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The Rise of the Corporate Citizen: Nike's Evolving Supply Chain

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These days, your new sneakers are far more likely to have spent more time traveling than you have. Every day, each of us comes in contact with a multitude of products that have been produced outside the United States. In fact, in marked contrast to the U.S. business landscape as recently as 30 years ago, it would be hard to identify a major corporation today that does not rely heavily on overseas labor for some aspect of its production.

Producing goods cheaply overseas has become a strategic necessity for many producers in a wide variety of industries. But the growth of the global supply chain has also created a new class of ethical questions, particularly for those in management roles in global companies. Like so many ethical issues, those related to labor conditions tend to be seen as black-and-white. Working conditions in overseas factories are perceived by many to be inherently exploitative, a perception fueled by a series of extremely effective popular campaigns aimed at motivating change in corporate behavior in this area. In several high-profile instances, these campaigns documented the physically taxing work, the long hours and the exposure to potentially unhealthy conditions facing many overseas factory workers.

On the other hand, proponents of the global labor market argue that overseas factory labor fuels the growth of the global economy and often provides a way out of dire poverty for many people. In fact, proponents argue that in many parts of the developing world conditions in existing occupational options, such as subsistence farming and other forms of hard labor, may be even more unhealthy and exploitative than factory labor. The enthusiasm that local people often have for factory work can arguably be seen as a confirmation of this suggestion.

Globally, these issues are particularly complex, since there is no universally accepted set of regulations that determines minimum standards for labor conditions. This lack of global regulation raises some complex questions: What kind of relationship exists between suppliers and the companies who purchase their goods? In turn, what kind of responsibility falls on the shoulders of consumers? Whose job is it to ensure that conditions for workers who are supplying goods internationally fall in line with standards that are acceptable to the end users?

The combination of the black-and-white attitudes highlighted earlier with the complexity of the questions that exist in this area initially led to a stalemate, with nongovernmental organizations and many consumers on the one hand claiming that corporations were in the wrong, and corporations on the other hand claiming either that they were not responsible for overseas workforces or that they were simply responding to consumer demand.

Over time, however, multinational corporations have begun to accept that, as employers of hundreds of thousands of direct employees and contractors, they may—through their corporate policies and the standards they set for their suppliers—have an impact that rivals, or even surpasses, the standards and laws created by the countries where they manufacture their goods. This has been more than an evolution in policies, though changing policy has been an important component of the transition. At heart, the change in attitude marks a significant transition in the role and identity of large multinational corporations, moving them from a role as impersonal suppliers of goods to actors on the world stage and requiring them to think both holistically and humanistically about the complex web of relationships and actions that go into producing their products.

A great deal about this transition toward corporate citizenship can be learned by looking at the companies that have been attempting to navigate it. The changes that Nike has made to its supply chain constitute one of the most compelling stories of supply-chain evolution in the past half-century. Few companies have received more public attention for the challenges and mistakes in the human aspect of their supply chain than Nike, but in turn, few companies seem to have ultimately taken as many steps to respond to these criticisms and to rethink their very manufacturing process.

In many ways, the history of Nike parallels the growth of the overseas labor market. At the company's inception in 1964, when it was known as Blue Ribbon Sports, Nike's basic business model focused on a competitive advantage achieved by sourcing athletic footwear in Japan at a time when most major athletic apparel companies were still producing their athletic footwear in Western countries. In 1972, the company unveiled the Nike brand for its line of custom-designed shoes produced in Japan; it changed the company's name to Nike six years later. As the costs of Japanese labor increased during the 1970s, Nike sought alternatives to maintain its low-cost, premium-product model, including opening factories in the United States to serve domestic demand.

In the early 1980s, however, Nike transferred all of its production to developing Asian countries, in particular to Taiwan and Korea, where government incentives had encouraged rapid growth in the production of footwear. Later in the 1980s, increasingly higher wages in Taiwan and Korea resulting from increased prosperity in those two countries forced Nike to seek new locations for its factories to maintain the company's low-cost-labor business model. Nike worked with many of its existing suppliers to open factories in Indonesia, Vietnam and China. While Nike closed many of its factories in Taiwan and Korea, it often continued to work with the management teams from those factories to manage its factories in developing economies.

While Nike was originally known as a sneaker company, the company expanded its product lines over the years to include a broad variety of footwear and clothing. As of 2006, the Nike line included 50,000 distinct styles of footwear and clothing. This expansion also necessitated an increasing number of factory sources, since factories often specialized in producing certain types of products. Nike's huge labor force in 2006 included almost 800,000 contract employees working in more than 700 contract factories in 52 countries, with Nike estimating that 80 percent of these workers were women between the ages of 18 and 24.

The complexity of this supply web also created significant distance between Nike management and the day-to-day realities in the factories themselves. Nike designers and managers in the United States often had little or no interaction with their overseas factories, which generally were managed by local vendors or by the management teams from Nike's existing suppliers in Taiwan and Korea. Both the local vendors and Nike's existing suppliers had factory-management standards very different from Nike's in some cases and were often trying to squeeze as much value as they could out of their marginal cut, keeping factory costs low by whatever means possible.

In the early 1990s, a series of scandals forced Nike management to confront the often distressing realities of the conditions in the factories the company was supporting. Nike's labor practices began to garner attention in 1992 when the *Oregonian,* Portland's major daily newspaper, published an article critiquing Nike's factories in Indonesia. Subsequent stories on the issue appeared in the *Economist,* the *New York Times* and *Rolling Stone* and on CBS's *48 Hours*. Many of these stories focused on the very low wages being paid to Nike factory workers in Indonesia, where the Korean managers of Nike's factories had negotiated an exemption from the country's minimum-wage requirements. Initially, Nike responded to these criticisms by claiming that the company was not responsible for the actions of its overseas contractors, but by 1999, Nike instituted a policy of paying wages in Indonesia that exceeded the minimum wage.

Similarly, Nike faced international criticism when a 1996 *Life* magazine article featured a photo of a 12-year-old boy hand stitching a Nike soccer ball. Through investigation by *Life* and other media outlets, it was revealed that many of the Pakistani workers who were manufacturing Nike soccer balls were children working out of their homes. According to Nike sources, the strength of the public reaction to the image in *Life* definitively helped to illustrate how serious this issue was for Nike and motivated the company to begin to rethink its supply-chain policies. The company worked with international bodies to create regulations prohibiting the use of child labor in Pakistan, and also provided palliative support for children who had worked for Nike.

Additionally, other news coverage throughout the 1990s questioned Nike's commitment to its health-and-safety precautions for the company's workers, exposed more examples of sub-minimum-wage policies at certain factories and illustrated the ways that workers were forced—or in some cases chose to—work for as many as 20 hours a day. By the end of the 1990s, it was clear that issues related to global-supply-chain management were a real and quantifiable issue for Nike, with the potential to undermine the value of the Nike brand.

In response to these threats, Nike took several steps to improve conditions in the factories where the company sourced its products. It created a variety of new departments devoted to labor practices in the company's factories, ultimately bringing together these departments in the company's Corporate Social Responsibility and Compliance department in 2000. According to Nike, as of December 2007, there were 120 Nike employees working exclusively on corporate social responsibility.

In its fiscal year 2005–06 corporate social responsibility report, Nike identified three chronological "generations" of actions that formed parts of its attempt at reform within its supply chain. In Generation I, Nike created standards for its suppliers and factories, beginning with a standard code of conduct in 1992. In Generation II, Nike attempted to create systems to monitor these standards, including site visits and external audits. By 2004, however, both external auditors and Nike staff came to believe that these efforts had fallen short of bringing about true change: both written standards and monitoring visits were relatively easy to work around, and neither provided effective means of enforcement along the distribution chain.

In 2004, Nike created its Generation III philosophy, which it called "responsible competitiveness." This philosophy aims to focus on the root causes of labor exploitation and to bring about systemic change to prevent such abuses, rather than to monitor abuses after they have occurred. Perhaps most significantly, Generation III marks an acknowledgement by Nike that issues of labor compliance have to be built into the essence of its business strategy. In particular, Nike posits that building long-term relationships with suppliers is a key component of effecting systemic change, a reversal of the company's historical practice of pursuing low prices on an item by item basis, as opposed to creating lasting supplier relationships.

These longer-term relationships simultaneously enhance the company's ability to monitor labor issues and give Nike more leverage to encourage suppliers to change their perception of laborers and to value laborers' work more highly. By encouraging its suppliers to build longer-lasting, more respectful relationships with their workers, Nike believes it will also help reduce factory-employee-turnover costs.

In addition, Nike has begun to make its manufacturing systems more lean, a practice most commonly used in automobile manufacturing. Historically, footwear and apparel were produced using long assembly lines, with each factory worker trained in a single task, representing a particular stop on the line. In contrast, lean manufacturing trains workers in teams, providing them with a variety of skills and allowing each team the ability to troubleshoot and correct problems with its production in real time. This approach aims to minimize waste—both physical waste and the cost of inefficiently used time—and further empowers workers. Nike currently produces approximately a third of its footwear using lean assembly systems and aims to have 90 percent of its footwear produced this way by the end of fiscal year 2011.

As a sign of Nike's commitment to its Generation III philosophy, the company publicly disclosed the locations of its factories in 2004. Up until that time, it had generally been considered a matter of competitive advantage to keep this kind of information confidential. Nike's choice to disclose this information was publicly lauded by human-rights advocates. The company has also encouraged its competitors to release information about which factories they are using to produce their goods in the hope that companies working in the same factories will be able to standardize their labor practices and apply joint pressure to encourage reform. Nike is also working to improve its monitoring and auditing procedures to more effectively identify and respond to areas where worker's rights are being abused or violated.

Nike's changing relationship with its overseas suppliers serves as an interesting illustration of the broader trends in global-supply-chain optimization and management. In response to public pressure and an internal strategy shift, Nike evolved from a model focused on extracting as much value as possible from factory workers toward whom the company felt little responsibility to a strategy that includes maintaining market leadership by cultivating and protecting strong relationships with its employees and optimizing effectiveness. Unlike historical models where the company focused primarily on its relationship with the consumer, Nike is now attempting to build a model where the needs and demands of the consumer are balanced against the needs and demands of its suppliers and factory employees. While it will take time to fully evaluate Nike's success in reforming its supply chain, this shift in attitude serves as a powerful illustration of the ways that global trade requires companies to think holistically about creating value and ultimately remaining successful.

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