Sustainability commercialised - Systems change with a swoosh

Posted by Rob Bailes [1] on Dec 11, 2012

Nike rewired its approach to corporate responsibility in 2009. The changes are starting to deliver breakthroughs for both the company and the wider industry

Unpacking the business value of sustainability is easier said than done. Ask most corporate responsibility practitioners about the business benefits of sustainability and, chances are, they will refer to reduced energy bills, enhanced corporate reputation or increased sales from a sustainable lifestyle product or service.

Few would be able to reference examples of product and process innovations integrated across entire product supply chains. Or companies that have shared eight years' of proprietary materials research and analysis with peers and competitors in a bid to drive systems change across an entire industry – as Nike did when it donated its materials sustainability index (MSI) to the Sustainable Apparel Coalition in 2010.

The decision by Nike to donate its materials evaluation tool to the coalition may well come to be regarded as one of those industry-changing moments. It is helping to drive a common industry understanding and approach to product sustainability. It is also demonstrating how global companies are moving beyond competitive concerns and increasingly aligning their own "business case" with progress across the industry.

For Hannah Jones – Nike's vice-president for sustainable business and innovation – the decision to donate the MSI was as much about encouraging industry convergence around a single approach to materials sustainability as it was stimulating demand and investment in the market for sustainable materials.

"We need the materials industry as a whole to get a very strong signal, not just from Nike but from others as well, that sustainable materials are the future and that we need to see a flow of capital and intellect into thinking about how we move to a palette of sustainable materials," Jones says.

Environmental performance

Nike's materials index – alongside the Outdoor Industry Association's eco-index – now forms the core component of the Sustainable Apparel Coalition's Higg index, a tool that enables companies to evaluate the environmental performance of different material types, products, facilities and processes when making product design choices.

The index debuted in August 2012 and a number of the coalition's members, including Target, Wal-Mart, REI and Tal Group, are now using it. According to Jason Kibbey, executive director of the coalition, member companies are already seeing tangible benefits from their use of the system.

For Kibbey, Nike's commitment to the coalition was not without risk. Passing over the tool entailed significant corporate scrutiny as an external panel of experts from organisations such as Duke University pored over years' worth of Nike materials data and analysis. He also recognises, however, that the company's decision was a smart one from which it, and the industry at large, will benefit.

As Kibbey points out, Nike took what was a company tool and turned it into an industry tool, and did it in a way that is creating real value for them. "If they had to constantly update the tool themselves they would have to take on all of that work – a significant undertaking. Because the tool is now public, it's gone from a company model to a wiki model where others are supplying and sharing the information."

One of the long-term outcomes of Nike's commitment – and indeed the wider work of Sustainable Apparel Coalition – could be greater demand and investment in markets for sustainable materials.

"The Sustainable Apparel Coalition is helping to create a market for innovative materials," says Kibbey. "Before, it was just between Nike and an innovative vendor. Now, if you're outperforming your peer through a new technology or process, you can get a much wider audience for your material by submitting credible data into the [Higg Index] table."

This is precisely the kind of systems change Jones says is required to accelerate performance across the industry. She says: "When you think about most innovation, people think in terms of prototyping, testing, and then getting the business to adopt it, commercialise it and sell it. But that doesn't necessarily work for sustainability. The work we do requires system change – not just that one business adopts it, but that the entire ecosystem adopts something."

Rewire

Much of Nike's progress in the last three to four years can be traced back to the decision to restructure the corporate responsibility team and function in 2009. The department emerged from the restructure with a new title, sustainable business and innovation.

The change signalled a strategic move on the part of Nike to propel sustainability to the frontline of business growth for the company. Sustainability would be understood through the lens of innovation and value creation, rather than risk, regulation and reputation.

According to Jones, the decision to restructure came at a tipping point in the way the business was thinking about sustainability. "We'd already begun a fundamental transition out of the regulatory, risk and reputational approach to corporate responsibility, to seeing it as a trigger for value creation and innovation," she says.

What followed was an internal mining exercise to identify examples of where sustainability had led to a breakthrough in innovation. For Jones, the epiphany moment came when Tinker Hatfield – one of Nike's most senior and recognised designers – decided to put sustainability innovation at the heart of his new design for the iconic Jordan 23 shoe.

"That really got us to thinking that we needed to be set up not as we were – in terms of looking at things in terms of issues and reducing risk. We actually needed to set our team up to be an innovation hub within the company enabling, and being a catalyst for, innovation".

The solution was an organisational rewire to shift responsibility for decision making and accountability to the business leaders in the manufacturing, sourcing and product departments. The broadened team would report quarterly to an executive-level steering group explicitly established to investigate the latent business value locked up in sustainability.

Incentivising the supply chain

Nike's organisational rewire is starting to bear fruit for the company. Earlier this year, the company launched a new contract factory performance evaluation tool – the Manufacturing Index – capable of evaluating factories on their sustainability performance as well as the traditional performance measures of cost, quality and delivery.

A supplier incentivisation scheme is directly linked to the index, encouraging and rewarding suppliers that improve their performance. Suppliers who make it into the bronze category will receive greater access to high-level training programmes, for example. Suppliers who make silver will be included on Nike's preferred suppliers list.

For Sharla Settlemier, Nike's senior director for sustainable manufacturing and sourcing, the incentivisation programme represents a fundamental shift in the way the company views and works with its suppliers. It has unlocked an issue that had become mired in the audit and remediation model for nearly a decade, with suppliers yo-yoing in and out of compliance.

“The benefit of the index is that it creates a picture of what good looks like. It says to suppliers – if you invest in human resource management, or waste and water management for example, you will not only score higher on the index, which will lead to a deeper business relationship with Nike, but you will also have access to resources inside our company”.

Settlemier says that since the introduction of the new manufacturing index, the company has gone from having a significant number of tier one suppliers failing to consistently meet compliance standards, to having around three-quarters of factories meet the bronze level or above.

Strategic investment

In February 2011, Nike bought a minority stake in DyeCoo Textile Systems, a Netherlands-based business that has developed and built the first commercially available waterless textile dyeing machines. The move, says Jones, is part of a strategic investment competency designed to identify investments able to accelerate innovation coming to market.

Conventional water-based dyeing uses around 100-150 litres to process one kilogramme of textile materials. DyeCoo’s technology eliminates the use of water in the textile dyeing process by using supercritical carbon dioxide dyeing technology.

According to Nike, the recycled CO_2-based dyeing process is twice as quick as conventional water dyeing, requires no auxiliary chemicals, and will also reduce energy use as heated water is no longer required.

Although dependent on Nike’s ability to bring the waterless dyeing process to scale, the investment in DyeCoo should deliver on multiple levels. Nike’s supply chain will not only benefit from dramatically reduced water and energy bills; in theory, it should also see a return on its original investment as other players in the industry seek out DyeCoo’s technology.

Then there is the toxic chemicals issue, which the CO_2 dyeing technology potentially eliminates. The latter will be particularly important for Nike given its commitment to eliminate hazardous chemicals across the supply chain and entire product life-cycle by 2020 – a commitment made following Greenpeace’s 2011 Detox campaign.

Scale and integration

According to Jones, Nike’s sustainability strategy will continue to focus on the area where it can have most impact – product sustainability. This means focusing upstream on the product design phases and ensuring that designers are equipped with the right tools and information to make socially and environmentally sound decisions.

Can Nike deliver a 100% sustainable product? For Jones, the question misses the point. “Our ultimate vision is towards closed-loop product, yes. But for us the question is not about whether we can do it – absolutely we can do it – the question is, can we scale it? That’s what we’re working towards.”

Nike by numbers

Revenue: **$24bn**

Employees: **44,000**

Materials used in products: **16,000**

Number of material vendors: **900**

Number of contract factories: **900**

Contract factory workers: **one million**

Nike’s commitments

Footwear: all new Nike brand global footwear product achieves minimum silver rating on Nike Footwear Sustainability Index by the end of 2015.

Apparel: all new Nike brand global apparel product to achieve minimum bronze rating on Nike Apparel Sustainability Index by the end of 2015.

Equipment: all new Nike brand global equipment product achieves minimum bronze rating on Nike Equipment Sustainability Index by the end of 2020.

Factories

Nike will source all products from factories that have achieved **bronze** or better on its sourcing and manufacturing sustainability index by the end of 2020. The company will incorporate factory **labour** and **environmental** performance criteria into production vendor sourcing selection and evaluation.

Nike’s achievements

Lean manufacturing

50% lower defect rates in lean apparel factories.

10-20% productivity improvements in lean footwear factories.

40% reduction in lead times at lean factories.

Energy use

3.1m kWhs of electricity saved in retail stores – 20% return on investment.

6% reduction in absolute carbon emissions from Nike brand footwear contracted factories, 2008-2011.

Waste

19% waste reduction related to the production of footwear uppers.

21% reduction in total waste from Nike brand manufacturing, 2006-2011.

Re-use a shoe

25m pairs of shoes collected since 1990.

Source: Nike

Links:
[1] http://www.ethicalcorp.com/users/rob-bailes