



# 2

## **Global Corporate Responsibility Strategy**

# Corporate Responsibility must evolve:

We are challenging  
our assumptions,  
evolving our  
perspective, building  
a new approach.

We learned a tremendous amount in FY05-06 and those lessons are the basis for our reporting and our future. Corporate responsibility must evolve from being seen as an unwanted cost to being recognized as an intrinsic part of a healthy business model, an investment that creates competitive advantage and helps a company achieve profitable, sustainable growth.

For that to happen, we saw we needed to transition our corporate responsibility efforts beyond the standard risk and reputation management approach usually taken, beyond the work of an isolated function within the business model. We realized that effective strategies are ones that embrace the whole enterprise. Responsibly competitive outcomes result from holistic approaches and business processes that extend from factory workers to consumers, from sources of raw materials to communities where we can influence social and environmental change, from our workplace to the world we all share.

Being half green, or somewhat responsible, is not good enough.


An environmentally friendly product made under poor labor conditions is a hollow success. A product made under good conditions but that is bad for our planet is a missed opportunity. We don't believe in tradeoffs. We do believe — passionately so — in innovating to create new and better solutions. We know a better shoe sacrifices nothing, except what didn't belong there to begin with. The same can be said for corporate responsibility. It shouldn't be about business tradeoffs, managing problems and mitigating risks. It should be about harnessing innovation to create something new and better.

This is what we've been up to at Nike: challenging our assumptions, evolving our perspective, building a new approach, considering how we can harness the power of our business to influence social and environmental change and the power of that change to help our business grow.

This report shares the story of this significant shift, much of which was triggered by the release of our FY04 Corporate Responsibility Report. Following that report, we began an intensive large-scale review of our strategies and long-range goals. Consulting with senior leaders throughout the company, we asked ourselves critical questions:

 *Where did Nike want to go with corporate responsibility?*

 *What did being a responsible business mean to us, to our company's culture, to our employees and consumers, to our business partners and our brand?*

 *Where did we think corporate responsibility as a movement was heading, and what role did we want to play within that movement?*

We based our review on four essential premises:

### 1 Leverage market forces and open-source approaches to problem solving.

The marketplace is a powerful driver of change. Faced with significant, global challenges, we are all part of a complex interwoven ecosystem in which no single organization can achieve systemic change alone. Partnership, collaboration and open-source approaches that lead to sustainable market-based solutions can generate system change.

### 2 Create the business case.

To generate market-based solutions, the business case is critical. When you show the tangible return on investment from responsible business practices, you open up the ability for market forces to drive change. Creating the business case requires a deep understanding of business growth and innovation strategies and finding ways to integrate corporate responsibility into those strategies.

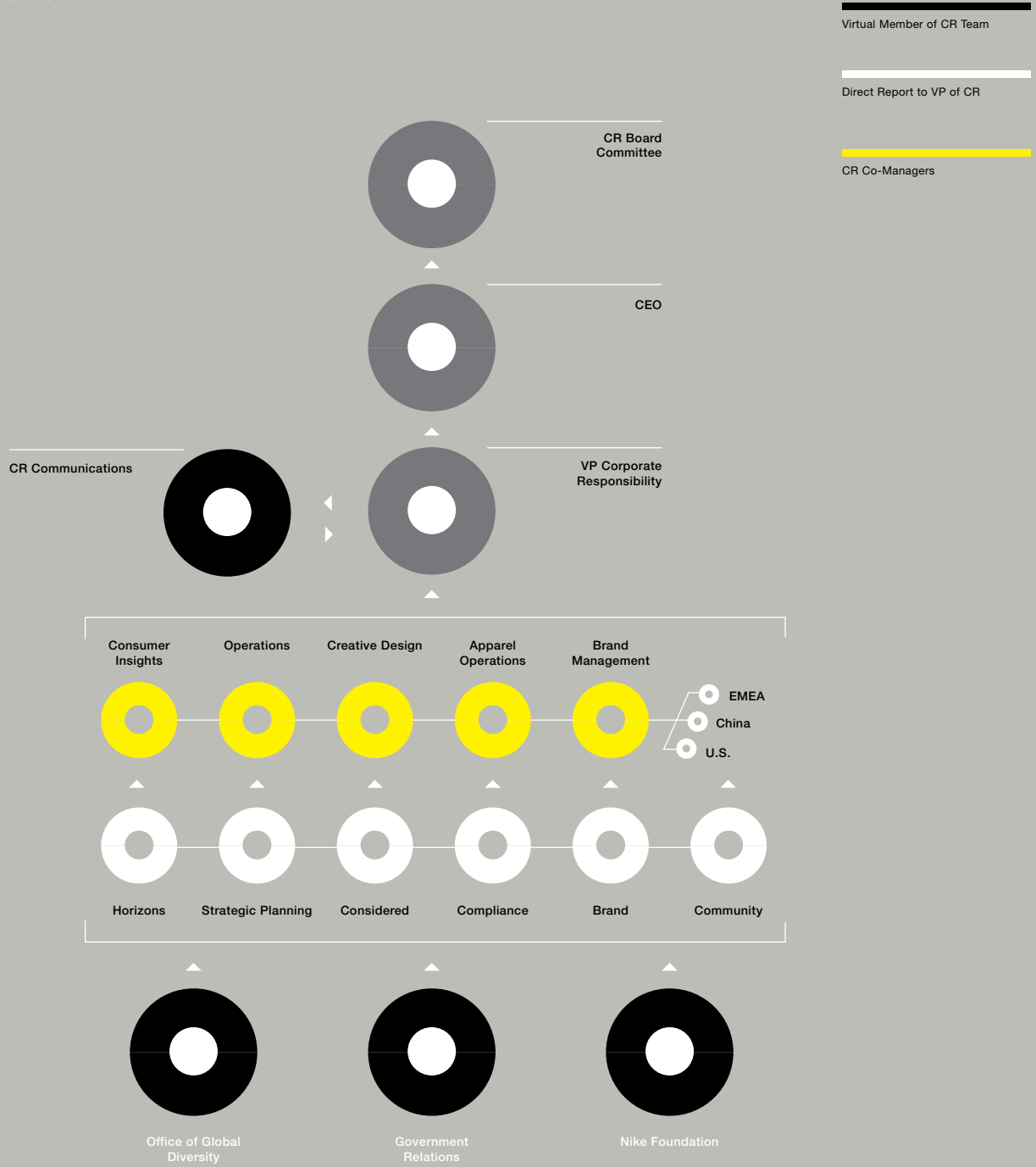
### 3 Seek root causes, then prototype new models, rather than bandaging the symptoms.

Are we trying to solve an issue or build systemic change? It's a fundamental question we began asking ourselves in FY04. Solving an issue often means firefighting, dealing with a localized problem. Building systemic change forces us to look at the overall system and identify the root causes, which often are buried far from where the problem surfaced — in another country, another department, another business. Peeling back to the root cause — and then understanding how to address it — is a key to systemic change. Invariably, when you address the root cause, you change the whole landscape.

### 4 Listen, partner and embrace transparency.

External stakeholders play a key role. Multi-stakeholder partnerships will only increase in importance as we learn to work together to address issues. In corporate responsibility of the future, unusual alliances and partnerships will emerge, coupling non-governmental organizations with new industry partners, leveraging the core competencies of each. Transparency will build its own business case, beyond a means of reputation management. Transparency is the first step toward open-source approaches to problem solving.

**Chart 1**  
 Corporate Responsibility Organization  
 FY05-06



# From business cost to business case:

Our review led to a significant evolution in how we frame, define and approach corporate responsibility.

In FY05 we set new priorities, goals and programs. In FY06 we implemented a redesigned, more fully integrated approach. Because of this shift, you will notice related changes in our targets, types of data, focus areas and terminology. All of these reflect our current strategy and organization. As a result, this report does not easily compare with our FY04 report in a side-by-side review. Instead, it is best read as a strategy and reporting document that outlines our journey and performance over the past two years.

Changes we implemented during the past two years are unleashing energy and momentum within Nike. Yet our long-term goals have not changed. We are firmly committed to:

- 1 Improving working conditions in our contract factories through a holistic, integrated business approach to our supply chain;
- 2 Minimizing our global environmental footprint through sustainable product innovation and supply chain innovation - both in our direct operations and our contract factories; and
- 3 Using the power of our brand to give excluded youth around the world greater access to the benefits of sport.

What has changed is our approach to these long-term goals. Here's what we've done:

#### Deepened business integration.

Our first and most important task was to deepen the integration of responsible practice into the business and decision-making processes. Nike is a matrix organization, in which most teams have more than one manager. We leveraged this structure and reorganized the various corporate responsibility functions to be managed jointly by our formal Corporate Responsibility team and leaders across the Nike business – from strategic planning to product creation, manufacturing through to marketing.

#### Ensured a leadership voice.

As part of our Corporate Responsibility team reorganization, we have a more formalized approach to governance and accountability. The team reports into Nike, Inc.'s CEO with the vice president of Corporate Responsibility sitting at Nike's senior leadership table, attending strategic reviews and meetings, and giving responsible business practice a greater voice with more ability to influence the company's strategic direction.

**Ensured holistic approaches.**

We broke down walls that existed even within the Corporate Responsibility team – between compliance, community and environment. These used to be distinct functions within the team. To be successful, we believe we need to take a holistic approach to issues and opportunities. We could only do that by working together.

**Delivered innovation-driven solutions.**

We have aligned our corporate responsibility goals to the company's innovation and growth agenda. We are looking for levers in different places in the company, such as design. We analyzed our work and realized that most of our efforts were focused where problems appeared. Once we started analyzing root causes and system dynamics, we began to see how moving our work upstream – to design and innovation, research and development, planning and strategy – was the equivalent of creating prototypes, rather than retrofits. Now we focus on designing the problem out at the source, not where it appears in the supply chain.

As a consequence, we began to deliver sustainably designed product to market. We tested new approaches to community investment programming that move beyond philanthropy and more into sustainable ventures.

In compliance, we are less focused on violations and more focused on supply chain efficiency, in which we design out the root causes of systemic issues in the business pipeline. In the past, if a certain solvent created environment concerns in a contracted factory we provided protective equipment for workers and focused on safe material handling and storage. Today we challenge designers to eliminate the ingredient from our product lines. The result: a healthier factory, safer workers, and better product for consumers and our planet.

**Began to measure qualitative impact.**

A critical task in these last two years was to focus on impact and develop a systematic approach to measure it. We're still working hard at this. How do we know if a worker's experience on the contract factory floor has improved, or if our community investments helped improve a young person's life? We're not sure anyone has cornered the market in assessing real, qualitative social impact. We are grappling with those challenges now. In FY07-08, we will continue working with key stakeholders to determine the best measures. We aim to have a simple set of agreed upon indicators that form a baseline and then to measure in sample areas around the world.








**Described the vision clearly.**

In our last report we talked about the difficulty of setting global targets. Since then we've set ourselves targets through to FY11. These have been approved by our business leadership team and by the Corporate Responsibility Committee of the Nike Boards of Directors. Throughout this report, you'll find milestones we've set, impacts we hope to achieve and how we hope to measure them. We also note where we still have work to do.

**Increased understanding our footprint.**

Understanding Nike's global footprint and prioritizing areas where we have the greatest environmental and social impact is essential for building a robust business case for corporate responsibility and prioritizing our efforts.

Part of how we assess where we should focus is dictated by our size and place in the world. Some vital stats for Nike that shape our perspective:

-  Our FY06 revenues were approximately \$15 billion. We are the world's leading designer, marketer and distributor of authentic athletic footwear, apparel, equipment and accessories for a wide variety of sports and fitness activities.
-  We produce approximately 50,000 product styles per year.
-  We sell products in more than 160 countries.
-  We have approximately 28,000 employees worldwide.
-  Almost 800,000 workers are employed in contracted factories around the world making Nike-branded product.
-  Our operations (owned and not directly owned) contribute to approximately 1.36 million tonnes of CO<sub>2</sub> annually.
-  Nike is one of the top 50 brands in the world.

### Looking to the future.

In addition to assessing our footprint, we also strive to identify and understand the broader environmental and social trends that have potential for long-term impact on our business and where our business may have a long-term impact on the issue.

Climate change, for example, is a primary area of concern.

We also are concerned about economic, societal and other factors that lead to youth exclusion in communities around the world.

Emerging health trends, such as obesity, are another area of concern.

Broadly assessing internal and external factors helps us prioritize and focus on areas where we can bring about the most change and best support the long-term growth of our business.

### Deliver a return on investment.

A key measure of any successful business is return on investment, or ROI. ROI measures whether the end result exceeds the effort or resources expended to get there. ROI helps a company understand whether it is using its human, financial and other resources in the best way possible. We are embracing ROI thinking to help us build our business case for corporate responsibility and measure the broader impact of our work. We call this ROI<sup>2</sup>, creating an exponential return from integrating corporate responsibility into our business.

While not a straight financial formula, ROI<sup>2</sup> is proving to be a powerful concept for our team and our business partners. This approach forces us to focus on the business impact of our corporate responsibility strategy, creating greater clarity on how responsible business practices can be a source of growth and innovation.

### ROI<sup>2</sup>

*ROI<sup>2</sup> is Nike's measure of creating an exponential return from integrating corporate responsibility into our business. Take waste, for example. In FY05-06 we carefully documented and measured the amount of waste generated across our entire supply chain. In one year, the cost of waste across footwear alone was estimated at \$844 million.*

*Everyone is involved in initiatives to reduce our waste across the supply chain: from designers to chief financial officer to business partners. Less waste is better for margins and better for the environment.*

*By using design to reduce our waste, we're tapping one of our greatest resources - innovation - and fueling other insights and successes.*

*This provides the backdrop to our evolution and to the targets we've set for the next five years.*

# Targets:

Chart 2  
Corporate Responsibility Targets

Nike is made up of many smaller business units as well as functions, regions, distinct profit and loss centers, etc. Our overarching goal is that we begin to see each and every business unit incorporating corporate responsibility goals into their growth strategies, business scorecards and team accountabilities. Success will be measured by the extent to which businesses meet their milestones for corporate responsibility as well as business growth.

GOAL	TOPIC	INDICATOR DESCRIPTION	FY11 TARGET	FY15 TARGET	FY20 TARGET
Bring about systemic change for workers in the footwear, apparel and equipment industries.	Human Resources	Tailored human resources management program in contract factories	Tailored human resources management program implemented in all focus contract factories	—	—
	Freedom of Association	Implement Freedom of Association educational program in contract factories	Freedom of association educational program implemented in all focus contract factories	—	—
	Worker Empowerment	Survey contract factory workers on empowerment/ satisfaction	100 percent of workers in focus factories surveyed	—	—
	Collaboration	Develop multi-brand collaboration in contract factories	30 percent of supply chain collaborated (shared auditing and capacity building)	—	—
	Excessive Overtime	Eliminate excessive overtime in contract factories	Zero excessive overtime identified in contract factories	—	—
Create sustainable products and business models.	Considered Design Index: Overall	Overall index score	100 percent of footwear product reaches baseline standards	100 percent of apparel product reaches baseline standards	100 percent of product reaches baseline standards
	Considered Design Index: Waste	Footwear waste	Achieve 17 percent reduction from FY07 baseline (in grams/pair) (equates to 155 grams/pair in 2011)	—	—
		Apparel waste	Target will be announced in FY09	—	—
		Packaging and point-of-purchase waste	Achieve a 30 percent reduction	—	—
	Considered Design Index: Volatile Organic Compounds	Volatile organic compounds in footwear	Maintain current volatile organic compounds grams/pair amount (represents 95 percent reduction from a 1998 baseline)	—	—
		Volatile organic compounds in equipment	Target to be announced in FY09	—	—
	Considered Design Index: Environmentally Preferred Materials	Environmentally preferred materials used in footwear product	Increase use of environmentally preferred materials by 22 percent (from average score of 69 in 2007 to 84 in FY11)	Review and reformulate top 10 materials platforms	—
		Environmentally preferred materials used in apparel product	Target will be announced in FY09	—	—
		Environmentally preferred materials used in equipment product	Target will be announced in FY10	—	—
	Climate Change	Climate neutral facilities and business travel	Nike brand facilities and business travel climate neutral	Nike, Inc. facilities and business travel are climate neutral	—
		Inbound logistics CO <sub>2</sub> emissions footprint	—	—	Deliver 30 percent absolute reduction from 2003 baseline
		Footwear manufacturing CO <sub>2</sub> emissions footprint	Goals to be announced by January FY08	—	—
Let Me Play. Unleashing potential through sport.	Contributions	Nike total contributions (cash, product, in-kind)	Nike invests an additional \$315 million dollars into programs worldwide	—	—
	Let Me Play	Social Impact	Nike will set targets and metrics around programs for excluded youth around the world by January FY08	—	—

## Targets:

These goals are ambitious. They're challenges we've set for ourselves to take us beyond our current performance and into the way we see corporate responsibility of the future: focused on root causes and requiring a unified approach deeply embedded in every part of the business. We will share our progress and what we've learned from this journey in future reports.