

Sustainable ethical sourcing: The case of Nike

Aber Elsaleiby
Georgetown University
Metropolitan State University - Minneapolis

ABSTRACT

The current study analyses Nike's journey to sustainable sourcing in the global market. The study discusses how Nike's sweatshop supply chain emerged, how customers reacted and what the company did to move their sweatshop supply chain to an ethically responsible supply chain. The case highlights the importance of top management support to drive ethical practices in firms. Indeed, the real transformation to Nike global sourcing practices took place only after Nike's cofounder indicated his commitment to eliminate of Nike's sweatshop factories and its related abusive labor practices. The case uncovers how responsible sustainable sourcing was realized through improvement along both production and people using "lean philosophy," which turned Nike's sweatshop supply chain into a more sustainable and responsible supply chain that powers people who power Nike.

Keywords: Lean, sweatshop factories, supply chains, ethical sourcing, suitability

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INTRODUCTION AND BACKGROUND

In today's global supply chains, suppliers are largely located in economies at the base of the pyramids, where poverty and lack of enforcement of labor rights are dominating (International Labor Organization 2011). Ethical concerns have been raised regarding global sourcing practices of multinational companies (MNC) whose suppliers are mostly located at the base of the pyramids. A wide variety of MNCs fell into the trap of outsourcing their manufacturing to sweatshop factories where child labor, underpayment, forced unpaid overtime, and unsafe working conditions exist. For example, Apple admitted that child labor was used by the tech factories suppliers in China. Abusive treatment of labor was also reported by Adidas sweatshop factories in China, Sri Lanka, and the Philippines (*footwearnews.com*). Hershey, Mars and Nestlé were accused of forced child labor in cocoa farms. Several legal actions were taken against these large chocolate companies for by customers to stop unethical sourcing practices (*guardian.com*). These companies have responded by adopting programs to enforce ethical global sourcing practices aiming to improve the labor standards among their upstream business partners, primarily in developing countries (Locke 2013).

This case study explores ethical challenges within the global supply chain of a major sportswear manufacturer-Nike. In the 80's Nike was criticized for its sweatshop supply chain. However, Nike eventually succeeded in turning its supply chain into a sustainable one through deploying lean production that aims at delivering quality outputs efficiently through eliminating waste, inconsistencies, and unreasonable requirements without compromising labor standards. The case highlights how the ethical challenges evolved over time, how customers responded, and how Nike reacted.

TEACHING OBJECTIVES

- Expose students to global sourcing in emerging markets.
- Students will be able to understand the ethical dilemma associated with global sourcing and moving production to countries at the bottom of the pyramids.
- Students will be able to understand lean production and how it can be a foundation for sustainability.
- Understand the power of consumers on driving ethical practices among manufacturers who are most likely located at the bottom of the pyramids.
- Understand the need of top management support to enforce change within organizations.

NIKE'S SUPPLY CHAIN ETHICAL CHALLENGES

Nike is a US leading sportswear manufacturer and one of the world's most valuable companies. In 2021, Nike generated more than \$44.5 billion in revenue with a gross profit of about \$20 billion (*investors.nike.com*). The company has about 73,300 employees worldwide as of December 2021 (*companiesmarketcap.com*). This means that every single labor contributes about \$273,000 per year to the gross profit generated by Nike.

Nike suppliers were historically criticized for child labor, underpayment, forced unpaid overtime and unsafe working conditions. The company became a symbol of abusive labor since the 80s because of the unsafe and unfair labor practices among its subcontractors (*Breitbart.com*.) Nike's managers refused to take any responsibility claiming that these labors are

not Nike employees. In 1991, Nike's sweatshop supply chain became a major public concern due to its sourcing strategy that was driven by cutting down cost by sourcing manufacturing to Indonesia where workers are paid poverty wages and forced to work under poor working conditions (*harpers.org*). Workers in Indonesia were paid 14 cents per hour, which was much lower than the Indonesia's minimum wage at that time. In 1992, more than a decade after abusive labor practices came to the surface, Nike drafted its first code of conduct to address its labor, environment, and occupational health issues and requires suppliers not only to monitor labor, environment, and safety codes in their factories but also to embrace principles that focus on management as well as the overall well-being of employees.

In 1996, concerns over the child labor of Gifford's clothing were also raised. In response, particularly in 1997, Nike's customers began to boycott Nike products and, as a result, Nike's profit plummeted. Nike reacted to the public criticism by hiring a former United Nations representative, Andrew Young, to audit the sweatshop factories in Asia. Despite Nike's initiative to promote positive corporate changes by doing factories audit, more concerns were raised over hiring a diplomat, with no auditing experience, to convince customers that the company is socially responsible (*nytimes.com*).

Unfortunately, the Asian factories audits, done by Mr. Young, violated the Belgrade minimal rule for human rights (Franck 1981). To elaborate, during his visits, Mr. Young was accompanied by Nike's officials and translators. In addition, each audited manufacturer was visited once for 3-4 hours. Similar audits, however, usually takes about 10 visits to audit a factory and each visit could last for several hours. Surprisingly, wages related issues were never investigated despite the Code of Conduct, that Mr. Young was mainly hired to investigate, mandates subcontractors to comply with minimum wage standard or the industry wage - whichever is greater. Moreover, safety and environmental issues including the fire hazard of manufacturing facilities, safety procedures and equipment, air quality, or exposure to hazardous chemicals used in shoe glue were never investigated. This caused more public criticism against Nike and customers responded by boycotting the company's products. Nike then faced extremely low demand in 1998-this is when Nike realized that the time to change has come.

TURNING THINGS AROUND

In 1998, Nike announced accountability to the malpractices of their global manufacturer for the first time when its cofounder, Phil Knight, promised solutions to the sweatshop factories and slavery labors in a public speech to the National Press Club. His speech emphasized accountability for Nike's practices as well as appreciation for the ethical standards of Nike's customers. He stated "the Nike product has become synonymous with slave wages, forced overtime, and arbitrary abuse," "I truly believe the American consumer doesn't want to buy products made under abusive conditions." He also announced that Nike would raise the minimum age of workers; closely monitor its contractors; and adapt U.S. OSHA clean air standards in all factories.

Right after this speech in which Nike's cofounder promised changes, and particularly in 1999, Nike made a positive move to address concerns over their sweatshop supply chain by establishing the Fair Labor Association, a non-profit group that combines human rights and labor representatives to monitor contractors code of conduct. The company also hired Toyota professional consultants with track records of lean implementation. Toyota's consultants targeted two lean thinking pillars: waste elimination and social responsibility (*asq.org*). They

recommended Nike to: 1) eliminate waste through the reduction of work-in-process inventory, 2) involve the workforce in quality control and process improvement, 3) standardize work to reducing variability, and 4) develop a Manufacturing Index to evaluate the subcontractor manufacturers on competitiveness dimensions of quality, cost, delivery, and sustainability. Thanks to lean philosophy implementation, Nike was able to achieve substantial improvements in productivity, defect rates, and delivery times. Additionally, Nike conducted periodic factory audits to evaluate labor, health, and environmental conditions among its subcontractors. That is improvements were done along production, people and the environment. About seven factories were usually audited for social compliance every 12 to 18 months. One-third to one-half of these audits were conducted by Nike compliance personnel, a team of about 70 employees, with the remaining audits performed by approved third-party auditors. Between 2002 and 2004, Nike audited about 600 factories with repeated visits to non-complying factories (Between 2002 and 2004, Nike audited about 600 factories with repeated visits to non-complying factories (*businessweek.com*)).

In 2005, Nike published a report detailing the working conditions and wages paid to workers in its South Asian factories, and since then the company started to post its commitment to stakeholders as part of its corporate social responsibility reports. Nike commitment to improve along people, profit and planet continued since then. The company continues to publish its yearly statement on forced labor, human trafficking and modern slavery (*purpose.nike.com*) in which Nike emphasizes how the company embraces responsible sourcing and promotes social responsibility projects that focus on the community. In 2022, Nike ranked thirteenth on Garner's list of the top twenty-five supply chains through its commitment to sustainable and responsible sourcing.

CLOSING REMARK

Ethical sustainable sourcing strategy is vital for MNCs to thrive. When concerns over unethical practices are raised at the supply base, focal firms should hold themselves accountable and try to find immediate solutions. Nowadays, customers are more aware of sustainability and ethical business practices than any time before. Historically, Nike was criticized for lacking ethical standards among their global subcontractors who were condemned for child labor, underpayment, forced overtime, and unsafe working conditions. It wasn't until 1998 when Nike's cofounder, Phil Knight, announced accountability for Nike's actions and promised change. Nike, then, established the Fair Labor Association and hired Toyota consultants for lean implementation. Regular factory audits were also conducted to evaluate labor, health, and environmental conditions among Nike's subcontractors. Nike has proved their commitment to sustainable and responsible sourcing.

Nike's journey sets a solid example of the power of consumers who requested ethical changes to Nike's sourcing decisions. As noted, at first, managers at Nike denied responsibility for the malpractice of their contracted manufacturer. However, right after the boycotting campaign and the low demand that Nike faced, the company realized that the time to change has come. That is, Nike case demonstrates the power of customers who were actively engaged in the promotion of ethical sourcing. Customers have immense power over businesses as it is ultimately, they who drive a business's profit. The ethical voice of Nike's customers was the main driving force for why Nike took actions to promote responsible ethical sourcing. Nike's

commitment to actual change was reflected in the public speech delivered by the CEO at the time, who then promised eliminating sweatshop factories.

Nike's most significant positive change was exemplified through embracing a responsible sourcing model founded on lean manufacturing. The new sourcing model reflected improvement along two main lines, production and people- The 2 Ps responsible sourcing model. Previous research found that bringing in major changes to the way business is done, particularly in big companies, requires top management support (i.e Singh et al. 2021). This finding has been actually confirmed in this case. The commitment of the Nike's cofounder and CEO to enforce ethical sourcing had actually turned things around in Nike. Since then, Nike continually emphasizes how it embraces the 2Ps responsible sourcing and adds to it by investing in innovation in sustainability "always striving for better – whether it's the role we play, the change we lead, or the future we shape."

TEACHING NOTE

TARGET AUDIENCE

Graduate and undergraduate students learning ethical business practices, international business, global sourcing, sustainability and supply chain management.

TEACHING STRATEGY

Pre-Class: Depending on instructors' needs, the case can be used for a 75-90 minutes discussion. Instructors can assign pre class questions and encourage students to visit Nike's website and read Nike's statement on forced labor, human trafficking and modern slavery, and Zero waste. Instructors can assign the following questions to students to think about before class.

In-Class: Instructors can start the class by asking ice-breaking questions such as how many of you purchased Nike product recently? Why do Nike products stand out? Students will be more likely discussing quality of products, trendy styles, product variety, comfort, etc. Instructors, should then ask about where are Nike producing their products and why Nike chooses these? Next, instructors can lead the discussion by asking the following questions:

SUGGESTED PRECLASS QUESTIONS

Do you think Nike needed to enforce changes among their suppliers? Why?

What Nike could have done differently towards sustainable sourcing?

Discuss how the downstream customers can influence upstream ethical sourcing decisions in supply chains.

Discuss Nike's level of social responsibility.

What role should governments play to motivate social responsibility?

ANSWERS TO THE DISCUSSION QUESTIONS

Do you think Nike needed to enforce changes among their suppliers? Why?

Yes, Nike needed to enforce changes to their suppliers. These suppliers, despite they are not Nike employees, produce Nike products. This makes Nike responsible for the practices committed by these suppliers who paid low wages to employees who work in unsafe environment.

What Nike could have done differently towards sustainable sourcing?

Nike should have taken more responsibility for ensuring that suppliers adhere to ethical standards including fair wages and good working conditions. This can be done by conducting regular audits of supplier sites along with monitoring compliance through third-party organizations such as Social Accountability International (SAI). Additionally, they should also invest on training factory managers on best labor practices so they can better understand how workers' rights are protected within each country's laws; this could help prevent any potential violations from occurring before they happen rather than having them occur after production begins. Moreover, Nike should have placed a greater emphasis on communication between stakeholders throughout all stages of production such that everyone involved is aware if there is an issue with labor standards being violated at any time during manufacturing processes; this includes both internal staff members who manage overseas operations but also external stakeholders like consumers who purchase products made by these factories which may not meet certain ethical requirements set forth by international organizations such as SA8000 or ETI Base Code guidelines. Finally, Nike should continue investing heavily in research & development efforts to improve sustainability within their product lines while pushing forward industry-wide innovation across other markets where similar issues exist - such as sustainable materials usage or renewable energy sources use- which will ultimately benefit everyone involved including employees, customers, shareholders & society overall.

Discuss how the downstream customers can influence upstream ethical sourcing decisions in supply chains.

The voice of consumers played a significant role in eliminating unethical practices in Nike. Nowadays, customers are going after sustainably sourced and ethically made products. This shift in customer orientation has greatly driven ethical practices among manufacturers who

are now transparent about the environmental and health impact of their businesses. In Nike, the company did not decide to make any real change until customers started to boycott Nike's products because of the unethical practices among Nike's suppliers were publicly revealed. This consumer response led to unprecedented reduction in Nike's profit. That is, ethical consumers fueled the positive change in Nike's sourcing strategy and practices.

Discuss Nike's level of social responsibility.

Nike's commitment to social responsibility has dramatically improved from the past. Before, Nike has been criticized for child labor, underpayment, forced unpaid overtime and unsafe working conditions. As Nike was only focused on cutting cost, workers in Indonesia were under paid (only 14 cents per hour). Following the intense public criticism Nike faced, in 1998 Nike took full responsibility in improving and monitoring labor, environment, and safety conditions in their factories. The company first established the Fair Labor Association and conducted periodic factory audits to assess labor, environmental, and health conditions. Nike also made sure factories satisfied the health, safety and environment (HSE) compliance and the labor fair act through repeated audits to non-complying factories. Currently, Nike continually publishes detailed reports regarding working conditions and wages paid to workers in South Asian factories as a part of its corporate social responsibility report and ranks eleventh of the top twenty-five supply chains. Further, Nike has improved its line of sustainable products made from recycled materials.

What role should governments play to motivate social responsibility?

By outsourcing a significant amount of labor to eastern nations, particularly ones that lacked vital governmental intervention towards labor standards, Nike was able to continue the below-bottom pay, inhumane working conditions, and unpaid overtime to maximize their bottom line. In European countries, Nike took a different approach to health, labor, and environmental standards. This is because of the governmental laws that clearly outline the minimum labor standards throughout many European countries. That is why Nike took action in Europe. Unfortunately, these labor laws that protect workers against discrimination, abuse, and harm, are much more lackluster in many of these South-Eastern countries. That is to say, governmental intervention can play a vital role in enforcing ethical standards among corporations. In addition to the government, customers should be actively engaged in the promotion of ethical sourcing. As the Nike case demonstrates, customers have immense power over businesses because they are the ultimate drivers of a business's bottom line. Specifically, as a result of extremely low demand due to customers boycotting Nike, Nike finally took responsibility for their sourcing and addressed their malpractices in 1998. In this case specifically, the ethical voice of Nike's customers was the driving force for why Nike eliminated its unethical practices.

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