH members NIKE, Inc., NASA, the U.S. Agency for International Development and the U.S. Department of State convene 150 materials specialists, designers, academics, manufacturers, entrepreneurs and NGOs for a systems innovation summit to catalyze action around the sustainability of materials and how they are made.
- 2013-As part of its commitment to designing a better, more sustainable future, Nike launches making — an app that helps designers and product creators make informed decisions about the environmental impacts of the materials they choose.

A sustainable future requires evolving Nike's business model to deliver profitable growth while designing the best performance products for athletes, while minimizing the environmental impact, using innovation to bring about positive change across the entire supply chain and continuing to listen to the voice of the worker. Nike's made significant progress, but they realize that there is no finish line.

Exhibit 1 Nike Sustainable Innovation Timeline

(Nikebiz Corporate Responsibility Report, n.d.)

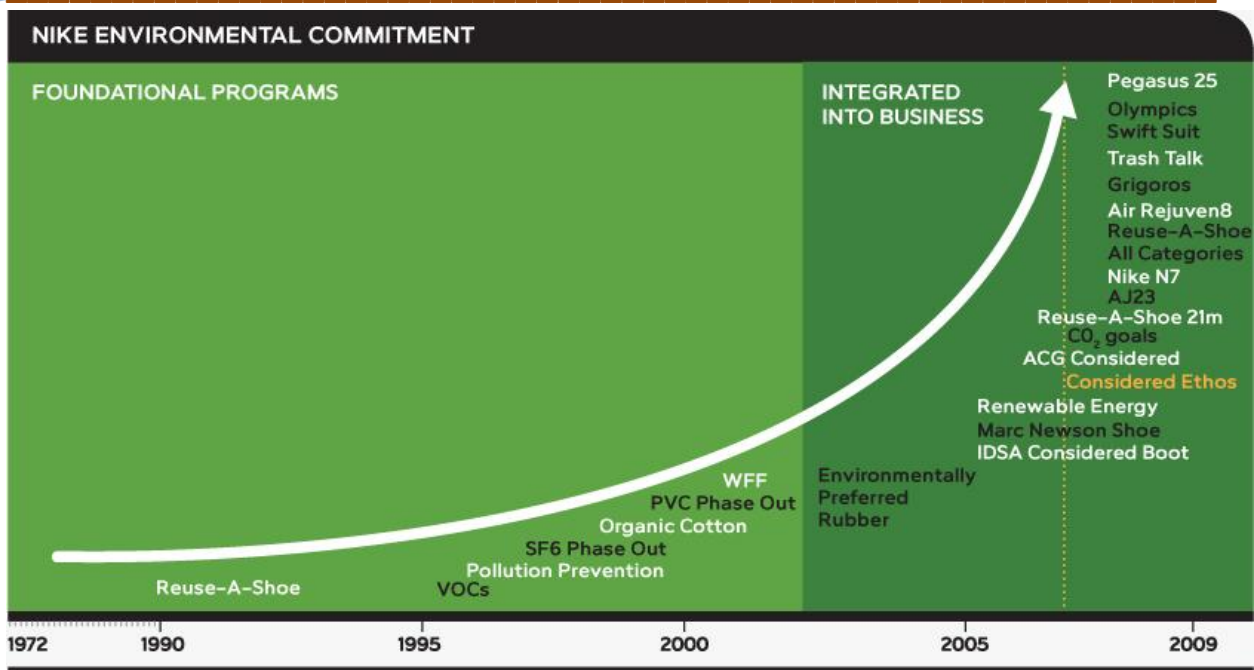


Exhibit 2 NIKE, Inc., Cumulative Total Community Investment (\$m)

(Nikebiz Corporate Responsibility Report, n.d.)



Appreciation

Conclusion

Time is ripe now for businesses to embrace the multifaceted concept of CSR. The hallmark of a sustainable enterprise is not just efficiency, mechanisms to encourage meritocracy, diversity, innovation and long-term planning but also essentially recognizing that a corporation's long-term interests are intellectually and financially consistent with resource efficiency, proactive health and safety practices, and responsible leadership. Sustainability is when what is good for a company is also good for the planet. The Nike saga is a clear example of the fact that if Companies ignore CSR it will be at their own Peril. These days, corporate motivation seems almost beside the point because of the significant business risks to ignoring CSR. Consumers and other companies are likely to shun firms that develop unethical reputations. And arguably, companies that don't pay attention to their ethical responsibilities are more likely to stumble into legal troubles as did Nike. Quite simply, companies have to care about CSR because their customers do. Consumers, by and large, are a self-motivated and self-interested lot. And in the Electronic Age, where information about a given company's environmental record and labor practices is readily available — and readily tweeted and retweeted — companies must pay careful attention to what their customers do and say. And, because of things like social media, like-minded people more easily find each other, have their say and effect change. There's a level of transparency that wasn't there before. Further, CSR is also a way to attract and retain talent. (Knowledge@Wharton, 2012)

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