

# Corporate Responsibility in a Global Economy: The Nike Case

**People & Organizations**

**Fall 2005**

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# Globalization's Challenges

- Getting Beyond Theoretical Debates
  - Under What Conditions Can Corporate Profitability And Improvement Of Workplace Conditions Go Hand & Hand?
  - MIT Sloan's Research
  - MIT Sloan's Role in Engaging Key Stakeholders
  - Your role(s)—what can should MIT do? What should you and fellow students do?
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# Nike Case Discussion Questions

- What's Nike's Problem or, "What kept Phil Knight up at night?"
  - What motivated Nike to take action?
  - What did Nike do?
  - What standards should Nike be held to? Who should decide? Who should monitor???
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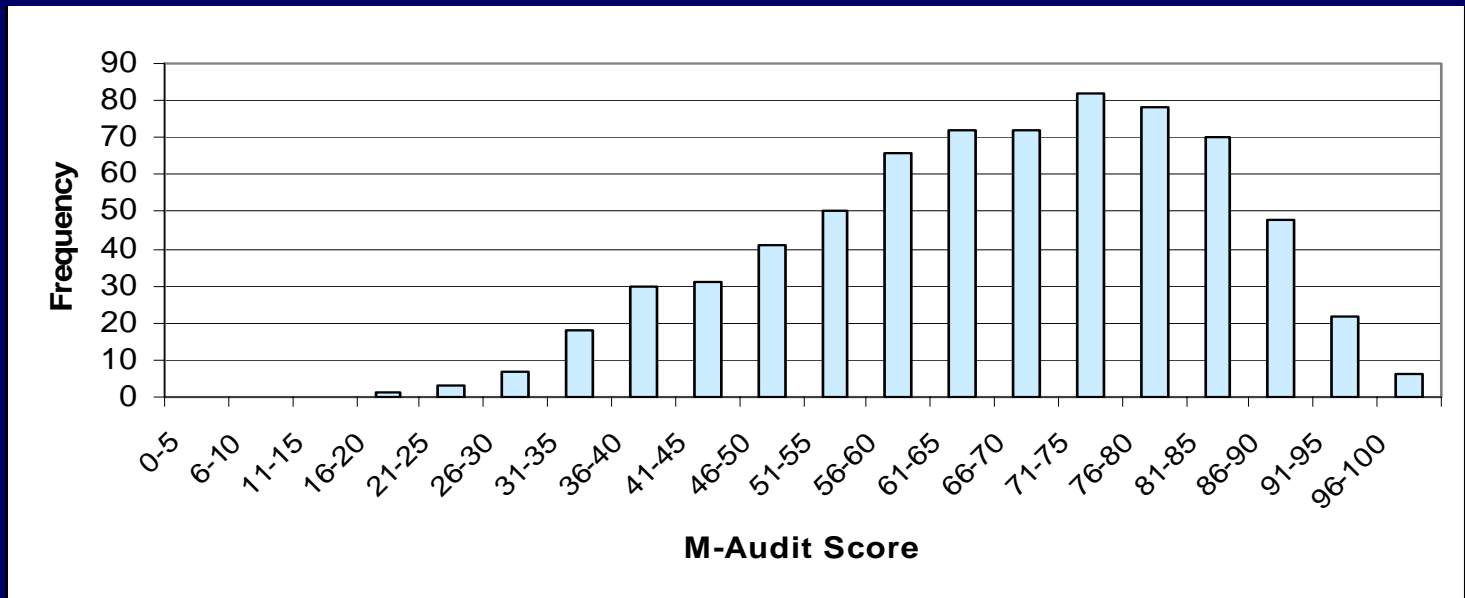
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# Research: Nike-MIT Collaboration

- Data Analysis of Factory Inspection Reports
    - (over 900 factories in 51 countries since 1998)
  - Field Research in China, Turkey, Mexico, U.S., and Europe
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# Factory Conditions Vary Across Sectors & Countries

M-Audit Scores across all regions (Nov. 2002 to Jan. 2005)



Number of Observations: 697

Average M-Audit Score: 66%

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# What Explains Variation?

## □ Contextual Variables

- (purchasing power, rule of law)

## □ Factory Variables

- (Factory size, age, ownership, type of product, etc.)

## □ Interaction of these 2 types of variables

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# Results

## 1) Country Effects

- ❑ **A significant proportion of the variation is at the country level**
  - ❑ **Generally, countries with higher PPP are doing better: the higher the purchasing power, the better the compliance performance based on M-Audit score**
  - ❑ **Regulatory and institutional factors are more important than economic variables: Countries with higher “rule of law” index are doing better in compliance performance**
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# Results

## 2) Factory Level Effect

- **Factory age matters: The younger the factory, the better the compliance performance**
  - **Factory size matters: generally, smaller factories are doing better in compliance**
  - **Ownership structure does not have a significant impact on compliance performance**
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# Results

## 3) Relationship Between Nike and Suppliers

- **Total count of all kinds of visit, instead of compliance-only-visits, has a significant positive relationship with compliance performance**
  - **Length of relationship with Nike has significant positive relationship with some dimensions of compliance performance, such as wage standards, but not others**
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# Labor Compliance and Business Performance

- We built a data set for both apparel and footwear, including: (1) M-audit scores; (2) production performance data, including quality measured by defective rate, on time performance, total volume, % commitment capacity to Nike, (3) factory characteristics such as factory size, age, number of Nike visits, length of relationship, etc.
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- The better the labor compliance, the higher the quality.
  - Factories performing well in delivery also perform well in quality.
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# But Are Things Getting Better?

## A) Change in Compliance Rating Inspections

Change in CR Rating	Freq.	Percent
-3 (Down by 3 degrees)	20	2.62
-2 (Down by 2 degrees)	74	9.70
-1 (Down by 1 degree)	181	23.72
0 (No change)	323	42.33
1 (Up by 1 degree)	116	15.20
2 (Up by 2 degrees)	42	5.50
3 (Up by 3 degrees)	7	0.92
Total	763	100

Note: A is 4, B is 3, C is 2, and D is 1, and the change in CR rating is the score in the most recent audit minus the score from the earliest audit, ranging from -3 to 3. For example, if a factory has a score C in the earliest audit and a score A in the most recent audit, then it has a change of +2.

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# Organizational Design & Political Issues

- Quality control, operations, and supply chain management report separately from corporate responsibility/auditing function
  - Biggest problem: Excessive overtime: Root cause—unpredictable orders and pressure for fast delivery—
  - Can Nike get competitors to do the same??
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# MIT / Sloan Role in Outreach

## Stakeholder Engagement

2 Meetings in July 2005:

- **Joint-Initiative**
  - **FLA – Fair Labor Association**
  - **Other Companies / NGOs**
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# Summary

- ❑ Companies can make a difference by leading the way
  - ❑ Took external pressure to motivate action
  - ❑ Need to integrate response into business models and organizational systems
  - ❑ Need Industry wide efforts to make big progress
  - ❑ Universities can make a difference
  - ❑ You can make a difference
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