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## Governance and Sustainability at Nike (A)

*Nike is not here to create a new world order. We are not here to eliminate poverty and famine or lead the war against violence and crime. Our critics say that the world is going to hell in a Nike sports bag. Then, again, our critics, for the most part, aren't athletes.*

— Nike Annual Report, 1997

*I believe that any company doing business today has two simple options: embrace sustainability as a core part of your growth strategy, or eventually stop growing.*

— Nike Annual Report, 2011

Hannah Jones and Eric Sprunk had little time to spare. With the next meeting of the Nike board's corporate responsibility committee just weeks away, they had taken over a corner conference room in the John McEnroe building at Nike's world headquarters in Beaverton, Oregon, to review the preliminary sustainability goals for 2015-2020 that they had presented to the committee at its previous meeting in February 2012. Sprunk circled the table, stopping occasionally to look at the papers spread across it. Jones was seated, with the still intensity of a sprinter before the starting gun. The two members of Nike's 12-person executive team quickly focused in on the proposed target for eliminating toxic discharges from the supply chain. Although their presentation had been based on extensive work done over the previous year, further research and analysis after the February meeting revealed that reaching the target—zero discharge of hazardous chemicals by 2020—would be more difficult and costly than previously estimated, since it would require innovations in chemistry, systemic changes throughout the supply chain, and collaboration across the industry. Finding the necessary resources and people to develop scalable solutions would be challenging, particularly within the proposed time frame.

The conversation was intense. Jones, Nike's vice president of sustainable business and innovation, brought to the table more than 16 years of experience on the front lines of the corporate responsibility debate, close to 14 of them at Nike. Sprunk, a college basketball player, former accountant, and nearly 20-year veteran of Nike, was responsible for all Nike brand products worldwide as vice president of merchandising and product. Since 2009, the two had served as executive representatives to the board's corporate responsibility (CR) committee. They and their teams had worked closely together in designing Nike's sustainability goal-setting process as well as the preliminary goals themselves. Together they would have to find a solution to present to Nike CEO Mark Parker and, with his buy-in, to the board CR committee at its next meeting in mid-April. As explained by Sprunk, "Hannah and I are asked to propose the goals jointly. Not Hannah alone. And not Eric alone. Mark will be comfortable if he looks at Hannah and me across the table and says, 'Are you two in agreement and are you comfortable?' and we say, 'Yes, we are.'"

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## Company Background

With over \$20 billion in revenues for FY 2011, Nike, Inc. was the world's largest athletic footwear and apparel company and owner of one of the world's best-known brands. The Nike swoosh adorned the gear of athletes around the globe, weekend warriors and Olympians alike. LeBron James won his first NBA championship, with the Miami Heat, in Nikes; Manny Pacquiao was the first boxer to win world titles in eight different weight divisions, in Nikes; and the U.S. Olympic team was heading to London for the 2012 Summer Olympics in high-tech Nike uniforms. Nike served even the youngest of athletes-to-be, offering an infant/toddler version of its iconic Air Force I shoe and three-packs of Jordan onesies for newborns. In addition to the Nike brand business, which accounted for some 87% of sales, Nike, Inc. included affiliates such as shoe and apparel maker Converse; action sports brand Hurley; Jordan Brand premium athletic products; and Nike Golf. (See **Exhibit 1** for Nike, Inc. financials 2001-2012. See **Exhibit 2** for revenues by region and product type.)

The athletic footwear and apparel industries were both fiercely competitive. Globally, Nike ranked first or second in market share in most major product categories. In its core athletic footwear segment, Nike's share ranged from 25% in Asia to 44% in the U.S. Its closest competitor in this segment, with 21% globally, was adidas Group; smaller rivals included Puma, Fila, New Balance, and Asics. Competitors in the more broadly defined athletic and leisure category also included VF Corp., with brands such as The North Face, Vans, and Nautica; Columbia Sportswear; Under Armour; and Skechers. In emerging markets, Nike was facing a bevy of ambitious rivals such as Li Ning in China and Olympikus in Brazil.<sup>1</sup> (See **Exhibit 3** for competitors' market shares.)

Nike traced its origins to 1964 when Oregon track coach Bill Bowerman and runner Phil Knight founded Blue Ribbon Sports to import and sell Onitsuka Tiger running shoes manufactured in Japan, then a low-cost labor market. Knight, who had earned a degree in accounting from the University of Oregon before getting his MBA at Stanford, worked as a certified public accountant while getting the business off the ground. Selling shoes from the trunk of Knight's Plymouth Valiant at local track meets, Knight and Bowerman worked closely with their athlete customers and experimented with improvements, such as the wedge heel, to enhance runners' experiences. As revenues grew, the relationship with Onitsuka deteriorated and eventually ended. Meanwhile, Bowerman and Knight began developing their own shoe, and the first running shoe bearing the Nike name arrived in time for the 1972 Olympic trials. Eight years later, with revenues of \$270 million, Nike went public with a listing on the Nasdaq and a dual-class share structure under which Knight, as Chairman and CEO, owned 42% of the company, all in Class A stock which was not publicly traded and elected the majority of the board.<sup>2</sup> In October, 1990, Nike moved its listing to the New York Stock Exchange and the Pacific Stock Exchange. (See **Exhibit 4** for major shareholders. See **Exhibit 5** for stock price.)

Knight stepped down as CEO in 2004, but remained a strong presence on the board as Chairman and 15% owner in 2012. "One of the great things about having Phil in the room is that we're in touch with our entrepreneurial past," commented CFO Don Blair, who had joined Nike in 1999 after a 15-year career in finance at PepsiCo. "His view of what the board contributes, and what he looks for from the board, is really colored by that experience." Knight saw the board's purpose as helping the company and the management team by sharing experiences and expertise and asking questions. Beginning in the late 1980s, Knight had sought to bring new thinking to the then largely "friends and family" board by adding directors with a wide range of backgrounds—from industry, finance, law, athletics, and academia. In 2012, nine of the twelve directors were classified as independent, including six of the nine elected at the 2011 annual meeting by holders of Class A shares and the three elected by holders of the publicly traded Class B shares. The board committee structure included the three NYSE-required committees (audit, compensation, nominating and governance) plus three others—executive, finance, and corporate responsibility. (See **Exhibit 6** for board members.)

From its earliest days, Nike's business model combined innovative shoe design with low-cost manufacturing by independent contractors in low-wage countries. Inspired by Bowerman, who had famously invented the "waffle sole" one morning by mixing up a batch of urethane and cooking it on a waffle maker, the Nike team was determined to reimagine the running shoe for better performance. Ever the coach, Bowerman constantly reminded everyone that the limits of human performance were unknown. His "just do it" attitude became a defining element of the young company's culture. At Nike's R&D center, set up in Exeter, New Hampshire, in 1978, scientists and designers worked together with elite athletes to create and test innovative prototypes. With a research budget roughly equivalent to its advertising budget in the early 1980s, Nike spent significantly more on research than most of its competitors.<sup>3</sup> Shoe production was outsourced—initially to contractors in Japan, then Korea and Taiwan in the 1970s, then China, Malaysia, and Indonesia in the 1980s, and so on as wages and costs rose in one source country after another. In 2012, Nike, Inc.'s 500,000 different products were made at more than 900 contract factories employing over a million workers in some 45 countries. China accounted for about a third of factories and workers. Employees of Nike itself numbered over 40,000, including almost 7,000 in Beaverton.

In early 2012, Nike was on track to achieve its revenue target of \$28-30 billion by 2015 through a strategy of expanding globally and getting closer to the customer. Organized by geographic regions and categories of sport—action sports, running, basketball, football (soccer), men's training, women's training, and sportswear—the company was investing heavily in China and other emerging markets regions and seeking to grow its direct-to-consumer business across all brands in both online and brick-and-mortar environments. As part of this effort, Nike was investing some \$500-600 million to strengthen its retail presence and expected to have more than 970 retail outlets globally by 2015, up from 515 in 2010.<sup>4</sup> Plans for continued expansion of Nike's digital business were no less important. A new division of digital sport had been established in 2010 to build on the company's success with Nike+, a line of offerings developed in collaboration with Apple that allowed runners and other athletes to track and share their activity using their iPods and iPhones. The core of Nike's strategy for growth, however, lay in innovation. As Parker wrote in his 2011 letter to shareholders, "The key for Nike, Inc., in any market is to drive innovation at every level—brand, product, retail, operations, events, and communications." Parker was optimistic: "I started here as a designer in 1979 and I've never seen so much opportunity to innovate as I do today. It's just amazing. It's exciting."

Parker had joined Nike as a footwear designer and product engineer in the Exeter R&D center shortly after graduating from Penn State in 1977. A college runner, Parker had established the product testing team and was the designer behind some of Nike's most successful innovations including the Nike Air Max technology which was credited with re-launching the Nike brand in 1987 after several years of sluggish sales. By the time he was named CEO in 2006, following a one-year stint by William Perez who had been hired from the outside to replace Phil Knight as CEO, Parker had held positions in design, research, engineering, marketing, and general management at all levels of the organization, including five years from 2001-2006 as co-president (with Charlie Denson) of Nike brand. Nonetheless, Parker remained at heart very much a designer who liked nothing better than spending time in Nike's "innovation kitchen" where employees worked on secret new ideas.<sup>5</sup>

Parker and other members of the Nike, Inc. executive team (NET) were particularly bullish on the potential for innovations borne of environmental and social concerns to drive future growth and profitability. "What's new in the last few years," commented Blair using Nike sports parlance, "is this 'offensive' [as in 'playing offense rather than defense'] element of sustainability and corporate responsibility that we see as a growth driver...We're not just managing risk. We're putting down investments around long-term growth and innovation." The leadership team envisioned a day when every product would represent a closed-loop system that generated no waste, and sustainability would be synonymous with performance. (See **Exhibit 7** for NET membership, calendar year 2012.)

The company's new Flyknit running shoe, introduced in the run-up to the London Summer Olympics and given star billing at a Nike "innovation summit" for media, retailers, and investors in February 2012, was a physical embodiment of this vision. Inspired by the textile knitting process and by runners' desire for a lightweight shoe that combined the comfort of a sock with the performance attributes of a running shoe, each shoe was made from strands of high-tech yarn. Through Nike's proprietary technology, desired attributes such as support, stretch, and breathability could be engineered into the design at the thread level. Compared to traditional methods for making shoe uppers used in performance running footwear, which involved the meticulous cutting and sewing of layer upon layer of multiple materials and generated massive amounts of waste, the production of Flyknit was virtually waste-free. Nike Flyknit was also almost 20% lighter than the Nike Zoom Streak 3, worn by the top three marathoners at the 2011 World Championships. Like other members of the leadership team, Blair deemed Nike Flyknit "a home run on all fronts—visually iconic, high performance, and very little waste." What's more, the technology had potential to revolutionize the footwear production process and, indeed, to transform Nike's entire business model given the possible implications for labor costs and capital deployment.

With a long-term vision of "decoupling profitable growth from scarce resources," Nike was banking heavily on innovation in consumer-facing areas such as digital sport. But even in less visible areas such as auditing and monitoring compliance in contract factories, Parker saw opportunities not just for incremental improvement but for game-changing innovation that could drive sustainable growth. "[By] actually changing the way factories work, how they incentivize workers, how they build skills...we think we can transform how the product is made and how our business model works," he commented. Parker's vision extended well beyond the confines of Nike: "What we've realized is that we are a successful brand that can create change. And we can do that in a way that not only improves athletic performance and creates products that are more sustainable, but that also contributes to a better world...One of the things I want to leave as a legacy in my role at Nike is to make sure that we're innovating in every aspect of our business, where it really matters, where we use our brand strength and success to create positive change on a larger scale." In this spirit, Nike was seeking to hardwire sustainability principles into innovation and decision making throughout the organization.

## The Origins of Corporate Responsibility at Nike

The leadership team dated Nike's sustainability journey to the 1990s when a groundswell of criticism over labor practices at contract factories making Nike products threatened the company's brand with its core consumers, particularly college students. Nike's critics alleged that workers in the company's contract factories were subjected to inhumane treatment and grossly underpaid. At first, Nike responded defensively, arguing that it was not responsible for the actions of its suppliers, and that wages and working conditions should be evaluated in the context of the manufacturing countries, not measured against U.S. standards. Internally, executives at the time thought the critics were just radical activists and troublemakers who didn't understand how good the contract factories really were. In 1998, however, Nike's approach shifted. In January, the company hired Maria Eitel from Microsoft as Nike's first vice president of corporate responsibility. Eitel set about consolidating the community affairs department, environmental action team, and labor practices team to create a new corporate responsibility department, and began work on a strategic framework to address the issues facing the company. That same year, in a speech to the National Press Club Knight acknowledged, "the Nike name has become synonymous with slave wages, forced overtime, and arbitrary abuse" and vowed to change that equation. He affirmed Nike's commitment to improving working conditions at its contract factories and announced initiatives to expand independent monitoring; raise minimum age requirements; strengthen environmental, health, and safety standards; expand worker education programs; increase support of Nike's micro-enterprise loan program for workers; and build understanding of corporate responsibility in the larger community.

On assuming her new position, Eitel had taken the unprecedented step of sitting down with the head of Global Exchange, one of Nike's most outspoken critics. Widely praised internally as a charismatic communicator, she introduced a section on corporate responsibility into Nike's annual report to shareholders and, along with the environmental action team, played a key role in the company's decision to phase out PVC (polyvinyl chloride). Shortly after Eitel arrived, she hired Jones, her former colleague, for the new Brussels-based role of director of community and government affairs for Europe, the Middle East, and Africa. Jones, who had started her career at Britain's BBC working on social action campaigns, took up the post just as Nike announced its new policy to eliminate PVC—and just in time to receive a call from Europe's chemical employees' union threatening to burn shoes in front of her home for destroying workers' jobs.

As Eitel forged Nike's approach to corporate responsibility, she frequently turned to Nike board member Jill Ker Conway for counsel. Conway, a former president of Smith College and a historian of women's participation in the paid workforce, had been recruited to the board in 1987 for her expertise on women's issues and understanding of student perspectives. A self-described "jock from way back and ardent feminist," she agreed to join the board in large part due to her interest in promoting physical fitness for girls and women. At the time, recalled Conway, Nike's revenues were under \$1 billion and the board, still in start-up mode, was racing to keep up with the company's rapid growth. The board had never before included a woman, let alone an Australian-born, east coast academic. As criticisms of Nike heated up in the mid-1990s, Knight sought Conway's counsel on dealing with student protests. At one annual shareholders meeting, he called on her, without warning, to preside when activists took to the floor. In the face of growing criticism, Conway offered to visit some of Nike's contract factories in southeast Asia in connection with a trip to her native Australia. With Knight's blessing, she embarked on what became an extensive series of visits where she spoke, through interpreters, with factory owners, managers, and workers on the front lines.

In the factories she visited, Conway was struck by the poor communication between managers, many from Korea and Taiwan, and workers, mostly young women who did not share their supervisors' language. To learn what these young women were experiencing she proposed a project to survey them in their own languages. Tapping into her network of feminist organizations and university faculty around the world, Conway and Eitel brokered a partnership with the International Youth Foundation to help create a non-profit organization that would conduct some 67,000 face-to-face interviews. Based on findings from the project, one of Nike's first NGO collaborations, the corporate responsibility group set up training programs for factory supervisors, sought protections for workers' health, and offered workers classes in financial literacy. After much deliberation and with board input, Nike's leadership team decided to disclose the project's results to the public in the hope that transparency would help effect change. Throughout this period, Conway spoke frequently with Knight. "Once Phil grasped that there were real problems," she recalled, "he just said 'we're going to fix them and we're going to raise the standards of the whole industry,' and that was the goal." Looking back on that time period, Conway felt that "Phil's ownership in the company meant that when he made CR a priority, the board began to ask questions about CR issues and plans, not just about the budget. It gave the CR team the mandate to pursue its strategic priorities aggressively."

## Creating a Board-Level Corporate Responsibility Committee

In the late 1990s, environmental concerns moved into the mainstream, and the CR group's work expanded as Nike launched programs around product recycling, water use in the supply chain, and toxic substances in the manufacturing process. In an effort to engage the board with the CR issues the company was facing, Conway suggested creating a board-level committee on corporate responsibility. Knight embraced the idea and asked Conway if she would chair the committee. Her response: "I will, if you will be there at every meeting." Conway saw Knight's attendance as

insurance that the committee would not be marginalized. Indeed, “everybody wanted to come before that committee,” knowing that it would put them in front of Phil Knight, she recalled. With the full board’s vote, the CR committee was established in 2001. Besides Conway, other members included Michael Spence, the former dean of Stanford University’s business school, and Richard Donahue, vice chairman of the board and former president and COO of Nike. One of the committee’s initial tasks was working with Eitel on Nike’s first stand-alone CR report. Published that year, the report discussed Nike’s activities concerning the environment, labor practices, community affairs, Nike employees, and engagement with NGOs and other stakeholders. It also set out Nike’s first public targets for improving labor conditions and reducing its environmental impact. (See **Exhibit 8** for a history of public Nike targets in environmental and other areas.)

At the time, few companies had board-level CR committees, so Conway and her colleagues were operating in largely uncharted waters. In the early years, the committee focused primarily on labor issues and, to a lesser extent, on environmental issues and philanthropy. Much of the work centered on “putting out fires” —addressing code-of-conduct violations or labor issues in contract factories. Discussions often revolved around how an incident had been handled or, if it was still pending, what could or should be done. Over time, the committee began to differentiate between truly isolated incidents and those that were part of a larger pattern. The “overtime task force” formed in 2005 to examine why excessive overtime was such a recurring problem helped catalyze this shift. Chaired by Parker, then co-president of the Nike brand, the task force worked with systems experts to get to the root of the issue. When analysis revealed that the problem’s origins lay largely at the front end of the supply chain, in sudden changes in demand or materials, rather than in the factories, it was a big “ah-ha” for management and the committee. (See **Exhibit 9** for Nike CR committee members, 2001-2012.)

## Integrating Corporate Responsibility into Operations

In 2004, Eitel was tapped to head the Nike Foundation, and Jones, by then CR director for Europe, Middle East, and Africa, was invited to Beaverton to interview for the job of vice president of CR for the Nike brand. Jones recalled her interview with Parker, then co-head of the Nike brand, as “galvanizing.” “The conversation that Mark and I have is usually about potential and opportunity,” she continued. “He is extremely knowledgeable and understands the complexity of the issues, but he comes at it from the viewpoint of a designer and someone who has nurtured innovation. And that, to me, was the magic.” Jones took on this role in 2004, and at the end of 2005, with two small children and a husband who didn’t speak a word of English, moved from Brussels to Oregon. In her new position, Jones reported directly to Parker. She was also the executive responsible for reporting to the CR committee of the board. In that capacity, she worked with Parker and Conway to set the committee’s agenda and prepare materials for its meetings, all of which she attended. Her first task, however, was completing Nike’s CR report for FY 2004. In reviewing the data for the report, she “hit the pause button” to take stock of her team and the group’s strategy.

At the time, the department had about 150 members spread across three main subgroups: labor, environment, and community investment. Much of the department’s work focused on monitoring and remediation. “We were doing excellent work,” recalled Jones, “but we were also caught in this policing game where you’re at the end of the process and looking into the rear view mirror.” Jones saw the need for a more positive and forward-looking vision, and she was convinced by her experiences in Europe that insights would come from combining the labor, environment, and community groups with each other and with the business, and taking a systems-oriented perspective on challenges facing the company. A visit to a contract factory prompted one of Jones’s “epiphanies”: “I realized that you can either solve a worker’s rights issue by monitoring every single factory 24 hours a day for whether they’re wearing personal protective equipment. Or you can innovate a new glue that removes all the toxics so you don’t have to have the personal protective equipment.” Jones

acknowledged that innovation would not solve everything, “but if we can make a lot of the stages grow obsolete by innovation,” she continued, “then you can go much faster, at much greater scale, with much greater ease.”

Jones began efforts to bring the group together and to formulate a strategy around a few core goals: moving beyond the policing stage; increasing transparency and cooperation with the outside world; integrating corporate responsibility into the fabric of the business; and establishing the corporate responsibility group as a “hotbed of talent and innovation.” “I mapped out my 30-day, 60-day, 90-day, and 180-day plan and I stuck to it,” said Jones.

Not long after taking on her new role, Jones proposed that Nike publish the names and locations of its contract factories. At the time, Nike and other companies kept a tight grip on this information fearing that, otherwise, competitors would poach their capacity and relationships. Jones, however, reasoned that transparency would be good for the company because critics could go out and see for themselves what conditions were like and NGOs could monitor and thereby help address the issues. Nike, moreover, could collaborate with other companies that used the same factories to coordinate inspections, share costs, adopt common standards, and speed up the process of factory improvement. Jones set out her case to Jerry Karver, then head of manufacturing, and she “nearly fell down the stairs” when he said, “Let’s do it.” With the support of Karver, who phoned in to a board CR committee meeting from a football match in Istanbul, Jones was authorized to publish a complete list of factories contracted to produce Nike brand products, along with their locations.

The CR group was similarly receptive to Jones’s outlook, as many of its members had also begun to recognize that monitoring was only part of the answer. The environmental team was already at work on tools for designing footwear with environmental considerations in mind at the beginning—rather than the end—of the supply chain. To help the company chart a path forward, Jones initiated a scenario planning effort. “We were very conscious that we had missed the weak signal of the labor issue,” she explained, referring to the mid-1990s, “so we went out and involved others in asking what are the big, big trends that maybe today are weak signals, but may become strong signals and may fundamentally impact business.” Jones set aside resources for a new full-time position for scenario planning and trend analysis. Over the next three years, the new “horizons director” worked with outside consultants on scenario planning workshops for key executives across the company. Held in Nike’s Tiger Woods Center, the workshops explored implications of major global trends—population growth, water scarcity, energy shortages, climate change, the internet, health issues, governance—for the world and for Nike’s business model.

Although many of the themes were familiar to Nike executives, the workshops provided an opportunity to examine the underlying facts and probe the potential impacts on Nike’s businesses. Models of projected water shortages, for example, revealed the potential for disruptions and cost increases at multiple points in Nike’s value chain—from the production of cotton, to the generation of power for contract factories, to the dyeing and processing of fabric by material vendors, to the routine laundering of a Nike t-shirt by the end user. The U.N. estimated that about 1.8 billion people were expected to be living in areas of water scarcity by 2025, with two-thirds of the world’s population experiencing water stress.<sup>6</sup> Some of the greatest shortages were expected in the Asia Pacific region, where 36% of the global water supply would have to meet the needs of 60% of the world’s population—and where much of Nike’s manufacturing capacity was located. Global demand for water, moreover, was expected to double every 20 years, with about 70% of that demand coming from agricultural uses—like growing cotton for apparel. Nike had been attentive to water issues in the supply chain for some time—for instance, the Nike Water Program launched in 2001 provided suppliers with tools to track their water usage—but the scenario planning exercise brought home the risks to Nike’s business model and gave the executive team for the first time a shared understanding of the issues. (See **Exhibit 10** for Nike’s efforts to manage water use in its supply chain.)

Coming out of the scenario-planning exercises, Jones, Parker, now CEO, and other members of Nike's leadership, including the board CR committee, were more convinced than ever that natural resource scarcity would increasingly define the business landscape, and that "doing less of something wasn't going to cut it." Eventually, business would hit a wall of intractable constraints. How to transition to the future was less clear, but Jones knew "we were going to need to build the plane as it was flying. We were going to have to optimize today, while we seeded and built and scaled the innovation that would enable us to transition to the models of the future." (The scenario planning exercises later evolved into an employee engagement program in the form of a simulation designed to show how macro-trends could affect Nike's business and to build shared accountability for creating a sustainable business.)

Jones continued to strengthen her department's capabilities, recruiting people from other functions who could run strategic planning and financial analysis and create models to integrate what were by then being called "sustainability" factors into business decisions. Jones immersed herself in understanding design. With leadership support from Parker, she teamed up with the head of footwear design, John Hoke, to get the environmental team engaged at the front end of the process. A result was Nike's Considered Design ethos. Spearheaded by Parker, Jones, and Hoke, Considered was described as the "first step" toward the long-term goal of closed-loop manufacturing—a system that minimized waste by using outputs as inputs. With the Considered materials sustainability indexes, designers could quickly and easily evaluate the environmental impact of prospective designs. Confident that the new tools would help spawn yet unimagined innovations in shoe design, Jones and her team put in place a timeline for applying Considered to all footwear.

With the publication of the FY 2005-2006 CR report in May 2007, a shift in thinking was evident. The report described corporate responsibility as "a catalyst for growth and innovation" and set out targets, not only for implementing the Considered Design ethos, but also for improving working conditions in the supply chain, minimizing Nike's environmental footprint, and increasing access to sport for disadvantaged youth. In the report, Parker emphasized the limits of incremental progress: "If real change is to occur in our supply chain and contract factories, in the communities in which we operate and in the broader world we influence, then small steps will always fall short of our potential. Big goals are needed to realize big achievements. So we've set a series of strategic business targets for ourselves that are aggressive but achievable by FY11." (These targets are shown in **Exhibit 8**.) (In 2008, Nike issued a China-focused supplement to the FY 2005-2006 CR report.)

## Toward Sustainable Business & Innovation

As the corporate responsibility agenda evolved, Jones began to explore a new name for the group. "Some of these things can feel cosmetic, but actually symbols and narrative are profoundly important in how you shift paradigms and mental models," she noted. Over the course of a year, Jones and Parker discussed various possibilities, eventually settling on the language of "sustainability and innovation." For both Jones and Parker, who had publicly declared sustainability to be "our generation's defining issue," the phrase conveyed inspiration and challenge while capturing the essence of how they thought about Nike. They began using the narrative of "innovation and creativity for a better world," a message that Parker included in his 2007 letter to shareholders.

Even with extensive monitoring and oversight, labor issues, particularly excessive overtime and code of conduct violations at contract factories, continued to arise. What Jones called "a searing experience" in the late summer of 2008 brought the matter to a head and caused the CR group to rethink its approach to embedding corporate responsibility in the business. Through news reports out of Australia, Nike learned that one of its long-time contract factories in Malaysia was housing its workers, largely migrants from China, Bangladesh, India, Indonesia, Myanmar, Nepal, and Vietnam, in deplorable facilities, garnishing their wages to pay for work permits and "recruitment fees," and



withholding their passports to prevent them from leaving. Within days, Nike representatives met with factory management and demanded redress for the workers, including reimbursement of withheld wages and transfer to new dormitories within 30 days.

In addition to seeking redress for the workers and instituting a global policy on migrant workers, Nike also launched an effort to unearth the root causes of the incident, including reviews of all 34 of its contract factories in Malaysia and its own internal business practices. The investigation revealed that some root causes lay in societal factors such as weak law enforcement and poor education, and some lay in the industry. The probe also found that Nike's own systems were a contributing factor. The leadership team decided that it was time to build greater accountability for adherence to Nike's manufacturing and sourcing standards into the company's core business processes. A cross-functional team overseen by Parker, Blair, Sprunk, Jones, and others initiated a project to "rewire" the organization accordingly, in part by adding sustainability factors to the metrics used to evaluate the performance of executives responsible for sourcing decisions. Sprunk elaborated: "The idea [of Project Rewire] was to tie the impact of the decision making with the decision makers so that we weren't having kind of a compliance arm versus a business arm; we just have a business arm doing the best thing for our profits, for our shareholders, for our consumers, for the world."

While the team was working on Project Rewire, the world was hit by the financial crisis of 2008 and consumers clamped down on spending. With Nike's revenues, profits, and futures orders all slowing in early 2009, the leadership team decided to launch a full review of the business. Project Rewire was soon folded into the much larger business review. The result of the review was a \$195 million restructuring aimed at getting closer to the consumer, driving innovation more quickly to market, capitalizing on expected growth in emerging markets, and establishing a more scalable cost structure. Nike reduced management layers, cut its workforce by 5%, consolidated the supply chain, and reorganized from a matrix defined by product type (footwear, apparel, and equipment) and geographic regions to one defined by sports categories (running, training, basketball, and so on) and revised geographies. The new structure, part of what Nike called its "category offense," enabled a much closer relationship with key consumer groups and recognized emerging markets and greater China as their own regions.

The restructuring provided an opportunity to wire sustainability into the business in a new way. The 130-person CR group, reorganized and rechristened "Sustainable Business & Innovation," set about building an expanded set of capabilities. Dual reporting lines were established between SB&I and the business functions as well as between SB&I and operating activities such as product development and the supply chain. For example, the SB&I team under Jones included finance personnel, while the finance function under Blair also included personnel with "dotted line" reporting into SB&I. Similarly, the head of Considered within SB&I reported both to Jones and to the vice president for innovation. Jones, as head of SB&I, was brought into the NET, and Sprunk, as head of Nike's "product engine," began attending meetings of the board CR committee. Sprunk had held various positions in finance and general management, including an eight-year stint as head of global footwear, before being named vice president of merchandising and product in 2009. In this role, he oversaw a wide range of functions—from product innovation and design to manufacturing and sourcing. Sprunk's heightened involvement with the SB&I function meant that he could not only help implement the sustainability agenda but could also help provide the finance function with better cost projections as a result. (See **Exhibit 11** for an organization chart showing the SB&I structure.)

The restructuring also established an internal audit program to provide independent oversight of the system of contract factory audits against Nike's health, safety, and environmental standards. This shift in oversight from the CR group to the audit department within the finance function allowed the SB&I group to focus more on forward-looking activities—"playing offense," in Nike lingo—such as planning, driving improved sustainability performance, and spurring innovation. It also brought the

rigor of traditional auditing and control to bear on sustainability auditing—thus also strengthening the “defense”—and put the audit and finance teams more in touch with the sustainability discussion. Sustainable audit began reporting directly to the CFO and the board’s audit committee rather than to the CR committee, though key results were shared with the CR committee as well. According to Blair, restructuring brought sustainability issues “directly into my space of strategy and finance as we’re looking at new investments, new business models, that we need to be setting up.”

To build new innovation capabilities, the SB&I group set up the Sustainable Business & Innovation Lab, an internal strategic partnerships group charged with hunting externally for technologies and collaborations with potential to drive sustainable value. A complement to the core R&D functions and the “innovation kitchen,” the SB&I lab brought private equity and venture capital expertise inside the company for the first time. The lab focused on two key areas: closed loop materials and manufacturing; and revenue sources decoupled from scarce resources, primarily digital services. Jones’s brainchild, the lab was part of SB&I, but was also “sponsored” by Blair as CFO, with a dotted line reporting relationship to the vice president of strategy. “I view the [sponsorship] role as keeping the organization focused on some of these longer term opportunities that might not hit the priority list for someone in the day-to-day firefight,” said Blair, noting that the small, early-stage type of projects pursued by the lab could easily get squeezed out of the process in a large-scale enterprise deploying a public company financial model. A senior management group including the heads of innovation, logistics, IT, and other functional areas helped define the lab’s strategy, but approval of strategic investments was by Nike’s sustainable investment management committee, made up of Blair, Jones, and the heads of corporate strategy and development, with ultimate oversight by Parker.

## Evolving Role of the Board CR Committee

Although the reorganization touched all of the board’s committees, it affected the CR committee directly. With both Sprunk and Jones attending all meetings, the committee became more engaged with sustainability developments in the core business functions and also with the company’s innovation efforts. Jones worked with Sprunk as well as with Parker and Conway in developing meeting agendas. At each of the committee’s two-hour meetings, the first hour was devoted to a review of the company’s progress toward its sustainability targets, a review of the contract factories’ performance against standards, and a discussion of any problematic labor or environmental incidents in the supply chain. The second hour typically examined some particular SB&I strategy or activity as well as some particular business strategy or function. Under the new structure, top executives typically appeared before the committee at least once every 18 months. They were expected to explain how their business strategies aligned with SB&I strategies and to show how that alignment was reflected in the accountability metrics of the teams they led. “Having board members sitting across from a business leader and talking about what the business leader is undertaking to do—that puts a little backbone into the conversation,” observed Blair.

With Conway’s retirement scheduled for September 2011, Knight and Parker asked Phyllis Wise, a member of the CR committee since joining the Nike board in late 2009, to take on the role of committee chair. At the time of her appointment to the board, Wise was interim president of the University of Washington where she had led the establishment of the College of the Environment. A biologist by training, Wise described her first CR committee meeting as “a great christening by fire.” Two Nike subcontractors in Honduras had closed their doors and dismissed some 1,800 workers without notice and without paying \$2 million in severance owed. Nike had no legal responsibility for contractors’ financial obligations to their workers, and had stated publicly it would not cover the severance payments. But pressure was mounting from universities and student groups across the U.S. for Nike to make good on the contractors’ obligations. The discussion, led by Conway, was intense, and the group brainstormed ways to assist the workers without setting a precedent for Nike

to pay every time a contractor defaulted on its obligations. After the meeting, recalled Sprunk, he and Jones decided to look for a new approach. The upshot was an innovative arrangement whereby the Honduran government made the severance payments and Nike created a \$1.5 million Workers' Relief Fund to provide vocational training and finance health coverage for the laid-off workers.

As a newcomer, Wise had been surprised by Nike's definition of corporate responsibility. She had assumed the committee would focus mostly on labor conditions in the factories—the issues most talked about on university campuses—and was struck by the amount of time spent on innovation, product development, materials, and sustainability issues more generally. As a case in point, she cited the committee's discussion of Nike's minority investment in DyeCoo Textile Systems, a small Netherlands-based startup that had developed a waterless process for dyeing polyester. (The process used recycled carbon dioxide (CO<sub>2</sub>)—hence the name DyeCoo.)

Brought to the sustainable investment management committee by the innovation team and the SB&I lab, the opportunity was viewed as attractive on several dimensions. Although the technology was not yet cost-competitive with traditional dyeing methods, it was seen as having huge potential for saving on water, energy, and chemical effluent discharges into the water supply (since the process eliminated the need to heat water or dry the fabric). In contrast to conventional dyeing techniques, which used 12 to 18 gallons of water per pound of fabric, DyeCoo's technology used no water at all. Rough calculations suggested that waterless dyeing across the entire polyester industry could save a trillion gallons per year—the annual water usage of Los Angeles, Miami, and Chicago combined.<sup>7</sup> In addition, the technology cut dyeing times in half and yielded a better quality product. With plans to sell machines to textile mills and dye houses, DyeCoo was researching use of the technology on other fabrics such as cotton and other natural fibers.

The sustainable investment management committee, recalled Sprunk, considered the possibility of a wholesale acquisition that would allow Nike to develop the technology as a proprietary asset (like Flyknit) versus treating it as “pre-competitive,” a term used at Nike to refer to innovations it shared with the industry such as its technology for water-based adhesives, created to eliminate the need for workers to wear protective masks. As soon as Nike knew the adhesive worked, Sprunk explained, “we shared it with the industry because our competitive advantage isn't in how the shoes are bonded. [It] is in how they're engineered, how they're designed, how they perform. So [sharing] that, to me, was good for the workers...good for everybody.”

The sustainable investment management committee decided to make a strategic minority investment in DyeCoo with the aim of helping the young company develop and commercialize the technology for widespread use across the industry. How much Nike would pay to accelerate the purchase of the machines by its dye houses, over what time frame, and with which partners, remained open questions. On learning about the proposed investment at its meeting in November 2011, the CR committee was enthusiastic and encouraging—but only after understanding the pros and cons of the deal, including the decision to take a minority stake. Nike announced its investment in DyeCoo on February 7, 2012, the week before the February board meeting.

## The Next Generation of Sustainability Targets

A new round of sustainability targets was a natural next step in wiring sustainability into the business. For nearly a decade, Nike had been announcing targets and reporting on progress in areas such as labor conditions in the supply chain, energy and the environment, and community engagement. The most recent set of targets, set out in the FY 2007-2009 CR report, had primarily covered the time period through FY 2011, and had largely been achieved. It was expected that the next report, scheduled for release in early May 2012, would include an update on progress toward those targets along with an announcement of the next round. What was new, however, was the effort

to translate those targets into specific measurable goals for business and functional units throughout the organization so as to link Nike's sustainability strategy explicitly with its business growth strategy. Moreover, what the new targets should be – what areas, how ambitious, what metrics, what time frame, what resources, how transparent – these were all open questions.

The SB&I team shared its plans for developing the next round of targets with the board CR committee in June 2011 and embarked on a planning process loosely modeled on the process for setting financial targets. "We tend to run a top-down, bottom-up, and then final adjustment sort of planning process," explained Blair. "What that means is we set a top-down direction for our organization...People then develop bottom-up plans where they make their various resource allocations. And then we look at what comes out, and make sure that we're comfortable with where we ultimately landed." The overall starting point, Blair elaborated, is "What do we think the world will look like in a decade? What are the key issues that are going to affect us as a company?"

Under the leadership of SB&I director of business integration, Agata Ramallo Garcia, a six-person team began an inventory of the company's social and environmental impacts with an eye to the most significant opportunities to create value. The team tapped subject matter experts from different business and sustainability areas as they sought to identify key impacts, associated risks to the company, and mitigation efforts already under way. Both energy and logistics experts examined the use of energy in Nike's distribution systems; similarly, both water and manufacturing experts reviewed the use of water in the manufacturing processes. The SB&I team also reviewed Nike's previous experience with targets in the various sustainability areas, explored best practices and relevant research, and consulted with a range of external stakeholders. Based on this work, the team concluded that, in the next round, there should be fewer targets, no more than seven to nine, and that in many cases quantitative targets should be expressed in per-unit rather than absolute amounts to better align with plans for business growth. The team also decided that the targets should focus on areas with the greatest potential impact, where Nike could effect and measure change, and take into account consumer and other stakeholder audiences as well as sustainability ratings agencies.

In July, the SB&I team's work took an unexpected turn. Greenpeace launched a high profile campaign charging Nike, adidas, Puma, Li Ning, and other well-known apparel companies with not doing enough to prevent their suppliers, particularly textile dye and finishing houses, from releasing hazardous substances into the water supply via wastewater discharges. The NGO issued a report titled "Dirty Laundry" focusing on two textile facilities run by the Youngor Group in China, a country where, according to the report, pollutants affected up to 70% of rivers, lakes, and reservoirs. The textile industry, which accounted for over 7% of China's trade volume and some 20% of its water pollution, was said to be a significant contributor.<sup>8</sup> Greenpeace alleged that wastewater from one of the plants contained as many as 53 organic toxins as well as man-made chemicals including nonylphenol, a known hormone disruptor that was restricted in many countries but legal in China. The report acknowledged that neither of the facilities was a dye house for Nike but nonetheless called on Nike to help given Nike's connections with other Youngor facilities, its presence in China, and its role as a leading brand. Arguing that wastewater treatment plants could not remove many toxic chemicals, Greenpeace pitted Nike, adidas, and Puma against each other in a race to "detox our sportswear, detox our water, and ultimately, detox our future." As part of its "Detox Challenge," Greenpeace handed out custom-designed "detox" tattoos, orchestrated and posted videos of "detox striptease" flash mobs in front of adidas and Nike stores, and placed naked, detox-tattooed mannequins in strategic locations from Bangkok to Basel to Buenos Aires. Through these efforts and more, Greenpeace called on brands to target zero discharge of toxic chemicals in the entire lifecycle and supply chain of their products.

Before publishing its report, Greenpeace had written to Nike with a series of questions about its products and factories. Practiced in such dialogues with NGOs, the Nike team responded, describing

Nike's relationships with facilities in China and its longstanding efforts to address water and toxicity issues in its supply chain. Less than a week after the report appeared, Nike issued a public response, again outlining its existing efforts and offering to partner with Greenpeace, other NGOs, and other companies to promote improved water management in China and to work toward improving chemical inputs and processes in the footwear and apparel industry. A Nike working group flew to Amsterdam to meet with Greenpeace and to share details of Nike's water efforts in person. On August 17, Nike became the second (after Puma) to announce its commitment to zero discharge of hazardous chemicals by 2020, pledging to develop a detailed action plan within two months. Then in November 2011, together with other targeted companies, Nike reaffirmed its commitment to the goal of "zero discharge of hazardous chemicals for all products across all pathways in our supply chain by 2020" and put forth a "roadmap" outlining specific steps the companies would take to reach that goal. Nike also announced its own set of near-term actions, internally dubbed "Road to Zero," including continued expansion of the Nike Water Program which then covered 500 of Nike's 900 suppliers; public release of the Nike Materials Sustainability Index; continued chemical management training for vendors; and pilot studies on data exchange, materials traceability, and chemical screening tools. (See **Exhibit 12** for Joint Roadmap.)

Although Nike was already in the process of establishing new target areas, the Greenpeace campaign kicked the effort into high gear, especially in the area of toxic discharges. A working group of subject matter experts from business, manufacturing, and SB&I was assembled to determine what resources would be needed to reach the goal of zero discharge of toxic chemicals. The group prepared a comprehensive inventory of Nike's activities to identify where in the supply chain and manufacturing processes toxics were used, where the company might be at risk, and what was already being done that might get the company closer to the goal. "We've been working on toxics for a while," noted Sprunk. "We know what's bad for the earth and we've been trying to get them out of our product for a long time." The Greenpeace campaign, however, had condensed the timetable sharply. With the state of play clearly defined, the group began building a strategic model to weigh different allocations of resources against various time horizons for realizing the goal.

Meanwhile the SB&I business integration team was continuing its work on other potential target areas. At the annual Corporate Strategy Review session in October, 2011, the team shared with executives from across the company the ultimate vision of "decoupling profitable growth from scarce resources" and outlined the four "pillars" of the emerging sustainability strategy: creating sustainable materials that enhance athletes' performance; developing sustainable sourcing and manufacturing models; catalyzing a market shift toward sustainable consumption; and developing revenues from digital services. With buy-in from executives at the session, the team focused in on the areas most amenable to measurable targets and, in December, presented a "first draft" to the members of the Committee for Sustainable Innovation (CSI), an executive-level committee established in 2011 to oversee Nike's innovation agenda. Ten target areas were proposed: water, waste, toxics, climate change and energy, labor, community investment, product design, materials, manufacturing, and innovation. Although the categories were familiar, explained Ramallo Garcia, they were now grounded in a deeper body of research, including the scenario planning work. Moreover, while Nike had previously undertaken a number of water-related efforts, it had not set specific targets for reducing water use across the supply chain.

With input from the CSI, the SB&I team sharpened the distinction between targets aimed at optimizing for today and those aimed at driving innovations for the future. "I see them as parallel tracks that need to happen," said Jones, "but the innovation work has a different taste to it; it has different investment strategies, different capabilities; it needs a different way of coming to scale." Moving to the next stage of the process, the integration team set to work defining quantifiable sub-targets for different parts of the organization. The team again tapped relevant experts as it sought to chart a path from current to proposed levels, ensure fit with the business plan, anticipate changes in

law and regulation, gauge what resources would be needed, and make the business case for each target. By February, the SB&I team had a pretty good idea of what it planned to take to the business and functional heads across the company who would eventually have to sign off on the targets and timeframes for their own areas of responsibility.

At the February CR committee meeting, Sprunk and Jones presented the methodology for setting the new round of targets and shared progress on defining the targets themselves. The preliminary optimization targets included the elimination of hazardous discharges across the supply chain by 2020, as well as per-unit reductions of 10-25% in water use, CO<sub>2</sub> emissions, and waste by 2015. Other targets focused on expanding the use of environmentally preferred materials in manufacturing footwear and apparel, and requiring contractors to meet certain labor and environmental standards. The CR committee, recalled Ramallo Garcia, “pressure tested the targets, the work, the process, and the level of accountability.” The committee probed the choice of target areas and the rationale for the proposed amounts; the tradeoffs between targets, and between targets and other cost areas; whether the targets were ambitious enough, or realistic enough; the number of metrics; whether broader statements of goals and intent would be preferable to specific metrics, particularly in the area of innovation; and whether the process had taken into account all relevant factors. As chair, Wise looked for balance between the targets and the business model and for assurance that the targets were both innovative and long-term financially sensible. Above all, she was interested in knowing “the pros and cons” the team had discussed before making its decisions.

## Final Adjustment

With the CR committee’s input, the SB&I team continued its consultations with business and functional heads across the company to ensure that everyone was on board with the targets and had a realistic plan for achieving them. Each target area had an executive-level sponsor who ultimately had to sign off on the target dates and amounts. Before doing so, sponsors needed approvals from key people on their teams. For example, Sprunk, as vice president of merchandising and product had to get an okay from the vice president of apparel and footwear for certain targets before signing off himself. For sign-offs at the corporate level, explained Ramallo Garcia, “[It’s] basically going line by line, understanding all of the implications of every target and making sure that we have the solutions, people, systems, data, plans...and making sure that everything is in place that needs to be in place.”

The consultation process revealed that achieving zero discharge of hazardous chemicals globally and across all brands by 2020 would be considerably more complex and challenging than previously estimated, as there was no simple or readily available solution. It would require innovations that would take time to test and prove. And innovation would require investment—not just of financial resources, but of time, talent, and other resources as well. Theoretically, those resources could come from anywhere—the marketing budget, research and development—but, cautioned Sprunk, “if you were trying to wrestle tradeoffs across the whole organization, you’d go crazy.” Sprunk saw little room to maneuver on the obvious fronts: “I don’t think I can absorb all that cost in the cost of our products; I can’t push it to the factories—their profit margins we’re pretty familiar with...Can we ask the consumer for those dollars in the price of our product? What if they don’t care if harmful chemicals have ended up in wastewater during production?”

One possibility was to contain the tradeoff within the water-related target areas. Dialing back the target for water use, however, was not particularly appealing in view of what had been learned from the scenario planning exercises. On the other hand, there was nothing sacred about the preliminary targets, which were entirely voluntary. The problem, explained Sprunk, is that “We all want both. We need both. They’re both important. We have constituencies where it’s very, very important to do both. And longer-term for the company we need to solve this problem because water is not going to be free forever.” But, he continued, “Is spending [this amount of money] appropriate for the

shareholders to get to the goal of zero toxins? And if you don't think it is, what do we say to Greenpeace? Is the tradeoff to say, 'You know what? We're going to do our best, and we're going to dedicate some money, but we think it's only this much money, and we probably won't make it, and we know we're open to criticism, so criticize us, but we owe our shareholders a fair return on their investment in Nike stock?'" At the same time, the Road to Zero represented a very definite commitment; it was not, as Sprunk pointed out, a "road to less" or a "road to a little."

Sprunk recognized potential tensions between the business lens and the SB&I lens, but felt "those two lenses are pretty easily matched up in our company. Part of that's because Hannah and I talk all the time." Still, he acknowledged that he and Jones brought different perspectives to the table: "I expect that when I sit down with Hannah those targets are going to be as aspirational as possible. She expects that I'm going to come in with a target I'm as confident as possible that I can deliver on."

Both Jones and Sprunk knew it was their job to reconcile those perspectives and make sure that "we've committed as a company [to] aspirational, yet achievable goals that we can track and measure progress towards." At the February CR committee meeting they had jointly presented a set of preliminary targets that they were no longer sure was feasible. The next board meeting, where they were expected to present their final targets, was just a few weeks away. Before then, they would need to come up with a resolution that they, Parker, Blair, and others on the Nike leadership team could sign up for.

Jones and Sprunk considered the options. They were reluctant to modify their preliminary targets, but they weren't about to set targets without clear solutions and the resources to back them up. "Whoa," said Sprunk, leaning back in his chair, "How do you solve these problems? These are big problems and there's no right answer."

## Exhibit 1a Nike, Inc. Income Statement FY 2001-2011

For the Fiscal Year Ended May 31,	CAGR		2006-2011	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
	2001-2011	CAGR												
<b>Revenues (in US\$ millions)</b>														
Year-on-year change	8%		7%	20,862	19,014	19,176	18,627	16,326	14,955	13,740	12,253	10,697	9,893	9,489
				10%	-1%	3%	14%	9%	9%	12%	15%	8%	4%	5%
<b>Cost of sales</b>				11,354	10,214	10,572	10,240	9,165	8,368	7,624	7,001	6,314	6,005	5,785
Year-on-year change	7%		6%	11%	-3%	3%	12%	10%	10%	9%	11%	5%	4%	7%
<b>Gross margin</b>				9,508	8,800	8,604	8,387	7,161	6,587	6,116	5,252	4,383	3,888	3,704
% of revenues	10%		8%	46%	46%	45%	45%	44%	44%	45%	43%	41%	39%	39%
Year-on-year change				8%	2%	3%	17%	9%	8%	16%	20%	13%	5%	3%
<b>Total selling and administrative expense</b>				6,693	6,326	6,150	5,954	5,029	4,478	4,222	3,702	3,154	2,836	2,690
% of revenues	10%		8%	32%	33%	32%	32%	31%	30%	31%	30%	29%	29%	28%
Year-on-year change				6%	3%	3%	18%	12%	6%	14%	17%	11%	5%	3%
<b>Demand creation expense</b>				2,448	2,356	2,352	2,308	1,912	1,740	1,601	1,378	1,167	1,028	998
Operating overhead expense	9%		7%	4,245	3,970	3,798	3,646	3,117	2,738	2,621	2,324	1,987	1,808	1,692
	10%		9%											
<b>Restructuring charges</b>				195										
<b>Goodwill impairment</b>				199										
<b>Intangible and other asset impairment</b>				202										
<b>Income before income taxes<sup>a</sup></b>				2,844	2,517	1,957	2,503	2,200	2,142	1,860	1,450	1,123	1,017	921
Year-on-year change	12%		6%	13%	29%	-22%	14%	3%	15%	28%	29%	10%	10%	0%
<b>Net income</b>				2,133	1,907	1,487	1,883	1,492	1,392	1,212	946	474	663	590
Year-on-year change	14%		9%	12%	28%	-21%	26%	7%	15%	28%	99%	-29%	12%	2%
<b>Diluted earnings per share<sup>b</sup></b>				\$4.39	\$3.86	\$3.03	\$3.74	\$2.93	\$2.64	\$2.24	\$1.75	\$0.89	\$1.22	\$1.08
Return on equity				22%	21%	18%	25%	22%	23%	23%	22%	19%	18%	18%
<b>Return on invested capital</b>				22%	21%	18%	25%	22%	23%	23%	22%	18%	15%	14%

Source: Compiled by casewriter from Nike website at <http://investors.nikeinc.com/Investors/Financial-Reports-and-Filings/Investor-Tool-Kit/default.aspx> and Nike FY07-09 CR Report, available at <http://nikeinc.com/pages/reporting-governance>, accessed January 2013, and Nike, Inc. regulatory filings. Certain prior year amounts have been reclassified to conform to fiscal year 2012 presentation, and adjusted to reflect changes in rounding conventions and 2007 stock split.

<sup>a</sup> For the years 2002-2004, reflects income before income taxes and cumulative effect of accounting change.

<sup>b</sup> For the years 2002-2004, reflects diluted earnings per share after accounting change.

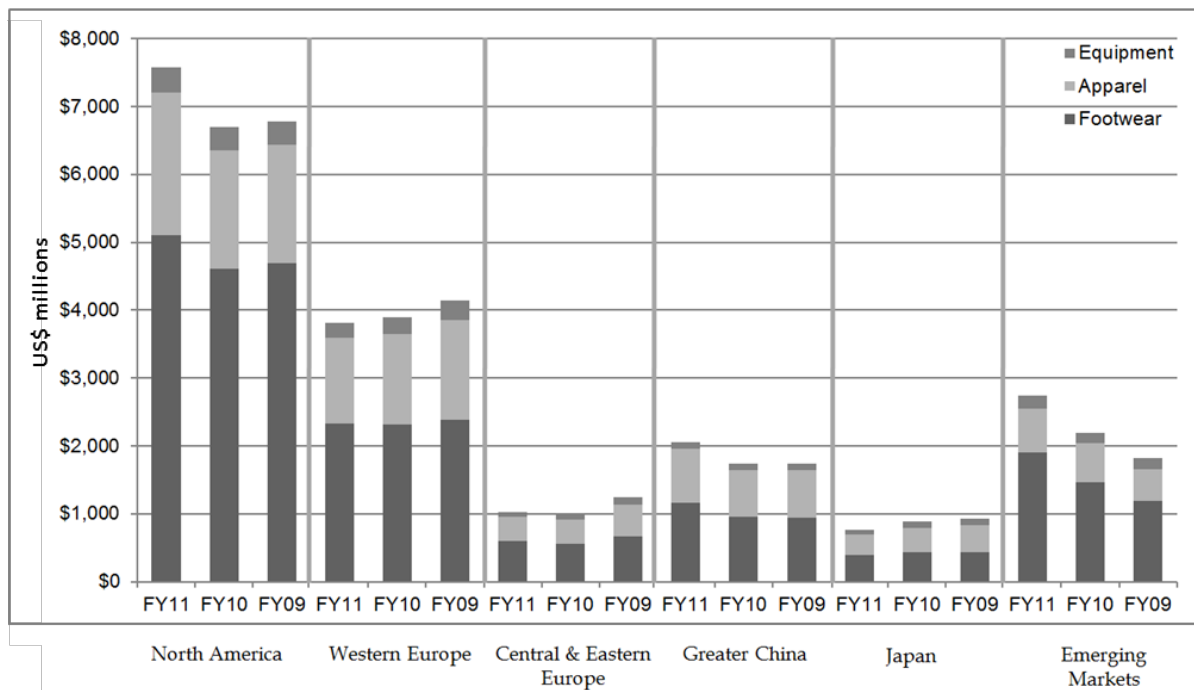
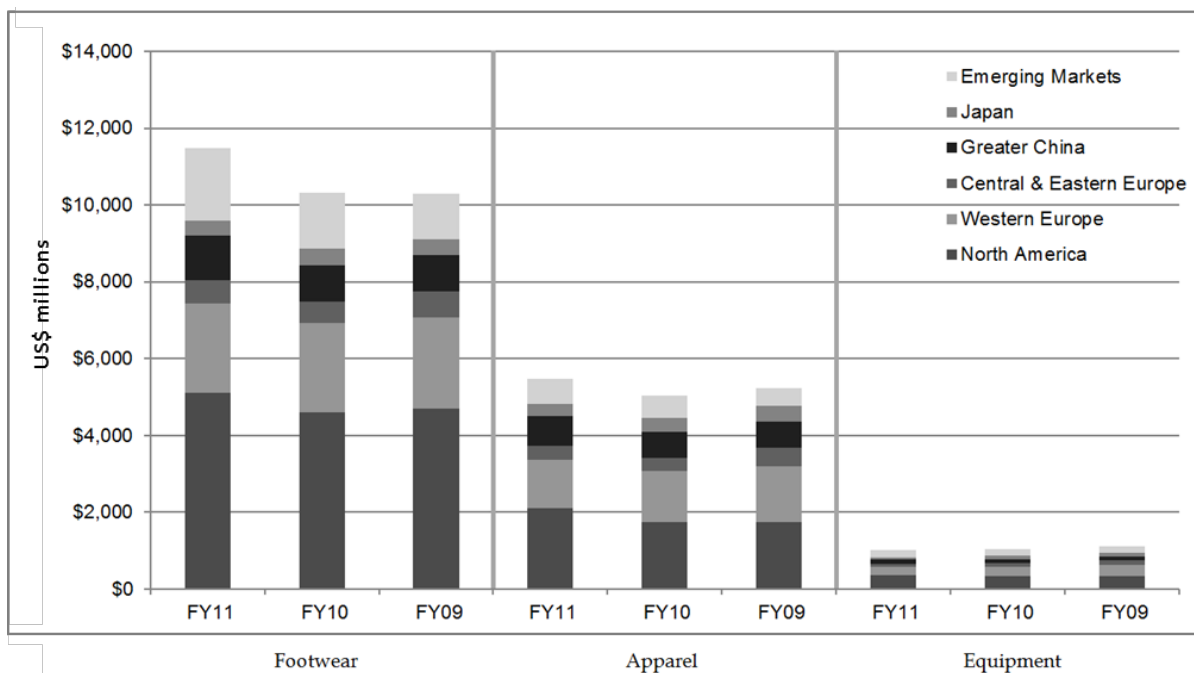


**Exhibit 1b** Nike, Inc. Balance Sheet Data FY 2001-2011

For the Fiscal Year Ended May 31,	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
<b>ASSETS (in US\$ millions)<sup>a</sup></b>											
<b>Current Assets</b>											
Cash and equivalents	1,955	3,079	2,291	2,134	1,857	954	1,388	828	634	576	304
Short-term investments	2,583	2,067	1,164	642	990	1,349	437	401	-	-	-
Accounts receivable	3,138	2,650	2,884	2,795	2,495	2,383	2,262	2,120	2,084	1,804	1,621
Inventories	2,715	2,041	2,357	2,438	2,122	2,077	1,811	1,650	1,515	1,374	1,424
Deferred income taxes	312	249	272	227	220	203	110	165	222	141	113
Prepaid expenses and other current assets	594	873	766	603	393	380	343	365	332	260	163
<b>Total current assets</b>	11,297	10,959	9,734	8,839	8,077	7,346	6,351	5,529	4,787	4,155	3,625
Property, plant and equipment, net	2,115	1,932	1,958	1,891	1,678	1,658	1,606	1,612	1,621	1,615	1,619
Identifiable intangible assets and goodwill, net	487	467	467	743	410	406	406	366	118	206	397
Goodwill	205	188	194	449	131	131	135	135	66	233	-
Deferred income taxes and other assets	894	873	897	521	392	329	296	267	229	231	179
<b>Total assets</b>	14,998	14,419	13,250	12,443	10,688	9,870	8,794	7,909	6,821	6,440	5,820
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>											
<b>Current Liabilities</b>											
Current portion of long-term debt	200	7	32	6	31	255	6	7	206	55	5
Notes payable	187	139	343	178	101	43	70	146	75	425	855
Accounts payable	1,469	1,255	1,032	1,288	1,040	952	775	781	573	505	433
Accrued liabilities	1,985	1,904	1,784	1,762	1,303	1,276	1,053	979	1,036	765	472
Income taxes payable	117	59	86	88	109	86	95	118	131	83	22
<b>Total current liabilities</b>	3,958	3,364	3,277	3,322	2,584	2,612	1,999	2,031	2,021	1,833	1,787
Long-term debt	276	446	437	441	410	411	687	682	552	626	436
Deferred income taxes and other liabilities	921	855	843	855	669	562	463	413	256	142	102
Redeemable preferred stock	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
<b>Shareholders' Equity</b>											
Common stock at stated value	-	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2
Class A convertible	-	-	-	-	-	-	-	-	-	-	-
Class B	3.0	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.6	2.6	2.6
Capital in excess of stated value	3,944	3,441	2,871	2,498	1,960	1,447	1,183	888	589	539	459
Unearned stock compensation	-	-	-	-	-	-	(11.4)	(5.5)	(0.6)	(5.1)	(9.9)
Accumulated other comprehensive income	95	215	368	251	177	122	73	(86)	(240)	(192)	(152)
Retained earnings	5,801	6,095	5,451	5,073	4,885	4,713	4,397	3,983	3,640	3,494	3,195
<b>Total shareholders' equity</b>	9,843	9,754	8,693	7,825	7,025	6,285	5,644	4,782	3,991	3,839	3,495
<b>Total liabilities and shareholders' equity</b>	14,998	14,419	13,250	12,443	10,688	9,870	8,794	7,909	6,821	6,440	5,820

Source: Compiled by casewriter from Nike website at <http://investors.nikeinc.com/Investors/Financial-Reports-and-Filings/Investor-Tool-Kit/default.aspx>, accessed August 2012, and Nike, Inc. regulatory filings. Certain prior year amounts have been reclassified to conform to fiscal year 2012 presentation, and adjusted to reflect changes in rounding conventions and 2007 stock split.

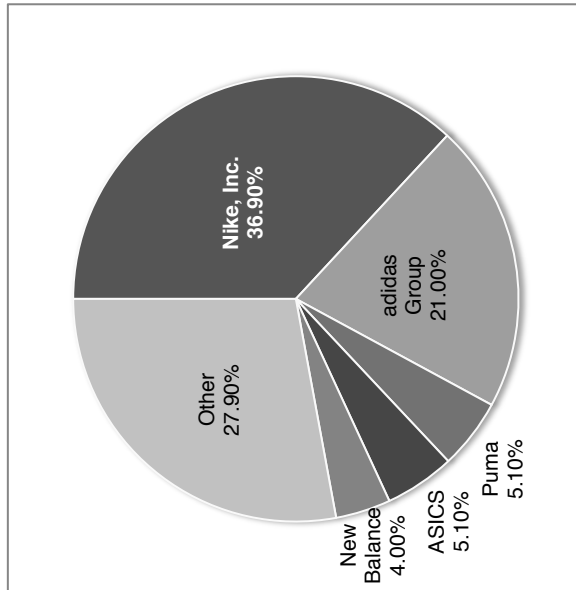
<sup>a</sup>Except for share data.

**Exhibit 2a** Nike, Inc. Revenues by Product Category within Geographic Region FY 2009-2011**Exhibit 2b** Nike, Inc. Revenues by Geographic Region within Product Category FY 2009-2011

Source: Compiled by casewriter from Nike, Inc. regulatory filings, available at <http://investors.nikeinc.com/Investors/Financial Reports-and-Filings/SEC-Filings/default.aspx>, accessed January 2013.

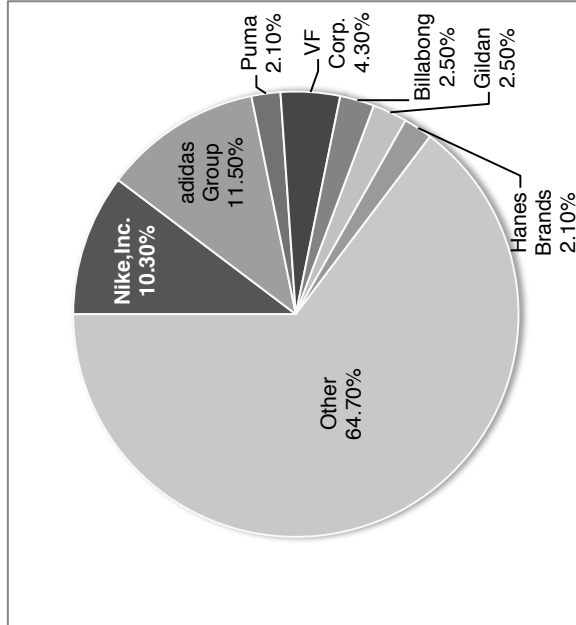
### Exhibit 3 Global Footwear and Apparel Industry Market Share Data

Global Market Share  
Athletic Footwear<sup>a</sup> (2011)



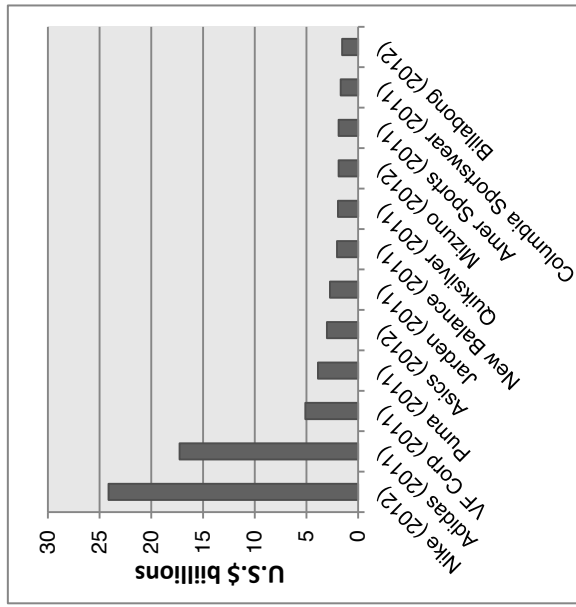
Source: Compiled by casewriter from Sporting Goods Intelligence, *SGI Market Facts - Athletic Footwear and Apparel* 2012.

Global Market Share  
Athletic Apparel<sup>b</sup> (2011)



Source: Compiled by casewriter from Sporting Goods Intelligence, *SGI Market Facts - Athletic Footwear and Apparel* 2012.

Worldwide Revenues<sup>c</sup>  
(2011/2012)



Source: Compiled by casewriter from Dow Jones / statista, accessed January 2013.

<sup>a</sup> Adidas Group includes adidas, Reebok, and TMaG brands. "Other," with less than 2 percent share each, includes Skechers, VF Corp. (including Vans, The North Face, Reef), Crocs, Collective Brands, Anta, Olympikus, Li Ning, Mizuno, Alpargatas, Fila, Quiksilver, Xtep, Peak, Brooks, K-Swiss, Foot-Joy, Under Armour, Lotto ASG (including Avia, Ryka, Nevados, Tumtec, And 1), and Sole Technology.

<sup>b</sup> Adidas Group includes adidas, Reebok, and TMaG brands. VF Corp. includes outdoor and activewear. HanesBrands includes outerwear only, not socks or underwear. "Other," with less than 2 percent share each, includes Columbia, Quiksilver, Under Armour, Descente, Broder Bros., Russell, Mizuno, Anta, Li Ning, Goldwin, Asics, Fila, Speedo, Delta Apparel, Xtep, Peak, China Dongxiang, and Timberland.

<sup>c</sup> Jarden includes Jarden outdoor solutions segment, (including Marmot, Coleman, and K2); VF Corp. includes outdoor and activewear segments, (including The North Face, Timberland, Vans, Reef, Smartwool, and Nautica).

**Exhibit 4** Major Nike, Inc. Shareholders

Beneficial Owner	Common Stock Class A <sup>a</sup> (not publicly traded) 89,989,448 shares outstanding		Common Stock Class B <sup>b</sup> (publicly traded) 376,982,556 shares outstanding		Common Stock Total <sup>c</sup> (Class A + Class B) 466,972,004 shares outstanding		Preferred Stock <sup>d</sup>	
	shares held	% of class	shares held	% of class	shares held	% of total	shares held	% of class
<b>Philip H. Knight and related parties</b>								
Philip H. Knight	67,097,005	74.6	7,740	< 0.1	67,104,745	14.4	-	-
Knight's spouse <sup>e</sup>	130,448	0.1	-	-	130,448	<0.1	-	-
Four grantor annuity trusts to benefit Knight's children <sup>e</sup>	19,604,019	21.8	-	-	19,604,019	4.2	-	-
Knight Foundation <sup>e</sup>	-	-	796,145	0.2	796,145	0.2	-	-
LP in which a company owned by Knight was a limited partner <sup>e</sup>	-	-	1,294,403	0.3	1,294,403	0.3	-	-
LP in which Knight was a limited partner <sup>e</sup>	-	-	6,243,804	1.7	6,243,804	1.3	-	-
<b>Other officers and non-independent directors</b>								
Donald W. Blair	-	-	507,723	0.1	507,723	0.1	-	-
Charles Denson	-	-	1,029,425	0.3	1,029,425	0.3	-	-
Mark G. Parker	-	-	1,189,464	0.3	1,189,464	0.3	-	-
John R. Thompson, Jr.	-	-	35,601	< 0.1	35,601	< 0.1	-	-
Trevor A. Edwards	-	-	512,289	< 0.1	512,289	< 0.1	-	-
Gary M. DeStefano	-	-	88,808	< 0.1	88,808	< 0.1	-	-
<b>Independent Directors</b>								
John G. Connors	-	-	44,460	< 0.1	44,460	< 0.1	-	-
Jill K. Conway	-	-	41,462	< 0.1	41,462	< 0.1	-	-
Timothy D. Cook	-	-	20,000	< 0.1	20,000	< 0.1	-	-
Ralph D. DeNunzio	-	-	217,752	< 0.1	217,752	< 0.1	-	-
Alan B. Graf, Jr.	-	-	62,000	< 0.1	62,000	< 0.1	-	-
Douglas G. Houser	-	-	190,232	< 0.1	190,232	< 0.1	-	-
John C. Lechleiter	-	-	10,500	< 0.1	10,500	< 0.1	-	-
Johnathan A. Rodgers	-	-	22,000	< 0.1	22,000	< 0.1	-	-
Orin C. Smith	-	-	48,700	< 0.1	48,700	< 0.1	-	-
Phyllis M. Wise	-	-	5,000	< 0.1	5,000	< 0.1	-	-
<b>All directors and executive officers (26 total)</b>								
	67,097,005	74.6	4,975,389	1.3	72,072,394	15.4	-	-
<b>Institutional investors</b>								
FMR LLC, Boston, MA	-	-	20,951,837	5.5	20,951,837	5.5	-	-
BlackRock, Inc., New York, NY	-	-	18,932,752	5.0	18,932,752	5.0	-	-
<b>Other</b>								
Sojitz Corporation, Portland, OR	-	-	-	-	-	-	300,000	100

Source: Compiled by casewriter from July 26, 2011 Nike, Inc. proxy statement, at sec.gov/edgar, accessed May 2013, reflecting numbers as of July 15, 2011, except for information provided in filings by FMR LLC and BlackRock, Inc.

<sup>a</sup> Class A shares voted for nine members of the board of directors; at the September 19, 2011 shareholder meeting Class A shareholders elected Elizabeth Comstock, John Connors, Timothy Cook, Douglas Houser, Phil Knight, Mark Parker, Johnathan Rodgers, Orin Smith, and John Thompson.

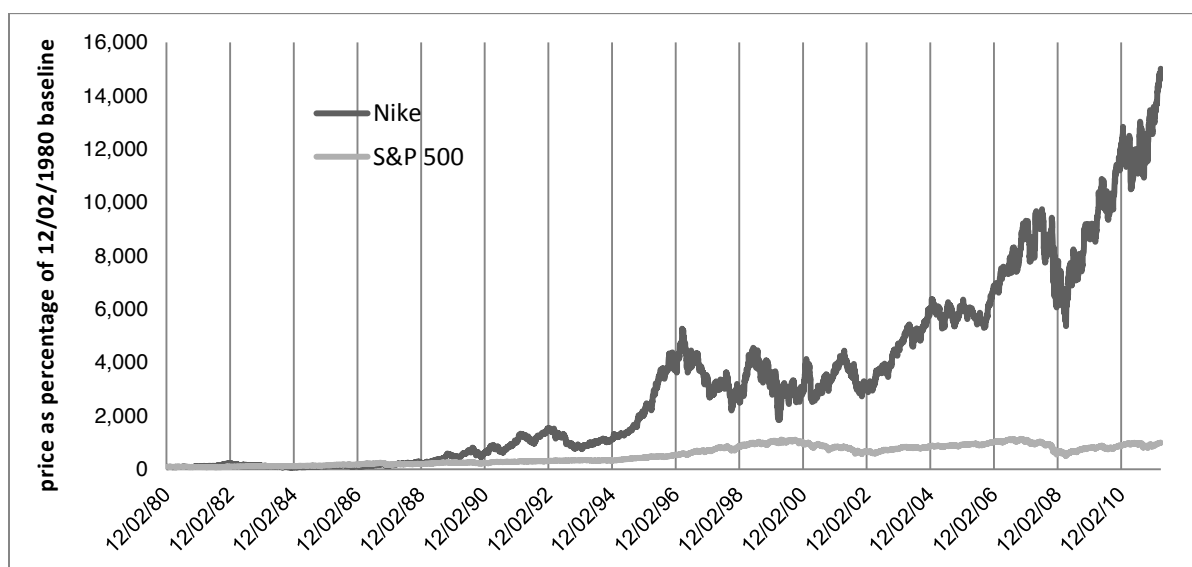
<sup>b</sup> Class B shares voted for three members of the board of directors; at the September 19, 2011 shareholder meeting they elected Alan Graf, John Lechleiter, and Phyllis Wise.

<sup>c</sup> Because Class A Stock is convertible into Class B Stock on a share-for-share basis, the SEC considers each beneficial owner of Class A Stock to be a beneficial owner of the same number of shares of Class B Stock. Therefore, in its reporting, Nike assumes that a beneficial owner of Class A Stock has converted all shares of Class A Stock into Class B Stock. Nike's reported shareholding thus reflects substantial duplication for individuals and groups that hold both Class A and Class B shares. For the sake of clarity, this exhibit represents beneficial ownership of Class A and Class B separately.

<sup>d</sup> Preferred Stock does not have general voting rights except as provided by law, and under certain circumstances as provided in the Company's Restated Articles of Incorporation, as amended.

<sup>e</sup> Knight has disclaimed ownership of all such shares.

**Exhibit 5a** Change in Stock Price, Nike, Inc. v. S&P 500, IPO through February 2012



Source: Thomson Reuters Datastream.

**Exhibit 5b** Nike, Inc. Stock Price and Financial Ratios FY 2001-2011<sup>a</sup>

For the Fiscal Year Ended May 31,	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Year-end stock price	20.55	26.88	28.00	35.58	41.10	40.16	56.75	68.37	57.05	72.38	84.45
Market capitalization	11,040	14,303	14,759	18,725	21,462	20,565	28,472	33,577	27,698	35,032	39,523
Financial ratios:											
return on equity	17.80%	18.20%	18.9%	21.6%	23.2%	23.3%	22.4%	25.4%	18.0%	20.7%	21.8%
return on assets	10.10%	10.90%	11.2%	12.8%	14.5%	14.9%	14.5%	16.3%	11.6%	13.8%	14.5%
inventory turns	4.0	4.3	4.4	4.4	4.4	4.3	4.4	4.5	4.4	4.6	4.8
current ratio	2.0	2.3	2.4	2.7	3.2	2.8	3.1	2.7	3.0	3.3	2.9
price/earnings ratio (diluted)	19.0	21.8	20.2	20.3	18.3	15.2	19.4	18.3	18.8	18.8	19.2

Source: Nike website at <http://investors.nikeinc.com/Investors/Financial-Reports-and-Filings/Investor-Toolkit/default.aspx>, accessed January 2013, and Nike, Inc. regulatory filings.

<sup>a</sup> All share and per share information has been restated to reflect the two-for-one stock split effected in the form of a 100% common stock dividend distributed on April 2, 2007. For those years affected by a cumulative effect of change in accounting, applicable financial ratios have been calculated using income before cumulative effect of accounting change.

**Exhibit 6** Composition of Nike, Inc. Board, with Committee Assignments FY 2001-2012

1 = Executive Committee  
 2 = Audit Committee  
 3 = Finance Committee  
 4 = Compensation Committee  
 (Personnel Committee in FY01 and FY02)

5 = Corporate Responsibility Committee  
 6 = Nominating and Corporate Governance Committee  
 7 = Compensation Plan Subcommittee

Board = member of the board, but no committee membership  
 Shading = service on CR committee at any time FY01-FY12  
**Bold** number = committee chair

For the Fiscal Year Ended May 31,	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Thomas E. Clarke	1	1	1	1							Board	3, 4
Elizabeth J. Comstock												2, 3
John G. Connors					2	2, 3	2, 3	2, 3	2, 3	2, 3	2, 3	2, 3
Jill K. Conway	<b>4, 5</b>	<b>4, 5</b>	<b>5, 6</b>	<b>5, 6</b>	<b>4, 5, 6</b>	<b>5, 6</b>	<b>5, 6</b>	<b>5, 6</b>	<b>5, 6</b>	<b>5, 6</b>	<b>5, 6</b>	<b>5, 6</b>
Timothy D. Cook						4	4	4	4, 6	4, 6	4, 6	4, 6
Ralph D. DeNunzio	<b>3, 4</b>	<b>3, 4</b>	<b>3, 4, 6</b>	<b>3, 4, 6</b>	<b>3, 4, 6</b>	<b>3, 4, 6</b>	<b>3, 4, 6</b>	<b>3, 4, 6</b>	<b>3, 4, 6</b>	<b>3, 4, 6</b>	<b>3, 4, 6</b>	<b>3, 4, 6</b>
Richard K. Donahue	<b>5</b>	<b>5</b>	<b>5, 6</b>	<b>5, 6</b>								
Alan B. Graf, Jr.			<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2, 6</b>
Delbert J. Hayes	<b>2, 3</b>	<b>2, 3</b>	3	3	2, 3							
Douglas G. Houser	<b>1, 2</b>	<b>1, 2</b>	<b>1, 5, 6</b>	<b>1, 5, 6</b>	<b>1, 5, 6</b>	<b>1, 5, 6</b>	<b>1, 5, 6</b>	<b>1, 5, 6</b>	<b>1, 5, 6</b>	<b>1, 5, 6</b>	<b>1, 5, 6</b>	<b>1, 5, 6</b>
Jeanne P. Jackson		Board	4	2, 4	5	4, 5	4, 5	4, 5				
John E. Jaqua	4, 7	4, 7	4, 7	4								
Philip H. Knight	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>
John C. Lechleiter									4, 5	4, 5	4, 5	4, 5
Mark G. Parker						1	1	1	1	1	1	1
William D. Perez					1							
Charles W. Robinson	<b>3</b>	<b>3</b>	<b>2, 3</b>	<b>2, 3</b>								
Johnathan A. Rodgers							5	5	4, 5	4, 5	4, 5	4, 5
Orin C. Smith					<b>2, 3</b>	<b>2, 3</b>	<b>2, 3</b>	<b>2, 3</b>	<b>2, 3</b>	<b>2, 3</b>	<b>2, 3</b>	<b>2, 3</b>
A. Michael Spence	<b>2, 4, 5, 7</b>	<b>2, 4, 5, 7</b>	<b>2, 4, 7</b>									
John R. Thompson, Jr.	4	4	4, 5	4, 5	4, 5	4, 5	4, 5	5	5	5	5	5
Phyllis M. Wise									5	5	5	<b>5, 6</b>

Source: Compiled by casewriter from Nike, Inc. regulatory filings, available at <http://investors.nikeinc.com/Investors/Financial Reports-and-Filings/SEC-Filings/default.aspx>, accessed January 2013.

**Exhibit 7** Nike, Inc. Executive Team, Calendar Year 2012

The Nike, Inc. Executive Team (“NET”) was responsible for directing Nike’s mid- and long-term strategy, and also managed the sustainability reporting process. In calendar year 2012, NET members included the following.

Hans van Alebeek  
Vice President, Global Operations & Technology

David Ayre  
Vice President, Global Human Resources

Don Blair  
Vice President & CFO

Charlie Denson  
President, Nike Brand

Gary DeStefano  
President, Global Operations

Trevor Edwards  
Vice President, Global Brand & Category Management

Jeanne Jackson  
President, Direct to Consumer

Hannah Jones  
Vice President, Sustainable Business & Innovation

Hilary Krane  
Vice President, General Counsel and Corporate Affairs

Mark Parker  
President & CEO, Nike, Inc.

Eric Sprunk  
Vice President, Merchandising & Product

Roger Wyatt  
President & CEO, Nike Affiliates

Source: Adapted from casewriter interviews and Nike website at <http://nikeinc.com/pages/executives>, accessed April 2013.

**Exhibit 8** Selected Nike, Inc. Corporate Responsibility/Sustainability Goals Publicly Announced 2001-2010 (as of announcement date)

The targets shown in the table below have been drawn from Nike's Corporate Responsibility Reports and reflect only those activities for which Nike announced quantifiable targets. Activities for which no quantified objectives were announced, such as Nike's Water Program launched in 2001 or employee diversity efforts, are not shown. The category headings used in the table are based on case writer analysis and do not in all cases match the categorizations used in Nike's own materials or show business progress against goals.

	<b>FY01 CR Report (published October 2001)</b>	<b>FY04 CR Report (published April 2005)</b>	<b>FY05-06 CR Report (published May 2007)</b>	<b>FY07-09 CR Report (published January 2010)</b>
<b>Contract Factory Labor</b>				
Inspection and Transparency	Every factory accurately reflected in database, inspected on schedule, making continuous improvements; results available to public.			
Child Labor	Every footwear worker at least 18. Every apparel or equipment worker at least 16 or at local age limit if higher.			
Wages	Every worker paid at least legal minimum wage; no training wage or other exemptions. Measure income against basic expenses to understand worker well-being.			
Training	Fully operational management, environment, safety, health (MESH) system in place at every footwear factory.		HR management training implemented in all focus contract factories by FY11 end. Freedom of association education program implemented in all focus contract factories by FY11 end. Lean manufacturing training rolled out in all focus contract factories by FY11 end.	HR management training implemented in all focus contract factories by FY11 end. Freedom of association education program implemented in all focus contract factories by FY11 end.
Overtime			Eliminate excessive overtime in contract factories by FY11 end.	Reduce Nike-caused excessive overtime in contract factories by FY11 end.
Interviewing			Survey all workers in focus factories on empowerment/satisfaction by FY11 end.	Survey statistically relevant sample of employees in all focus factories by FY11.
Collaboration			Share auditing and capacity building with 30% of supply chain by FY11 end.	Promote multi-brand collaboration on improving working conditions in supply chain; cover 30% of factories by FY11 end.
<b>Energy and Climate</b>				
Overall	Calculate baseline emission of greenhouse gasses, establish goals for reduction.			
Facilities and Travel	Reduce combined CO <sub>2</sub> emissions from owned facilities and business travel by 13% from 1998 baseline by 2005.		Nike brand facilities and business travel climate neutral by FY11. Nike, Inc. facilities and business travel climate neutral by FY15.	Nike brand facilities and business travel climate neutral by FY11. NIKE, Inc. facilities climate neutral by FY15.
Manufacturing			Announce footwear manufacturing CO <sub>2</sub> emissions goals by January 2008.	Announce footwear manufacturing CO <sub>2</sub> emissions goals by January 2008.
Logistics			Reduce inbound logistics footprint by 30%, 2003 to FY20. Create outbound logistics emissions model by January 2008.	30% absolute reduction in CO <sub>2</sub> emissions from inbound logistics, 2003 to FY20.
Paper	Benchmark all paper uses by 2001. Implement procurement policies consistent with FSC standards.			



	FY01 CR Report (published October 2001)	FY04 CR Report (published April 2005)	FY05-06 CR Report (published May 2007)	FY07-09 CR Report (published January 2010)
<b>Product Design and Materials</b>				
Closed Loop	Take full responsibility for products at all stages of lifecycle, including the end of a product's useful life by 2020.			
<b>Environmentally Preferred Materials (EPMs) and Considered Design<sup>a</sup></b>				
Footwear			Increase use of EPMs by 22% from 2007 through FY11. 100% of footwear newly developed out of WHQ to reach Considered baseline by FY11 end.	Increase use of EPMs by 22% from 2007 through FY11. 100% of footwear newly developed out of WHQ to reach Considered baseline by FY11 end.
Apparel	All cotton apparel to contain at least 3% organic cotton by 2010.	All cotton-containing apparel to contain at least 5% organic cotton by 2010.	Announce EPM target in FY09. 100% of apparel to reach Considered baseline standards by FY15.	Increase use of EPMs to 20% by FY15. 100% of apparel newly developed out of WHQ, EHQ and Hong Kong to meet Considered baseline by FY15.
Equipment			Announce EPM target in FY10. 100% of product to reach Considered baseline standards by FY20.	Announce EPM target in FY10. 100% of top-volume retail equipment newly developed out of WHQ to reach Considered baseline by FY20.
<b>Chemistry/Toxics</b>				
Elimination of toxic substances	Eliminate all substances known or suspected to be harmful by 2020, beginning with product creation and extending throughout the supply chain.			
Polyvinyl chloride (PVC)	Be PVC-free in footwear and non-screen print apparel by end of CY02. Seek phase-out from other products.	Evaluate business processes in FY06 and develop strategy for creating tracking method.	Work with ink suppliers and printers to determine whether/how to reduce/eliminate all PVCs.	
Volatile organic compounds (VOCs) <sup>b</sup>	Eliminate 90% of VOCs by 2001 from 1995 baseline; phase out completely in the future.		Footwear: Maintain VOC grams/pair at 95% reduction from 1998 baseline. Equipment: Announce target in FY09.	Footwear: Maintain VOC grams/pair at 95% reduction from baseline.
SF6 <sup>c</sup>	Replace SF6 with benign gas in every Nike Air product by Fall 2003.	Use benign gas across product range by 2006.		
<b>Waste</b>				
Overall	Eliminate concept of waste in design, materials, energy, and any resource that cannot be readily recycled, renewed, or absorbed back in to nature by 2020.			
Footwear	Operate product take-back business to create profitable secondary market (Reuse-A-Shoe).		Reduce waste in production by 17% from FY07 through FY11 (155 grams waste/pair in 2011).	Reduce waste in production by 17% from FY06 to FY11 (157 grams waste/pair in 2011).
Apparel			Announce target in FY09.	Set target in FY09.
Packaging	Continuous improvement in bulk amount, bio-degradability, recyclability, sustainability.	Develop package reduction goals for: Footwear in FY05 Apparel in FY06	30% reduction of packaging and point-of-purchase waste by FY11 end.	30% reduction of packaging and point-of-purchase waste by FY11 end.
<b>Water</b>				
		Develop apparel supply chain strategy with other brands and retailers within FY.	Continue to work with supply chain on impact of water use for production.	

	FY01 CR Report (published October 2001)	FY04 CR Report (published April 2005)	FY05-06 CR Report (published May 2007)	FY07-09 CR Report (published January 2010)
<b>Community</b>				
Charitable Giving and Community Programs	Through Nike Foundation, 3% of prior FY pre-tax earnings to community programs (in cash, kind, and product)	Through Nike Foundation, 3% of prior FY pre-tax earnings to community programs (in cash, kind, and product and in-kind services)	Invest additional \$315 million into programs worldwide by 2011 end.	Invest additional \$315 million into programs worldwide by 2011 end (beginning FY07).
Program evaluation	Assess current programs for impact, conduct gap analysis for underserved regions, determine success with people—not product-based indicators. Host youth forums and provide grants for youth to turn voice into action. Develop system to facilitate and support employee giving and volunteering, equitably, around the world.		Set targets and metrics for programs for excluded youth around the world by January, 2008.	
<b>Employees and Diversity</b>				
HR Diversity		Create a global HR scorecard by FY05-06		
Suppliers		Develop metrics for supplier diversity. Achieve minimum 25% minority- and women-owned business enterprises (MWBEs) in each solicitation of bids Nike sourcing team distributes. Convert 10-15% of participating MWBEs into live contracted vendors. Develop and deliver internal training for buyers outside procurement department to promote inclusion of qualified MWBEs in bidding cycle. Include new vendor MWBE status and certification verification in master log.		

Source: Compiled by casewriter from Nike CR Reports for FY01, FY04, FY05-06, FY07-09, and Nike press releases, available at <http://nikeinc.com/pages/reporting-governance>, accessed January 2013.

<sup>a</sup> Environmentally preferred materials defined as “materials that significantly reduce the environmental impact of a product through better chemistry, lower resource intensity, less waste, and/or recyclability” (<http://nikeinc.com/pages/materials>).

<sup>b</sup> VOCs are sometimes referred to in Nike materials as “petroleum-based solvents.”

<sup>c</sup> SF6 is a greenhouse gas that was used as the “air” in Nike Air products.

**Exhibit 9** Nike, Inc. Corporate Responsibility Committee Membership FY 2001-2012

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
▲ = chair, CR committee      ● = member, board CR committee      ○ = member of board, but not of CR committee												
<b>For the Fiscal Year Ended May 31,</b>												
<b>Board Member</b>												
<b>Jill K. Conway</b> , visiting scholar, MIT Program in Science, Technology and Society, former professor of history and President of Smith College	▲	▲	▲	▲	▲	▲	▲	▲	▲	▲	▲	
<b>Richard K. Donahue</b> , vice chairman of the board, partner – Donahue & Donahue, Attorneys PC (Chelmsford, MA law firm)	●	●	●	●								
<b>Douglas G. Houser</b> , partner, Bullivant, Houser, Bailey (Portland, OR law firm)	○	○	●	●	●	●	●	●	●	●	●	●
<b>Jeanne P. Jackson</b> , founder & CEO, MSP Capital, Newport Coast, California		○	○	○	●	●	●	●				
<b>John C. Lechleiter</b> , chairman of the board, president, and CEO of Eli Lilly and Company									●	●	●	●
<b>Johnathan A. Rodgers</b> , retired president and CEO, TV One, LLC							●	●	●	●	●	●
<b>A. Michael Spence</b> , former dean, Graduate School of Business, Stanford University	●	●	○									
<b>John R. Thompson, Jr.</b> , former head coach of the Georgetown University men's basketball team, former head coach of the 1988 United States Olympic basketball team	○	○	●	●	●	●	●	●	●	●	●	●
<b>Phyllis M. Wise</b> , vice president and chancellor, University of Illinois at Urbana-Champaign, former professor and executive vice president and provost of the University of Washington										●	●	▲

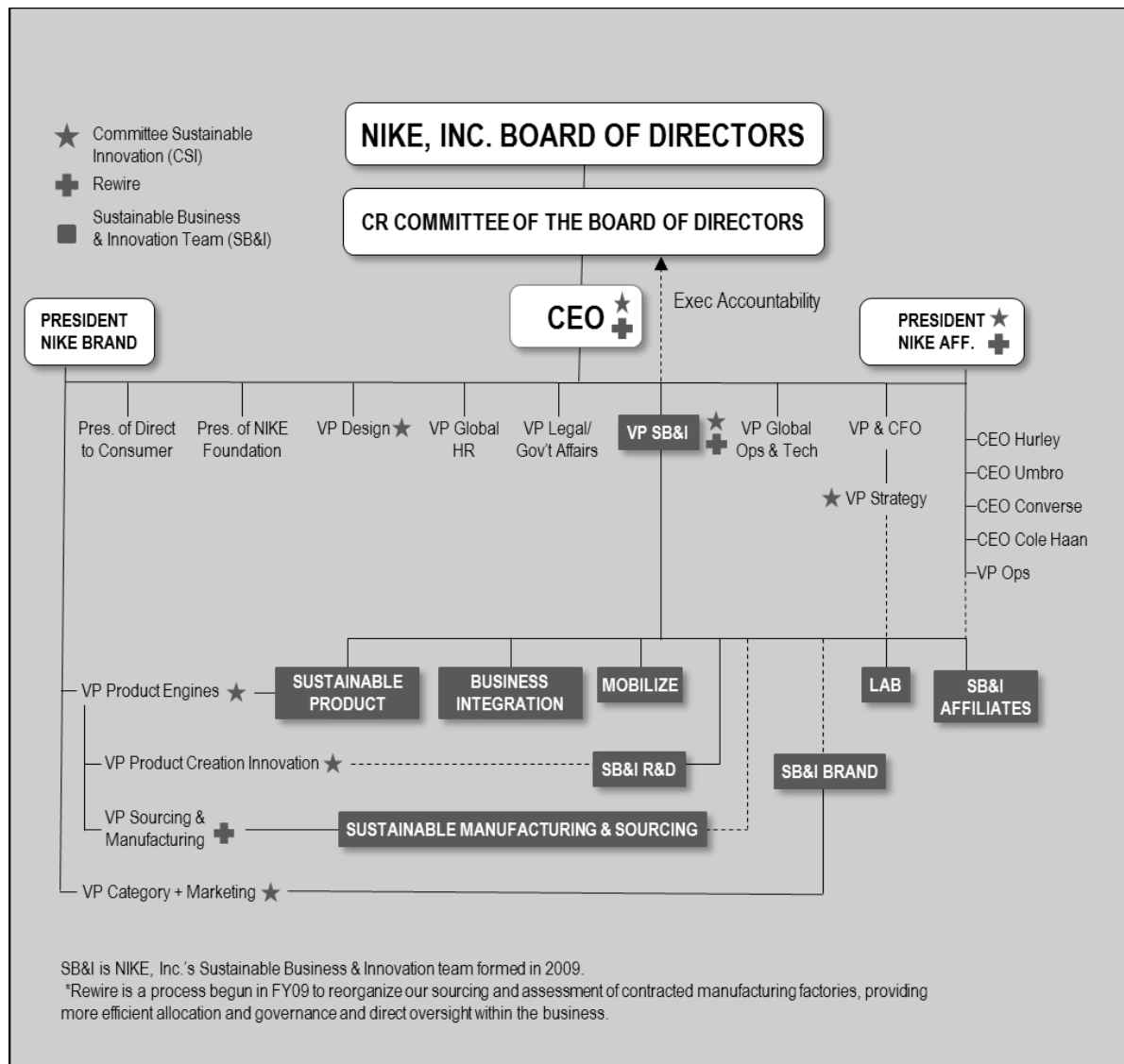
Source: Compiled by casewriter from Nike, Inc. regulatory filings, available at <http://investors.nikeinc.com/Investors/Financial Reports-and-Filings/SEC-Filings/default.aspx>, accessed January 2013.

**Exhibit 10** Selected Nike Water-Related Initiatives, 2001-2012

This chart shows key initiatives related to water use, hazardous materials, and waste in the supply chain launched by Nike, Inc. during the period 2001-2012.

Initiative	Launch Date	Highlights
<b>Nike Water Program</b>	2001	<ul style="list-style-type: none"> <li>Designed to promote efficient water use and reduction of pollutants by contract manufacturers</li> <li>In 2001, included some 55 textile dyeing and finishing vendors, and focused on water quality and effluent discharge.</li> <li>By 2007, included 325 vendors, 22% were in China. Total annual wastewater discharge by participants was 34 billion gallons, 40% was in China.</li> <li>By 2012, covered 500 of Nike's 900 vendors, tracking over 60 billion gallons annually (about one tenth for Nike products).</li> <li>Nike required participants to meet both legal requirements and Nike standards for water quality using the H<sub>2</sub>O*Insight Water Tool</li> <li>Participants supplied data on water use and discharge, including permits, water-quality tests, processes used, and materials produced</li> <li>Participants who did not meet legal requirements were required to submit plans for improvement, including timelines outlining expected progress</li> <li>Nike field teams provided evaluation and training on leak detection, reuse of grey water, and other conservation techniques</li> <li>In 2011 H<sub>2</sub>O*Insight Water Tool made publicly available</li> </ul>
<b>Restricted Substances List (RSL)</b>	2001	<ul style="list-style-type: none"> <li>List of chemicals not permitted to be present in any finished Nike product</li> <li>Enforced by audited, third-party testing of finished products</li> <li>Per Nike, list "based on the most stringent worldwide legislation," including "additional substances that Nike has voluntarily decided to restrict"</li> <li>Abbreviated list made publicly available on Nike website</li> <li>List shared with all materials vendors</li> <li>Sustainable Chemistry Guidance introduced in 2010 <ul style="list-style-type: none"> <li>Complement to RSL</li> <li>Identified preferred materials and alternatives</li> </ul> </li> </ul>
<b>Considered Index and Materials Analysis Tool</b>	2006	<ul style="list-style-type: none"> <li>Designers used Considered Index to evaluate waste and materials impacts of their design choices, including water and chemical use</li> <li>Set targets for products meeting Considered Index baseline standards</li> <li>Met 2011 Considered targets.</li> <li>Foundation for development of apparel, footwear, sustainability, and materials sustainability indexes</li> <li>Shared with the industry and Sustainable Apparel Coalition</li> </ul>
<b>Green Chemistry Program</b>	2006	<ul style="list-style-type: none"> <li>Sought to educate participants at all levels of its supply chain to promote innovative alternatives to use of hazardous chemicals</li> <li>Introduction of Nike Environmentally Preferred Rubber (EPR) <ul style="list-style-type: none"> <li>Reduced hazardous chemical use by over 95%</li> <li>Made EPR patent available to industry using GreenXchange</li> </ul> </li> <li>Switch from solvent-based to water-based adhesives (predates formal launch)</li> </ul>

Source: "Nike, Inc.'s Response to Greenpeace Report," press release, July 18, 2011, <http://nikeinc.com/news/nike-inc%E2%80%99s-response-to-greenpeace-report>, and Nike CR reports, available at <http://nikeinc.com/pages/reporting-governance>, accessed January 2013.

**Exhibit 11** Sustainable Business & Innovation (SB&I) and Nike, Inc. Organization Chart 2012

Source: Adapted from <http://www.nikeresponsibility.com/report/content/chapter/our-sustainability-strategy#infographic138>, accessed January 2013.

**Exhibit 12** Summary of Projects—'Joint Roadmap' Toward Zero Discharge of Hazardous Chemicals (signed November 2011 by Nike, Inc., Adidas Group, C&A, H&M, Li Ning, and Puma)

The table below summarizes the major actions to be taken based on this roadmap and their relative impact on the issues of inventory, disclosure, elimination, and verification.

Roadmap Element	Categorization of Roadmap Element				Supply Chain Coverage
	Inventory	Disclosure	Elimination	Verification	
Benchmark study whether 9 classes of chemicals not in discharge to water or sludge using on-site visits and audits, inventories, and analytics where appropriate.	○	○	●	●	Pilot
Develop action plan to address phase-out of any 9 chemical classes found in benchmark study.	○	○	●	●	100%
Communication to suppliers to source APEO/NPE-free preparations, initiate project to identify "positive list" of APEO/NPE-free detergents.	○	○	●	○	100%
Conduct follow-up study at selection of facilities that have converted to APEO/NPE-free detergents to identify remaining sources.	○	○	●	●	Pilot
Confirm, or set timelines for the elimination of products that are associated with PFOA and PFOS by replacing C8 fluorinated water repellent chemistry with alternative technologies including short-chain fluorochemical water repellents approved by global regulators.	○	○	●	○	100%
Develop a comprehensive, generic inventory of chemicals used in textile manufacturing.	●	●	●	○	100%
Identify and agree to a cross-industry screening tool for chemical hazards.	●	●	●	○	100%
Establish a plan to evaluate the chemical inventory by intrinsic hazard and establish a sector wide list of hazardous chemicals.	●	●	●	○	100%
Expand our current efforts of prescribing alternative (greener) chemistries to be used on our products.	○	○	●	○	100%
Develop a joint generic audit approach for environmental performance (including chemicals management).	○	○	●	●	100%
Develop a shared dye house and printer audit protocol with a competent third party.	○	○	●	●	100%
Within legal confines, develop a program to incentivize suppliers to fulfill the dye house and printer audit protocol.	○	○	●	●	100%
Continue expansion of individual/collective RSLs and MRLs.	○	○	●	●	100%
Develop shared approach with 3rd party for dye house and printer audit.	○	○	●	●	100%
Collaborate on joint training efforts and knowledge transfer and deliver a joint training program in one or more countries.	●	●	●	●	100%
Convene cross sector group to explore the best ways to encourage sector wide supplier chemical disclosure and deliver a study based on data collection from a select group of facilities.	●	●	●	○	Pilot
Explore platform options for suppliers to disclose their chemical inventory under the assumption that disclosing their inventory will have a positive effect.	●	●	●	○	Pilot
Scale of Impact: Low: ○ Medium: ● High: ●					

Source: "Joint Roadmap: Toward Zero Discharge of Hazardous Chemicals," November 14, 2011, available at <http://www.roadmapzero.com/joint-roadmap.php>, accessed January 2013.

## Endnotes

<sup>1</sup> Market share data in this paragraph is drawn from Sporting Goods Intelligence, *SGI Market Facts – Athletic Footwear & Apparel 2012* (2012).

<sup>2</sup> This paragraph and other information on Nike's origins is drawn from NIKE (A) Condensed, HBS case no. 9-391-238 (rev. October 13, 1998), by David C. Rikert and Roland Christensen (Boston, MA: Harvard Business School Publishing, 1991). Ownership structure after IPO compiled by case writer from Nike, Inc., December 2, 1980 prospectus for 2,377,000 Shares of Class B Common Stock.

<sup>3</sup> Ibid.

<sup>4</sup> Information on retail stores calculated from information in Nike press releases and annual reports; retail store numbers adjusted by case writers to reflect Nike's sale of Cole Haan, announced in May 2013 and completed in February 2013. See <http://investors.nikeinc.com/default.aspx?SectionId=5cc5ecae-6c48-4521-a1ad-480e593e4835&LanguageId=1&PressReleaseId=925edcdc-8937-4d31-a0fd-edf222fed4c1>; <http://investors.nikeinc.com/default.aspx?SectionId=5cc5ecae-6c48-4521-a1ad-480e593e4835&LanguageId=1&PressReleaseId=614bd751-2ad0-44b4-a78d-8b54bfa9e67c>; [http://investors.nikeinc.com/files/doc\\_financials/AnnualReports/2010/docs/NIKE\\_2010\\_10-K.pdf](http://investors.nikeinc.com/files/doc_financials/AnnualReports/2010/docs/NIKE_2010_10-K.pdf); [http://investors.nikeinc.com/files/doc\\_financials/AnnualReports/2011/docs/Nike\\_2011\\_10-K.pdf](http://investors.nikeinc.com/files/doc_financials/AnnualReports/2011/docs/Nike_2011_10-K.pdf); [http://investors.nikeinc.com/files/doc\\_financials/AnnualReports/2012/docs/nike-2012-form-10K.pdf](http://investors.nikeinc.com/files/doc_financials/AnnualReports/2012/docs/nike-2012-form-10K.pdf) (accessed January 2013).

<sup>5</sup> Ellen McGirt, "How Nike's CEO Shook Up the Shoe Industry," *Fast Company*, September 2010, available at <http://www.fastcompany.com/1676902/how-nikes-ceo-shook-shoe-industry>.

<sup>6</sup> See <http://www.un.org/waterforlifedecade/scarcity.shtml>, U.N Water Statistics: Graphs & Maps, at [http://www.unwater.org/statistics\\_use.html](http://www.unwater.org/statistics_use.html); <http://unesdoc.unesco.org/images/0021/002171/217175E.pdf>, accessed January 2013.

<sup>7</sup> Case writer calculation of amount based on industry analyst estimates of expected polyester production of 39 billion tonnes for 2015, estimated water use 100 to 150 liters of water per kilogram of textile material, and U.S. Environmental Protection Agency estimates of municipal water consumption. Sources: <http://nikeinc.com/press-release/news/nike-inc-announces-strategic-partnership-to-scale-waterless-dyeing-technology>; <https://www.ceres.org/roadmap-assessment/key-findings/performance/operations/water-management#18>; [http://www.prweb.com/releases/polyester\\_filament\\_yarn/polyester\\_staple\\_fiber/prweb8121171.htm](http://www.prweb.com/releases/polyester_filament_yarn/polyester_staple_fiber/prweb8121171.htm); <http://www.epa.gov/watersense/pubs/fixleak.html>, accessed January 2013.

<sup>8</sup> Textile industry and pollution data reflects years 2003-2007. See World Bank Development Indicators, World dataBank, The World Bank Group, and World Bank via CEIC, accessed February 2013.