

# NIKE | Generation III

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## A. Case Introduction

In February 2007, NIKE announced its strategy to grow its revenue to \$23 billion by FY11, up from \$15 billion in FY06. The company anticipates that 75% of this growth will be generated by the NIKE brand, built on product innovation, brand leadership, and increased geographic expansion and market penetration.

The other critical component to this growth strategy is achieving operational excellence by managing costs and driving efficiency. Such disciplined operations management is driven by lean manufacturing practices, materials consolidation, style and SKU productivity, and gaining supply chain efficiencies through human resource management.

NIKE views this strategy not only as a driver for business excellence, but also as a driver for compliance in its contracted supply chain. Known as “ROI<sup>2</sup>” (Return on Investment Squared), this strategy drives policy at NIKE and views sustainability and compliance as a source of profitable growth and innovation for the company. By identifying and addressing the root causes of noncompliance, NIKE believes this will both improve working conditions and have the potential to improve business. This shifts the discourse from corporate responsibility and trade-offs to sustainability and win-wins.

This case examines one corporation’s attempts to apply the United Nations Global Compact Principles in its business operations, particularly in the areas of Human Rights and Labor Standards. Please see Principles #1-6.

## B. Company Profile

### Company Overview

NIKE is a major American athletic footwear, apparel and sporting equipment company with revenues of \$15 billion in FY06.<sup>1</sup> Headquartered in Beaverton, Oregon, NIKE employs approximately 28,000 people in over 160 countries. Its subsidiaries include Cole Haan, Converse, Hurley International, and Exeter Brands Group.

NIKE is the largest seller of athletic footwear and athletic apparel in the world. The company has historically differentiated itself from its competitors with its strategy of product innovation and marketing (brand identity, celebrity endorsements, logo).<sup>2</sup>

### NIKE’s Supply Chain

NIKE contracts most of its production to factories overseas. NIKE’s business model was developed by Phil Knight when he realized that he could outsource shoe production to lower-cost Japanese producers, as was being done in the US consumer appliance and electronics markets.<sup>3</sup>

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<sup>1</sup> NIKE SEC Form 10-K, File No. 1-10635, July 28, 2006. Please see:

<http://www.sec.gov/Archives/edgar/data/320187/000119312506156152/d10k.htm>

<sup>2</sup> “Hitting the Wall: NIKE and International Labor Practices,” HBS Case 9-700-047 (2000), page 2

<sup>3</sup> “International Sourcing in Footwear: NIKE and Reebok,” HBS Case 9-394-189 (1994)

When costs increased in Japan in the 1970s, NIKE moved its production to suppliers in Korea and Taiwan. When Korea and Taiwan began to develop economically and costs began to rise, NIKE worked with its lead suppliers as they re-located some of their operations to other, lower-cost countries such as Indonesia, China, Thailand and Vietnam.<sup>4</sup>

In addition to NIKE's 28,000 employees, there are an additional 770,000 workers employed in over 680 NIKE-contracted factories across 49 countries.<sup>5</sup> The majority of these workers are women between the ages of 18-24 years old. The majority of NIKE footwear is manufactured in China (35%); Vietnam (29%); Indonesia (21%); and Thailand (13%).<sup>6</sup> Independent contract manufacturers in 49 countries produce all NIKE branded apparel for sale to the international market as well as the U.S. Most of this apparel production occurs in China, Indonesia, Malaysia, Thailand and Turkey. NIKE's largest single apparel factory accounted for approximately 5% of total FY06 apparel production.<sup>7</sup>

While NIKE's differentiation strategy of outsourcing and intense marketing has allowed it to topple competitors, this business model has also passed the pressure of keeping costs low on to suppliers. Some critics, such as journalist and activist Naomi Klein, argue that reform within NIKE is not possible since it is their business model itself that is inherently flawed.<sup>8</sup>

In 2000, Klein published *No Logo*, an international bestseller that criticized America's consumer brand culture and the corporations behind the mass marketing.<sup>9</sup> She was particularly critical of NIKE, arguing it is guilty of exploiting workers in the world's poorest countries in pursuit of greater profits. On March 8, 2000, NIKE responded to Klein's criticisms, offering a point-by-point rebuttal to many of the claims in the book.<sup>10</sup> While NIKE acknowledged the accuracy of incidents occurring in the early 1990s, it argues that Klein fails to recognize NIKE's progress and its 'industry-first' labor initiatives. Indeed others, such as *The Economist*, argue NIKE's business model is similar to almost all consumer product brands and that reform is possible, as NIKE has already made much headway in the last eight years.

### C. Case Story

#### **“The Story Behind the Swoosh: NIKE's CSR Journey”**

##### Monitoring for Compliance

NIKE has come a long way from its scandal-ridden days of social *ir*responsibility in the international garment and footwear industry. After a series of well-publicized labor incidents with underage workers in Indonesian plants, allegations of forced overtime in China, and

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<sup>4</sup> “Hitting the Wall,” HBS Case (2000), p. 3

<sup>5</sup> Just to give some perspective, Wal-Mart contracts production to 7200 factories – 10 times the number of factories NIKE contracts.

<sup>6</sup> SEC Form 10-K, July 28, 2006.

<sup>7</sup> Ibid.

<sup>8</sup> Klein, Naomi. *No Logo* (New York: Picador Press, 2000)

<sup>9</sup> Ibid.

<sup>10</sup> “NIKE's Response to *No Logo*,” March 8, 2000. See

[http://web.archive.org/web/20010618162615/http://NIKEbiz.com/labor/nologo\\_let.shtml](http://web.archive.org/web/20010618162615/http://NIKEbiz.com/labor/nologo_let.shtml)

dangerous working conditions in Vietnam during the 1980s and 1990s,<sup>11</sup> NIKE became “synonymous with slave wages, forced overtime, and arbitrary abuse,” as conceded by NIKE’s own CEO, Phil Knight.<sup>12</sup> NIKE’s initial reaction was to be defensive, arguing that these were the practices of its suppliers who were contractors and not its own employees. Yet in the courtroom of public opinion, perceptions mattered just as much, if not more than, reality. NIKE executives knew they had to make some changes.

With “Generation I,” NIKE came to develop a stringent code of conduct. NIKE’s Code of Conduct requires factories to provide each worker at least the minimum wage; a clear, written accounting record for every pay period; prohibits factory owners from deducting employee pay for disciplinary infractions; and strongly prohibits child labor. In order to enforce this Code of Conduct, comprehensive monitoring tools were developed. Compliance specialists were hired, hundreds of factory audits were conducted, and relationships with multiple stakeholders were forged. This stage of NIKE’s CSR journey was known as “Generation II.”

NIKE endorses the United Nations Global Compact Ten Principles, as well as the CERES principles. It is an active supporter of the Global Reporting Initiative (GRI), and in 2005, received much acclamation for being the first in the industry to voluntarily disclose the names and locations of active contract factories making its products.<sup>13</sup> NIKE was serious about improving labor conditions, yet was not sure if its singular strategy of monitoring for compliance was achieving key results.

*“We’ve come to realize that, while monitoring is crucial to measuring the performance of our suppliers, it doesn’t per se lead to sustainable improvements,” says Hannah Jones, NIKE Inc.’s Vice-President for Corporate Responsibility. “We still have the same core problems.”<sup>14</sup>*

NIKE’s FY04 Corporate Responsibility Report underscores the limited capabilities of monitoring alone - 134 of the 497 factories (27%) producing NIKE apparel scored a “C” or “D” grade, poor scores indicating serious violations of its Code of Conduct.<sup>15</sup> Currently, NIKE’s goal is to move contract factories earning a “C” or “D” grade to a higher grade within three to six months, respectively. The goal being that there are no “D” rated factories in the supply chain for more than six months. Nike will work with the factory on the related issues and if progress is made, NIKE will remove that factory from its list of approved factories. In the event that a factory is in clear violation of its Code of Conduct, NIKE will terminate its contract with the

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<sup>11</sup> “Hitting the Wall,” HBS Case (2000), p.1

<sup>12</sup> Phil Knight, Speech to the National Press Club, May 12, 1998

<sup>13</sup> NIKE was awarded top honors by SustainAbility’s Global Reporting Initiative as the top U.S. reporter (<http://www.csrwire.com/PressRelease.php?id=6800>), and the Ceres-ACCA North American Award for Sustainability Reporting ([http://www.ceres.org/news/news\\_item.php?nid=159](http://www.ceres.org/news/news_item.php?nid=159)); Fortune magazine named the company to its annual “Best Companies to Work For” list in 2006, citing its compliance efforts and response to overseas manufacturing conditions (<http://money.cnn.com/magazines/fortune/bestcompanies/2006/snapshots/945.html>). NIKE earned placement on Calvert Social Index, Dow Jones Sustainability Indexes, KLD’s Broad Market and Large Cap Social Indices, and the FTSE4Good Index Series.

<sup>14</sup> “Secrets, Lies, and Sweatshops,” Business Week, November 27, 2006

<sup>15</sup> NIKE, 2004 Corporate Responsibility Report, <http://www.NIKE.com/NIKEbiz/NIKEbiz.jhtml?page=29&item=fy04>

factory, as it did with Saga Sports in Sialkot, Pakistan, when it was found the factory was not adhering to the contractual agreement or the Nike Code of Conduct in the stitching of NIKE branded soccer balls.<sup>16</sup>

In July 2006, Richard Locke of the MIT Sloan School of Management released a detailed study of factory audits of over 800 of NIKE's suppliers located in 51 different countries. Locke found that working conditions at NIKE's suppliers are mixed.<sup>17</sup> While there was a slight improvement overall in factories' labor conditions over the course of two or three inspections, the vast majority of factories move in and out of compliance with Nike's standards. Many suffer from persistent problems with wages, work hours and health and safety issues.

The Fair Labor Organization (FLA), a multi-stakeholder coalition of companies, universities, and NGOs, found similar results in its experience with monitoring. The FLA, of which NIKE is on its Board of Directors and it monitors a sample of NIKE's factories annually, recently shifted its focus from monitoring labor conditions and remediation (FLA 2.0) to developing capacity for compliance at the factory level (FLA 3.0). The FLA 3.0 program seeks to identify the root causes of persistent non-compliance, and then pools constituent resources and works to increase collaboration amongst companies to address these issues.<sup>18</sup> The FLA also creates opportunities for local stakeholders to play a role in identifying priority compliance issues, provide capacity-building services and assess suppliers' progress.<sup>19</sup>

Nike's own monitoring data revealed five major areas where noncompliance with labor standards occurs within the apparel, equipment and footwear industries: absence of freedom of association and collective bargaining; harassment and abuse of workers; excessive hours of work; inaccurate or non-payment of wages; and environment, health and safety issues. The root causes of noncompliance typically emerge from national and international socio-political-economic conditions; factory management; and the buyers themselves.

With these results in mind, NIKE began to think critically about some of its own practices at the management level that could be contributing to poor working conditions.

*"We've come to the conclusion that we can monitor until we're blue in the face, but it's just policing. It's not getting to some of the root problems. And some of those root problems are actually affected by what NIKE does."<sup>20</sup>*

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<sup>16</sup> "Nike Ends Orders with Soccer Ball Manufacturer," Nike Press Release, November 20, 2006, <http://www.nike.com/nikebiz/news/pressrelease.jhtml?year=2006&month=11&letter=l>; "Nike's Dilemma: Is Doing the Right Thing Wrong?" Christian Science Monitor, December 22, 2006, <http://www.csmonitor.com/2006/1222/p01s03-wosc.html>

<sup>17</sup> Richard Locke, Fei Qin, and Alberto Brause, "Does Monitoring Improve Labor Standards?: Lessons from NIKE" MIT Sloan Working Paper No. 4612-06, July 2006

<sup>18</sup> There are currently 20 leading brand-name companies participating in the Fair Labor Association. These are adidas AG, Asics, Eddie Bauer, Drew Pearson Marketing, GEAR for Sports, Gildan Activewear, H&M, Liz Claiborne, Mountain Equipment Co-op (MEC), New Era Cap, Nordstrom, NIKE, Outdoor Cap, Patagonia, Phillips-Van Heusen, PUMA, Reebok, Top of the World, Twins Enterprise, and Zephyr Graf-X. See <http://www.fairlabor.org/all/about/index.html>

<sup>19</sup> See <http://www.fairlabor.org/all/resources/FLA3.0/index.html#events>

<sup>20</sup> Charles Gatchell, Strategic Planning Manager, Corporate Responsibility, NIKE. Interview with author, January 2007

Over a period of several months, key departments came together to examine NIKE's business decisions and practices that could be affecting labor conditions in its supply chains. Soon enough, "Generation III" was born.

### **Generation III: Moving Upstream**

*"Today we see that compliance on the factory floor is a barometer for business excellence both within Nike and for our factory partners. This then becomes a business discussion rather than a question of compliance or policing. That changes the nature of the dialogue considerably."*

- Nike FY06 Corporate Responsibility Report

"Generation III" is named so as it is the third generation of methodology for improving worker conditions in factories. Generation I and II (standards and monitoring, respectively) did not achieve the desired result of system change that NIKE and the industry had envisioned. Monitoring alone did not resolve some of the thorniest workers' rights issues; it needed to be complemented with an overarching strategy that met workers' needs *and* made business sense. Thus the vision behind Generation III is that of "responsible competitiveness," where NIKE's productivity is enhanced by explicit account of its economic, social and environmental performance.

With this strategy of ROI<sup>2</sup> driving policy within NIKE, it is apparent that sustainability and workers' rights are not just a responsibility, but also a source of financial growth for the company. If policies aimed to improve workers' rights do not make business sense, then they fail to be sustainable and produce systemic change.

The ROI<sup>2</sup> strategy is most evident in the areas of lean manufacturing; upstream focus; factory ownership and accountability; and cross-industry collaboration.

#### **1. Lean Manufacturing Practices**

Aligning sustainable strategies to NIKE's business strategy will be achieved by refocusing NIKE's manufacturing model. Here are some key features of this realignment:

##### *Eliminating Waste*

NIKE employs lean manufacturing practices in order to eliminate waste, reduce costs, and simultaneously achieve improved labor conditions in its supply chain while creating the highest-quality product. Lean manufacturing is a management philosophy that focuses on reducing different forms of waste to improve overall customer value: transportation, inventory, motion, waiting time, over-production, processing, and defective products (such as scrap materials). By eliminating waste, especially material and lost time, quality is improved and production time and costs are reduced.

NIKE officials believe this manufacturing model will allow NIKE to get closer to the market in order to understand what its consumers want. By better determining consumer demand, SKU management and productivity will improve, and manufacturing partners, from the design of the product to the final sale, will become better aligned.

*“We live in a world where the consumer decides when they want to buy. The footwear and apparel industry is driven by consumer buying habits, therefore there are going to be seasonal spikes. What we are truly doing is working to build capacity planning capabilities to ensure, to the best of our abilities, that we are not overbooking our manufacturing partners. The closer that we get to understanding the market, the better and more accurate the information we are putting into the system than in the past.”*

In the long-term, NIKE seeks to align factory human resource management (HRM) with lean manufacturing concepts driven by the manufacturing units. Key characteristics of this alignment will include freedom of association for workers and productivity-based wage improvements. Insofar as wages, a key potential benefit of lean manufacturing is a higher-skilled, higher-paid workforce, since the workers will be trained to perform multiple tasks and will increase their productivity. As efficiency and quality improve, so do productivity and profitability, and these gains are shared with workers who will now have higher skill sets and more value in the market.

NIKE admits that a shift to lean manufacturing does not guarantee (indirect) increased wages, as other factors such as the costs of manufacturing (such as petroleum or cotton), in/consistent sale price to buyers, and the assumption buyers will hold prices steady can all affect wages. In FY08, NIKE plans to evaluate currently wage levels at selected contract factories that implement lean manufacturing in order to determine the impact of productivity on wages; build a set of measures for factories; and identify best practices to promote ROI<sup>2</sup> with other factories.

Protecting the right to freedom of association is one of the most challenging issues NIKE (and the rest of the industry) faces. Better HRM will involve education programs for contract factory workers and managers and setting up grievance systems to address workers' grievances.

NIKE's goal is to have 90% of its footwear production come from lean lines by the end of FY11. In apparel production, 18 contract factories (comprising nearly half the volume of worldwide NIKE apparel production) have begun lean training and another six will begin in FY08. Over time, it is believed these enhanced operational practices will translate into reduced costs and thus a better price-value to the consumer. This will lead to the price-value benefits of potentially better wages for workers and investments in working conditions.

#### *Materials Consolidation*

In addition to enhancing operational practices such as meeting product process deadlines and better planning, NIKE will work to reduce the materials palette. With better control of the material palette on the front end, NIKE can better plan with its material vendors, thus having the required materials delivered on-time during the production process. Not only will this elevate product delivery performance to the retail customer, consolidating materials will work indirectly to elevate workplace practices through reasonable hours of work.

#### *SKU and Style Productivity*

The CR, operations and manufacturing leadership seek to raise awareness of the correlation between proliferation of product styles and declining factory performance on quality, delivery and compliance. With fewer styles there will be greater returns for both business performance

and working conditions.

NIKE's CFO Don Blair explains:

*“One of the great strengths of our company is our ability to create compelling innovative products that excite consumers. But there can be too much of a good thing. Each quarter we sell about 13,000 different styles of footwear and apparel and because of our high rate of seasonal turnover, we sell tens of thousands of different styles every year. And there are many additional styles that make it part way through the process, but don't end up in the final line that goes to market.*

*Each one of these tens of thousands of styles drives costs; costs for design, development, sampling, transportation, storage and sales. For footwear 95% of our revenue comes from about 35% of our styles and for apparel the figure is about 40%.”<sup>21</sup>*

In an effort to drive down costs and better focus on consumer demand, NIKE will focus its competitive strategy on customization and adaptable products like “NIKE Plus.” Good for business and revenue growth, such a strategy also works to reduce the possibility of excessive overtime by reducing the number of styles available and requiring advanced planning. By squeezing more value out of its operational and management practices, NIKE will not only improve profitability but also potentially improve labor conditions.

#### *Evaluation: The Balanced Scorecard*

Before Generation III, NIKE focused on the ratings of the contract factories obtained by monitoring separate from other business measures. Yet with Generation III, NIKE uses a balanced scorecard to track the measures identified as ROI<sup>2</sup>: quality, price, delivery, and compliance. Developed by strategic planners and senior managers within manufacturing, operations and corporate responsibility, the compliance rating is based on the supplier factory's Labor and ESH audit scores. Each one of the four metrics (quality, price, delivery, compliance) is worth 25% of the total balance scorecard. NIKE rewards the best performers with the best opportunities.

## 2. Upstream Focus

### *Excessive Overtime Taskforce*

In June 2005, NIKE founded an “Excessive Overtime Taskforce” to identify internal practices that trigger excessive overtime after its FY04 report recognized excessive overtime hours to be one of the most pressing and pervasive issues in NIKE contract factories. Chaired by current CEO Mark Parker, the task force has identified 10-12 issues created by the buyer (NIKE), the country, and the contract factory that lead to overtime beyond the legal limits. The goal is to reduce the number of drivers in the supply chain that contribute to overtime, such as poor application of laws, flawed factory management approaches and faulty upstream performance of buyers.

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<sup>21</sup> Investors Meeting, “The Consumer Decides: NIKE Focuses Competitive Strategy on Customization and Creating Personal Consumer Experiences -- Data about the NIKE Plus Personalization System,” [http://mass-customization.blogs.com/mass\\_customization\\_open\\_i/2007/02/the\\_consumer\\_de.html](http://mass-customization.blogs.com/mass_customization_open_i/2007/02/the_consumer_de.html)

NIKE's Director of Compliance explains what NIKE asks its own staff to do to help accomplish this goal:

*"We are building the discipline to hit your required production dates therefore making the right decisions at the right time that do not put too great of a burden on the manufacturing partner to meet their delivery dates."*<sup>22</sup>

While some excessive overtime can be attributed to the cyclical nature of the product cycle in apparel, brands can be more proactive in reducing the amount of overtime needed to meet product deadlines. Late design changes and poor forecasting by buyers put pressure on factory managers to meet deadlines. This can be exacerbated by factory managers who have completed poor production planning, or unexpected events such as power shortages or late material arrivals.

*"We realize the need to educate our product creation folks and our manufacturers, and acknowledge that all these upstream decisions can and will affect the manufacturing capability of our manufacturing partners which could possibly lead to pressure of overtime."*

The Overtime Taskforce identified different areas that will both provide financial benefit to NIKE as well as control excessive overtime. These areas overlap with lean manufacturing processes to ensure cost control and improve labor standards:

1. **SKU Productivity:** Fewer styles decrease the complexity within the supply chain and can generate greater profitability as costs for extra materials and labor are reduced
2. **Materials Consolidation:** Leads to less complexity and less volume of diverse materials in order to ease pressure on the supply chain
3. **On-time Commercialization:** Meeting product deadlines on buyer side is crucial so the added pressure to deliver to market on time is not placed on the factory. The factory will benefit as it will save on extra costs of rushed airfreight to deliver back to the buyer on-time.
4. **Forecast Accuracy:** Crucial to get close to the market in order to ensure accurate product forecasts. Inaccurate forecasts can cause significant and sudden increases or decreases in orders.
5. **Sample Reduction:** Reducing samples will positively impact the factory floor, as well as significantly reduce the amount of waste generated in the overall supply chain. The need for sales samples is part of the traditional business model, which is to be replaced with lean manufacturing practices.

Early warning systems are a potential solution to signal when time pressure will lead to excessive overtime. Better upstream education about time-pressure impacts for all the business units from strategic planning to product design can also prove effective. Downstream education is also important, as most contract factories underestimate the true cost of excessive overtime. Costs such as turnover rates, costs of recruiting and training, and lost time due to incidents and accidents all add to the factory's expenses. It is critical to continuously make the business case for eliminating excessive overtime, since for most factories the business case is what will most likely lead to compliance.

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<sup>22</sup> Charlie Brown, Director of Compliance, NIKE. Interview with author, January 2007.

### 3. Factory Ownership and Accountability

Traditional tariff and quota systems under the Multi-Fiber Agreement have led many in the industry to have a short-term view of the relationship between buyer and supplier. This in turn leads to a short-term view of suppliers' relationships with their workers. NIKE seeks to move toward lean manufacturing and have fewer strong, long-term strategic partnerships with suppliers. Staying with a factory that meets labor standards can prove to be more profitable in the long-term, since moving sourcing to new factories with perceived lower costs means additional time and resources to get them to compliance.

NIKE country teams, which are educated on CR standards by the Compliance department at Headquarters, will then in turn educate local manufacturers to apply the same standards used by global product engines. The Compliance team applies the same New Source Approval Process used for global suppliers to manage the quality and number of suppliers engaged by any specific country business unit.

#### *Focus Countries, Focus Factories*

One area of re-organization is NIKE's relationship with its strategic manufacturing partners. The Compliance department will focus its energy and capacity-building efforts on the 20% of suppliers that account for 80% of the long-term and strategic impact to NIKE. These "focus factories" are long-term NIKE partners with more than 25% of their business from NIKE, and who have more than 400 workers each. Each focus factory will have an activity plan co-developed by the factory, the Compliance department, and the NIKE business unit. In total there are 112 focus factories.

These key suppliers are located across ten "focus countries": China, Indonesia, Vietnam, Thailand, India, Turkey, Morocco, Mexico, Honduras, and Brazil. These ten countries hold the largest share of NIKE production, and their specific levels of potential risk have been identified. Focusing on the performance of this 20% group allows NIKE to better manage the performance and capacity-building efforts within these factories.

### 4. Cross-Industry Collaboration

Collaboration amongst brands is crucial in order to improve labor conditions in factories across the board in the apparel and footwear industry. Currently, NIKE is working on collaborative efforts with other brands in the apparel and sport equipment side. Since the majority of NIKE's manufacturing partners are solely aligned with NIKE on the footwear side, NIKE is in discussion with other brands on the apparel side such as the Gap Inc., Levi's, and Timberland to collaborate on auditing process and procedures and the remediation process.

*"We all work with the same factories and we all have the same problems in our factories, so we should be solving these problems together, because these are real issues that are beyond our companies. These (labor and compliance) issues affect the livelihoods of the people who make our products."*<sup>23</sup>

Collaboration amongst the brands would lead to greater efficiency in the factories. A typical factory that produces goods for some of the leading brands is subject to audits from each of the

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<sup>23</sup> Charles Gatchell, Strategic Planning Manager, Corporate Responsibility, NIKE. Interview with author, January 2007

brands. Not only is this hugely inefficient, both for the factory and the brands, but it can also support corruption at the factory level. There is a growing crop of “CR consultants” in China who are hired by factory managers to help them pass the audits, sometimes by creating double sets of accounting books or finding other creative ways to fool auditors. If the brands unite their efforts and do one audit for every three, for example, this incentivizes the factory to keep up to code so as to face fewer audits. This same logic led NIKE to disclose its factory lists in 2004, in the hope that the other brands would follow suit and propel an organic movement amongst the brands. Puma and Timberland have already followed suit.

In addition to collaboration around auditing, NIKE hopes to align with other brands to provide training opportunities to factory managers.

*“We want to employ best practice with HR management. We will first implement this with our strategic partners, and from there with all our manufacturing partners. With key brands, we hope to share our facilities to ensure that they back the implementation process. So we are definitely sharing as these programs are developed, and with that we want to continue involving external stakeholders in capacity building roles.”<sup>24</sup>*

Beyond working with other brands to improve labor conditions in factories, NIKE is working with the International Labor Organization, the Fair Labor Association, NGOs, and governments to develop industry-wide change. NIKE is involved in the JO-IN Project (Joint Initiative on Corporate Accountability and Workers Rights) in Turkey, which involves six major MSIs to test common codes and monitoring programs.<sup>25</sup> Seven multinational brands joined the initiative for the purpose of conducting the trial project in Turkey – NIKE, Gap Inc., Adidas, Hess Natur, Marks and Spencer, Patagonia and Puma.

NIKE also supports the ILO Better Factories Cambodia project and subscribes to its world-first information management system (IMS), a computerized system for monitoring and reporting on working conditions.<sup>26</sup> NIKE is one of about 20 international buyers who has committed to source garments from Cambodia, which is seen as crucial for the survival and growth of the country’s garment industry, and has helped establish an international buyers’ forum to help buyers speak to other stakeholders as one voice and promote Cambodia to other garment buyers based on the country’s good record on labor standards.

NIKE seeks to move beyond brand collaboration on identifying shared contract factories to developing common code application standards, audit tools and methodologies. This will lead to the improved quality of factory performance data and more efficient monitoring and data gathering without adding extra dollars for such an effort.

## **The Road Ahead**

The carrot-stick approach of monitoring for compliance has proven to be insufficient in tackling the most difficult labor issues. NIKE is placing great value on the ability of its ROI<sup>2</sup> strategy to

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<sup>24</sup> Charlie Brown, Director of Compliance, NIKE. Interview with Author, January 2007

<sup>25</sup> See <http://www.jo-in.org>

<sup>26</sup> See <http://www.betterfactories.org>

align business and social returns into its financial statements to address many of the most difficult and challenging labor problems that remain unresolved through monitoring and reporting. By focusing on three key areas: affecting systemic change for workers in the apparel, footwear and sport equipment industry; implementing sustainable business models; and using sport as a tool for social change, NIKE underscores its progression in its CSR journey. This innovative ROI<sup>2</sup> approach may prove to be NIKE's most successful stage in its CSR journey.