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Introducing Nike   
NIKE, Inc. is the world’s leading innovator in athletic footwear, apparel, equipment and accessories. The company unofficially commenced the sale of shoes in the United States in January 1964, under the name Blue Ribbon Sports by both Phil Knight and Bill Bowerman; through importing Tiger shoes made by Onitsuka Co. in Kobe, Japan. Therefore it comes as no surprise that the brand Nike is one of the foremost multinational manufacturers of athletic shoes apparel and sports equipment in the world. The company became Nike Inc. in 1978 with the headquarters in Beaverton, Oregon, United States. Nike is the largest athletic footwear manufacturer, as it controls 36% of the global athletic footwear market, in spite of the merger between Reebok and Addidas (Locke, 2013).

Operations Management   
Given that every organisation seeks to produce good quality products for its customers satisfaction, it is imperative for keen attention to be paid to the process of transforming both their human and capital resources into the finished goods, which is termed operations management (Su 2013, p. 25), and according to Shahzadi et al (2013, p. 53) this encompasses supply chain management because it involves the functions carried out within and outside organisations that are aimed at delivering high values to end users. Nike being a multinational company, essentially needs to manage the complex nature of its operation across borders by constantly ensuring its production processes are perfectly focused on quality; that costs of materials and labour are held down; and production is carried out at the cheapest costs possible through getting rid of non-value adding costs (Erspamer et al 2011, p. 4), hence the need to configure and control its operations. Bartlett and Ghosal (1987) cited in Barnes (2008, p. 86), identified four generic strategic approaches to configuring international operations as global, multi-national, transnational and international. Nikes’ configuration is more of a global strategy as it serves the global market through mass production at centralized facilities with little or no differentiation (Erspamer et al 2011, p. 10).

Nike is one of the few companies that sell “ global/standardised products” – products sold in all countries basically without any changes (Nike, 2013). The attractiveness of this approach is highlighted by Barnes (2008, p. 75), assertion that, ‘ there is likely to be a pull towards standardisation in order to achieve low cost through the economies of scale of mass production’. In addition, Perlmutter (1969) identified three major management orientations, namely polycentrism, ethnocentrism and geocentricism. Consequently, Nike’s global perspective of the market place through its mix of standardisation of its products and uniqueness of a wide variety of activities in its supply chain reflects a high level synthesis of polycentricism and ethnocentrism. Therefore, Nike can be said to be regiocentric in its operations and ethnocentric in its product design (Erspamer et al 2011, p. 20). Also, Nike operates an outsourced manufacturing model (Nike, 2013), a common feature in several apparel and footwear industries (Andreff 2009, p. 5), thus the firm has no direct control over factories that are its suppliers. However it controls the product design phase, which involves determining the materials selected from its weight to its transport; the quantity of water and energy used in washing them; to what is left of the materials when the products’ useful life are over (Nike, 2013).

Nike also controls the marketing phase, as indicated by Munch (2012, p. 4) that the range of duties of the diverse departments of Nike shows that a vital part of its global marketing activities, is telling a story about the Nike brand. With this in mind, Pinto and Weymouth (2014, p. 5) state that in making the decision to off-shore production, firms need to pay close attention to the issue of how much control they will exert over the production process. Furthermore, Shahzadi et al (2013, p. 53) affirm that, to promote successful business operations for improved performance, there is the need for firms to align their supply chain strategies with their business strategies.

In managing its international operations, Nike just like many manufacturing companies has to plan how to produce its products, where to produce, and the arrangement of the manufacturing facilities (Su 2013, p. 24). Therefore Nike depends on offshore production, which it does outside the boundaries of the firm (inter-firm), through the use of subcontractors from several low-wage countries (Pinto and Weymouth 2014, p. 5). In sourcing from low-cost regions around the world, Axline and Lebl (2007) cited in Jeng and Dunk (2013, p. 49) claim that, the footwear and apparel industries usually face product demand challenges and poor responses to customer demands, which results in inflexible supply chains. For this reason, Nike and other manufacturing firms make use of enterprise resource planning software (ERP), which provides more efficient information flow along the supply chain for quicker responses to consumer demands (Jeng and Dunk 2013, p. 49), and reduces manufacturers’ recycling and disposal costs (Lee 2010, p. 68). A view corroborated by Radovilsky and Hegde (2011), who state that the increase in the use of IT to assist supply chain management initiatives, such as enterprise resource planning (ERP), and electronic data interchange (EDI), improves supply chain management, production quality, and inventory performance.

Additionally, Cheng (2011, p. 80) states that since Nike and Reebok have adopted outsourcing of production to external suppliers, involving clear lines of production responsibilities, then it is recommended that logistics management should be used in coordinating the flows of finished goods, work-in-process components, and raw materials such that their subcontractors can take on more responsibilities of managing the supply chain processes, in order for these MNCs to reduce finished goods (FG) inventories in their downstream stages. Cheng further states that through the adoption of postponement strategy, MNCs can accumulate work-in-progress inventories in their upstream stage, as witnessed in Dell Computer’s relationship with its suppliers. Although Pinto and Pinto (2011, p. 6) draw attention to the costs of outsourcing abroad by stating that the variable costs changes based on quantities transacted; price of inputs; and the costs of complying with national regulations and policies of the host country, policies which could ease or worsen these costs. However, Teixeira (2011, p. 7) asserts that some MNCs are outsourcing from more efficient suppliers, for example

IBM assigned the administration of its offices to Norrell Corp. (specialist in the field of office management), which resulted in reduction in IBM costs. All the same, ensuring that quality standards and specifications are maintained in the production process cannot be over-emphasised for firms such as Nike, which have lesser control over outsourced production. To this effect, some suppliers now generate performance warranty to assure their clients especially MNCs, that they will produce at the high-quality required for their products (David et al 2006, p. 201). Though, Pinto and Weymouth (2014, p. 6) argue that holdup problems may be predominantly severe for firms sourcing for intermediate inputs abroad, because of the relatively long temporal lags between time of order and product delivery time, attributable to geographic distance between the MNCs and their suppliers. However, Sople (2011) states that Nike is an example of captive distribution channel, because through the use of showrooms, it has full control over its distribution activities, closer proximity to the end users, and its logistics can be pre-planned. Furthermore the distribution of its products through Nike outlets enables the prevention of counterfeit goods (Sople, 2011).

Nike’s supply chain management   
According to Buddress (2013, p. 13) globalization, cost pressures and market demands for innovative products, which are evidenced by outsourcing, global sourcing, and global marketing, are the key drivers of many complex supply chain challenges today. Furthermore, increased globalization and the deepening of international sports, has led modern sports industries such as Nike to expand its international operations through cross-border marketing, which has increased its economic base (Pan (2012, p. 3). Waller and Conaway (2011, p. 91) buttress this by indicating that Nike’s outsourcing program taps into the vast complex of factories in East and Southeast Asia, owned and managed by South Korean and Taiwanese contractors, which presents Nike with boundless production capacity; closeness to enormous reserves of essential raw materials; as well as cheap labour with nearly nonexistent government regulation or union work rules, such that low unit labour cost in Pakistan, Indonesia and China make only 4% of the price of Nike sports goods (Andreff 2009, p. 18). Even so, Buddress (2013, p. 13) emphasises the importance of supply chain management as a critical area for consideration when organisations expand their scope to include international operations.

Additionally, Locke (2013) indicates that only 73 of Nike’s suppliers located mainly in Asia produce its shoes, while 529 factories around the world produce its apparel, due to the fact that footwear industries are more capital intensive than apparel industries. Nevertheless, this industry difference has enabled Nike to have more long-term relationships with and monitoring of its lead footwear suppliers, unlike its apparel manufacturers that also make garments for their competitors; who Nike enters into short-term contracts with, and therefore has lesser control over monitoring of these suppliers’ production processes or working conditions (Locke, 2013). Nevertheless, Nike in managing its supply chain and to eliminate waste in its production process, introduced the ‘ lean concept’ in 2001; which considered any overheads that is not focused directly on creating value for the end user of its products as wasteful (Nike, 2013), and where value given to customers in Nike refers to: looking cool and stylish in line with current fashion trends; being comfortable during exercises or social trips; and displaying the Nike logo which is considered a prestigious fashion item (Erspamer et al 2011, p. 2).

Additionally, through implementation of lean manufacturing, the company has been able to increase productivity, reduce defect rates, and shorten lead times and the introduction of new models (Nike, 2013). A view buttressed by Distelhorst et al (2014, p. 8) who state that the features of this Nike lean system include: Discovering the core value stream and adjusting their production around this idea; balancing production processes using takt time (the maximum time required for a product production to meet consumer demand); eliminating waste through the reduction of inventory cushions and works-in-progress; increasing operator participation in quality control and problem-solving for continuous improvement; and improving operational stability.

Ethics in the supply chain   
Looking at the map of Nike’s outsourcing activities (See Appendix I), it is quite evident that the major factor considered for facility location is the availability of cheap labour, seeing that 26% of Nike’s manufacturing is done in China by 240, 578 workers in 192 factories, while Vietnam is responsible for 9% of total manufacturing operations done in 67 factories by 323, 929 workers (manufacturingmap. nikeinc. com, 2014). Invariably, this accumulation of more workers in fewer factories in Vietnam, in contrast to fewer workers in more factories in China can be likened to the availability of cheaper labour, where China has a GDP per capita of 6, 807USD compared to Vietnams 1, 911USD (worldbank. org, 2012). The conditions of workers in these factories have been called to question for years, with issues of worker abuse ranging from: kicks from supervisors; slaps for mistakes; to being called derogatory names in countries like Indonesia; which happens to be Nike’s third largest manufacturer (huffingtonpost. com, 2011).

However, Nike asserts that by establishing Codes of Conduct that cover worker protections, and having an internal team to enforce it; these suppliers’ workers are being empowered (Nike, 2013). Nike also claims that its use of contract factory audit tools (Sourcing & Manufacturing Sustainability Index-SMSI) for contract factory evaluation, and working with external bodies to monitor factories, have improved working conditions in these contract factories (nikeresponsibility. com, 2014). Nevertheless, Nike admits that there are still pressing issues of understanding and compliance with its code of conduct, which is reflected in Nike’s current CEO’s statement “ I’m proud of what we’ve accomplished, but we’re still not where we need to be,”(cnn. com, 2008), as issues of hours and wages, coupled with paperwork and documentation still plague many of these contract factories Nike outsources to. Nonetheless, Nike claims that violations recorded in its contract factories dropped from 29% in 2012 to 16% in 2013, partly due to the decision to reduce their contract factory base (nikeresponsibility. com, 2014).

Outsourcing, Joint venture or FDI   
Outsourcing has been enabled in recent years by technological innovations, liberalisation of international trade in services, convergence of legal and regulatory systems, and increased freedom of establishment (Scott et al 2011, p. 169). According to Viswanadham and Kannan Balaji (2008, p. 246), Nike presents an example of foreign outsourcing strategy, as it contracts out most of its manufacturing to independent producers in Thailand, Indonesia, Cambodia, and Vietnam. This is in-line with its lean manufacturing strategy which involves manufacturing its products anywhere its products can be produced at high quality and at the lowest achievable price, and Nike will move production elsewhere if prices rise and opportunities are available there to produce these products at the same or at a higher quality (Erspamer et al 2011, p. 15). Thereby supporting Quinn and Strategy (2013) who state that a rightly developed and strategic outsourcing such as Nikes’, significantly lowers costs; risks; and fixed investments, even as it expands flexibility and innovation for the generation of superior value-added products for consumers and increased shareholder returns.

Furthermore, Andreff (2009, p. 6) describes outsourcing as having a supply source, which supplies either inputs in the form of raw materials or semi-finished products that is located outside a plant in charge of producing some final products or services. It is an element of globalisation that is typically employed by MNCs to achieve its cost-minimization or quality-maximization objectives (Su 2013, p. 27). In spite of these benefits of outsourcing, Strange (2011, p. 250) argues that these reasons only legitimize outsourcing support activities, but do not justify outsourcing the most important functions, as obtainable in many production firms such as Nike (foot-wears), Toyota (cars), Pfizer (pharmaceuticals) to mention but a few. However, Yeboah (2013, p. 6) counters this by stating that all activities do not have to be kept in-house, rather organisations should pay more attention to areas where value is added, which in the case of Nike is branding and innovation, while subcontracting other activities to independent providers.

Invariably, Nike’s core competencies, all leverage on the selected data and innovative ideas cautiously captured by its information system about its suppliers operations, thereby providing Nike with an inventive edge that largely surpasses its own internal capabilities (Quinn and Strategy, 2013). Andreff (2009, p. 6) also indicates that international or offshore outsourcing, which requires that the production process be fragmented, is easier to carry out in manufacturing firms such as Nike because products such as shoes and apparel are easier to be broken up into different parts. Additionally, Strange (2011, p. 250) states that Nike for the most part is engaged in off-shoring, as none of its athletic shoes are produced neither in the U. S nor in a Nike-owned production facility. This however saves Nike from the burden of fixed costs associated with huge investments in fixed assets (Pollard et al 2008, p. 79), since based on research by Kurz (2004) cited in Teixeira (2011, p. 6) using data of US manufacturing firms, it was found that outsourcing firms have higher productivity and firm-level efficiency than non-outsourcing firms.

Regardless, Tallman (2011, p. 5) criticizes this view by expressing that the advantages of overseas location tend to be overstated, such that in spite of the uncertainties of foreign locations, cost disparities usually become the main benefit and the most obvious expression of comparative advantage. For this reason, Yeboah (2013, p. 6) emphasises that a management initiative decision to outsource should be carried out after careful analysis and evaluation of the impact outsourcing will have at a Strategic, operational and organisation level by asking certain questions. At strategic level: how does it affect the organisation’s competitive position, brand position and core competency? At operational level: What management and control is essential for consistency with organizational requirements? At organizational level: How is the implementation associated to marketing plan to ensure result? Will it boost the organization’s cost structure, profitability and operational effectiveness? Such that answers to these questions should provide a business case for the benefits of outsourcing. In Nikes’ case, Erspamer (2011, p. 16) claims that, with production outsourced, the company has been able to focus a huge amount of its resources on marketing, which has given it a strong core competency and competitive advantage in the apparel and footwear market.

Although there are various motivations for engaging in foreign Direct Investment (FDI), a process that involves an international flow of capital, goods or services (Tallman 2011, pp. 3). However, unlike vertical and horizontal FDI which assumes that production takes place within the boundaries of a firm, Nike is fully engaged in off-shoring through vertical fragmentation of its production process outside the boundaries of the firm, because it does not own the production facilities where its products are produced overseas (Pinto and Weymouth 2014, p. 1). This according to Andreff (2009, p. 10), is not FDI, but outsourcing through international subcontracting, where the foreign subcontractors engage in production of a particular product based on the plans and technical specifications provided by the main contractor- in this case Nike, and Nike bears the final economic responsibility.

Besides, Pinto and Weymouth (2014, p. 1) claim that horizontal FDI involves MNCs investment in the same industry it operates nationally abroad, by owning the subsidiary production facility, while vertical FDI occurs when firm invests in a supplier industry abroad so as to produce at lower cost. Nonetheless, Narula and Dunning (2010, p. 268) state that FDI is sought by both MNCs and host countries for different reasons, host countries seek FDI because of the belief that MNCs possess firm-specific assets which provide them with an advantage over domestic firms in the host location, while MNCs motivations for FDI stem from exploring lower costs of production, expansion of markets and economies of scale. Corporate Social Responsibility

According to Zadek (2004, p. 128) Nike in 1998 created a department for corporate social responsibility because the company acknowledged its importance, and the need for its proper management. Nonetheless, Bustillo (2012) demonstrates that MNCs such as Nike are significantly exposed to risks as a result of the actions of its suppliers, as evidenced by the challenges Nike faced when some of its contractors were discovered to be using inappropriate labour or were refusing to pay minimum wages, invariably leading to the mounting of protests and questions about Nike’s social responsibility (Harish 2010, p. 8). This view is buttressed by Mujtaba et al (2011, p. 3) which indicates that Nike has been featured in several media coverage on factory workers around the world with accusations of involvement in the exploitation of workers in developing countries through their suppliers who pay low wages, enforce long working hours in unwholesome working conditions, and use underage workers. However, Zadek (2004, p. 127) earlier criticised this by arguing that activists deliberately attack Nike because of its high-profile brand, given that its business activities are not any worse than those of its competitors.

For example, Greenpeace International in July 2011 accused Nike, Adidas and other major brands of conducting business with a Chinese textile giant that was releasing toxins into a neighbouring river, even though Nike and Adidas did not source from the garment factories which released these toxins, but only sourced finished garments from the group’s cut and sew facilities (Plambeck et al, 2012). Be this as it may, outsourcing and off-shoring are time and again argued to have devastating effects on workers both in the source country as well as in the host country, as indicated by Yeboah (2013, p. 6) who states that outsourcing creates fear of job loss which invariably negatively impacts employee morale and loyalty, and hurts workers in the U. S. whose jobs are moved overseas. In light of these challenges, Nike to further demonstrate social responsibility became active in a workers’ rights group called the Fair Labor Association with a contribution of $1. 5 million to be used for improving factory conditions, reinforcing workplace monitoring, and for conducting worker programs (Mujtaba et al 2005, p. 1).

Also, Nike in July 2000 showed support for the United Nation’s Global Compact – an initiative that recruits corporate support in reporting concrete compliance with core labour standards related to sustainability in the factories they use (Doorey 2011, p. 599). Consequently, Nike (2013) reports that for the fiscal year of 2013, audits conducted by Nike’s compliance personnel and approved third-party auditors revealed that 68% of its contractors scored “ Bronze” in sourcing & manufacturing sustainability index (SMSI); which covers labour, health & safety, and the environment, where Bronze means meeting NIKE’s high standard for “ good” in a contract factory. Furthermore, Distelhorst et al (2014, p. 13) state that supplier factories that implemented the lean production techniques introduced by Nike exhibit superior labour and HSE observance than non-implementers. Nonetheless, Buddress (2013, p. 11) claims that Nike’s unprecedented efforts of opening its books to provide the names of all its suppliers and their addresses has not stopped the continuing scepticism regarding the social responsibility of these suppliers that has damagingly reflected on Nike.

The sustainability of International operations of the business Lee (2010, p. 68) states that sustainability is not a secondary issue anymore; rather it is now a competitive concern that needs urgent attention. In support of this view, Awaysheh and Klassen (2011) emphasise the need for MNCs to develop proactive supply chain sustainability standards (PSCSS), which not only contain statements in compliance with the law, but also aspects that go beyond the law; in order to ensure activities of their suppliers are carried out in a sustainable manner. Bearing this in mind, Nike despite subcontracting its production processes developed a two-part Sustainable Business Roadmap, consisting of a framework and an assessment in order to effectively manage the parent company and foreign suppliers (Nike, 2013). The framework according to Nike (2013) describes what sustainability integration looks like across the whole business; establishes goals and standard business processes that provide perspective and a means to measure integration; as well as assessment of compliance with set standards in the various functional areas of the company. Nonetheless, Andreff (2009, pp. 18) points out that Nike’s code of conduct does not seem to have been as effective as negative adverts from NGOs in curbing bad practices of its subcontractors, thus implying the limitation of the firm’s control of its suppliers.

For example, in the 1990’s Nike faced diverse public relations issues such as poor working conditions in shoe factories of its Asian suppliers, and in 1992 it was broadly condemned for the use of sulphur hexafluoride (SF6), a powerful greenhouse gas, in its Nike Air shoe (Angeles 2014, p. 100). Consequently, in 2000 Nike launched an organisation-wide training program with attention on product sustainability and compilation of sustainability metrics (Henderson et al, 2009), given the importance of image making to the Nike Brand (Douglas and Craig 2013, p. 924). Furthermore, according to Lee (2012, p. 65) Nike in its relationship with its suppliers not only focuses on improving their operational performance, but also trains them to enhance their environmental and societal activities. A view corroborated by Locke (2013) who states that research on Nike’s supply chain management indicated that frequent visits from Nike’s sourcing and production team helped the suppliers adhere to various initiatives that improved working conditions for their workers.

Similarly, in the management of waste in its supply chain, Nike uses its Materials Sustainability Index and footwear and apparel indices to determine the environmental impact of chosen materials and the waste efficiency of designs, so as to guide their designers’ choices (Nike, 2013). This resulted in average pattern efficiency rates of over 80% in Nike Apparel in 2013 and 71% in Nike Brand footwear respectively, resulting in 13% waste reduction compared to 2008 (Nike, 2013). Lee (2010, p. 66) also asserts that unlike many MNCs, Nike’s supply chain managers consult a data-base of polluters kept by the non-profit Institute of Public and Environmental Affairs (IPE), so as to make informed choices of suppliers. Additionally, Nike in 2008, in conjunction with other major brands founded Business for Innovative Climate and Energy Policy (BICEP) to promote meaningful climate policies, and in 2013 it worked with the Fair Labour Association to launch a certified fire safety train-the-trainer program, which began with national trainers from Sri Lanka, Bangladesh, Indonesia and India, with the plan to expand to all its supply chain. Distelhorst et al (2014, p. 3) also state that Nike provided widespread training in lean manufacturing to the management of their suppliers.

Although, Nike suppliers had to make significant changes to their production organisation and implementation, however Nike’s lean intervention led to 15% reduction in serious labour violations within participating factories between 2009 and 2013 (Distelhorst et al 2014, p. 3). Furthermore, Nike (2013) states that through the assessment of the firm’s carbon footprint, it was realised that the highest contributor to their CO2 emission (57%), is their finished goods footwear manufacturing. Therefore Nike embarked on reducing process heat loss, improving energy management systems, and fostering better engagement between factories and Nike’s energy field team, thereby achieving a per-unit CO2 emissions reduction of 17% from 2011 to 2013 in footwear manufacturing. Furthermore a 29% reduction in CO2 emissions between 2011 to 2013 has been achieved in Nike’s inbound transportation, through the shipping of more products by ocean than air, thus reducing fuel consumption and cost (Nike, 2013). In addition, Nike in a bid to reduce its environmental impact, has employed innovative recycling practices such as recycling over 2 billion plastics bottles from landfills and using them as polyester in making new performance gears, even Brazil 2014 national teams’ jersey was made from about 9 bottles per jersey (nike. com).

Also, Nikes’ “ grind and Reuse-A-Shoe” programs have over time helped reduce significant waste from Nike products, and involves placing bins in every Nike store across the world to collect worn out shoes (1800recycling. com, 2014). According to(nikegrind. com, 2014), Nike’s vision of creating a closed loop for its products ensures products are made from the fewest possible material to make them recyclable, for example Nike grind material made from recycled Nike shoes, have been used to make approximately 632, 000, 000 square feet of athletic and playground surfaces (nikegrind. com, 2014). Furthermore, in 2012 Nike introduced the Flyknit shoes manufacturing process which revolutionised shoe production, by using computer-controlled technology to weave shoes with minimal waste (nike. com, 2014). Finally, Plambeck et al (2012) maintains that for high-profile corporations like Nike; who are at the forefront in the promotion of sustainability development in their supply chain management; compared to industry peers, the company may never be completely immune from embarrassments by environmental protectionists.

Source: http://nikeinc. com/pages/manufacturing-map

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