Management in the 21st Century

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Management Principles in the 21st Century

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Executive Summary

Document Overview

This document briefly describes the Nike Corporation, one of America’s leading shoe and apparel manufacturing companies. It discusses Nike’s humble beginnings from a running track in Oregon to its handling of issues related to factory workers in over 700 factories around the world. The document describes Nike’s economic condition, leadership, corporate culture, diversity practices, and prospects.

During Nike’s growth years, it has faced restructuring issues, industry overcapacity problems, globalization and expansion issues, as well as changes in technology. Nike’s founder, Phil Knight has navigated the company successfully and now the Nike management team is focused on improving fiscal responsibility and instilling strong codes of ethics and conduct throughout its factories worldwide.

Conclusions

Phil Knight’s strong entrepreneurial drive has been instilled in a strong management team that is now poised to take the company into the future, even as Nike retains its sports-based cultural mentality. Design and marketing continue to be a core component of their success. The company’s financials are also strong as Nike moves to incorporate the management of multiple apparel, shoe, and sports brands in an attempt to even-out the changing economies of the sports-apparel industry.

Nike has listened and responded to concerns about workers in low-wage factories, especially in Southeast Asia. Nike’s corporate responsibility practices will continue to shape the working environment and conditions in apparel factories in emerging economies. Nike continues to innovate both technologically and in the implementation of new business practices.

The Nike Corporation – Embracing the Twenty-first Century

Introduction and Background

Nike is the proverbial all-American company that started as a dream and grew to an industry giant. Driven by its leader Phil Knight, it has faced issues with growth and globalization, but has managed to remain a growing force in its industry.

Phil Knight, Nike’s founder, was a University of Oregon accounting major in the 1950s. He was also a middle-distance runner being coached by Bill Bowerman, Oregon track coach who was known for his toughness and dedication. After graduating, Knight attended Stanford Business School, but his mind was on making better running shoes. In 1962, Knight went to Japan to convince Tiger Shoes (now known as Asics) to allow him to be their first U.S. distributor. The name of Knight’s company was Blue Ribbon Sports, and he asked his old coach and friend to be his co-founder. Bowerman is also known for his 1967 book “Jogging” which is attributed with inspiring America’s running craze.
After starting Blue Ribbon, Knight kept his day job as a CPA for Price Waterhouse and found people who cared about his running shoe import business to handle the details. [8] In 1971, Tiger Shoes tried to take over his market and cut Knight out of the U.S. shoe market. Knight responded by creating Nike. Nike’s beginnings include the folk legend and true story of Bowerman using his wife’s waffle iron to fashion the soles of their new running shoes (actually occurred in 1970), and of Knight and Bowerman traveling to running races and selling shoes from the trunk of their car. [8]

Economic Condition

Corporate Scorecard and Employment Numbers

Nike went public in 1980. Sense 2000, the company has grown from $9.5 billion to $14 billion. Sense 2002, stock prices are up about 75%, with a current market cap of $23 billion. Nike is in the best financial position it has been in a decade. [3] Nike’s 2004 revenue was $12 billion with earnings at $1 billion, a 27% increase over 2003. Nike’s annual turnover is $9 billion with net profits of $571 million. [6]

Nike directly employs more than 22,000 people worldwide, with 5,200 people based in Beaverton, Oregon, Nike’s headquarters. Nike products are manufactured in more than 700 factories employing in excess of 550,000 people in over 50 countries. About 40 factories in 8 countries manufacture Nike shoes alone. (Murray & Mathew, [1], p. 3) Nike provides a larger staff to oversee global production, with a staff of over 1,000 global production managers dedicated to production issues. Nike has 70 full-time corporate responsibility managers and inspectors, of which 40 are focused on compliance with the Nike code of ethics.

Market Position

Nike has 40% of the U.S. athletic footwear market and 34% worldwide. Fifty-two percent of sales are outside the U.S. Apparel makes-up one-third of Nike’s business but requires over 600 factories due to U.S. import quotas. (Murray & Mathew, [1], p. 3)

Most of Nike’s expansion and activity into new countries has been driven by the U.S. quota system which places caps on the number of factories allowed to import from a given country. WTO Agreements, due to begin taking effect this year, should dramatically change this dynamic, and will probably cause a restructuring in the apparel manufacturing supply chain as Nike seeks to cut the number of its apparel manufacturers. (Murray & Mathew, [1], p. 4)

Leadership and Organizational Structure

Rough Sailing at Nike

Things have not always been smooth sailing at Nike however. For example, Nike missed the aerobics craze of the early 1980’s, and by 1985 Nike’s revenues had dropped 6%. [8] Knight, who left the company to travel in 1983, felt he had to return to Nike to shake-up the management team and get his company back on track. Traditional business theory would argue that Knight still had a traditional base of management power (command and authority), but he also had the vision and values to respond to crisis by acting as a change agent. (Dessler, [11], pages 19-20)

In the 1990’s, Nike’s revenue was up again, however its profits were lower. It seems that by 1997 the company had hit a plateau due to what the fashion industry terms as an ‘industry overhang,’ that is, too many $100+ sneakers on the market. Nike again missed the slowing trend in sneaker sales. According to business theory, Nike needed to develop a unifying framework for better planning. (Dessler, [11], p. 91)

In 1998, Knight once again left but was back a year later and this time his primary goal was to restructure his management team and provide new focus. Would Knight restructure Nike around products, customers, marketing channels, geographic areas, or refocus on the current matrix organization? (Dessler, [11], pages 136-141)

Management Shake-up

Knight choose to strengthen Nike’s matrix organization. One of Knight’s most important management decisions was to hire Don Blair, who was recruited to be Nike’s CFO. Nike had been without a CFO for two years, from 1997 to 1999. Blair was brought on to build a stable fiscal model to balance the boom to bust to boom cycles the company and the industry often experienced, and which caused stock volatility. Blair quickly recognized that he needed to install discipline within a culture that lacked strong fiscal management. At the time, Nike had a reputation as being ‘spend-happy.’ Nike’s culture was oriented toward designers and marketers, not finance and operations. Blair understood the cultural lean toward the creative and wanted to balance it with a dose of discipline and financial responsibility. He recognized that the current Nike attitude was not the attitude that goes over well on Wall Street and Nike was losing credibility in the financial arena. Blair sought to bring: “discipline, higher profits, and steady growth.” [4] But he also quickly realized that he could never totally smooth-out the business cycles due to the fact that Nike is in the fashion business. Instead, he sought steadiness. According to business theory, Blair’s style was to fit the organization to the task and to promote an organic organization because the environment was not stable. (Dessler, [11], page 157-158)

Knight also recognized that the company lacked real discipline in other areas such as operations and supply chain management. Knight’s task was to reorganize senior management to meet these challenges, as well as the social challenges and cultural problems that Nike faced by being a global manufacturer.
William Perez replaced Knight as CEO in 2005. Perez, 57, comes from a privately held company that produced such products as Glade air freshener, Drano, Pledge, Raid, Windex, and Ziploc. [5] The company, S.C. Johnson & Son, under Perez was known for its social responsibility, an area which Nike is working hard to improve. Perez has experience running a portfolio of brands, which is exactly what Nike wants to do by expanding beyond its current single brand recognition today. He is expected to bring process to creativity, and management to multiple brands in many global markets. [5] Nike’s other key executives include Charlie Denson and Mark Parker, acting as Nike’s co-presidents, Dusty Kidd, VP Corporate Responsibility, whose vision is to ensure that Nike meets its cultural responsibility. His stated goal for the twenty-first century is ‘people, planet and profit.’ (Murray & Mathew, [1], p. 6) According to business theory, this cosmopolitan team will no doubt help Nike in its global marketing and staffing (Dessler, [11], p. 36), and refocus Nike around core functions (Ibid., p. 135), within an overall matrix organization. (Ibid., p. 141)

Nike Culture

Phil Knight the Pragmatic Leader

Phil Knight, the company’s founder, who still controls 27% of the company and has an estimated net worth of $6.2 billion [8] is idolized, almost as much as his co-founder Bowerman, who was Knight’s coach and source of inspiration. Bowerman died in 1999 at age 88.

Knight is considered a visionary for many of the company’s breakthrough designs and marketing strategies, and is also thought of as an advertising pioneer. He is known for being very private and even introverted. His office, for example, is rarely visited by anyone inside or outside the company. It is his sanctum fashioned in Japanese style where shoes are forbidden, even Nike shoes. [8] According to business theory, Knight is a transformational leader because his style allows him to implement major changes in attitudes and assumptions. (Dessler, [11], p. 215)

“Knight is not a people person in anyone’s book. And yet he manages to do three things better than just about anyone in the business: hire good people, shuffle them around, and inspire them.” Knight can also be forward and direct. For example, he introduced himself to his ad agency by telling them that he doesn’t believe in advertising. [8] According to business theory, Knight is a creative decision maker who welcomes input but does not rely on a group decision process. (Dessler, [11], p. 83)

Knight founded his company’s culture based on allowing its executives to maintain the freedom to make their own decisions and take the company in new directions. For most of Nike’s existence, the company lacked a truly cohesive internal structure. “One competitor likened Nike’s internal structure to the Winchester Mystery House.” [8] Its against Knight’s nature to step-in to his manager’s decisions. According to business theory, Knight is the kind of leader who sets strategy and objectives, and then lets his management team decide how to meet those objectives. (Dessler, [11], p. 100)

Nike’s People Cultural

In the Nike culture, rebels and creative types are celebrated. [8] “People who don’t get the culture don’t stick around very long. They know they don’t fit. That’s it.” “In the Nike culture, people tend not to flinch at the prospect of change.” [9]

Nike often rejects new managers at the senior level, especially if they don’t have an athletic background. [6] In fact, most Nike executives have a sports-related background. Perez, Nike’s new CEO, fits nicely within Nike’s established culture, as he’s run 11 marathons with a best time of 3:34. On the other hand, Blair, Nike’s CFO, came from PepsiCo and is not a marathon runner or a sportsman. But he has worked hard to earn the respect of the company’s designers and marketers, and his desire to support the creative process is recognized by those groups.

Handling of Diversity and Labor Practices

Responding to Brand Backlash

Nike has been strongly associated with wider problems of global manufacturing, especially issues with low-wage factories and poor working conditions. The sign of the ‘swoosh’ is the most recognized brand representing: ‘athletic excellence, hip authenticity, and playful self-awareness.’ [2] But Nike has been so successful that there is brand backlash in the form of an international anti-Nike movement based on ethical practices in foreign factories. According to business theory, Nike should, and is responding by refocusing and redefining organizational ethical practices throughout its sphere of influence. (Dessler, [11], p. 49)

Much of this displeasure with Nike focuses on working conditions in the apparel and footwear industries. Nike has been severely criticized for not responding to the plight of the workers in third-world sweat-shops, the use of child labor, slave labor, and environmental factors related to the manufacture of its shoes and apparel.

Nike has been taken aback by the overwhelming response to these issues, and the power of the anti-Nike movement. In response according to business theory, Nike should, and has gone all-out to reposition itself as a good corporate citizen by creating ethics policies and codes and ethics programs. (Dessler, [11], pages 50-51)

Refocusing on Corporate Responsibility

Over the previous 20 years, Nike’s business strategy has been to expand into new countries that can provide cheap labor, and also provide stable leadership, a pro-business and liberal trade policy, along with a decent infrastructure. (Murray & Mathew, [1], p. 9) But Nike is now also considering labor factors in their expansion plans, and is highly focused on better corporate responsibility and improved social, ethical, and environmental conditions related to its factory workers. But the problems are really endemic to globalization issues related to manufacturing in general, and are not easy to solve. Today, Nike is committed having the best labor practices in the world, and, related to its factory workers. But the problems are really endemic to globalization issues related to manufacturing in general, and are not easy to solve. Today, Nike is committed having the best labor practices in the world, and, related to its factory workers.
in general, and are not easy to solve. Today, Nike is committed having the best labor practices in the world, and, realizes that its corporate reputation is on the line. Nike seems determined to instill its core values of trust, teamwork, honesty, and mutual respect to all its factories and partners worldwide. According to business theory, Nike faces many challenges due to cross-cultural practices, different values, as well as language and customs differences. (Dessler, [11], pages 34-35)

Part of the management performance review, directly related to a manager's financial rewards system, includes the implementation and management of corporate responsibility issues and guidance given in the areas of improved labor practices at the factories. Nike uses a software tool, called SHAPE, for managers to track and evaluate performance, labor, safety, diversity, environmental, and other related factors. The results are audited and reported on by Nike’s external auditor, PricewaterhouseCoopers (PwC). (Murray & Mathew, [1], p. 8) Part of the process is regular interviews of factory workers. PwC reports to a regional compliance manager and the results are taken seriously. If a factory or company is not in compliance, the factory must submit and follow an action plan to come back in to compliance. Nike has also implemented a 'Transparency 101' public reporting website (nikebiz.com) to keep the public apprised and informed of health and safety standards and violations. Nike plans to post all factory audit results to this website. It’s Nike’s intent to push these practices down to even the lowest outsourcers and contributing factories, especially in China. Nike is also very focused on improving the labor practices of its suppliers and factories. But unless it has more control over their contractors, Nike has less influence over this type of change.

Health and Safety
Nike is committed to implementing Occupational Safety and Health Administration (OSHA) standards as part of its global policies. A recent audit found that Nike “has reduced the use of petroleum-based chemicals in footwear manufacturing by 87.6% in five years.” (Murray & Mathew, [1], p. 8) Nike is also a founding member of the Fair Labor Association, the Global Alliance for Workers and Communities.

Company Prospects and Future Trends
Strategy
Nike wants to reduce its dependence on the Swoosh brand by acquiring and managing other brands. Recently, Nike has acquired brands representing casual shoes, hockey skates and equipment, skateboard fashions, as well as other sneaker brands and other diverse brands. Nike believes that more brands will help reduce its overall volatility and help the corporation become an even more global company. This new path is the focus of new CEO Perez, who is experienced in multiple markets and multiple brands. [6] According to business theory, Perez is building a modern organization that can quickly refocus its business model as required. (Dessler, [11], p. 15)

Nike is also focused on digital marketing and the use of the internet as a way to enhance brand image. [7] NikeLab.com has been built to showcase Nike’s product innovation and products and to develop a conversation with Nike’s passionate customers. Nike is keenly aware that today’s media environment is fragmenting and moving away from the traditional television advertising model as a way to present its brand. Nike also realizes that the line between advertising and content is blurring. In response, Nike is using NikeLab.com to leverage and understand how to use the internet to better advertise and connect with consumers. When it comes to advertising, according to business theory Nike is using a diversification strategy to leverage its differentiation. (Dessler, [11], pages 115 and 117)

Issues and Challenges
Nike continues to face the problem of overcapacity in shoe and fashion manufacturing and retail, as well as a general decline in overall profitability throughout the sector, and greater competition. In response, Nike is restructuring, closing plants, and reducing workforce to bolster profits. One of Nike’s strategies is to become the exclusive customer of its international suppliers, in an attempt to prevent competitors from learning about new products or leveraging/learning manufacturing techniques. However, at the same time, suppliers are moving their business model away from exclusivity and toward their own diversification. Nike has also experiencing ‘brand-backlash,’ because Nike is now so big that the brand is no longer considered ‘cool,’ among young athletic types, Nike’s key demographic. Nike is seeing their core demographic gravitate to other or lesser-known brands. Nike has also realized that their overconfidence has caused them to miss market opportunities and trends.

Nike is working to develop a new vision as markets and their position in the market changes, and as they move from a growth company to a sustaining company. Nike realizes that ‘brand broadening’ is not a good strategy in an era needing ‘brand narrowing.’ This is one reason Nike is more interested in acquiring and managing other brands.

Innovation and Change
Nike has an R&D unit called Innovation Kitchen located on its main campus in Beaverton Oregon. The main focus of the Kitchen is to keep astir of the technology battle among shoe makers. Recently, the Kitchen has had to respond to innovations like Adidas’ shoe with a computer chip that automatically adjusts the fit during use. Nike innovations include its Shox technology cushioning system.

Besides shoe innovation, Nike is focusing on the entire product design. Sarah Severn, director of Corporate Sustainable Development, seeks to bring intelligent design to Nike. Sarah believes that “intelligent design can eliminate waste, resolving the conflict between nature and commerce.” [9] Sarah’s division will focus on designing materials that support a sustainable ecology, and take responsibility for the ecological impact of materials and designs throughout the product’s life cycle.
Nike has also focused on improving its IT infrastructure to keep pace with important developments in the supply chain management. In the past, Nike has struggled with 27 separate unconnected computing systems worldwide, which has impacted its ability to coordinate statistics and Nike’s vast supply chain. Nike has recently spent $500 million on a new integrated system. [3]

Marketing and Image
Nike has had a reputation for ‘spend-happy’ designers and marketers, but that’s changing. Nike is well known for changing the marketing landscape in the 1980s when it began handing out huge endorsement contracts and implemented what was described as a brash form of advertising. [3] Although Nike is trying to tone-down its high-flying endorsements, recently, Nike signed LeBron James to a $90 million contract. [3] Under its new management structure, Nike is now paying closer attention to spending on marketing and endorsements.

Nike also seeks to present an image that blends the themes of “empowerment, transcendence and irreverence and make the ‘swoosh’ synonymous with sports culture.” [2] Nike was one of the first companies to recognize that Western culture relies heavily on signs and images, and tries to leverage these beliefs by using theories in psychology, sociology, culture, and semiotics to create images and messages that promote the Nike image.

Conclusions
Phil Knight’s enigmatic leadership style shaped the company’s direction and culture. His strong entrepreneurial drive has been instilled in a strong management team that is now poised to take the company into the future. Nike is also extremely focused on sustainability and corporate leadership in a global market, and seeks to bring its code of conduct to factories worldwide.

Nike, now the 800 lb. gorilla in the sports apparel market, has finally recognized that it doesn’t need to behave like a start-up. Nike’s new focus is to use its strength and position to diversify beyond the Swoosh in an attempt to even-out the boom-bust cycles in a volatile industry.

Nike is still dedicated to the sporting life, which is summed-up by Bill Bowerman’s quote: “If you have a body, you are an athlete.” [10]

Bibliography

When these firms in the early 20th century had actually started adopting the principles of 21st century management, in due course, they discovered that the processes that they had inherited from 20th century management—leadership, strategy, innovation, HR, and so on—were at odds with their very different principles. The 21st century has seen the advent of the new economy, thanks to the technology innovation and development. To understand the new economy, it is important to understand in brief characteristics and features of the old economy. Industrial revolution was the start point of the old economy with focus on producing massive quantities of standardized products. This mass product was important for cost reduction and satisfying large consumer base, as production increased companies expanded into new markets across geographical areas. The old economy had the organizational hierarchy where in top management...