

Free nike corporation: international accounting issues research paper example

[Business](#), [Company](#)



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Executive Summary

Nike has been a world-class manufacturer of sports footwear and apparel for the past few decades. With immense marketing campaigns and celebrity endorsements, Nike has been able to establish a strong public image. With operations in more than 30 countries, Nike is truly a global operator. Most of these operations are concentrated in the developing countries - mainly Asia. However, the last few decades have seen a tarnishing of this giant's reputation. Beginning with the labor practices issue in Nike's Third world countries sweatshops to an inappropriately responding forecasting and ordering software, Nike has had its share of international problems all resulting in financial issues for the company. Sales revenues and stock prices have both seen their own share of downfall and Nike has realized that gaining stakeholder interest is the only way of returning to financial success. Economically distressed economies have affected the company through escalated raw material price and a diminishing demand.

Nike has made several changes to its production facilities, its policies, and its marketing efforts to regain the market share it has previously enjoyed.

Competitors such as Adidas have been guilty of similar practices, but the impact felt has been corresponding to company size, and given Nike's huge size the impact has been greatest on its operations and financials. This paper is an analysis of such international financial issues faced by Nike and the reasons behind such issues; bringing together the actions taken by the company to correct these issues leaving a financial impact on the bottom lines. These financial impacts may not be long-lasting as the company has taken several fruitful steps to correct its previous profiteering image. Improvement in sales and a rise in stock prices can be counted as the beginning steps.

Nike is a global leader of sports shoes and has been successful in gaining a handsome market share since the 1980s. Starting from the tracks in a University, Nike quickly became a publicly-traded Fortune 500 company. Nike sells its products through chosen retailers and through its own retail outlets. Nike is a global business whose products are manufactured in over 30 countries in approximately 350 factories which are not owned by the company. This helps in saving costs and manufacturing in countries where costs of production are low. This allows Nike to save on production costs and spend more on aggressive advertising (Chavis, 2015).

Nike and Labor Practices

Nike's swoosh has been one of the strongest brand trademark that has mesmerized consumers and marketers for decades. It was only until recently

that the darker side of the swoosh – endorsed by many celebrities – has been revealed. The initial concept of having ‘sweatshops’ in Third world countries came into being with Nike’s overseas factories. Nike has been blamed to exploit workers in Asia for several years resulting in considerable financial gains for the company. Lack of labor laws in these countries resulted in Nike being able to employ workers at very low wages for long hours and under very poor working conditions (Mathew & Murphy, 2001).

Nike showed significant concern and took steps to manage the situation. The most important was the Nike Code of Conduct that had guidelines to ensure that workers were not forced to work overtime, were paid at least the minimum wage, worked in safe environments, and that local sub-contractors did not use lax labor policies as a cost-cutting measure (Beder, 2002). Nike’s international manufacturing facilities have also been reduced to ensure appropriate control. However, criticisms still prevail denoting that Nike has not taken as many steps to correct the situation as it has publicized about. The fact that Nike’s accounting firms have no contact with the workers or their owner companies results in no monitoring of their manufacturing activities. This has become a major accounting setback for the company as it can earn the ‘no sweatshop’ seal while still having sub-contractors who are exploiting cheap labor to keep production costs low. No form of external monitoring or auditing can reveal the extent to which a sub-contracted facility is practicing worker safety. This makes the financial reporting of the company quite questionable. Users of financial statements – investors and customers – cannot be sure whether robust growth and improving performance of the company are backed by ethical labor practices or not.

Many instances have revealed that Nike has been reengineering and innovating its manufacturing processes to reduce wastage of time and resources while also reducing the labor required in the production processes. This again points to cost reduction measures and is a result of the increase in the minimum wages in Third World countries that push Nike's manufacturing costs upwards (Jopson, 2013).

Nike's Faulty Demand Forecasts

Nike has had a rather elaborate range in terms of both footwear and apparel; however, it is important that Nike's sales are well forecasted before production decisions are made. Sales forecasts are not merely predictions as these have to be based in sound logic and decisions taken should be derived from these forecasts. Therefore, all elements falling in the realm of superstition have to be eliminated. Past data plays a great role in understanding the future and several algorithms have been developed to generate forecasts. Companies often buy software or outsource the forecasting function to ensure that accurate forecasts are made and that production and procurement decisions do not result in waste (Saffo, 2007). In the case of Nike, a demand forecast plays a great role as the decisions to procure and produce are dependent on this forecast along with an action-reaction chain that is spread across the globe. The fall in its sales in the early 2000s is not only attributed to the harm suffered by its reputation due to the labor practices issue but also due to inappropriate forecasting of demand of certain shoes. Some popular designs were under-produced, whereas, other unpopular ones were over-produced. This resulted in not only a fall in sales

but also an unwarranted increase in costs.

Nike blamed the entire miscalculation on a newly installed supply-chain software sold to it by the company i2 Technologies, Inc. Nike purchased the software to streamline its supply-chain by quickly estimating regional demand when a shift in tastes and trends takes place. Therefore, a newer model of shoes that is gaining in demand would be available in the market quickly, reducing the company's reaction time from a month to a week. Inconsistencies existed within Nike's own management and technology support departments. The new supply-chain software was installed and started predicting demand and placing new orders; whereas the old order-placing system was still in place. This led to duplication of orders and in certain cases, shoe models that had to be discontinued ended up being produced in the double. Such a flooded supply of shoes, that showed falling demand, resulted in retailers offering discounts to finish their stocks, thus resulting in a heavy loss on such production. Nike was blamed by i2 in return whereby its management and implementation systems were declared to be weak. I2 issued an implementation manual with all its new systems and software but Nike failed to follow these (Wilson, 2003). Therefore, a \$400 million Enterprise Resource Planning Software that was expected to fulfill warehouse orders with reduced reorder and lag times resulted in a \$100 million loss in sales and a 20 percent dip in stock prices. The highly demanded new model of shoes was short at all retail stores resulting in wasted advertising expenditure and a public relations nightmare for the company. Whether the software had a glitch or Nike failed in implementing in properly remains a debate (Bosari, 2012). The entire situation did not just

cost the company financially but also resulted in a tarnished reputation as it declared that none of its other customers filed such a complaint and Nike did not use the software in the appropriate manner (Bozarth & Handfield, 2006). The lack of proper management and tech support and an openness to change are pre-requisites for successful technology implementation. Such was not the case at Nike resulting in a \$400 million technology going to waste rather than being immensely helpful to the company.

Nike's Rising Production Costs

The cost of production incurred by a company is affected by many factors and these multiply tremendously in the case of globally producing businesses such as Nike. The labor laws of the country that the manufacturing takes place in and those of the home country both have to be kept in mind, economic factors such as raw material cost and quality also affect production, distance from raw material suppliers and from the target market also affect the cost (Maheshwari, 2005).

Nike had to make a difficult decision when it faced immense criticism on the working conditions in its sweatshops. Modifying working conditions or ensuring that all its sub-contractors comply with the labor practices promoted by the company meant losing some contractors for the company. The decision of focusing on worker safety was a huge one for Nike as the costs would definitely go up. Therefore, Nike had a physical check of work sites in developing countries such as Bangladesh and India. In the process many work sites had to be shut down and this resulted in production taking place at more expensive sites.

The decision to ensure that all its production sites meet the required standards of labor safety has meant several costly decisions for Nike, in the form of sacrificed sales and increased expenditure on production site re-modelling (Banjo, 2014). The position initially taken by Nike officials was that the safety of the workplace was not their responsibility as they did not own the worksites. This statement led to a huge public uprising until Nike took responsibility to ensure workers' safety. This has now become a costly decision and Nike's pledge to uphold it is having an impact on its financial statements - bottom lines.

On the other hand, changing demand patterns in high-demand countries like China has left the company in a distressed financial situation. These countries have been affected by changing tastes and demands, continued recessions, and an aging population. Raw material prices - cotton, oil, and labor - have been on the rise since the recession (Kuo, 2013).

Conclusion

There are several international financial issues that global businesses face. Nike has had its own share of international problems most of which have had an impact on the company's financials. The credibility of the financial statements, profits and costs have all been affected by events that were to a certain extent beyond the control of the company.

Corrective actions are often taken by companies to ensure that a turnaround in their public image helps to improve sales and re-instate investor interest. Nike has been an aggressive marketer and has been changing its marketing messages to re-establish an image that promotes socially

responsible behavior on the part of the company. Corporate Social Responsibility drives along with environmentally friendly production processes have helped Nike to improve its standing in a market that blames it for labor exploitation and promotion of child labor in Third World countries such as Taiwan, Korea, Bangladesh, Brazil, India, and Pakistan, solely for financial gains. The use of labor practices that have been abusive in nature have resulted in a tarnished international reputation for the company affecting financials through a lack of investor and customer interest; on the other hand, corrective action hassled the company to set standards for its workplaces and this has increased the cost of production.

Purchase and implementation of forecasting and ordering software was Nike's move to reduce order times and to be more responsive to customer demand. However, improper implementation of the software resulted in the company not only losing the investment, but also losing sales and stock price when demand remained unfulfilled for popular shoes and unpopular ones kept selling at a discount. These issues cumulatively result in Nike suffering a fall in sales and a disadvantaged reputation.

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