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# ***GLOBAL SOURCING AT NIKE***

## **Group 10**

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# 1 Overview

With its *virtual (network) structure*, Nike has a global network of over 500 supplier factories from 37 countries. Managing such a large network of suppliers is a challenge, especially when it comes to ensuring that the suppliers comply with the company's standards. Below are the pros and cons of this structure.

Pros	Cons
- Increased productivity - Cost efficiency	- Lack of control over suppliers - Problems with partners may occur

Table 1: Pros and cons of Nike's virtual (network) structure

Nike has been criticized for its poor working conditions in its supplier factories, and the company has taken several steps to improve the situation. In this report, we will discuss the ethical issues that Nike faced, and the actions that the company took to address them. Finally, we will discuss the current challenges that Nike faces, and provide recommendations for the company to overcome them.

## 2 Ethical Issues Nike Faced

### 2.1 Labor Exploitation

Nike faced many ethical issues, such as substandard housing and child labor. Initially, Nike denied the responsibility with arguments such as, "*It is not within Nike's scope to investigate labor violations.*" and "*It is subcontractor's fault*". In our opinion, responding to such grave accusations with such statements is unethical and irresponsible. Nike should have taken responsibility and investigated the accusations, which they did later on.

### 2.2 First Actions

After defending itself, the first action taken was to create a **Code of Conduct** which defines and regulates the working conditions of the supplier factories. Second one was to establish the **Corporate Social Responsibility** (CSR) department. Pros and cons of these actions are discussed in the table below.

Pros	Cons
<ul style="list-style-type: none"> <li>- Initiating a legal base</li> <li>- Transparency</li> <li>- Systematic approach of corporate responsibility</li> </ul>	<ul style="list-style-type: none"> <li>- Easy to evade by suppliers</li> <li>- Hard to supervise and maintain</li> </ul>

Table 2: Pros and cons of the first actions taken by Nike

These actions were, however, not enough to solve the problem. Two main reasons for this were the lack of supplier collaboration and the cultural and legal differences between the countries.

### 3 Supply Chain Improvements

#### 3.1 Country Risk Index and Manufacturing Index

Nike created the Country Risk Index which is a measure of the risk of doing business in a country. It is calculated based on factors such as labor conditions, environmental regulations, economy and corruption. Downside of this index is its subjectivity.

Nike also created the Manufacturing Index which assesses the suppliers in four areas: cost, quality, delivery, sustainability. As a positive side, this index uses *holistic approach*; however, as a negative side, its over-simplification may lead to missing nuances.

While these indices may seem useful, they are shallow ways of assessing the suppliers, which may misdirect the company to miss opportunities or to make wrong decisions. A more detailed and holistic approach, such as system dynamics, would be more useful.

#### 3.2 Reorganizing Global Sourcing & Manufacturing

Nike sought to hire a professional with experience in labor rights and environmental issues from its ethics department. In our opinion, this was not a good decision as the current employee had been working in the company for a long time and might have been under the influence of *operational blindness*.

## 4 Global Sourcing at Nike

### 4.1 Focusing on Long-Term Suppliers and Supplier Compliance

Nike decided to focus on long-term suppliers which invest capability and sustainability and share common values with Nike with a quality over quantity approach. For suppliers compliance, Nike periodically audited the suppliers and imposed sanctions in case of repeated violations.

### 4.2 Building Supplier Capability

Nike aimed to enhance suppliers' production and management capabilities by improving working conditions and suppliers' sustainability. With **Lean 1.0**, Nike trained suppliers in lean manufacturing and decreased compliance violations by 15%. With **Lean 2.0**, Nike focused on worker engagement, which increased quality and productivity, and decreased lead time and accidents. In our opinion, this action was spot on. Creating an environment where supplier factories and workers thrive to improve themselves aligns with both Nike's and suppliers' interests.

## 5 Conclusion & Recommendations

Considering the actions taken by Nike throughout the process, it can be observed that they are not sincere actions that directly addressing the ethical issues that was encountered in the past years (e.g Supply Chain improvements), but rather an attempt to improve their public image. Thus, those actions are not sufficient to put Nike in a better position with respect to the ethical issues.

Our recommendation for Nike is to take more sincere actions to address the ethical issues, which can be achieved by putting the ethical issues as the top priority in the company's agenda, rather than regarding it as a trade-off between ethics and profits. An example of such action is to continue its sourcing from Asia despite the appeal of cheaper labor and shorter lead times in Caribbean and Central America, where corruption and labor issues are severe.