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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, low wages, occupational health and safety problems, child labor and even human trafficking. Initially, Nike denied the responsibility with arguments such as, *"It is not within Nike's scope to investigate labor violations."*, *"It is subcontractor's fault"* and *"We are contributing to the economies of undeveloped countries and woman workforce."*.

2.2 First Actions

After defending itself, Nike also took some actions to address the issues. The first one 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 below.

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

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

These actions were, however, not enough to solve the problem. The 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.

3.2 Reorganizing Global Sourcing & Manufacturing

Nike sought to hire a professional with experience in labor rights and environmental issues. The reason for this was that the current employees had been working in the company for a long time and might be 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 a 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.

5 Conclusion & Recommendations

5.1 Current Challenges

5.2 Recommendations

A Appendix