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Company report review

Nike

Corporate Responsibility Report 2004

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Note

This review is based on information contained in the electronic version of Nike's Corporate Responsibility Report 2004, produced in two volumes which are available at: http://www.nike.com/FY04_Nike_CR_report_pt1.pdf and http://www.nike.com/nikebiz/FY04_Nike_CR_report_pt2.pdf. This review is intended as a summary only and does not provide full and complete discussion of all the issues contained in the report.

1 Company background

Nike designs, markets and distributed athletic footwear, apparel, equipment and accessories for a wide variety of sports and fitness activities. Nike provides a more detailed overview of its operations in its Corporate Responsibility Report than most companies, with an overview of its financial performance, including taxes paid, workforce and factory base.

Most Nike products are made outside the US, and virtually all are manufactured by independent contract manufacturers, many of whom produce for other globally recognised brands. The contract factory supply chain for Nike brand products includes over 800 factories, the names and locations of which are provided for the first time on the company's website in a groundbreaking step in transparency. Nike employs approximately 24,000 people directly, almost half of whom are based in the US, and a further 650,000 are working in Nike contracted factories worldwide.

Nike products are sold in the US, through approximately 28,000 retail accounts. Outside the US, Nike sells its products in 120 countries through 23,000 retail accounts, as well as via distributors, licensees, subsidiaries and branch offices.

The present report is Nike first Corporate Responsibility Report since 2001, due to the Kasky lawsuit which not settled until 2003. The Kasky complaint alleged that Nike made a number of misrepresentations with regards its labour standards during the course of a public relations campaign in 1996-7, prompting a review into the question of free versus commercial speech. The California Supreme Court rejected claims by Nike's lawyers that the First Amendment immunised the company from being sued. Ultimately, the two parties mutually agreed that investments designed to strengthen workplace monitoring and factory worker programmes were more desirable than prolonged litigation. As part of the settlement, Nike agreed to make additional workplace-related programme investments in the amount of \$1.5 million. Further details are available at <http://www.nikebiz.com/kasky> and <http://www.reclaimdemocracy.org>

2 Reporting practices

2.1 Materiality

Nike has established a framework for determining what topics to cover in its public reporting, including major impacts and issues; policies and commitments; peer benchmark; internal business processes; and stakeholder input.

Nike's report appropriately places most emphasis on the labour standards and social impacts on workers in its supply chain. It describes the procedures in place for monitoring and assisting factory remediation of compliance issues, with detailed discussion of the four priority areas where non-compliance remains a challenge (freedom of association; harassment, abuse and grievance systems; hours of work; and payment of wages). Further, the report describes steps taken to address the crucial questions of how business decisions may contribute to negative impacts on workers. The environment section appropriately focuses on innovative and sustainable product design, manufacturing impacts, climate change and toxics elimination. Nike is also to be commended for addressing its activities in the public policy arena, particularly its position on key issues.

2.2 Transparency

Transparency emerges as one of the report's main strong points, with two particularly groundbreaking disclosures. First and foremost, Nike has released a list of the names and locations of all supplier factories that produce Nike-branded products worldwide (available at: <http://www.nike.com>). Nike is the first company in its sector to take this step towards establishing common standards and removing the barriers to collaboration necessary to improve labour standards throughout the industry. Specifically, the disclosure offers increased visibility into shared suppliers, which should allow buyers to minimise duplication of monitoring and increase effective joint efforts to promote factory remediation. This will in turn make monitoring a less cumbersome process for suppliers, who will be able to use transparency as a part of their proposition to other buyers. The second important disclosure in Nike's present report is of the specific

findings of non-compliance at internally audited factories, as well as those identified by independent audits. The provision of this information makes the company more accountable, allowing specific issues and areas of concern to be identified and monitored by stakeholders in future reports. It also supports efforts towards greater cooperation amongst buyers and consequently a competitive environment in which responsible behaviour is promoted. It is significant, however, that figures relating to non-compliance of M-Audited factories relate to rates of incidence, but not breadth or severity of impact. These additional dimensions are vital to assessing performance and developing appropriate responses, and should be a priority in the development of data collection systems and reporting.

An additional noteworthy indication of the degree of transparency achieved in the report is the inclusion of a section devoted to Nike's activities in the public policy arena, setting out the nature of the company's political contributions and positions on key public policy issues. Nike is here again on the cusp of sustainability reporting trends, as the majority of companies consider such issues too sensitive to disclose publicly.

2.3 Comparability

Nike has made extensive use of the guidelines of the Global Reporting Initiative (GRI), which offers a comprehensive framework for reporting a company's impact and activities. A GRI Index is included in the report and digressions from the recommended GRI disclosures are identified and explained. Use of the GRI guidelines promotes the comparability of the report, and supports benchmarking and assessment of sustainability performance. However, Nike falls short of reporting 'in accordance with' the GRI guidelines by not reporting against all necessary indicators. This would seem advisable in light of the extent to which Nike has already drawn from the guidelines, as well as the mark of distinction reporting in according with the guidelines confers.

Significantly, the report lacks consistent provision of multiple years of performance data for its key indicators, which would allow improved evaluation of impacts over time. Further, key targets and performance indicators are not clearly and systematically defined – the report must be read in detail to extract this information from the different sections. Nike does acknowledge in the report, however, that it intends to develop improved metrics and data collection/management systems for improved reporting in the future. Given that the present report marks Nike's return to this arena after a three year absence, this may be an opportune time to establish a base-line for future reporting purposes.

2.4 Assurance and verification

Nike's report is not assured in the usual way by an independent organisation specialising in this area. Instead, Nike established a Report Review Committee, comprised of experts from the NGO, academic, trade union and business communities (names of these individuals are disclosed in the report), to help in setting the scope, coverage and focus of the report. A statement by the Report Review Committee is included in the report. While this certainly provides valuable insights and, by all accounts, was extremely useful from an internal perspective, it should not replace a more formal assurance process. Nike does not currently have a verification programme in place, and is currently speaking with stakeholders to determine whether to implement one. It is strongly recommended that Nike does so, as it is only through the rigour of an assurance process that the company will receive the useful critical feedback necessary to systematic target-setting and continuous improvement. Continuous assessment of the results of the assurance process, where possible in consultation with stakeholders, is vital to maximising the credibility and quality of the final report.

3 Management structure

In recent years, Nike has established a high-level and comparatively extensive corporate responsibility management structure. A corporate responsibility committee, established in 2001, is among six board level committees and includes four non-executive directors. In 2004, a CR Business Leadership Team was formed to oversee the work of the CR team and departments. At the operational level, CR is managed by a relatively large number of full-time Nike employees (150 in total) who have CR as the primary focus of their work. A useful organigramme of Nike's CR organisation is presented in the report, together with details of significant leadership changes in 2004.

4 Review of core issues

In this section, we review the policy, programme and performance of Nike's core issues, as identified in its Corporate Responsibility Report. In its report, Nike addresses its corporate responsibilities under five main headings: workers in contract factories; employees and diversity; environment; community; and public policy.

4.1 Workers in contract factories

Nike's approach to labour standards for workers in contract factories is covered in detail in the report, with the largest section of 30 pages devoted to the issue. Nike identifies five main ways it considers its approach to labour conditions in contract factors to be evolving, each of which is substantiated in the main text:

- From a focus on the company's own Code of Conduct to advocating common standards across the industry.
- From outsourcing labour monitoring to relying on a trained team of internal monitors, as well as common monitoring platforms such as the Fair Labour Association (FLA).
- From a focus on monitoring to a focus on capacity building.
- From an exclusive focus on factory floor impact to an exploration of ways to help change the industry through transparency and multi-stakeholder collaborations.

4.1.1 Policy

Nike's Code of Conduct for labour practices, adopted in 1992, outlines expectations for contract factories around labour, environment, health and safety derived from internationally agreed principles of the International Labour Organisation and UN. Factories are directed to display the code in languages spoken by their workers, and provide training. The broad principles of the Code of Conduct are expanded upon in Nike's Code Leadership Standards, comprising 51 standards in total (available at: <http://www.nikeresponsibility.com/codeofconduct>).

4.1.2 Programme

Nike presents a clear and detailed description of its three-stage 'Factory Compliance Lifecycle', supported by an explanatory flow-chart. This process is presented very much as a work in progress, with an appropriate emphasis on collaborative efforts in order to devote a greater proportion of resources to remediation and capacity building in future. At the first stage, Nike follows a six-step 'New Source Approval Process' to select factories. Once a factory is approved, the compliance team focuses on monitoring and assisting factory remediation of compliance issues. The compliance team consists of more than 90 people based in 21 countries, although this still represents only one compliance staff per 10 factories. Nike employs three levels of monitoring: basic ESH monitoring (SHAPE), in-depth M-Audit and independent external monitoring through the FLA. Where Nike intends to end orders with a factory, affecting a significant number of workers, a new standard factory exit process is followed.

Key highlights relating to Nike's three main monitoring tools are as follows:

- The SHAPE inspection is typically performed by Nike's field based production staff and can be completed in less than a day. SHAPE is intended to provide a general picture of the factory base, would ideally be conducted twice a year at each active factory, although Nike has been unable to meet this target. Nevertheless, a breakdown of SHAPE audits by operation type and region shows a total of 1,016 SHAPE audits were conducted in 2004.
- In 2003, Nike began the transition from a third party to an internal monitoring process called the M- (for 'management') Audit, biased towards factories with a higher assessed risk of non-compliance. 21 new employees were specifically trained in this practice, which Nike describes as 'the bedrock of our compliance monitoring activity'. Nike announces 90% of its audits which we agree is a best practice approach most likely to generate learning as prior notification allows for preparation and self-checking, as well as ensuring access to the relevant records and individuals. Roughly half of Nike 90-strong compliance team regularly conduct M-audits, most of whom are women under the age of 30 to reflect the worker population. Nike aims to cover 25-33% of its active factory base each year. A

breakdown of M-Audits by operation and region shows a total of 569 were carried out in 2004, although there is no indication of the proportion that this represents.

- The Fair Labour Association conducted 40 independent audits of Nike factories in 2003, the broad findings of which are detailed in the report (see review of 'Performance' below). Nike entered into a three-year FLA accreditation process in 2003.

Compliance performance is tracked on an ABCD scale, and compliance rating criteria are presented in the report. As this is a new system, Nike has not yet instituted firm deadlines for compliance and also refers to the challenge of completing timely follow-up visits.

Nike recognises the oft-cited criticism that 'the limitation of most monitoring tools is that they identify problems, but are often inadequate in identifying root causes', in particular how business decisions may contribute to negative impacts on workers. Nike can be seen to be taking two main actions to address this problem. First, the company has agreed for research teams from the Massachusetts Institute of Technology (MIT) to go into contract factories in 2005 in order to examine a range of questions around the business drivers and outcomes. Second, it has incorporated 'compliance' as the fourth process in its Balanced Scorecard metrics, together with the standard decision-making criteria of cost, delivery and quality. This represents an attempt to provide incentives to contract factories and staff for improved compliance performance.

4.1.3 Performance

Nike is aware that it has many measures of activity, but fewer of performance and is currently re-evaluating metrics for impact assessment. Nike candidly states in its report that: 'We remain profoundly challenged to understand how to systematically measure the impact of our own interventions.' Nevertheless, the findings of FLA and M-Audits provide real insights into the major issues of non-compliance in the supply chain. Indeed, Nike is extremely transparent in presenting the specific non-compliance findings at 569 M-Audited factories, as well a breakdown of the key issues identified by the 40 FLA audits.

On the basis of these findings, Nike has identified four priority areas which are discussed in detail in the report, namely: freedom of association; harassment, abuse and grievance systems; hours of work; and payment of wages. Although no instances of child labour were found by the FLA, this issue is also discussed in detail in the report.

Freedom of association

According to Nike, freedom of association is 'among the toughest challenges our industry faces because of scale of non-compliance on this issue'. Nike operates in many countries where freedom of association is prohibited by law, including China and Vietnam (one or more instance in up to 25% of M-Audited factories). Monitoring has also revealed numerous cases where freedom of association is not provided, or is prohibited due to exclusive union agreement (one or more instance in up to 10% of M-Audited factories). Nike discusses three components of its approach to strengthening industrial relations, namely through grievance systems, worker-management dialogue and direct intervention. Case-studies of programmes in Bulgaria and China are also presented.

Harassment, abuse and grievance systems

According to the findings of internal audits presented in the report, at least one worker reports abusive treatment, has no access to or does not trust the grievance process in up to 50% contract factories. Verbal harassment is the most common form of abuse reported by Nike's monitoring team. The report gives the impression that attention to this issue has focused on Indonesia, where the Global Alliance carried out an independent study involving interviews with Nike workers. Nike has also implemented a pilot project in Indonesia in partnership with a local NGO to explore how to tackle sexual harassment. Nike's Code Leadership Standards instruct factories to institute a confidential grievance system – a practice that has not existed broadly in the industry. Such processes are reportedly in place in two thirds of factories but there is no indication of the extent to which they are used or effective.

Hours of work

Nike's standard directs contract factories to limit the working week to 60 hours, including overtime. Nike studies indicate ten or more triggers can lead to excessive overtime, and accepts that responsibility often lies with buyers as much as factory managers. Nike auditors have found cases of excessive hours in over half of contract factories.

Payment of wages

Nike reports that its auditors found a 'disturbing trend' of non-compliance with minimum wage standards in 2003-4. A recent pilot initiative in the North Asia region resulted in the payment of \$720,000 in back pay due to workers, but apparently Nike does not follow up in this way systematically.

4.2 Employees and diversity

4.2.1 Policy

In 2003, Nike set out a five-year plan to make the company an 'Employer of Choice'. It identified diversity as a key source of competitive advantage, and this issue is the main focus of Nike's approach to corporate responsibility vis-à-vis its employees.

Nike's corporate responsibility committee is responsible for providing oversight on policies and activities related to diversity. In 2004, Nike also established an Office of Global Diversity, a Global Diversity Executive Council and a Global Women's Leadership Council.

4.2.2 Programme

In 2004, Nike conducted a global survey of its employees, receiving 9,044 responses, and interviewed 75 current and former Nike leaders from around the world. The survey assessed employee attitudes and perceptions related to the work environment, career advancement, diversity and inclusion and employee recommendations. Limited survey highlights are presented in the report. They suggest employees are pleased to work for Nike, and that satisfaction and enthusiasm are shared across groups of employees. However, employees also indicated there is more work to do in this area.

The report covers measures to maximise internal diversity and performance, such as management training workshops and employee networks, as well as a supplier diversity programme. The report describes a range of internal management training workshops on workplace diversity held in 2004. Participation in these workshops is not mandatory, but 2,000 employees are reported to have participated last year. Nike has also established six employee networks which are intended to foster professional development, teamwork and improved interaction within and across groups.

Significant improvement could be made in the area of supplier diversity. In 2004, Nike spent only 3.7% addressable spend (\$33 out of \$910 million of spend the procurement department is able to influence) with minority or women-owned business enterprises (MWBE). However, Nike is soon to appoint a Supplier Diversity Programme manager and sets out a number of targets for the next 2 years, notably to ensure a minimum representation of 25% MWBEs in each solicitation of bids distributed by Nike's sourcing team.

Nike makes a wide range of benefits available to its employees, including numerous compensation options such as performance bonus, profit-sharing, discounted stock purchase, health care and tuition assistance. Other benefits include fitness facilities and programmes, a counselling service and short sabbaticals for long-term employees. Unfortunately, there are no details of the scope or take-up of these benefits.

Going forward, Nike recognises the need to put formal structures and systems in place to tackle diversity. A multi-year, global HR information system is currently being developed for 2006. Over the next three years, Nike also intends to develop and refine goals, metrics, targets and accountability measures based on priority areas identified in the employee survey. These relate to: management education, career development, flexibility/work life effectiveness and management accountability.

4.2.3 Performance

At the operational level, Nike has succeeded in forming a diverse workforce with an almost even balance of male to female employees, almost 40% of whom are 'of colour'. As a result, Nike received two diversity awards in 2004 (see 'Certification' below). Diversity diminishes, however, further up the management ladder. Almost three quarters of senior managers are men, and only 14% are 'of colour'. At the board level, only two of the company's ten executive directors are women, and only one is 'of colour'.

4.3 Environment

4.3.1 Policy / strategy

Nike's 'single, unifying goal' in terms of environmental impact is to create innovative and sustainable products. The report presents a discussion of each of the key focus areas for managing environmental impacts throughout the product lifecycle, as follows:

- Promote compliance standards set by others or by Nike (the report only refers to one Nike standard, namely the Restricted Substances List).
- Eliminate waste and toxic products across the lifecycle.
- Build corporate ability to use four key sustainable material platforms: organic; chemically optimised; regenerated; renewable.
- Make waste a business opportunity.

4.3.2 Programme

The report states that embedding sustainability teams within Nike's product engines (apparel, footwear and equipment) is fundamental to its environmental strategy, outlined above. However, no details are provided as to how this is being carried out in practice, for example the size and location of these teams. However, the report does include a useful matrix identifying Nike initiatives at each stage of the product lifecycle. In each case, the matrix indicates whether the initiative has been implemented, represents a future opportunity or is considered not material (low impact / beyond influence).

Nike is candid about the financial impact of its environmental efforts, stating that: 'The reality is today that we are investing in sustainable product without seeing a return on our investment.' In the hopes of making cost savings by taking programmes to scale, Nike has formed numerous partnerships with government, academic and no-profit organisations. A clear overview of the main focus of these partnerships is provided in the report. In some cases, Nike has shown clear leadership initiative – for example, Nike was the first footwear and apparel company to commit to an absolute reduction in CO₂ in the context of the World Wildlife Fund Climate Saver's Initiative.

4.3.3 Performance

This section of the report is organised under the five areas of focus identified by Nike's environmental strategy, outlined above. Highlights within each area are as follows:

- **Compliance:** Nike has implemented Restricted Substance Lists and, in the next phase, plans to remove or replace toxic chemicals, including those that are not legislated as illegal; In 2004, Nike restructured its programmes for environmental safety and health, with two new appointments; Through R&D, Nike has developed a benign gas for use in the cushioning of athletic shoes; Participation in Nike's water quality programme increased to 280 in 2004, compared to 40 when Nike's guidelines in this area were first rolled out; Nike is making progress towards voluntary elimination of PVC from its products.
- **Eliminate waste and toxics:** Nike has established waste management centres in several countries, and streamlined data collection in this area by using environmental reporting software; Nike explicitly supports the Kyoto Treaty and committed to reduce the combined CO₂ emissions from owned facilities and business travel by 13% by 2005, from a 1998 baseline – Nike has not met this target, but CO₂ emissions remain at 1998 levels despite 8.5% growth in owned operations.

- **Sustainable material platforms: 22% of Nike's apparel cotton materials.** And 47% of cotton garments, contain at least 5% organic cotton – Nike's goal is for all cotton materials to contain a minimum of 5% organic cotton by 2010.
- **Packaging and shipping:** Shoeboxes constitute the majority of Nike packaging and are made with 100% recycled content and 80% post-consumer waste. A recent design change has also eliminated 16% of the cardboard used in each box.
- **Waste as a business opportunity:** Here, Nike details its 'Reuse-A-Shoe' programme which collects worn-out shoes from consumers (any brand) which are then transformed into a material called Nike Grind which is used to make sports' surfaces. Nike donates the money paid by licensees using Nike Grind to NikeGO. Since the programme was launched in 1993, a total of 160 sports' surfaces have been created. The programme was initially based in the US but has recently been launched in Australia and the UK.

4.4 Community

4.4.1 Policy

Nike equates 'community investment' with 'philanthropic contribution', reflecting a cultural acceptance of this terminology in the corporate responsibility field in the US. Nevertheless, Nike's corporate philanthropy encompasses not just cash donations most closely associated with philanthropy, but also donations in Nike resources, products, brand-power and time. In 2002, Nike established two priorities for its community investment programmes: first, to increase the participation of young people in physical activity; and second, to address the challenges of globalisation, with a particular emphasis on women and girls.

At present, Nike has a community team based within the US and EMEA regions. A global community function carries out both local (that is, Oregon-based) activities and some global activities. Best practice, however, suggests that community investment be locally owned and coordinated. Nike acknowledges that better integration of the community investment function into regional business teams in Asia-Pacific and the Americas is needed.

4.4.2 Programme

Nike's community investment work focuses on encouraging the participation of young people in sport and physical activity, and addressing the challenges of globalisation, particularly for women and girls. Nike's report provides a general overview of key initiatives in each of these areas. Specific activities in 2004 are not highlighted but further details are available on the company website. With regards sport and physical activity, for example, Nike has been working with Shanghai city officials to provide access to basketball courts at five additional schools each year. Second, the NikeGo Afterschool Programme provides training, custom curriculum and equipment to after-school programme staff. With regards addressing the challenges of globalisation, Nike is working with local NGOs in support of microfinance initiatives in Southeast Asia, and to bring production jobs to rural areas of Thailand.

Nike also shows a commitment to community investment by matching employee contributions in both time (\$10 per hour of volunteering) and money (up to \$5,000 per employee per year), albeit that this is generally restricted to the US.

Nike describes community affairs as 'a hotbed of learning for us around multi-stakeholder partnerships'. The report presents a brief overview of Nike's partnerships with eight community organisations, including the Mercy Corps, the Business Council of the United Nations High Commissioner for Refugees (UNHCR) and Opportunity International. However, there is no sense of the nature of relationships day-to-day, or any challenges that the company is addressing or learnings it has derived. This is a pity, as our own research has demonstrated some excellent community partnerships with UNHCR addressing challenges facing girls in refugee camps in Africa (see <http://maps.maplecroft.com> – displacement map)

4.4.3 Performance

Nike considers that the success of community programmes should be defined in terms of their impact on the ground, rather than internal corporate objectives (examples of the benefits of community investment might

include corporate integration, employee motivation and morale). Marketing objectives are also considered 'an outcome, not a driver'.

Employee contributions have increased steadily over the last three years, amounting to \$2.5 million in 2004. Employee volunteering has also increased to 71,017 hours in 2004. Total funds matched by the company in 2004 amounted to \$3.1 million, a 6% increase on the previous year.

Nike says it is exploring methods for assessing impact, and offers few insights in the report other than a preference for third-party experts to conduct assessments. The findings of a third party evaluation of Nike's community affairs programme in the EMEA region are presented.

4.5 Public policy

As another indication of transparency in public reporting, Nike is among the very rare companies to devote an entire section of its report to issues around engaging with governments. Nike discloses the location of its government affairs offices, political contributions and position on key issues. While these disclosures offer no indication that Nike is using its influence in an unethical or inappropriate manner, by directly addressing the question of how the company exerts influence on public policy issues, Nike sets an example for others to follow.

Nike's government affairs offices are located in such places as Washington, Beaverton, Brussels, Beijing and Singapore, with a 12-person full-time staff. Nike's political contributions are restricted to the US, where its federal Political Action Committee makes contributions of \$50,000 annually (full disclosure is available at: <http://www.fec.gov>). These funds are reportedly divided between individuals from both US major political parties who reflect corporate goals, but no contributions are made in 'soft money'.

In its report, Nike presents its position on six key issues in 2003-4. It appears that these issues are (arguably) both positive and directly relevant to Nike's business. They include, for example, duty-free market access for apparel exports from developing countries and legislation to end discrimination on the basis of sexual orientation. Nike also discloses its support for the membership of China and Vietnam to world trading bodies and regimes which could be seen as more sensitive in view of the poor human rights record of these countries.

5 Certification

- Environment: Nike does not report having received environmental certification.
- Diversity: In 2004, for the third consecutive year, Nike achieved 100% ratings on the Human Rights Campaign's Corporate Equality Index Survey (<http://www.hrc.org>); Nike was nominated the 2004 US Western Region of Choice by the Minority Corporate Counsel Association (<http://www.mcca.com>).
- Nike is a member of the UN Global Compact and submitted the present report as its Communication on Progress.

6 Ethical Insight's comment

3½ Star Rating: ★★☆☆☆

Nike's Corporate Responsibility Report is extremely interesting and well-presented, and scores a 3 ½ star rating according to our criteria. The report's transparency is its shining light. Its main weakness lies in the need to develop data collection and management systems for more consistent and structured targets and performance indicators. We also recommend a selective third party assurance programme is put in place.

Reporting practices

Nike is to be commended in particular for steps in transparency. Nike's decision to disclose the names and locations of supplier factories is groundbreaking and may prove a vital step in breaking down barriers to collaboration that will allow for more efficient and effective management of labour standards in the supply chain. Nike reports appropriately on material issues, with a particular focus on labour standards in contract factories, and shows the process it put in place in order to do so, notably the formation of a Report Review Committee. With regards comparability, Nike makes extensive use of the Global Reporting Initiative indicators and should try to report 'in accordance with' GRI in future. However, the report lacks consistent, structured provision of multiple year targets and performance indicators. The development of improved metrics and data collection/management systems must be seen as a priority, notably with regards the breadth and severity of non-compliance incidence in contract factories and supplier diversity. As the present report is the first since 2001, this may be an opportune time to establish a base-line for future reporting purposes. We also recommend that Nike establishes an independent assurance and verification process to maximise the credibility and quality of future reports.

Management structure

Corporate responsibility management structures are in place at the executive and operational levels, with a relatively large number of full-time employees engaged in this area.

Management systems

This review considers Nike's policy, programme and performance in the five areas of impact it identifies:

- Workers in contract factories – Nike's policy on labour practices are derived from internationally agreed principles and the company employs three levels of monitoring to assess compliance, although further work needs to be carried out in developing targets in this area. Of particular significance is the incorporation of 'compliance' as the fourth decision-making criteria in the company's Balanced Scorecard, together with cost, delivery and quality. In terms of performance, Nike candidly acknowledges that there exist numerous serious cases of non-compliance but the report suggests that progress is also being made – reporting on this progress and verifying progress will be important targets for the next report. The company acknowledges the need to develop further metrics for impact assessment; we suggest that this is an important priority for next year, to complete the management system and to be sure that the outcomes anticipated through ethical supply chain management, are actually achieved with no negative impacts for those most vulnerable.
- Employees and diversity – Nike will be better able to develop effective employee programmes as a result of an extensive employee survey carried out in 2004. At the operational level, Nike has succeeded in forming a diverse workforce but this is not reflected in the upper echelons of management. Significant improvement could also be made with regards supplier diversity.
- Environment – Nike has established a clear environmental strategy and formed relevant partnerships. In some cases, Nike has shown leadership initiative – for example, through its innovative 'Reuse a Shoe' programme and its commitment to an absolute reduction in CO2 as part of the World Wildlife Fund's Climate Saver's Initiative.
- Community – Nike has established clear priorities in this area and has made an impressive commitment to match employee donations in money and time in the US. Although relatively little detail is provided in the report as to the exact nature of community activities, further information is available on the website. Further impact assessment could be advisable in helping to maximise positive impact.
- Public policy – Nike is among the very few companies to report on sensitive issues such as political lobbying. This adds to both the interest and credibility of the report and strengthens the transparency image.

Certification

In 2004, Nike remained listed on the key sustainability indices, including the FTSE4Good and Dow Jones Sustainability Indices. The company received no other certification, including environmental certification.

7 Appendices

7.1 Maplecroft's Ethical Insight report review criteria

Maplecroft's Ethical Insight report reviews are based on a four-pillar framework, taking into account reporting practices, corporate responsibility management structure, management systems (policy, programme and performance), and certification. The review of management systems considers the company's core issues as identified by the company in its report and by Maplecroft on the basis of the company's industry sector. Maplecroft is currently developing a map of core issues by sector which will be available shortly. The report review criteria are not comprehensive, but are designed to highlight the most significant practices and performance within each company, as well as important omissions and areas for improvement in future reporting.

- **Reporting practices** are reviewed on the basis of four key reporting principles:
 - **Materiality:** Does the report cover all the key issues relevant to the sector? Does the report provide the context and relevance of each issue to the company? Has the company engaged with key stakeholders in identifying and exploring material issues?
 - **Transparency:** Does the report disclose regulatory non-compliance? Does the report make other sensitive or groundbreaking disclosures? Is there public reporting at the local level?
 - **Comparability:** Does the company report in accordance with the GRI guidelines or other external metrics? Have internal metrics and data collection/management systems been developed? Does the report clearly present key indicators and targets?
 - **Assurance and verification:** What type of assurance and verification are provided? What is the scope of assurance and verification? What are the feedback / results of the assurance and verification process?
- **Management structure** is assessed on the basis of three main criteria: Is there a board level CSR Committee (or equivalent) in place? Is there a dedicated CSR network in place? Has the company signed up to any best practice principles or external bodies?
- **Management systems** incorporate principles (governance level), policies (strategic level), procedure and guidance (executive level) and practise (operational level). For each of the company's core issues, Maplecroft reviews policy, programme and performance.
- **Certification** refers to the company's listing on sustainability indices, such as the FTSE4Good and Dow Jones; external certification such as SA8000 and ISO14001; and any external awards received during the reporting year.

7.2 Previous Ethical Insight report reviews

Ethical Insight includes a review of a company sustainability report in each fortnight's edition. These reviews, together with the original report, can be accessed from the Maplecroft website at <http://www.maplecroft.net>.

Previous Maplecroft reviews are as follows:

- Rio Tinto - 2004 Sustainable Development Review
- Marks & Spencer - Corporate Social Responsibility Report 2005
- Alcatel - Sustainable Development Report 2004
- Shell Foundation 'Enterprise solutions to poverty' Report 2005
- Standard Chartered 2004 Corporate Responsibility Report
- Anglo American Report to Society 2004
- Citigroup Citizenship Report Review 2004
- BP Sustainability Review 2004
- Cadbury Schweppes Corporate and Social Responsibility Report 2004
- TPG Corporate Sustainability Report 2004
- BBC Corporate Sustainability Report 2004
- Westpac Stakeholder Impact Report 2004
- Alcan corporate sustainability report 2004
- TPG annual report 2003
- Co-operative Group corporate responsibility report 2003
- Vodafone corporate social responsibility report 2003/04
- Hydro corporate social responsibility annual report 2003
- BAA annual report 2003/2004
- RWE corporate responsibility report 2003
- BAE Systems corporate responsibility report 2003
- Royal Mail corporate responsibility report 2004
- ABN Amro sustainability report 2003

7.3 Ethical Insight's sustainability reporting services

The Ethical Insight team at Maplecroft works with global organisations across all sectors, providing a range of specialist corporate responsibility advisory services. Further details about the wider range of Maplecroft services and the Maplecroft team are available at <http://www.maplecroft.net>.

In the area of sustainability reporting, we have considerable expertise in the full range of management systems that underlie effective social and environmental reporting, including auditing, indicators, monitoring, impact assessment and performance management. Maplecroft is also experienced in report writing, verification and assurance, having contributed substantively to several award winning reports.

The Ethical Insight team is also able to provide independent assurance and verification services of the highest standard, including in accordance with GRI and AA10000 criteria.

Maplecroft has developed a number of proprietary tools to assist companies in the reporting process. Specifically, we have developed the *Principles-plus multi-audit etool*, a practical and comprehensive auditing method that brings together a host of social and environmental standards, international best practice principles and instruments of corporate citizenship in a set of worksheets. The tool is designed to help companies assess their conformance with best practice requirements and identify the specific areas in which performance can be improved. A corrective action request form assists in the performance management process.

Maplecroft has also developed a *Human rights monitoring mechanism*, a straightforward electronic human rights survey, which can be used and adapted by companies to provide a detailed picture of human rights risk in its operations around the world. The survey assesses the human rights situation and management systems in place at the country level which, together with external country and issue specific human rights research, allow for a detailed analysis of the company's risk of complicity in human rights violations, and specific recommended action points.

The Ethical Insight team comprise fully trained and experienced SA8000 and ISO14001 auditors.

Please call us or email to discuss how our award winning Ethical Insight team might help:

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