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# ORGANIZATIONAL Dynamics



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## Why Nike kicks butt in sustainability

Marc J. Epstein, Adriana Rejc Buhovac, Kristi Yuthas

Nike Inc. has a unique combination of capabilities and competencies that position the company as a leader in sustainability. Nike is among the world's most prominent sustainable corporations, and is regularly recognized by organizations that rank sustainable performance. For example, Nike has been named one of 100 most sustainable corporations in the world by Innovest, ranked third in Corporate Responsibility Officers 100 Best Corporate Citizens list, and named one of the World's Top Sustainable Stocks by Sustainable Business.

Nike possesses a unique combination of strengths and capabilities that enable the company to make rapid advancements in sustainability that are ahead of other firms in its industry, and that increasingly contribute to the financial performance of the company. Nike believes that we are at the beginning of a shift from a service- or knowledge-based economy to a sustainability-based economy, as environmental constraints increasingly influence business choices. Nike is making choices today that are intended to position the firm for effective competition in a sustainability-based economic environment.

Several features of the firm, which have been fundamental to the company's financial strength, are also instrumental in the company's sustainability performance. Among the factors most important in its sustainability positioning are:

- Leadership
- Organizational design
- Market strength
- Market positioning
- Culture

### LEADERSHIP

The primary reason for Nike's sustainability advantage is leadership. The chief executive officer (CEO) and board are very supportive of sustainability and believe it to be

an essential component of the company's long-term strategic objectives. Power is concentrated in the board chaired by founder Phil Knight, who retains controlling ownership in the firm. This allows the company greater flexibility in the options available for balancing social and financial objectives, and enables the company to make sustainability investments with a very long payback period.

The board plays a significant role in pushing the focus on sustainability. One critical move has been the shift from positioning sustainability as a compliance-related or risk-oriented activity, as many companies do, to an opportunity for innovation. For example, in the past, one way Nike pursued sustainability was by reducing the level of regulated toxins used in its shoe designs. Today, the company uses the Considered Index, which allows designers to predict and manage a shoe's environmental impact throughout the design process.

Nike has very strong leadership in the CSR function, and these leaders have the ear of the CEO and the attention of the heads of strategic business units. In the huge Nike campus, where over 7000 people are employed, the CSR department sits in the same building and on the same floor as the CEO's suite. CSR staff also play a strong leadership role in the footwear and apparel industries. Well known among sustainability circles, these leaders regularly participate on key boards, and speak frequently about Nike practices. For example, Nike CSR leaders participate in panels and presentations in forums such as the Green Business Conference, Opportunity Green, and Business and Social Responsibility. In 2008, Nike became chair of the World Economic Forum's Consumer Industries Working Group on Sustainable Consumption. In this role, it has spearheaded GreenXchange, a forum that allows companies to share sustainability-related patents and other intellectual property. In addition to sharing its own innovations in these forums, Nike uses these opportunities to gain insight into new developments in sustainability at other leading companies, and to stay abreast of plans for future developments that affect sustainability and business performance.

## ORGANIZATIONAL DESIGN

As CSR has gained prominence throughout the company, the structure of the CSR function has changed in significant ways. In a recent reorganization, much of the CSR staff has been moved into the business units to enhance the integration of CSR principles and initiatives throughout the organization. This allows the company to rapidly communicate and operationalize initiatives and to receive information from the business units about a broad spectrum of sustainability-related challenges. A small, centralized CSR staff still creates and pushes the corporate CSR agenda, but their focus has shifted from a cost and regulatory emphasis toward a strategic approach. In 2009, the vice president (VP) of the CSR function became a member of the Nike, Inc. Strategic Leadership Team, which sets mid- and long-range corporate strategy. These changes allow CSR to be integrated into decisions about new products and initiatives during the various phases of the innovation process, rather than tacked on to the back end after strategies have been drafted.

A recent name change of the CSR department is symbolic of the reasoning behind the company's perspective on the value of sustainability to the corporation. Known as the Corporate Social Responsibility department for many years, the group was renamed the *Sustainable Business and Innovation* department at the time the department was reorganized and decentralized. This name change represents the shift toward the forward-looking and opportunity-oriented nature of sustainability initiatives. It also highlights the integration of sustainability with the business and specifically with the innovation activities of the business.

The company has long operated with a matrix structure, in which a CSR staff member could be reporting to the CSR department, a functional product group, such as football, and a geographic region. Because acceptance of new initiatives – both sustainability and economics-oriented – is dependent on the quality of relationships throughout the company, embedding CSR staff within the business units promotes the ongoing relationships and frequent contact that enhance integration of sustainability considerations within day-to-day operations.

In addition to decentralization of authority, the company has effectively decentralized control. Nike employees are very autonomous in their practices. This ensures that nothing is ever accomplished through mandate – any new initiative is accepted only when its driving logic ensures that it is beneficial to the firm. This requires a high level of communication and interaction both horizontally and vertically throughout the firm, which Nike accomplishes in part through strong personal relationships. In addition, employees are not wedded to the status quo. The company is fast moving and able to change rapidly, so when an initiative does pass a critical analysis, it can be implemented quickly.

## MARKET STRENGTH

Nike is the world's largest manufacturer of apparel and footwear, recording over \$19 billion in sales in fiscal year 2009. Its two largest competitors, Adidas and Puma, reported sales of \$14 and \$3 billion, respectively. Nike's size and the fact that it is the dominant company in the industry, provide

it with the power to implement sustainability standards throughout the organization and the thousands of manufacturing companies that supply Nike.

On the push side, every major action taken by the company is visible and is picked up by the media on some level. Actions or outcomes that cause damage to the environment or have negative social impacts are under close scrutiny – particularly because the company's massive scale ensures that small changes multiply to create substantial global impacts. Labor advocate Dana O'Rourke and colleagues argue that Nike has "raised the bar for transparency," in part because of intense media attention following the exposure of unfair labor practices in Nike's Vietnam subcontractors: "Nike has perhaps been on the hot seat with regard to labor standards longer than any other multinational corporation, and its painstaking initiatives result in large measure from this pressure."

On the pull side, the company has enormous power in the marketplace. When it wants a supply chain partner to make changes in the way a product is produced, transported, or marketed, it can easily convince its partners to go along. The company also has the power to influence regulatory regimes. In Vietnam, for example, Nike worked with labor ministry officials to revise employment legislation to improve opportunities for people with disabilities. The labor policies and practices in its plants are often far more attuned to the needs and rights of workers than other plants in certain regions, and the company is often consulted by regulators in determining policy. Through its actions, it can raise standards for sustainability performance, putting competitors under constant pressure to catch up.

Nike's continuing profitability contributes to this advantage. Balancing the sometimes-competing demands of social and financial performance can cause companies with slim margins to forego pursuit of sustainable actions and initiatives. Sustainability-related investments often carry higher uncertainty and a longer time horizon than traditional investments. Adequate resources allow for a broader portfolio of initiatives and acceptance of higher levels of risk than would be acceptable to financially challenged firms. Nike's comfortable financial position sustained over many years provides the foundation for taking a very long-term perspective on business investments. While Nike is able to make investments that may require decades to pay back, other companies with fewer resources or less commitment to sustainability are likely to have expense or capital budgeting standards that would rule out opportunities Nike is able to pursue.

## MARKET POSITIONING

Nike's products and target markets provide another key element in contributing to Nike's sustainability status. Many of Nike's products are geared toward athletes who are likely to spend time out-of-doors. Customers who use sport-related products may be more aware of issues relating to environmental degradation, such as air quality and waste disposal. And the customers these products are targeted to are likely to be relatively young and affluent. These customers are often more attuned to environmental and social issues, and might therefore weigh these factors in their purchase decisions. In addition, Nike's sponsor athletes, like Michael Jor-

dan, value CSR as part of their own brands and are very supportive of these efforts in the companies whose products they sponsor.

Nike's competitive strategy also contributes to its ability to pursue sustainability successfully. The company competes heavily on brand, and many of its products carry the Nike brand or another brand name that is closely associated with the company. Changes in brand image are closely related to and have an immediate effect on customer behavior. Therefore, Nike carefully protects its brand by avoiding environmental and social actions that could negatively impact the brand. At the same time, to the extent that the company ultimately becomes known as a socially responsible company, the brand may be strengthened as a result.

Another core element of Nike's competitiveness is its emphasis and effectiveness in product design and innovation. While resources like innovative patents *per se* confer great advantages upon a company, of more interest is the firm's ability to consistently produce new patents. Nike's competitive strategy is grounded in continual innovation, and the company seeks to dominate every product category it enters. Nike designers are expected to make smart, sustainable design choices at the start of their creative process. Designers at the company consider achieving sustainability objectives like new materials or waste targets as interesting design challenges similar to the challenges presented by performance, quality, and other design parameters. They seek to continually develop something different and better than anything ever conceived before. Sustainability objectives can present designers with opportunities to pursue such challenges, and accomplish outcomes unrivaled by other firms. Nike's long-term vision is to design products that are fully closed loop: produced using the fewest possible materials, designed for easy disassembly while allowing them to be recycled into new product or safely returned to nature at the end of their life. Marketing positioning, with its strong focus on innovation, and product development are among the most important capabilities driving Nike customer loyalty.

## CULTURE

Nike's culture represents the final contributor to Nike's leadership in sustainability. The company has a very strong corporate identity, which seems to be shared by the majority of the employees. The company's narrative orientation plays an important role here, and it shares a lot of the Nike story in that orientation, which, in turn, contributes to the organizational culture. Nike is a successful, intelligent, innovative, and fast-moving company, and it attracts and retains employees who fit this kind of environment. The company is very competitive, too. It is filled with excellent, driven athletes, who compete with each other, and want to win at everything, including sustainability. The desire to be the best in every realm is far more compelling than any sterile profit or EPS (earnings per share) targets, or even the most well designed reward system.

Connecting the corporate image with strong sustainability performance has internal branding benefits as well. Employees of the company are likely to be young, athletic, and affluent and take pride in their affiliation with a high-performance company. Because Nike is a U.S.-based company, certain CSR values are pursued without question. And with headquarters in Portland, one of the greenest cities in the world, there is a high-level of consciousness and acceptance of a higher standard of social performance. The company's formally stated values contribute to this identity. Nike has "11 maxims" that are clear and well understood. These corporate values are to be known to and shared broadly by employees. Teamwork, discipline, leadership, tolerance, inclusion and diversity are among the most important.

But the employees aren't just driven to win. For many, this passion can carry over and contribute to the environmental and social bottom lines of the company. Managers and employees take a personal interest and responsibility in their contribution toward achievement of high-level sustainability performance. The high level of emotion imbued in Nike's culture also plays a role. Although it is possible to get emotional about accomplishing traditional financial objectives, it is perhaps easier to attach emotion to social or environmental accomplishments such as helping the community or fully closing the loop within some product categories.

Nike has successfully developed these five sustainability-related strengths and supported them by building unique and difficult-to-imitate resources that represent solid foundations for a sustainable competitive advantage. Through this process, Nike has developed the capacity to transcend the pervasive problem of balancing financial and social performance. Nike has leveraged core competitive strengths in pursuit of sustainability objectives, recognizing both the intrinsic value of improving social impact and the financial impact that will flow from CSR enhancements when stakeholders begin to believe, as Nike leaders do, in a future economic regime governed by sustainability concerns.

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