

Case analysis nikes dispute business essay



**ASSIGN
BUSTER**

Originally founded by Phil Knight and Bill Bowerman, Nike is now the market leader in the manufacturing of sportswear and gear and enjoys possessing more than 47% of the market share across the globe. Nike's mission is to bring inspiration and innovation to every athlete (Nike Inc., 2012). According to them, you are an athlete if you possess a body.

The company has over 700 shops around the world and has offices situated in 45 countries outside the United States. Most of its factories are located in Southeast Asia including China, Indonesia, Taiwan, India, Vietnam, Thailand, Philippines, Pakistan, and Malaysia.

It enjoys possessing the strength of being the market leader and access to cheap material and labor. Moreover, it has to pay lower tariffs and duties; and with its presence in numerous countries, its suppliers have lower bargaining power. However, it is constantly under threat from the substitute goods which are swiftly gaining ground (Sookiew, 2012).

Introduction to the Case

This case focuses on the working conditions faced by the workers who work in the factories under contract with Nike. The case reveals that the subcontractors were not paying wages to their workers as per international standards. All the factories and manufacturing units were divided into four main divisions: chemical, production, stitching and assembly section. The production goals were so high that in order to meet the goals, the workers had to work over time, and that too without incentives. The workers were habitually abused verbally and physically by their supervisors. Many people were prone to be the patients of kidney disease, liver cancer, heart attacks,

infertility and many skin related diseases in future due to pitiable working environment.

The case looks at the measures undertaken to resolve the issue. Few colleges and universities joined hands to establish Workers Rights Consortium (WRC); aimed at checking the malpractices of companies with special regards to employee rights. University of Oregon (UO) decided to become a part of the campaign - a move which was not supported by Phil Knight. He decided to call off all the donations that he had promised UO and announced to abandon all future donations too. He did not agree to the terms and conditions that were laid out by WRC and sought to reduce their influence. This case looks at the influences, effects and probable strategies to combat the situation.

Main Participants and their Interests

There are numerous participants and players in this case and all of these have their certain influence on the case in different ways. The four main participants are Nike, buyers, suppliers, substitutes and rivals in the market.

Nike:

Perhaps the most important player in the case is Nike itself. It is not only the market leader, but leads the market with almost half of the market share and leaves the rest to be divided amongst the other rivals in the market.

In this particular case, Nike holds the power to change the situation by adopting an alternative strategy. Being the market leader, it might also influence other companies and change the outlook to the entire scenario.

Also, its main power lies in its decision to whether or not to pay the employees well.

According to the Porter's Five Forces Model, Nike retains the power to bargain with the suppliers and also, enjoy customer loyalty. However, due to bad publicity, the threat of rivals has increased for Nike.

Nike is highly interested in the financial implications of the case. It would affect the overall cost structure, supply chain breakdown and the ultimate pricing strategy of Nike. This could also affect the marketing strategy in future; if Nike decides to address the issue through the marketing tools and reach out to the public directly.

Buyers:

The most important role in any market is played by the buyers. They are the ultimate market and thus everything that the producers do, is aimed at convincing the buyers to purchase their products. Especially in the modern era, ready and instant access to information has empowered the buyer even more. The target market of Nike in general, and its buyers in specific, are no exception. Rather, they have many choices as there are close and quality rivals competing in the market.

The buying behaviour of consumers change continuously and they do not tend to stay long with a company if they do not get any change or satisfaction. Though they look for innovation, but generally buyers want to purchase products at lower costs. There are times and situations where buyers do not feel the pressure of brand loyalty; masses tend to go for products which offer lower prices. In this particular case, the buyers hold

primary importance because on one side they prefer low costs sportswear and gear, while on the other they also concerned about the working conditions of the workers who manufacture the products they use. There exists a complex balance between the two dilemmas. However, as Nike targets the high income group, they are more concerned with the ethical and social issues. However, in either case, the end effect would be on the buyers if Nike decides to alter its strategy.

This is the reason why Nike has to keep all above issues in mind while framing the policy; for a slightly more weight age for any one concern could lead to a severe reduction in the demand for Nike's products.

Suppliers/ Contractors:

Another major category of participants are the contractors who supply the products to Nike. Nike has 565 contract factories and they have a network covering about 45 countries in all continents of world. As the case indicates, there is no factory or manufacturing unit that is directly operated by Nike. Therefore, it is highly dependent on its contractors for the production.

The contractors have access to cheap and quick raw material; they can thus reserve the right to exploit Nike at will. Moreover, they are the basic cause of Nike's access to cheap labor. Therefore, they undoubtedly hold a primarily strategic importance in the case.

Moreover, they have a strong financial interest in the company too. They are indirectly affected by the demand levels, as regards the production units and the relative prices of the units. Any downfall for Nike would mean a doom for the contractors too. Hence, they look for an improvement in Nike's market

position in order to get a chance to negotiate a higher price for each unit supplied by them.

University of Oregon

One of the major players of this case is the University of Oregon. Though Nike was affected by the progress of WRC, but it was the inclusion of UO into WRC that finally triggered the situation.

The University of Oregon was caught in the middle between Philip H. Knight as the university's most important financial benefactor on one hand and its activist student and staff body on the other. Knight had previously contributed more than \$50 million to the school and was thinking about making his biggest donation yet to refurbish the football stadium.

It was the joining of UO to the WRC that finally brought Nike to the forefront and Knight had to announce his stance on the situation. Financially, the University was both dependent on its sponsors as well as its students; and it is not astounding for that reason to see that it tried to arrive at a compromise: it would join WRC for one year, provisional on the consortium's conformity to give companies a voice in its operations.

Process of Strategy Making

Henry Mintzberg's Schools of Thought

Henry Mintzberg, Ahlstrand and Lampel (1998) organized strategy approaches into ten schools of thought; each had its own strategy characteristic toward organization and each proposed a different path to the same thing – strategy making. Two of these schools, namely, ‘

environmental' and ' cultural' schools, are going to be taken into consideration.

The Cultural school of thought proposed that in any given organization, strategy making is the result of an approach that is collective in nature and all the employees have to follow it. It can be viewed as the organizational strategy as and when it is implemented collectively and at various department levels. The cultural school of thought can find its roots in anthropology where the major Head of Departments are also closely involved in the decision making process.

The cultural thoughts are based on norms, values, participation of public and society as a whole and they affect the decision making and change the behavior of organization. Because of this very nature, people like " Status Quo" and participants of the decision making process can be resistive and can create hurdles in change and mergers or acquaintances for an organization's thinking of process change. The cultural school of thought suggests that strategy for any given organization would be based on the culture that the members of that organization create and promote.

On the other hand, environmental school of thought is more of a reactive approach as compared to other school of thoughts. It defines strategy development as implications and effects of external factors, outside from organization and approach of public. In this school of thought, strategy is seen to be based on external factors and where more weightage is given to outer side and members of the organization have limited to do with the process of strategy making.

Outer environment has more influence on strategy formulation and decision making as regards to policy making in the organization. Environmental dimensions are more playful and handy in framing policy as compared to cultural thoughts. Leadership and organizational culture has a higher level of influence; in fact, the more it is capable of influencing, the more will be the desired results.

In spite of diverse features, some correspondence between the two schools of thought could be considered. Both of the schools are more concerned with definite features in the strategy management process. It promotes more innovation and experimentation within the business. In cultural school, business culture is put at the core to support key value, quality, service, or intellectual production. Furthermore, the environmental changes will guide to changes in business strategy and bring new perceptions and more experiment to the company. However, on the downside, both the schools have vague dimensions and offer fewer realistic clues to how things should be done.

Application of Mintzberg's Schools of Thought on the Case

Mintzberg, Ahlstrand and Lampel (1998) have brought together all the approaches to strategic management that they have ascertained, from both practice and theory. They have organized them into ten schools of thought, within which the approaches divide up their individual characteristics.

The South Korean factory manager and the local government official are both striving to maximize their benefits; without any regard to the ethical, moral and social considerations. The factory manager was expected to deal

with the employees in a humane way, provide them with safe working conditions and a good pay rate - which he unfortunately did not do.

Similarly, the government officials were also expected to look into the affairs of TKV and regulate the work practices within the factory premises. They should have taken actions against the violation of labour rights. However, this issue was not considered by the government officials for whatsoever reasons. All things considered, the government official and the factory official are nonetheless working on some strategy.

In other words, the manager at TKV is exercising power that is outside the legitimate wielding of economic power in the marketplace (as put forward by the positioning school). Clearly, the strategy developed by the manager of South Korean factory is a process of conciliation between power holders inside the company, and/or between the company and its external stakeholders.

From the ten schools of thought proposed by Mintzberg et. al, the ' power' school of thought has the characteristics that most closely resemble the strategic moves adopted by the manager of TKV and the government officials. The strategy is thus focused on gaining support and power through negotiation and compromise to meet the specific goals of the organization (Mintzberg, 1998). The relation between strategy of the manager of TKV and the government official can be seen as an example of the proposition that organizations are finding it advantageous to collaborate and co-operate with other players, structuring strategic alliances, rather than searching for ways to damage them with their strategies.

This case also relates to the power school of thought in its essence of scarcity of resources. This school of thought proposes that the main dilemma lies in the inherent scarcity of available resources; the main reason why companies and other stakeholders have to 'fight' the 'power game'. Scarcity of resources led the manager to pay less to the employees and not to invest in the work place to make it better for the workers. Similarly, Nike had to face the dilemma too: investing in the work places would mean a higher unit cost and lower profit margin.