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Letter from the Report Review Committee

BACKGROUND

Our Report Review Committee has varied expertise in labor, human rights, environmental, social, economic and diversity issues, and a common commitment to transparency and multi-stakeholder engagement. We share an interest in supporting innovative efforts by corporations to address these challenging issues. We appreciate Nike's decision to continue a corporate responsibility (CR) reporting process that includes intensive and inclusive stakeholder engagement. We agreed to voluntarily serve on the Committee as individuals rather than as representatives of our respective organizations.

Our task was to review information provided by Nike about its past two fiscal years of performance and plans for the future. However, the Committee did not function as an assurance provider, since we did not provide any verification or commentary on the accuracy of data Nike presents in this report. We feel that Nike has been responsive to key concerns of the Committee and present the following commentary on the final report.

MATERIAL ISSUES AND RESPONSIVENESS TO STAKEHOLDERS

Nike's three CR goals of improving workers' conditions, creating innovative sustainable products, and effecting social change through sport are material and appropriate for the company and the industry.

The Report Review Committee has affirmed these priorities through our engagement process, and was pleased to see Nike set targets aligned with these goals.

The RRC commends Nike for disclosing its progress and the challenges involved in integrating and embedding corporate responsibility within all business, management, and governance systems. We look forward to learning how tools like the balanced scorecard that seek to place CR compliance on par with other measures of business performance are influencing the strategic direction of the company, being embedded on a global scale, and affecting working conditions.

The Committee felt that this report did not adequately discuss how the company's ambitious business growth strategy will align with CR goals. We recommend that future reports would provide more specifics about how Nike's commitment to "lean manufacturing" can be accomplished without putting more pressure on workers and communities where contract factories manufacture Nike products; how Nike's experience with the Considered line of products can result in new baseline specifications for sustainable products; how the company's growth in developed and emerging markets will be aligned with sustainable consumption best practices; and how the pace of growth will help or hinder implementation of global diversity and inclusion improvements.

REPORT COMMENTARY

The Committee expects market-leading companies like Nike to have a comprehensive set of performance metrics (Key Performance Indicators). We are pleased to see five-year CR targets included in this report, as this has been a continuing recommendation of the Committee.

Workers in Contract Factories

We recognize Nike's efforts to identify possible root causes of contract factories' non-compliance with its code of conduct.

Whereas Nike's FY04 Report presented a breakthrough with regard to transparency and the disclosure of contract factories worldwide, the Committee appreciates that this report has put forth ambitious capacity-building goals and targets to create systemic change.

Nike presents a detailed discussion of excessive overtime in its supply chain being one of the most serious problems related to non-compliance. However, we were disappointed to not see greater discussion of overtime as related to wages, labor turnover, freedom of association, trade unions, and collective bargaining in the report. This report falls short on demonstrating how a focus on upstream business practices (the design and purchasing practices of the company itself) might ameliorate downstream impacts on workers.

We commend Nike for disclosing its auditing tools, as this is a significant step towards increasing transparency and collaborative opportunities to improve working conditions. The Committee encourages Nike to report more transparently about joint monitoring activities and participation in other projects that will help lead to more mature systems of industrial relations. Particularly, Nike could discuss in more detail how it is encouraging the development of such systems as well as how it is building factory ownership of compliance and more robust management systems.

Nike has a unique opportunity to show leadership in the way it, together with suppliers, works with governments in the countries where its sources, particularly in China. We commend Nike, as a member of the American Chamber of Commerce in the People's Republic of China (AmCham), for publicly dissociating itself from AmCham's actions to water down the draft of China's Contract Law that intends to reinforce labor rights protection, and appreciate Nike's disclosure of this position in their online report. We recommend that Nike articulate its strategy, intended results, and future targets so it can chart progress in forthcoming reports as China becomes a major market as well as a center of production.

Sustainable Innovation & the Environment

Nike has taken positive steps to measure its overall environmental footprint for both direct operations and contract factories. The report demonstrates a clear commitment to targeting the product design phase as an opportunity to address environmental issues at the front end and also gives appropriate attention to climate change.

However, Nike’s reporting on environmental issues does not present consistent data, targets, and performance results across key issues, and the report does not give a clear definition of forthcoming “baseline standards” against which future progress can be measured. This is of particular concern when set in context against the company’s planned growth. We recommend that Nike document its impacts on critical ecosystem services and capacity in future reports.

While the Committee welcomes Nike’s 2011 target to become climate neutral in all facilities and its 2020 logistics target, we recommend that Nike improve its reporting on climate in the future by clarifying a comprehensive strategy for all components of its CO2 footprint.

Sport for Youth Inclusion

Nike has provided a thorough presentation of its sport for youth inclusion and community investment programs. We appreciate Nike’s refined focus on women’s rights and the opportunity to use sport as an agent for social change. We recognize that these new programs have strong opportunities and challenges ahead. Accordingly, the Committee recommends that Nike disclose more information about the measurable impact of Nike’s youth and community investment programs in future reports.

Diversity & Inclusion

The Committee recognizes that Nike is in the midst of upgrading its diversity initiatives. It is clear that Nike has demonstrated commitment to improving its internal systems and leadership capacity to address diversity issues. We realize that efforts to date have been largely US-focused; we recommend that future reports include an approach to improving diversity in the global business, including subsidiaries. We also encourage Nike to create forward-looking targets for improved diversity representation among its U.S. and global staff, executive leadership and Board of Directors.

Public Policy

The Committee appreciates Nike’s commitment to transparency around public policy. We encourage Nike to globalize its public policy positions and support for innovation in the advocacy arena, women’s

rights, and sport for youth inclusion. The Committee would like to see Nike disclose more information about its contributions to politicians, political lobbying groups and compliance with its statement of business ethics. We also encourage Nike to report on its support for progressive labor legislation in developing countries where Nike operates.

ONGOING RECOMMENDATIONS FOR FUTURE REPORTING

Nike should be commended for supporting and participating in the development of standardized guidance for environmental, social, and economic disclosure through efforts such as the Global Reporting Initiative, and its commitment to engaging stakeholders in defining material issues and creating a report that is responsive to diverse perspectives. We had anticipated expanded verification and assurance in this report as well as a stronger discussion of Nike’s stakeholder engagement relationships; due to the absence of these aspects, we strongly recommend their inclusion for future reports.

While the Committee supports Nike’s decision to set programmatic targets aimed at effecting systemic change through increased factory-level education and collaboration in the workers rights arena, we suggest that Nike continue to develop and disclose performance targets. Stakeholders are looking for reporting against both types of targets. We suggest that Nike continue to improve disclosure regarding the results of its compliance and monitoring programs.

We continue to stress the need for Nike to report on the performance of all its business lines, including subsidiaries, as soon as possible. While Nike has set long-term goals to embed corporate responsibility into its subsidiaries’ management and operations, there are no firm timelines associated with reporting subsidiaries’ performance.

The Committee continues to recommend that Nike address the relationship between commercialism and sustainability, and particularly address stakeholder concerns about a business model which creates tension between the value of professional athlete endorsements versus wages paid to manufacturing workers.

The Committee would like to see more explanation about Nike’s growth strategy in emerging markets. We encourage Nike to include discussion about whether it will function primarily as a premium brand in these markets, or will develop and market products that help larger segments of consumers access the benefits of sport.

We recognize Nike for this candid and comprehensive report, and appreciated the opportunity to collaborate on this Report Review Committee. We recommend this type of process to other companies.

Submitted by:
Nike Report Review Committee