Measures of Non-Financial Performance at Nike

**FY10-11 Sustainable Business Performance Summary**

May 03, 2012

BEAVERTON, Ore. (May 3, 2012) – NIKE, Inc. (NYSE:NKE) today released its FY10-11 Sustainable Business Performance Summary which introduces its new targets and outlines its progress against key business, labour and environmental goals. The company also discusses the key challenges and its strategy for its work ahead, demonstrating its commitment to a more transparent and sustainable future.

Nike’s long-term strategic vision – to decouple profitable growth from constrained resources – is underscored by new targets and commitments, including a company-wide commitment to further integrate sustainability principles into its innovation processes, governance and portfolios. The work ahead is structured in two levels: continuous improvement targets against key impact areas to “make today better” and broader innovation commitments to “design the future” that establish how Nike is approaching longer-term change.

“Nike is known globally for our innovative performance products and sustainability has now increasingly become core to our business approach,” said NIKE, Inc. President & CEO Mark Parker. “We have continuously invested in reducing our environmental and social impacts within our own business and supply chain and have made substantial gains over the last decade. We know we cannot achieve our bold sustainability goals simply by delivering incremental improvements. We need to deliver innovations that rapidly evolve the way things are done at Nike, in our industry and throughout business.”

Nike also unveiled its new factory rating system, the Manufacturing Index, which looks comprehensively at a contract factory’s total performance and includes a deeper look at how a factory approaches sustainability. This Index elevates labour and environmental performance alongside traditional supply chain measures of quality, cost and on-time delivery.

Within the overall Manufacturing Index, the company has developed an innovative Sourcing & Manufacturing Sustainability Index (SMSI) which assesses contract factory performance on sustainability measures including measures of lean, environmental performance (including water, energy and carbon, and waste), health and safety, and labor management factors. After more than two years of development work and concluding a successful pilot program, the SMSI is currently being rolled out across NIKE, Inc.’s global supply chain.

Nike’s report focuses heavily on the role of innovation, transparency and collaboration in addressing sustainability issues. The Summary shows that Nike achieved or made significant progress against most of its previous targets, including waste reduction in footwear manufacturing, utilizing its Considered Design Index guidelines in product design and implementing Human Resource Management training programs in contracted factories.

In some areas, including the reduction of excessive overtime at contract factories, progress was slower than targeted. Nike also changed its approach to some targets, including carbon emissions, based on deeper understanding of the challenges and to improve alignment with business strategy. Incremental progress against several targets was a key driver for Nike to redesign its factory evaluation and sourcing criteria to improve performance in the long-term.

Nike worked with Business for Social Responsibility to engage a panel of external reviewers with expertise across broad areas, including representatives from Non-Governmental Organizations and academia to business, students and open data advocates, to assess its reporting and engage in discussion on its new set of sustainability targets. Massachusetts Institute of Technology Professor Richard Locke, whose current research is focused on improving labour and environmental conditions in global supply chains, was one of the reviewers and said the process had been well-organized, rigorous and transparent.

“I have been impressed by Nike’s willingness to engage in constructive debate over what is feasible and what is aspirational,” Locke said. “This is a company that takes a leadership position and has clearly learned the value of partnership and that collaboration is a business opportunity, not a risk.”

Some of the key results against the last goals Nike set include:

* The number of factory audits showing serious, repeated violations has remained low, at about 5 percent over the past five years. The number of contract factories with unknown conditions has decreased from 48 percent in FY09 to 8 percent in FY11, due in large part to increased monitoring against NIKE, Inc.’s Affiliate base.
* Human Resource Management training was conducted in 79 percent of focus contract factories (76 of 98) which covered 94 percent of footwear volume, 43 percent of apparel volume.
* CO2 emissions from contract footwear factories used to source NIKE Brand product were down 6 percent from FY08-FY11, despite a 20 percent increase in production.
* 97 percent of NIKE brand footwear achieved a baseline level or better on Nike’s Considered Index.

“Since we began setting targets years ago, we’ve learned the greatest opportunity to drive change is in the areas where we have the most impact,” said NIKE, Inc. Vice President of Sustainable Business & Innovation, Hannah Jones. “We know our materials create our greatest environmental impact. We control the design so this is where we began to focus when we rolled out our Considered Design ethos in 2009. We are now applying this same discipline and rigor in designing sustainability into the way we source and manufacture our products.”

Nike first began reporting its environmental and social performance around key impact areas including waste, water, energy, toxics, climate and labor in 2001. With improvements in measurement and data, and achievement of some targets, the company continues to reexamine its targets and approach as it has learned more about root causes of issues and where it can bring about the greatest change.

The next phase of sustainability performance targets released in its latest report include:

* Product Design – All product improves environmental profile as measured on Sustainability indexes evolved from our Considered Design ethos and indexes. By end of FY15, all new NIKE Brand global footwear will achieve silver rating and all new NIKE Brand global apparel will achieve bronze rating.
* Climate/Energy - Achieve 20 percent reduction in CO2 emissions per unit from FY11 levels through FY15 (from assessed footprint in built environment, inbound transportation and footwear manufacturing).
* Labour – Source by end FY20 only from contracted factories that demonstrate their commitment to workers and sustainability by achieving minimum Bronze on our Sourcing & Manufacturing Sustainability Index, which includes measures of worker rights and protections, including health and safety, and progressive movement toward the Fair Labour Association’s definition of a “fair wage” approach.
* Chemistry - Achieve zero discharge of hazardous chemicals\* for all products across all pathways in our supply chain by 2020.
* Water - Improve efficiency by 15 percent per unit in apparel materials dyeing and finishing, and footwear manufacturing (from FY11 through FY15).
* Waste - Achieve 10 percent reduction in waste from manufacturing across NIKE, Inc. and shoebox weight per unit (from FY11 baseline through FY15), building on waste reduction in footwear manufacturing of more than 35 percent per pair in first 10 years of program.
* Community - Invest a minimum of 1.5 percent of pre‐tax income in communities annually.

In conjunction with the release of its report, Nike has launched an interactive web experience at http://nikeinc.com/pages/responsibility enabling users to explore Nike’s value chain and learn more about its progress and commitments against each impact area. It also provides tools where users can design footwear and clothing, check the environmental impact of various material selections and explore the company’s global contracted manufacturing base with an interactive map.

 \* Hazardous chemicals are those that show intrinsically hazardous properties (persistent, bio-accumulative and toxic; very persistent and very bio-accumulative; carcinogenic, mutagenic and toxic for reproduction; endocrine disruptors; or equivalent concern), not just those that have been regulated or restricted in other regions.

About NIKE, Inc.

NIKE, Inc. based near Beaverton, Oregon, is 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. Wholly-owned NIKE subsidiaries include Cole Haan, which designs, markets and distributes luxury shoes, handbags, accessories and coats; Converse Inc., which designs, markets and distributes athletic footwear, apparel and accessories; Hurley International LLC, which designs, markets and distributes action sports and youth lifestyle footwear, apparel and accessories; and Umbro International Limited, which designs, distributes and licenses athletic and casual footwear, apparel and equipment, primarily for global football (soccer).

Nike: Non-Financial Measures of Performance

1. What is Nike’s Long-Term Strategic Vision?
2. What non-financial measures of performance are mentioned in the document?
3. How will Nike’s new factory rating system help them measure the company’s performance?
4. It mentions that Nike worked alongside ‘Business for Social Responsibility’. What did this organisation investigate at Nike?
5. Can you think of any reasons outside this document that could explain why Nike has been working so closely with outside organisations such as ‘Business for Social Responsibility’?
6. Assess the value to Nike of setting objectives such as those given in bullet points in the document.
7. Why did Nike create a website that outlines the company’s CSR position?
8. To what extent do you believe the strategies and outcomes outlined in this document outweigh the importance of Nike’s financial performance?