NIKE: INNOVATION THROUGH PARTNERSHIPS AND REDESIGN THROUGHOUT THE LIFE CYCLE

“Nike Air®, “Nike Shox®, and “Nike®+iPod®” are iconic reminders that the athletic apparel industry is a hotbed of innovation. Nike in particular is known for its innovative culture. From the cofounder on down, the Nike staff has embarked on a journey toward corporate sustainability, the long-term goals of which (by 2020) include zero waste, zero toxics, and 100% recovered product. It was understood that the only way that effort would succeed was if the $15 billion (FY06) company supported and extended its successful growth and its market share in primary markets (for example, its 40% market share in athletic shoes), while improving its cost position relative to competitors and extending the Nike brand worldwide. Not surprisingly, there were many opportunities for sustainability practices and strategies to serve Nike’s broad business interests.

The firm’s efforts to move beyond basic compliance and philanthropic approaches to environmental concerns began in the early 1990s with a small group of Nike employees that morphed into the Nike Environmental Action Team. The initial focus was on a small number of modest, environmentally oriented programs such as recycling and education. Nike reported its team experienced an “epiphany” that accelerated company learning following a 1995 presentation by Paul Hawken, well-known author of the The Ecology of Commerce. By 1998, the company had established an official sustainability policy.

The Nike story is one of movement from standard compliance approaches to an across-the-board corporate sustainability strategy accompanied by new sustainable design concepts yielding measurable financial, brand, and health and environmental benefits. The goals, processes, and results have been described in reports from Nike’s partners and the firm’s own corporate reports. But Nike’s transformation went far beyond the narrow definitions of social responsibility that still dominate public debate on corporate behavior.

Eliminating waste and toxicity required new metrics and accounting. But Nike, following the pattern of other firms carving out strategic positions for sustainability, saw that beyond “reduce, reuse, recycle,” process and product redesign that substituted materials would serve their interests in ameliorating health and environmental problems while simultaneously improving the performance and appeal of the products and the brand. Although optimization of existing practices could lower costs relative to the competition for a short time, those measures were easily replicated by other companies. In the marketplace, it was only through innovative and differentiated strategic change that companies created new revenue growth. Like many companies that have embarked on a sustainable business strategy trajectory, Nike quickly learned how to convert health and environmental challenges into competitive advantage, not just cost savings.
Managing Adverse Publicity

Sustainability was a concept that went beyond conventionally understood social and environmental concerns by integrating them together with firm growth and financial returns. This approach was particularly appropriate given Nike’s need to address growing criticisms during the late 1990s. The company was profiled in U.S. media as irresponsible and environmentally reckless for operating sweatshops with underage workers in Asia and using chemicals that polluted community water sources in less industrialized countries.

To respond, Nike reached out to new partners during the 1990s. They tapped multiple sources of cutting-edge sustainability ideas by working with outsiders including Sustainability Partners, the Natural Step, and the Society for Organizational Learning, in addition to Bill McDonough and Michael Braungart’s organizations, which focused on product redesign. From one perspective, Nike can be viewed as a company that basically managed a brand and complex global supply chains, since a high percentage of its products were manufactured around the world, far away from its Oregon headquarters. In the face of growing negative publicity, the company was highly motivated to protect the “swoosh” brand, which required a new dimension to supply chain management. Nike therefore requested suppliers adopt strict environmental standards for manufacturing processes and in many well-documented cases these efforts yielded considerable benefits with suppliers who were able to lower their costs and improve product quality.

Part of forging this comprehensive approach was the acknowledgement that the company needed to look at the entire manufacturing life cycle, including product design, manufacture, and end of life. End of life does not necessarily mean disposal, as in a conventional production cycle concept of “cradle to grave,” but rather waste reduction and creative reuse, as in the McDonough-Braungart concept of “cradle to cradle” (drawn from the field of industrial ecology). The process required education within the company and working alongside suppliers. With Sustainability Partners, Nike identified and trained 100 Nike employees to stimulate innovative change internally and through the value chain. Results included dramatic total material and energy cost reductions and suppliers’ substitution of more benign materials. Reuse and recycling practices were instituted. Nike installed new computer systems in collaboration with Asian suppliers to help local managers calculate investment costs and payoffs for environmental projects. This enabled suppliers to initiate their own new practices tailored to their circumstances. Extensive work with suppliers to understand and address ecological liability issues and aggressively innovate with substitute processes and materials also improved the working relationships.

Part of Nike’s journey was documented by McDonough and Braungart in a 2002 article entitled, “From Inspiration to Innovation: Nike’s Giant Steps
Toward Sustainability.” Following work with McDonough on an environmentally sensitive European headquarters building, Nike began working on materials assessments with McDonough Braungart Design Chemistry. Part of the process involved developing a “positive list” of substances to be used in product manufacture while at the same time moving away from undesirable toxic substances. Polyvinyl chloride was an initial target for toxics elimination. Nike established a goal of eliminating PVC from footwear and non-screenprint apparel by the end of 2002. Nike’s decision to phase out the chemical “drew praise from environmental groups but criticism from the vinyl industry. We were hit with a torrent of e-mails, phone calls and letters, telling us to reconsider. We told them it was non-negotiable.” The firm also began to increase its use of organic cotton due to conventional cotton cultivation’s well-publicized heavy pesticide use.

Nike’s involvement with the Natural Step began in June 1997, with an introductory one day workshop for employees. This led to adoption of Natural Step principles and the creation of 65 pilot projects focusing on sustainable product design and operational efficiencies. By 2003 shoebox redesign had made the packaging 10% lighter, saving 4,000 tons of raw materials, and $1.6 million annually. Water-based cements substituted into 90% of Nike shoes saved the company from using more than 1.6 million gallons of solvents per year, generating savings on water disposal and hazardous material handling. In recognition of the operating, financial, and brand advantages as part of this process, the company created 17 sustainability-oriented professional positions in the United States and Asia for its footwear, apparel, and equipment units to look for more opportunities for innovation.

Nike’s successful targeting of organic solvents dated to 1992 and was accomplished in collaboration with manufacturing partners and chemical suppliers. The alternatives were successfully rolled out several years later and from a baseline year of 1995, organic solvent use had been reduced 88%, creating total savings by mid-2000 of $4.5 million in raw materials alone. Nike noted this reduction also benefited the approximately 180,000 workers in its 37 Asian factories.

Nike took a three-year break from CSR reporting because of a legal battle stemming from the major overseas sweatshop controversy that engulfed Nike and other apparel-makers during much of the late 1990s and the early years of the new century. Communicating to outside audiences once again in 2004, Nike documented the continued progress it had made on addressing toxics and waste issues. By this point it had developed restricted substances lists — of substances restricted or prohibited in Nike brand footwear, apparel, and equipment. Moving beyond compliance with legal requirements regarding toxic chemicals, Nike stated its goal of “proactively targeting, removing, or replacing chemicals that, while not legislated as illegal, fit the scientific definition of toxic.”
Updating its progress on PVC, Nike reported that PVC had dropped from being present in 33% of shoe styles in 1999 to 2% by 2004. In apparel, it dropped from 5% to zero during the same period. It reported, “for the few remaining product uses, performance and price have been the primary obstacles in the development of suitable PVC alternatives,” and it described these challenges in detail consistent with transparency policies at Nike.

Progress on the organic cotton front revealed that Nike recognized the implications of its increased reliance on organic cotton. It would require greater industry wide collaboration to build capacity. Nike worked with approximately 50 leading companies and organizations to form the Organic Exchange, a nongovernmental organization whose goal was to increase the organic share of global cotton supply from 0.05% to 10%. Nike likewise reported figures on its own growing use of organic cotton, reporting the percentage of Nike garments containing organic cotton climbing from 22% in 1999 to 47% in 2004.

Nike targeted and made progress in reducing its environmental footprint in other ways, reporting continued progress on lightening shoeboxes (16% from baseline levels) and noting that most shoeboxes were made from 100% recycled content, of which 80% was post-consumer waste. It also reported development of an environmentally preferred rubber formulation that substantially reduced use of toxic chemicals and reduction of greenhouse gas use in footwear.