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# HOW CAN STAKEHOLDER THEORY HELP IMPROVE THE SOCIAL PERFORMANCE OF COMPANIES IN THE SUPPLY CHAIN?

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The business case of Nike and Adidas



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## Executive Summary

This report was commissioned to examine how stakeholder theory could help improve the social performance of companies in the supply chain. The research draws attention to the fact that incidents in the supply chain within the garment industry, such as the collapse of a sewing factory in Bangladesh, occur on a regular basis due to the lack of social performance of organizations. This report estimates that the social performance in the supply chain can be improved. In this report the focus lies on the Stakeholder Engagement Theory, as collaboration between an organization and a stakeholder could improve the social performance in both companies.

Further investigations reveal that organizations are not likely to initiate the improvement of Corporate Social Responsibility (CSR) in the supply chain if no peer pressure of society exists. Additionally, it is stated that CSR is likely to fail when an organization does not initiate on improving social performance itself. In order to tackle problems in the supply chain, an organization should focus on two or three main problems and should engage with stakeholders to come to a solution on how to prevent these problematic issues from happening.

To complete this report case studies of Nike and Adidas have been used to research the improvement of Social performance in the supply chain. Research on Nike has revealed that the company uses a SMSI Rating System in order to assess and improve the social performance of its stakeholders. The research on Adidas has revealed that the organization engages stakeholders in order to improve social performance in the supply chain. However, organizations and stakeholders are likely to restrain from applying Stakeholder Engagement due to the high costs since the first step (Stakeholder Mapping) of stakeholder engagement may involve hiring experts.

To conclude, stakeholder engagement could be used in order to improve the social performance of companies in the supply chain. The training and coaching of companies in the supply chain could lead to the improvement of social performance. The engagement strategy starts with understanding the stakeholder engagement theory, creating an engagement strategy, mapping the stakeholders, preparation of engagement, the engagement of the chosen stakeholders and the action plan. However, in order to improve the social performance of companies in the supply chain, stakeholders should be trained and coached, this type of training and guidance could be conducted by both importers and governments.

## Table of Contents

<i>Executive Summary</i>	<i>II</i>
<i>1.Introduction</i>	<i>1</i>
<i>2.Theoretical Framework</i>	<i>4</i>
<i>2.1 Stakeholder Theory</i>	<i>4</i>
<i>2.2 Stakeholder Engagement</i>	<i>5</i>
<i>2.3 An Overview of the Engagement Strategy</i>	<i>13</i>
<i>2.4 Methods to Assess Company's Effort</i>	<i>15</i>
<i>3. Methodology</i>	<i>17</i>
<i>3.1 Methods</i>	<i>17</i>
<i>3.2 Scope and Limitations</i>	<i>19</i>
<i>4. Defining Social Performance in the Supply Chain</i>	<i>22</i>
<i>4.1 Difficulties of Corporate Social Responsibility</i>	<i>24</i>
<i>5. What is the Supply Chain?</i>	<i>25</i>
<i>6. What is the Garment Industry?</i>	<i>27</i>
<i>7. The Case of Nike</i>	<i>30</i>
<i>7.1 Examination of Nike</i>	<i>31</i>
<i>8. The Case of Adidas</i>	<i>34</i>
<i>8.1 Examination of Adidas</i>	<i>35</i>
<i>9. Analysis</i>	<i>37</i>
<i>9.1 Comparing Nike and Stakeholder Engagement</i>	<i>37</i>
<i>9.2 Comparing Adidas engagement to the Stakeholder Engagement Strategy</i>	<i>43</i>
<i>9.3 Comparing Nike's and Adidas's Engagement Strategy</i>	<i>47</i>
<i>9.4 Comparing Nike's and Adidas's Social Performance</i>	<i>50</i>
<i>10. Conclusion</i>	<i>53</i>
<i>11. References</i>	<i>55</i>
<i>12. Appendices</i>	<i>60</i>

## 1. Introduction

Karachi, Pakistan, on the 11<sup>th</sup> of September 2012, 255 workers were killed by a fire in a factory storeroom. Approximately 1.100 workers were working in the textile factory the moment the fire broke out. *The Daily Mail Online* stated that due to the lack of poor safety training for workers and a deficiency of emergency exits, employees were trapped in the building, unable to flee death, causing 255 people to pass away that particular day (AFP, Daily Mail Online, 2015).

Bangladesh, on the 24<sup>th</sup> of April 2014, 1.137 textile workers were killed by the collapse of the “Rana Plaza” factory building, 200 people remain missing. An investigation by *the Institute for Global Labour and Human Rights* stated that in the early morning of the 24<sup>th</sup> of April, 3.639 toiled workers were forced to enter the cracked walled “Rana Plaza” factory to sew a large number of clothes for 12 hours. Less than an hour later, the five story high factory began to shake; it then collapsed causing the death of 1.137 employees. A year later, 200 people still remain missing (Institute for Global Labour and Human Rights, 2015).

The examples mentioned above never came to trial, although many people were killed in the accidents. It is not surprising that the trials were omitted, since the details about who was ultimately responsible for the accidents were not certain. Is the employer responsible for the death of his workers, or should the contracting organization be held accountable? According to Clean Clothes Campaign, representatives of the brands linked to Rana Plaza in Bangladesh responded to the collapse. Appointed brands denied any relationship with the factory within Rana Plaza (Clean Clothes Campaign, 2013). When any relationship is denied, who is ultimately responsible? If the contracting organization knows that the workers in sewing factories work under bad working conditions, it is indirectly involved in the human rights abuse, and so it is responsible for its lack of social responsibilities and actions. Though, holding an organization accountable for a catastrophe such as Rana Plaza or Karachi is almost impossible due to the fact that stakeholders within the supply chain have influence on the brand too and organizations do not bear responsibility alone.

The problem is that although organizations state that they are socially responsible disastrous events like human rights violations still occur. Nike for example has been

criticised by the lack of social performance in the sewing company it works with. Nowadays, according to Nike, it is improving the sustainability including social performance within their supply chain (NIKE, 2015). Could it be that if organizations work together with the stakeholders in their supply chain human rights violations will minimize? At this point, many events have shown that the social responsibility of organizations is not solid enough to fight human rights violations. Both organizations and stakeholders are responsible for what happened in Bangladesh and Pakistan. This leads to the main question:

**“How can stakeholder theory help improve the social performance of companies in the supply chain?”**

In order to answer the central question, four sub questions are created. The sub questions are:

- **“What is stakeholder theory?”**

The stakeholder theory is researched in order to know the depth of the stakeholders, how much influence they have and how they can use this influence in order to improve the company.

- **“What is the supply chain?”**

In order to define social performance within the supply chain, it is essential to know what the supply chain truly is. The supply chain is researched in order to know what the supply chain is and how it works.

- **“What is the garment industry?”**

The garment industry is researched in order to compare it, along with the social performance, to Nike.

- **“What is social performance?”**

Social performance is researched in order to know what the term means, how it should be implemented and what it could improve in companies.

- **“ How does Nike perform according to stakeholder theory?”**

Nike's performance according to the stakeholder theory is researched in order to see how a company, active in the garment industry, could use stakeholder theory in order to improve social performance in its supply chain.

- **“How does Adidas perform according to stakeholder theory?”**

Adidas's performance according to the stakeholder theory is researched in order to see how this company uses stakeholder theory in order to improve social performance in the supply chain. The results are compared to Nike's results in order to get an overview of the companies' performances.

## 2. Theoretical Framework

To be able to answer the question: “How can stakeholder theory help improve the social performance of companies in the supply chain?” this question is divided into multiple sub questions. In this chapter, theories are revealed to identify the stakeholder theory in the garment industry and the influence of stakeholders around it. Also, the existing methods to assess companies’ efforts are compared.

### 2.1 Stakeholder Theory

According to Walker *et al*, stakeholders are often seen as the ones who have an interest, or “the ones who hold the beef”. Therefore, Walker *et al* stated that identifying one’s own stakeholders is crucial for an organization (Walker, Bourne, & Rowlinson, 2007) to be able to minimize any negative influence on the company they may obtain (Duff, 2016). Not all stakeholders should be considered in the process, only the valid and legitimate stakeholders are important to recognise. The need to identify stakeholders and analysing their powers, and thus their influence, comes from the fact that stakeholders could have potential impact on an organization’s project. To manage and define the needs and wants of an organization’s stakeholders an organizational structure has to be developed. This structure could help understand the interests of the stakeholder (Walker, Bourne, & Rowlinson, 2007).

Multiple statements about identifying stakeholders in the supply chain have been made in the past. For example, Walker *et al* has made multiple statements about how an organization could identify stakeholders. He stated that: to identify stakeholders within the supply chain, four sets of stakeholders need to be considered. The four sets of stakeholders within the garment industry, according to Walker *et al*, are: client; project leader’s organization; outside services, and invisible team members. He also states that a stakeholder could be an Interest, a Right or an Ownership. An Interest is a group or a person who is affected by a decision, thus a group or person who has an interest in that decision. A Right is a group or person that has the right to be protected or has a legal claim to be treated in a certain manner. An Ownership is a group or a person that has the legal title to a property or an asset. The first step of identifying stakeholders would be to visualise the stakeholders in the supply chain of the organization. Then, identify which set, of those mentioned above, are applicable for the organization’s supply chain, plus stakeholders (Walker, Bourne, & Rowlinson, 2007).

The Global Compact Network Germany stated that organizations should develop an organizational structure to understand the stakeholder's interests. By developing such an organizational structure the needs and wants of the stakeholders can be managed, plus the stakeholders interests could be identified thoroughly. Mapping and identifying the stakeholder's needs or requirements becomes necessary to define the potential impact of the stakeholders on a project, plus it leads to identifying them (The Global Compact Network Germany, 2014).

## 2.2 Stakeholder Engagement

According to BSR, many organizations feel the need to engage with their stakeholders due to external pressure, such as social media. Some organizations jump into stakeholder engagement without any research. This may lead to misunderstanding the stakeholders' interests and could cause difficulty building awareness in organizations. Eventually, organizations will struggle relating their core business activities by engaging with stakeholders without preliminary research. When it comes to Corporate Social Responsibility, stakeholder engagement could be useful to discuss and identify new products with stakeholder groups. Many organizations struggle to engage their stakeholders appropriately and try an engagement method without questioning their understanding of it and the relation to the company's core business activities. BSR has created a method for companies to develop a stakeholder engagement strategy for initiating and sustaining relationships internally and externally (BSR, 2012).

BSR has created a visualised tool for companies to understand the different stages in stakeholder engagement, in which each stage is explained thoroughly. The Five-Step Approach consists of 5 stages; the first is the Engagement Strategy, the second stage is Stakeholder Mapping, thirdly, the Preparation stage, fourthly, the Engagement Stage itself and lastly the Action Plan (BSR, 2012). All stages will be explained in the following paragraphs.

The Global Compact Network Germany provides a similar opinion regarding stakeholder engagement. The GCNG stated that Stakeholder Engagement is used to improve social performance within the supply chain (The Global Compact Network Germany, 2014). Moreover, OECD also stated that engaging stakeholders is necessary in order to improve opportunities for local communities (OECD, 2016). According to N. Buizer, organizations should engage stakeholders in order to improve the social performance of the companies in



the supply chain. This engagement should contain some sort of training and coaching from the organization or government (Buizer, 2016).

#### 2.2.1 Stage One: Stakeholder Engagement Strategy

According to GCNG, during the first stage of Stakeholder Engagement a company should understand what the Engagement would mean to the organization itself. Stakeholder Engagement is often used in a reputational management perspective, though stakeholder's issues should be monitored and managed seriously. Prior to developing an Engagement Strategy a baseline should be built internally in order to understand Stakeholder Engagement, this will help reduce the risk of being unprepared and will assist in finding qualified people internally to collaborate with as stakeholders (The Global Compact Network Germany, 2014).

According to GCNG and BSR, when developing the Stakeholder Engagement Strategy the organization should consider the following:

- Manage and understand the organizations stakeholder's expectations.
- Measure the value of investing in engagement.
- Lead and define cost-effective stakeholder engagement activities.
- Use previous experiences to set clear and realistic objectives.
- Focus on where Stakeholder Engagement can have the biggest impact on your operations and strategy.
- Link the engagement strategy to the business strategy when it a long term strategy is wanted.
- Focus on internal stakeholders before focussing on external stakeholders (BSR, 2012) (The Global Compact Network Germany, 2014).

BSR states that when organizations start to engage their stakeholders for the first time it could be convenient for them to be assisted by experts. Stakeholder Engagement could go wrong if miscommunication between the internal and external stakeholders occurs. This could lead to the misunderstanding of expectations as well as confusion. An expert could help them to set clear and realistic objectives. Qualified people within the organization who have knowledge about the internal, but also external, stakeholders could help with developing the Engagement Strategy (BSR, 2012).

Additionally, GCNG states that when engaging stakeholders for the first time, the organization should think about an early engagement strategy, identifying stakeholders by

mapping them. Moreover, it could be of use to the organization to consult an expert on this topic in order to identify all stakeholders (The Global Compact Network Germany, 2014). According to BSR, in the first stage of Stakeholder Engagement the tactics that will be used will be discussed. How an organization engages depends on the company's ambition and the disposable resources. Furthermore, the tactics differ when the engagement is self-initiated or initiated by others by pressure or as suggestion. When an organization has initiated the engagement, the fundamental business model might change due to an on going company wide engagement strategy. If the engagement is not self-initiated, the organizations business model will not change (BSR, 2012).

### 2.2.2 Stage Two: Stakeholder Mapping

According to BSR, the second stage in the Engagement Strategy is Stakeholder Mapping. In this stage it is important for organizations to understand who their stakeholders are, what they are looking for in a potential relationship with the company's business and where the stakeholders come from. The stakeholder mapping can be broken down into four main phases: Identification, Analysis, Mapping and Prioritizing.

#### Identification

The quality of the engagement depends on the knowledge of the stakeholders involved, this means that stakeholder mapping is a very important part of generating the strategy. In this stage, an internal group with knowledge about the company's stakeholders, as mentioned above, should identify the external stakeholders. A brainstorm session should be scheduled to create a list of stakeholders who have an interest in the organization's objectives and a list of stakeholders who may have one in the future. Also, the perspective of and knowledge about the stakeholder on a specific topic, which the organizations are interested in, should be clear. During the process of mapping the stakeholders, the list of stakeholders will change as objectives are slightly adjusted. The list of stakeholders is able to change due to opposing opinions of stakeholders or evolving ideas of the organization itself.

#### Analysis

Once the list of stakeholders has been created, organizations can start analysing them. The analysis of the stakeholders has to be completed in order to understand their perspective, relevance and relationship to the strategy. After listing this, the stakeholders should be prioritized to state their usefulness in the engagement of stakeholders. BSR has developed a list of criteria to help analyse the listed stakeholders:

- **Contribution:** Does the stakeholder have expertise, knowledge, information or council on the topic that could be helpful to the organization?
- **Legitimacy:** Does the stakeholder want to work with the organization?
- **Willingness to engage:** Is the stakeholder willing to engage with the organization?
- **Influence:** Does the stakeholder have influence? If yes, clarify “who or what” they influence (NGOs, consumers, etc.).
- **Necessity of involvement:** If this stakeholder is excluded, could it derail the process?

Organizations can use these criteria to generate some sort of chart or table to describe the stakeholders and their interests.

### Mapping

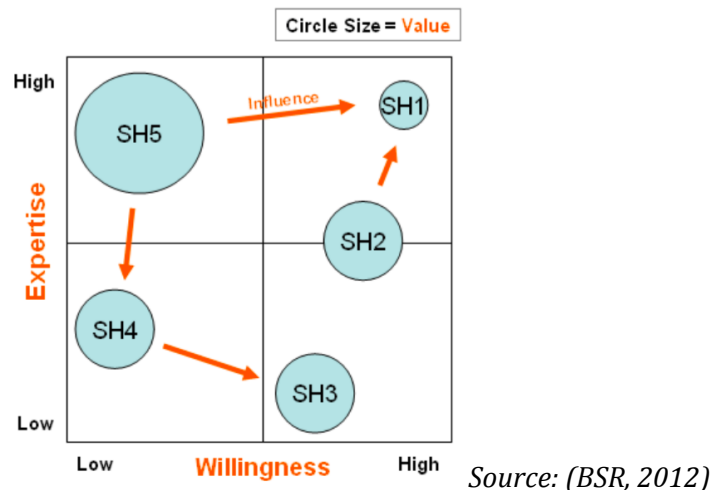
According to GCNG, it is necessary to start mapping the stakeholders in an early stage. Though, it can also be used in order to calculate existing risks and impacts (The Global Compact Network Germany, 2014). BSR states that mapping the stakeholders is an important part of creating an engagement strategy. With a mapping tool, the interest and usefulness of stakeholders can be visualised easily. When stakeholders meet the criteria, organizations can choose to cooperate with them, if stakeholders are willing to collaborate. Issues and relationships that are already analysed can be drawn into a mapping tool, that BSR has created, to identify key stakeholders (BSR, 2012).

### How to create a mapping:

1. *“Draw a quadrant using two axes labeled “Low” to “High”.*
2. *Add “Expertise”, “Willingness” and “Value” to the criteria chart as above.*
3. *Assign “Expertise” to the Y-axis and “Willingness” to the X-axis.*
4. *Discuss and debate within your group where each stakeholder falls.*
5. *Plot the stakeholders on the grid.*
6. *Use small, medium, and large circle sizes to denote their “Value.”*
7. *To illustrate relationships, use arrows to depict “Influence.”*

**Note:** You will later use quadrants, circle size, and influence arrows when building a prioritized stakeholder list.” (BSR, 2012)

### Sample mapping



### Prioritising

According to BSR and GCNG, in the prioritising stage the stakeholders are going to be prioritised. Not every stakeholder has to be engaged in every moment in time. Organizations can save time and money if they are strategic and clear about which stakeholders they will engage and why. The organization should use the mapping chart at this point to prioritise the listed stakeholders. The most relevant issues and stakeholders should be captured by use of the mapping chart (The Global Compact Network Germany, 2014). When prioritising stakeholders, organizations should think about:

- Is the list of stakeholders focused on stakeholders who are currently important to our issues? And also in the future?
- Does the organization have a good understanding about where the stakeholders are coming from, whether they are interested in engaging in the organization and why, and what do they want?
- How can we qualify and understand the stakeholder further?
- Does the organization need support on the engagement strategy and follow-up activities? What kind of support or activities? (BSR, 2012)

According to GCNG, there are different forms of engagement. The forms differ in terms of value, intensity and benefit regarding the purpose of the engagement. As a result of

the differing stage, different dialogues between the organization and the stakeholder will take place. The dialogues are, from consultation towards collaborative implementation, stakeholder consultation, stakeholder dialogue platform, stakeholder initiative and stakeholder implementation partnership. These dialogues are similar to the different forms of engagement (The Global Compact Network Germany, 2014).



Source: GCNG, 2014

### 2.2.3 Stage Three and Four: Preparation & Engagement

BSR states that if all prior steps are followed as mentioned above, it has created a scope, a perspective and an understanding of potential engagement with stakeholders and why the organization should or should not engage with a particular stakeholder (BSR, 2012). According to GCNG, a selection of the stakeholder should be created in order to determine what stakeholders to engage. The criteria is based on: the legitimacy of the stakeholder, the stakeholder's willingness to engage, their knowledge on stakeholder engagement in order to improve social performance and if they have direct contact with vulnerable and affected groups (The Global Compact Network Germany, 2014). According to BSR, the third stage will make sure that the process does not stop after engaging with stakeholders. A dialogue between the stakeholders and the organization remains important for future engagement. In this stage, the internal team will have to reach out to the listed stakeholders that are identified to communicate and develop short-term and long-term objectives for Stakeholder Engagement. These objectives will help the organization guide the rest of the preparation process. Different communication tactics should be used in order to communicate effectively with a particular stakeholder. The communication tactics are divided into three categories; Engage, Communicate and Inform.

1. **The Engage tactic** (high priority) clarifies the essential stakeholder to engage with.
2. **The Communicate tactic** (medium priority) clarifies the willingness of stakeholders to engage. The dialogue between the stakeholder and the

organization is essential at this point. By communicating with stakeholders, the organization will gain more information about the stakeholder's expertise on topics. Therefore, stakeholders are able to value the engagement more than before communicating with the organization.

3. **The Inform Tactic** (low priority) explains the stakeholders who are only seeking for information and not seeking for a dialogue.

These three categories should be put into a table. The stakeholders should be listed in the categories. Formats such as a joint venture, a sponsorship or a marketing campaign should be put in to the table as shown below.

Tactics	Format
<b>Engage</b> (high priority)	Joint venture
	Partnership
	Research collaboration
	Summit
<b>Communicate</b> (medium priority)	Sponsorship
	Survey
	Mass email or newsletter
	Social media
	Conference
<b>Inform</b> (low priority)	Marketing campaign
	Sustainability report
	Publication
	News coverage

*Source: BSR, 2012*

Organizations should bear in mind that the organization is the subjective party. No matter how objective or open the organization is willing to be, stakeholders always have a perception of an organization and other stakeholders that are engaged.

Furthermore, in this stage, some elements may influence the intended engagement and could change the conversation. The following criteria should be considered to anticipate the perceptions of the stakeholder:

- **Authority:** Organizations should keep in mind the stakeholders' familiarity with the subject.

- Formality: The tone used to speak to the stakeholders about the topic, the look of the presenter (dress code), display and marketing materials.
- Atmosphere: The organization should think about the effect of the venue's atmosphere, logos, welcoming, warm or cold.
- Facilitation: The type of facilitation such as professional, hands-on, hands-off, engaged, leading and interactive.
- Participation: Dynamic of the stakeholders present, which are divided into five key elements: *stakeholder expectations for the engagement, equal contributions to the conversation so that every stakeholder may speak, focus on the discussion and stick to the agenda, manage cultural dynamics to prevent cultural misunderstanding and mitigate tension by having security on site.*

#### 2.2.4 Stage Five: Action Plan

Lastly, organizations struggle to document the results after the engagement. The dual action plan focuses, externally, on relationship building, future engagement and communication. Internally, the plan focuses on avoiding unnecessary clutter in documents, thus creating clear documentation. Creating a landscape and building a plan is necessary in this stage of the Engagement Strategy. Creating a landscape means to refer back to issues that arose during the engagement and to the notes and actions that are made. Every issue and action should be identified for organizations to be seen as credible and reliable. This landscape should be used when organizations are building a plan. All issues and actions should be written down along with the concerns and the perceptions that the stakeholder may potentially have. Each action should define responsibilities for implementation, roles, a realistic timeline for completion and milestones. The action plan should be used as a report for objectives and goals and informing the organizations engagement strategy. The organization should address the long-term and short-term goals that are previously set, to analyse the unmet goals and help setting more realistic goals. Ultimately, this report is created to communicate with stakeholders. A public action document can also be made in order state the future action plans and to engage with other external stakeholders.

The five-step approach that BSR has created ends with the feedback loop. Two things should be considered in the feedback loop:

- *Inconsistency in communication*, an organization should do what is promised, an organization should not say they will keep in touch when in fact, they don't.

- *Pretending feedback is important*, this happens when stakeholders are left out of the conversation. It is important for organizations to keep communicating with stakeholders for them to have the opportunity to give feedback or input. If the organization receives feedback, they should act on it and let the stakeholder know what is done with the feedback they gave. (BSR, 2012)

According to BSR, once completed the engagement strategy and activities, organizations should take their lessons learned and start over with stage one and start the whole process over again (BSR, 2012).

### 2.3 An overview of the Engagement Strategy

A table is created in order to visualise the engagement strategy. This overview makes the engagement strategy comprehensible and precise.

Step	What is it	How to use it
Step Zero: Understand what stakeholder engagement means to the company.	This step has been created in order to create an understanding of stakeholder engagement.	<ul style="list-style-type: none"><li>- <b>Create a baseline understanding</b> around stakeholder engagement in order to avoid the risk of being unprepared.</li><li>- <b>Find qualified people</b> internally to build an overall strategy.</li></ul>
Step One: Building a strategy	In this stage a strategy is developed by the organization in order to be able to engage with the stakeholder. In order to have a sound strategy the organization should keep in mind what is explained in "How to use it".	Develop a strategy by looking at: <ul style="list-style-type: none"><li>- <b>Look at company's previous efforts on engagement</b>; this will help focus on the current strategy.</li><li>- Look at the <b>level of ambition</b> of the stakeholder so that no misunderstandings on the engagement arise.</li></ul>



		<ul style="list-style-type: none"> <li>- <b>Set a vision:</b> why engage with that stakeholder?</li> <li>- <b>Who has a stake?</b> Define filters for the organization in order to eliminate unnecessary stakeholders.</li> <li>- <b>What tactic to use?</b> This depends on the resources available and whether the engagement is self-initiated or not.</li> </ul>
Step Two: Stakeholder Mapping	It is important to understand who the organization's key stakeholders are and where they come from.	<ul style="list-style-type: none"> <li>- <b>Identify:</b> list relevant groups, people, and organizations.</li> <li>- <b>Analyse:</b> understanding stakeholder relevance and perspective.</li> <li>- <b>Map:</b> visualize relationship to objectives and other stakeholders.</li> <li>- <b>Prioritize:</b> rank the stakeholders by relevance and identify their issues.</li> </ul>
Step Three and Four: Preparation & Engagement	Preparation will bring your knowledge about the stakeholders to fruition. This step will help engage with stakeholders if previous research is done.	<p><b>Determine what stakeholders to engage</b> based on:</p> <ul style="list-style-type: none"> <li>- Stakeholder's <b>legitimacy</b>.</li> <li>- Stakeholder's <b>willingness to engage</b>.</li> <li>- <b>Stakeholder's knowledge</b> on certain topics.</li> <li>- <b>Direct contact to vulnerable or affected groups</b>.</li> </ul>

		<b>Use dialogues</b> in order to restrain future engagement by: <ul style="list-style-type: none"> <li>- <b>Engage tactic.</b></li> <li>- <b>Communicate tactic.</b></li> <li>- <b>Inform tactic.</b></li> </ul>
Step Five: Action Plan	This step helps to develop an action plan in order to translate the findings, agreements from the engagement and insights into action. This will be communicated with the stakeholders	Used for: <ul style="list-style-type: none"> <li>- <b>Relationship building.</b></li> <li>- <b>Future engagement.</b></li> <li>- <b>Communication.</b></li> </ul> How to use it: <ul style="list-style-type: none"> <li>- <b>Address short- and long-term goals</b> with stakeholders.</li> <li>- <b>Analyse unmet goals.</b></li> </ul>

## 2.4 Existing Methods to Assess Company's Effort

This chapter will explain the methods that companies have created, such as a self-assessment tool; in order to obtain a minor overview on what has been done to increase social performance in the supply chain already.

From stakeholder mapping (The Global Compact Network Germany, 2014) to due diligence (John Ruggie, 2008), many improvement plans have been created in order to maximize social performance in companies. Organizations such as OECD, the Clean Clothes Campaign, the United Nations and the Council of Europe have been trying to minimize human rights violations, and thus maximize social responsibility, by creating improvement plans or guidelines for organizations to implement.

The Federal Public Service Personnel and organization has created a self-assessment tool regarding social responsibility. This management assessment tool dedicated to the public sector is developed for the European Union. Two tools for assessing social responsibility are created. The Common Assessment Framework (CAF), the oldest tool in this case, and the Social Responsibility Assessment Framework (SORAF), an enhanced new tool. The Common Assessment Framework is divided into Diagnose and Output. Diagnose takes

into account the sustainable excellence of an organization. The Output focuses on the areas of improvement of the action plan of the organization's performance management. The Social Responsibility Assessment Framework is divided into Identification and Output. The Identification part of assessing social responsibility identifies the impact an organization has on its stakeholders, it also takes into account the sphere of influence of the stakeholders according to the six themes of social responsibility, which will be explained later on. The Output of SORAF is an action plan focused on social responsibility for the governance of the organization. The Social Responsibility Assessment Framework is a new, enhanced assessment tool. Unlike the CAF, it is fully dedicated to social responsibility. This new framework (SORAF) is linked to the older framework (CAF), but its criteria are developed more deeply. Both CAF and SORAF are based on ISO 26000 (ISO 26000 will be explained more thoroughly in the next paragraph), which is based on Corporate Social Responsibility (MVO Nederland, 2015). SORAF has seven areas to investigate; organizational governance such as relationship with stakeholder, human rights regarding child labour and due diligence, labour practices such as working conditions, the environment: prevention of pollution, fair operating practices: fair competition, consumer issues such as access to information and community involvement and development such as skill development (Federal Public Service Personnel and organisation, 2014).

The ISO 26000 (Guidance on Social Responsibility) is an international guideline for implementing Corporate Social Responsibility, which is divided into four main blocks; Principles, Surroundings, Themes and Implementation (ISO, 2010). The Principles block consists of seven principles; accountability, transparency, ethical behaviour, respecting stakeholder interest, respecting laws and regulations, respecting international behaviour standard (standard of conduct) and lastly, respecting human rights (MVO Nederland, 2015).

### 3. Methodology

To ascertain worthy information on the different topics, each sub-question is researched in a different manner. To state how this research has developed over time the methods used for the conducted research is explained per sub-question.

#### 3.1 Methods

##### What is Stakeholder Theory?

Qualitative and quantitative information is required to learn more about the Stakeholder Theory. Sources such as the International Chamber of Commerce, The Global Compact Network Company and R. Nieuwenkamp, Chair of the OECD Working Party on Responsible Business Conduct are used to answer this section of the research. The International Chamber of Commerce has written various guidelines for organizations to assess sourcing within the companies supply chain such as “The ICC Legal Handbook on Global Sourcing Contracts”. The work of the International Chamber of Commerce, OECD and the GCNC has been used to analyse the stakeholders within the supply chain. Moreover, the work of The Global Compact Network Germany and the work of R. Nieuwenkamp from the OECD have been used to complete the analysis of the stakeholder theory. BSR and the GNGC, along with the OECD Guidelines, has been used in order to obtain more information on Stakeholder Engagement has created a stakeholder engagement tool on how to engage stakeholders in order to improve social performance in the supply chain. Global Compact Network Germany has also written an engagement strategy regarding CSR in the supply chain. The OECD and GCNG have been researching the garment industry and stakeholder engagement for over five years. The Global Compact Network Germany has created a business guide for organizations to implement “Stakeholder Engagement in Human Rights Due Diligence” (The Global Compact Network Germany, 2014), which has been used by various NGO’s. Moreover, the qualitative information is obtained from Nicky Buizer. She has been working at the Centre for the Promotion of Imports from Developing Countries (CBI) of the Netherlands Enterprise Agency (RVO) for one year. Before that she worked on monitoring and evaluation of private sector development projects in developing countries including Ethiopia and Indonesia. In 2011 she did a research internship at the Ministry of Social Development in Ecuador. At the moment, she is creating a Corporate Social Responsibility tool for Small and Medium Enterprises in developing countries which they can use to develop their own CSR action plans. The information used to guide the companies in this tool is based on different widely used guidelines and standards including the ISO26000 and SA8000 complemented with sector specific input from CBI sector experts. The

information obtained by an interview has been used in order to learn more about stakeholder theory.

#### Existing methods to assess company's effort

Numerous researchers have been writing about assessing the improvement plans into an organization. The United Nations Special Representative of the Secretary-General on the issue of human rights and transnational corporations, John Ruggie, an expert in social responsibility who worked as an assistant secretary-general in the United Nation, has developed a framework with the Human Rights Council. Although John Ruggie was one of the first to talk about due diligence, the OECD, a company which is specialized in the garment industry, developed a due diligence guidance for responsible sourcing, which is important to be able to answer the central question. The assessment of potential improvement plans is described thoroughly in both John Ruggie's work and the work of the OECD. The Global Compact Network Germany has enlightened the stakeholder engagement in human rights due diligence and has thereby established improvement plans for assessing stakeholders in the supply chain. Also the Clean Clothes Campaign created potential improvement plans similarly to what OECD and John Ruggie have stated. They developed the potential plans with over 200 partner organizations and unions in garment-producing countries and NGOs.

#### Defining Social Performance in the supply chain

The social performance in the supply chain has been investigated by researching various sources. The International Institute of Sustainable Development, an expert in social performance in the supply chain, has written a report on this particular topic. Uddin et al, also active in supply chain management, has agreed on the report of the International Institute of Sustainable Development. Both sources stated similar issues in the reports. Thus, these sources are credible and reliable. The similar issues they state in the report ensure the validity of the sources. Moreover, Nicky Buizer, an expert working on a Corporate Social Responsibility toolkit was interviewed in order to obtain more qualitative information on this topic. She has been working at the Centre for the Promotion of Imports from Developing Countries (CBI) of the Netherlands Enterprise Agency (RVO) for one year. At the moment, she is creating a Corporate Social Responsibility tool for Small and Medium Enterprises in developing countries which they can use to develop their own CSR action plans. This results in the use of publicly available information but also qualitative information obtained from an expert. The interview questions and answers can be found in chapter 12: Appendices.

### **What is the Supply chain?**

The supply chain is investigated through various sources working in that particular industry. The work of professor Leif Enarsson, an expert in supply chain management, has been used to gain more knowledge about the supply chain. Enarsson is a professor senior lecturer at the University of Gothenburg, is specialized in logistics and transports, thus the supply chain. Nieuwenkamp has provided information publicly which is used in this report. Enarsson and Nieuwenkamp are both experts on supply chain management. Nieuwenkamp is the chair of the OECD on Responsible Business Conduct. Therefore, they are credible and reliable sources as they agree on multiple issues.

### **What is the Garment Industry?**

The garment industry has been under review for many years since the collapse of Rana Plaza and the incident in Karachi. Organizations such as the Clean Clothes Campaign and Women in Informal Employment: Globalizing and Organizing (WIEGO) have tried to make an overview of the global garment industry. The International Labour Organization (ILO) has supported the work of CCC and WIEGO. These organizations have many years of experience in this field. Reliability was increased because various credible sources independently came to similar conclusions, or similar argument.

### **The Case of Nike**

Three people have been contacted in order to obtain information about Nike. Though, the interview did not take place, as the contacted people did not respond. Therefore, publicly available information is used in order to gain insight in the organization. Nike publishes detailed information every year in its “sustainable business report”, which include private information of the organization. Various reports of Nike have been used in order to make this report more reliable, credible and valid.

### **The Case of Adidas**

Due to the fact that no interview was conducted with Nike, it is decided not to conduct field research for Adidas too. No field research took place because inconsistencies within the obtained information would exist. Therefore, Adidas’s Sustainable progress report is used in order to obtain information on social performance and on stakeholder engagement.

## **3.2 Scope and Limitations**

Uddin *et al* stated that the term Corporate Social Responsibility includes an environmental dimension, an economic dimension and a social dimension (Uddin, Hassan, & Tarique, 2008). To narrow down the broad term of social responsibility, only the social part of Corporate Social Responsibility will be investigated in this report. This does not mean that

this report is limited to social performance only but also looks at the Corporate Social Responsibility, but only at the social dimension of this term. Moreover, qualitative information from an expert working on a CSR toolkit for organizations in developing countries has been used in order to gain more insight in the topic. The interview with this expert, Nicky Buizer, has been conducted through e-mail. Therefore, the number of questions was limited and some answers are not completely elaborated.

The supply chain that is investigated focuses on the supply chain of the garment industry only. Thus, no other supply chains in other industries are involved or used to answer the research question.

Stotz and Kane investigated the garment industry and concluded that the garment industry is a global industry. For this report, the focus lies on the garment industry globally because the chain of command might start at (i.e.) H&M in the Netherlands and the goods might be produced in (i.e.) Pakistan. Therefore, the garment industry is a global industry and should be seen and treated as one (Stotz & Kane, 2015).

The analysis compares theory with practice. The BSR Stakeholder Engagement Strategy along with the Global Compact Network Germany, which is based on OECD Guidelines, Adidas's Sustainable Progress Report 2015 and Nike's Sustainable Business Report 2016 are used in order to answer the central question. The information on Nike and Adidas is publicly available. Likewise, the BSR Stakeholder Engagement Strategy is publicly available. Though, an expert on Corporate Social Responsibility has been interviewed in order to obtain more information on social performance and the supply chain.

This report focuses mainly on publicly available information, since obtaining private information failed; this could lead to different outcomes when comparing this report to others with information achieved from a private source. In order to gain qualitative information on Nike, multiple experts were asked to answer questions about Nike. Though, the experts were not interested in answering questions by email, telephone or face-to-face. Thus, Nike's sustainable business report is used in order to obtain insight in the organization. According to Focus Group, qualitative research could lead to bias, partly false answers since the interviewee will represent the organization he or she works for (Focus Group, 2007). Therefore, no further field research about Nike or Adidas was conducted. Readers should

bear in mind that this could lead to different results. Moreover, if an interview took place for one of the researched companies, it would be unfair towards the other. Since the interview for Nike did not take place, it was decided not to conduct an interview for Adidas either so the organizations could be compared fairly.



#### 4. Defining Social Performance in the Supply Chain

The terms social performance and Corporate Social Responsibility should be defined in order to answer the central question. As it is of importance to the central question, the term social performance will be explained. In chapter 4.1 the difficulties around the social performance and Corporate Social Responsibility will be explained in order to gain insight in the difficulties that organizations could face. As explained in chapter 3.1, the focus of this report will lay on the social dimension of the term Corporate Social Responsibility (CSR) and Social Responsibility or Social Performance.

Social Performance is a known term in the current business environment that is often linked to the term: Corporate Social Responsibility. Investopedia refers to Corporate Social Responsibility as actions beyond what is obligatory by the law, a code of conduct implemented by organizations (Investopedia, 2016). According to Uddin *et al*, Corporate Social Responsibility refers to three-dimensions, the economic dimension, the environmental dimension and the social dimension (Uddin, Hassan, & Tarique, 2008).

Another definition of CSR used in the Corporate Social Responsibility implementation guide for business is: “ Social responsibility is the responsibility of an organization for the impacts of its decisions and activities on society and the environment through transparent and ethical behaviour that is consistent with sustainable development and the welfare of society; takes into account the expectations of stakeholders; is in compliance with applicable law and consistent with international norms of behaviour; and is integrated throughout the organization.” (International Institute for Sustainable Development , 2007). Similarly, according to Nicky Buizer, Corporate Social Responsibility is the sense of responsibility towards the environment and the community in which an organization operates. It includes health, welfare (Buizer, 2016). Also stated by the International Institute for Sustainable Development is that the term CSR sometimes causes confusion whether CSR is a cost or a value-enhancer. If organizations do not properly understand the term CSR it is likely that the value of it is not seen. When organizations do understand CSR properly they would work with their stakeholders to develop economically and innovative viable products, processes and services (International Institute for Sustainable Development , 2007).

Uddin *et al* stated that a business would be likely to fail when CSR remains unutilized. Businesses depend on customers, or some sort of customers, if no one purchases from the organization the business will collapse. The businesses only exist when customers are

satisfied. Nowadays, customers are not solely satisfied with the quality of the goods or service, they expect more than quality. Since organizations profit from customers, it is expected that the companies return a favour for society in forms of Social Responsibility (Uddin, Hassan, & Tarique, 2008). According to Pachama Alliance Social Responsibility is accomplished when a balance between economic growth and the welfare of the environment and society is established. It was stated that Social Responsibility is an ethical theory in which actions and decisions must be authorised before implementing (Pachama Alliance, 2016). According to N. Buizer, social performance in the supply chain starts with getting to know the organization's stakeholders. Moreover, identifying possible risks and creating a dialogue between the organization and the stakeholder should be conducted in order to tackle issues. Stakeholders often need training and coaching in improving social performance due to the lack of awareness of the problem. Training and coaching could make stakeholders more aware of social performance. After training and coaching, stakeholders are able to take the first step into improving social performance in the supply chain (Buizer, 2016).

The Federal Public Service Personnel and organization argues that social responsibility goes beyond the main mission of the public organization. Public organizations should adopt social responsibility to be able to contribute to the international, national and local community. According to the Federal Public Service Personnel, social responsibility in organizations is; the impact of the activities and decisions on the environment and the society are the responsibility of the organization. Transparency is critical in case of sustainable development and ethical behaviour of organizations. The expectations of stakeholders should be taken into account. Also, organizations should be in compliance with the law and international norms of behaviour (International Labour Organization, 2016) and should be implemented throughout the organization and practiced by all parties involved (Federal Public Service Personnel and organisation, 2014).

According to William R. Foster, CSR and stakeholder theory are dissimilar. CSR is different in the obligation businesses have towards society and the stakeholder's responsibilities to create value. It is relatively unknown how far a company should go to pursue CSR initiatives. Though it is hard to explain stakeholders why a certain social initiative is pursued, evidence shows that engaging with stakeholders in socially responsible activities can reduce the risk to the firm, minimize costs, enhance reputation and legitimacy, build competitive advantage, and create synergies. Preferably, CSR in the supply chain should

be pursued without any economic benefit to the stakeholders or to the company itself. Though, investing in CSR within the supply chain can cost a lot of time and money. Stakeholders pursuing CSR activities will eventually result in financial value. Moreover, stakeholder engagement is seen as a way to increase opportunities and reduce risks. Yet, stakeholders do not know how much CSR they should engage, who the beneficiaries of the activities should be and how to commit to the CSR activities. William R. Foster stated that: *“managers in companies should look to their own competencies to decide whom they should engage in CSR initiatives.”* (Foster, 2013).

#### 4.1 Difficulties in Corporate Social Responsibility

According to Loh, Corporate Social Responsibility is a challenge for organizations, regardless of the sector. In the apparel industry, CSR is a challenge due to tight deadlines and the focus on burdensome “efficient” production outcomes. The supply chain in the garment industry faces difficulties implementing CSR due to:

1. **Lack of support:** buyers and retailers are not interested in buying higher priced clothing. For SMEs (Small and Medium Enterprises), CSR is too costly.
2. **Working conditions:** workers face excessive working hours in order to meet the demands. This results in overtime and poor working conditions in developing countries.
3. **Transparency:** stakeholders are not transparent which results in abusive treatment or poor working conditions in developing countries (Loh, 2013).

## 5. What is the Supply Chain

In order to define social performance within the supply chain, it is essential to know what the supply chain truly is. In chapter 5 the question: “What is the supply chain” will be discussed in order to gain more information about the term “supply chain”, how it operates and why it is created.

According to Leif Enarsson the definition of the supply chain or supply chain management is relatively unknown. New logistic books create new names for the supply chain, although the definition stays more or less the same. The term supply chain management was researched and Leif Enarsson came to the conclusion that the term SCM (supply chain management) was frequently used but the definition had a multiplicity of meanings. Leif Enarsson stated that logistics are just a part of the supply chain. Additionally, the definition of supply chain management is broader than logistics. The supply chain and supply chain management, depending on the situation, can involve anything. SCM is what is made of it by organizations. When the concept is watched closely, it is clear that the concept includes both the distribution and the supply sides of an organization. Although the distance between end-consumer and manufacturer increases geographically and operationally, SCM requires close relationships between customers and suppliers. Argued is that the supply chain in most cases should be called a “demand chain” since the demand of effective support come from the customers. The numerous terms to define the supply chain make it difficult to define the supply chain properly (Enarsson, 2009).

Supply chain management has been designed for solving business problems such as lessening waste by minimizing the inventory investment in the supply chain, according to the International Chamber of Commerce. Additionally, the Chamber of Commerce has called this management ‘supply chain responsibility’ or ‘responsible sourcing’ (International Chamber of Commerce, 2008). Moreover, Basak *et al* stated that supply chain management is established to maximize the productivity of an individual functional unit by achieving competitive edges based on cost reduction. Also, implementation of the supply chain management could increase customer service and to help build a competitive advantage for the channel (Basak, I.S. Seddiq, R. Islam, & O.F. Akanda, 2014). According to N. Buizer, when it comes to social performance in the supply chain the organization should identify the stakeholders in order to know them. Also, organizations should engage with them in order to identify possible risks, focus on two or three problems and tackle these, such as forced labour, and provide training and coaching. Organization and governments are able to give

this training and coaching in order to increase awareness on social performance at companies in the supply chain (Buizer, 2016).

According to Basak *et al*, five specific tiers are present in the supply chain of the garment industry. The five tiers are: the raw material supplier, the manufacturer, the distributor, the retailer and ultimately the customer (Basak, I.S. Seddiq, R. Islam, & O.F. Akanda, 2014). Though, Dr. Barry Lawrence stated that the supply chain consists of other stages namely: supplier, manufacturer, wholesaler/distributor, retailer and costumer (Lawrence, 2009). Nieuwenkamp stated that each stage of the supply chain is linked, directly or indirectly (Nieuwenkamp, 2014). This means that stakeholders play a role in the supply chain and thus what happens with the goods (Basak, I.S. Seddiq, R. Islam, & O.F. Akanda, 2014). According to GCNG, when a stakeholder has influence, they “engage”. The Global Compact Network Germany calls this “stakeholder engagement” (The Global Compact Network Germany, 2014).

Within the garment industry, the tiers of the supply chain are more or less the same in all organizations. The supply chain involves three levels of decision-making; the strategic level, the tactical level and the operational level. The strategic level is where the demands come from, thus the customer and the retailer. The tactical level is the distributor, which transports the goods. Ultimately, the operational level produces the clothes. The flow of demands is regulated as followed: the strategic level to the tactical level and ultimately to the operational level (Basak, I.S. Seddiq, R. Islam, & O.F. Akanda, 2014).

## 6. What is the Garment Industry

The garment industry is researched because a comparison will be made between the garment industry, along with the social performance that could be implemented in the supply chain of this industry, and Nike. As stated in the introduction, many problems arise in the supply chain within the garment sector. So, this industry is researched in order to know what the problems in the sector are and what causes the problems.

According to the Clean Clothes Campaign, key statistics about the garment industry should be considered to be able to determine what the garment industry truly is. The Clean Clothes Campaign has developed a fact sheet about the garment industry defining the employment in the garment industry, gender, worth of global garment industry, wage comparison and the leading and emerging markets. To be able to determine what the garment industry is, the extent of it must be determined. In 2014, approximately 60 to 75 million people were employed in the garment industry globally. Fourteen years earlier, in 2000, nearly 20 million people were employed in that particular industry. When considering the gender of the workers in the garment industry worldwide, three quarters are female and one quarter is male. The estimated worth of the worldwide garment industry depends on women's wear, men's wear and child's wear. In 2014, the women's wear industry is the most valuable in the garment industry, approximately 497 billion euros. The men's wear industry is worth 322 billion euros and the child's wear industry is worth a 149 billion euros. In 2010, the estimated value of the garment industry was 1,3 trillion euros. This shows how large the worldwide garment industry actually is. The wages of employees in the garment industry differ. For example, the CEO of H&M receives an annual bonus of approximately one million euros but his salary remains unknown. The cotton picker and the spinning mill worker receive only 20 to 52 euros a month. The developing countries, which are top garment producing countries, are China, Bangladesh, India, Turkey and Vietnam. Europe (38%), the United States of America (20%), Japan, Hong Kong / China and Canada are the top garment importing countries. The emerging markets within the garment industry are Panama, Mali, Samoa, Burundi and Ethiopia. To conclude, the garment industry is worldwide and is located in various countries (Stotz & Kane, 2015).

According to Women in Informal Employment: Globalizing and Organizing (WIEGO), the garment industry is sometimes referred to as the textile industry or the clothing industry. This sector is one of the oldest and largest export industries. In the early 2000s, the garment industry became more noticeable for costumers. Cases such as the collapse of Rana Plaza

causing garment workers to die resulted in the development of the concerned costumer. Some workers, depending on the job and in which country they work, are not treated well. Evidence indicates that textile workers in the developing countries such as Turkey, Bangladesh, Pakistan and India are often recruited under a contractual relation; this is called contract labour. Employees with this kind of contract have restricted freedom; this is permissible by law since the worker agreed with the arrangement. Once agreed, the contract cannot be undone until the employer fires the employee. In Thailand for example, there are many employees working under such contracts or without any contract at all. Workers without a contract are hired on informal employment conditions; this results in unaccounted, and thus invisible, workers in Thailand. In 2003, the number of invisible workers in Thailand was estimated over 950,000 workers and growing. Although Thailand has a law that mandates equal and fair wages, the country has not yet been able to eliminate contract labour or informal labour completely. WEIGO states that the wages in the garment industry, around the globe, are very low for garment and textile workers (Women in Informal Employment: Globalizing and Organizing, 2016).

According to the International Labour Organization, the factory fire in Pakistan that killed 255 textile workers and the collapse of Rana Plaza in Bangladesh that killed over 1,100 textile workers has been a turning point for the world of work. Since then, the working conditions of the textile workers were closely watched by labour organizations. The attentive look upon the garment factories resulted in various negotiations to create new initiatives at national and global levels. The initiatives are based on creating international labour standards, reconsidering minimum wages and strengthening policy coherence among different stakeholders at a national, regional and global level. The garment industry is one of the most flexible sectors and adapts rapidly to demands or trends. Despite the high volatility of the industry, the sector is characterized by low profit margins and low predictability. Due to the fact that production is often subcontracted to suppliers that are located in different countries, costs are brought down by forceful competition (International Labour Organization, 2016).

According to Nicky Buizer, the problems that arise in supply chain depend on the sector. Moreover, Nicky Buizer has stated that problems within the garment industry could be caused by a *“race to the bottom”* (Buizer, 2016). She explains that often importers demand more socially responsible practices, though the importers are not willing to pay extra for the

products. In this way, the burden ends up further down the supply chain. This means that the manufacturers are the ones who end up with the burden. Not only is the race to the bottom a problem in this sector, the lack of awareness is a problem too. Sometimes employers in the garment sector are not aware of the living wage or the existence of minimum wage. N. Buizer stated that training and coaching these companies in the supply chain within the garment sector should help improve the social performance of the companies (Buizer, 2016).



## 7. The case of Nike

In chapter 7 Nike will be researched in order to be able to compare the company's engagement strategy to the engagement strategy that is created by experts. Chapter 7.1 will examine Nike's operating practices in order to create an overview on the company's social performance efforts.

According to Panigrahi, Nike was under attack in 1996 after auditors investigated the organization. The auditors discovered that child labour existed in the factory of Nike in Pakistan. Since then, Nike has tried to correct their mistake by systematic changes in their Corporate Social Responsibility (Panigrahi, 2014). Nowadays, according to Nike, it has sustainability programmes and other programmes for communities in the countries they operate in. Nike has developed programmes for Sustainable Innovation and Community Impact. The programmes that they created for sustainable innovation are: Minimize Environmental Footprint, Transform Manufacturing and Unleash Human Potential. The programmes created for Community Impact are: Innovating to Get Kids Moving, Creating Positive Impact in Local Communities and Accelerating Global Change. (NIKE, 2015). Those programmes are not stated in Nike's own Sustainable Business Report; therefore the programme is made for people outside the company.

Furthermore, adjustments have been made in the past in favour of Nike's workers. The organization has stated in their Sustainable Business Report that it is not only improving the working conditions. Moreover, Nike has created various pilots to be, potentially, implemented in the organization. The pilots that are developed are: Leadership Mind-set and Worker Engagement, Compensation and Benefits and New Ventures. The pilots are implemented in contracting factories in developing countries. The Leadership Mind-set and worker Engagement pilot is implemented in a contracting factory in Indonesia. Nike created this pilot in order to help workers develop more skills by accurately using the data the company collected during a survey on worker engagement. The pilot Compensation and Benefits has developed a new compensation system, aligned with quality, efficiency and productivity, for managers, floor supervisors, line leaders and workers. In Thailand a similar compensation system has been developed. Nike would like to increase wages, improve the factory performance, retain talent and value the workers. The last pilot Nike has created is the New Ventures pilot. According to Nike it is created to: "empower workers by connecting them to networks of life improving technologies and services" (NIKE, 2015). The pilot is divided in two parts: Disruptive Tools and Factory Technology. The Disruptive Tools part is

an Application for smart phones that could enable workers to learn new skills, check their pay breakdown, buy goods, manage money and access discounts. The Factory Technology enables the organization to look into how data systems are used in the factories and technologies to make the process more operational.

### 7.1 Examination of Nike

Nike has stated that the organization is eager to improve in a sustainable manner (NIKE, 2015). Although the company attempts to improve the safety, knowledge and health of the workers in the supply chain by inventing pilots, the outcomes are not preferable for the organization. The pilots created by Nike, contain specific flaws. For example:

1. **Code of Conduct:** The contract factories are obligated to sign Nike's code of conduct in order to become a contract factory of the organization. If the potential contract factory does not sign the code of conduct, Nike will not work with them as a stakeholder. Therefore, contract factories have the obligation to sign the document; otherwise Nike will change stakeholders. On the one hand it is questionable whether the contract factories are motivated to improve social performance in their factories and supply chain. On the other hand, Nike has created a rating system (SMSI), based on certain criteria, stated in chapter 9.1. Nike's system could withdraw the contract factory from their position, thus the factory needs to uphold the criteria in order to maintain its position as a stakeholder.
2. **Pilot: New ventures, Disruptive Tools:** Nike is willing to improve the knowledge and skills of the workers in the supply chain. Therefore, Nike has developed an application available on smartphones for workers to be able to gain knowledge, learn new skills, check their pay breakdown, access discounts, manage money and buy goods. This application is used in order to improve the communication, check the pay and leave management and the provision of skill training. Nike wishes to skill their workers and examines them on excessive working hours if necessary. The apparel organization developed the application to empower workers in the supply chain and improve their social performance. Nevertheless, research of Poushter exposes that only 37% of the people in developing countries, where Nike factories are located, are in possession of a smartphone (Poushter, 2016). It remains unclear how many factory workers use this application and if the workers

gain knowledge. Nike aims at engaging their stakeholders in the supply chain, though the engagement strategy of BSR remains unused

3. **Pilot: New Ventures, Disruptive Tools:** If the factory workers are able to use the application on the smartphone, it remains abstract in developing new skills. Workers are able to interpret a theory incorrectly. If the worker thinks he/she gained new knowledge but in fact the knowledge is interpreted wrong or executed wrong, how is the worker admonished?
4. **Pilot: New Ventures, Disruptive Tools:** It remains unclear how Nike chooses to contract certain factories or engage with their stakeholders. The criteria on engaging with Nike are not stated in the report. This deducts insight in the organization and impedes to compare the Stakeholder Engagement Strategy with Nike's engagement strategy.
5. **Measurement of Labour Non Compliance, Audits:** Nike's sustainable business report shows a table (Appendix A) containing information on audits. Since the organization has stated that it uses third parties, such as the FLA, to audit the contract factories, Nike made it look like the FLA handled most of the audits. However, the table in Nike's business reports shows otherwise; the FLA audited only 14 times in 2015 and Better Work (ILO), another auditor, 25 times in the same year. Nike audited its contract factories 615 times in 2015, 94 per cent of all audits. Third parties have completed only six per cent of the audits in Nike's contract factories. The FLA, which is exalted in the business report, completed only 2 per cent of the audits in the factories. These results makes one question Nike's credibility. Lastly, in total 654 audits were completed in 2015, but Nike had 692 contract factories. This means that nearly 40 contract factories were not audited in 2015.
6. **Measurement of Labour Non Compliance, Code of Conduct Violations:** A table (Appendix B) in the Nike's business report shows the percentage of labour non-compliance in contract factories, the code of conduct violations. What is shown in the table is that in 56 per cent of Nike's contract factories the code of conduct is violated regarding excessive working hours, 3 per cent more than a year earlier in 2014. This means that 56 per cent of the contracting factories have violated the code of conduct by forcing employees to work excessively in 2015. The salary is a problem for contract factories as well. Although the violations regarding the wages have decreased in

percentage by eight per cent, nevertheless 27 per cent of the factory workers face unfair wages. The violations regarding harassment within contract factories is relatively low, 2 per cent of the workers still face harassment on the work floor. All this makes one question Nike's audits as well as its SMSI rating system for not putting into operation its exit procedure.

## 8. The case of Adidas

According to P. Winn, Adidas has been under attack after investigators found out that the factories of Adidas uses children to produce sport articles. Not only children were the victims of these practices, other workers were forced to work 15 hours a day. Another problem that came to light is the fact that Adidas paid the workers in the factories 60 US Dollars a month for working 15 hours a day. Moreover, a woman working in a factory in Bangkok claimed that she worked in the factory for less then 1 US Dollar a day. The woman also claimed that she worked 12 hours a day seven days a week. According to her, the working conditions in the factory in Thailand were very poor. She was forced to work until the large numbers of orders were met (Winn, 2015).

According to Adidas, improvements have been made since Adidas has been blamed for bad practices in the factories. The organization has stated that: “ Education and personal development as well as health and the ability to exercise basic human rights are the foundation of a well-functioning society” (Adidas, 2015). Therefore, Adidas has developed various programmes in order to improve the social performance and the sustainable performance of the factories it works with. Various teams are created in order to develop programmes for workers and factories. The teams that Adidas has created are: Health Management Team, Compliance Team, Assessment Team and a Social and Environmental Affairs Team. The Health Management Team is created in order to organise a range of sport programmes at major sites for employees. This team conceived a new programme: BOKS. The programme’s aim is to get children worldwide more active. The Compliance Team has provided factories with training in order for them to comply with Adidas’s norms and values. The training is based on developing and improving the internal responsible sourcing of the factory. The Assessment Team has been developed in order to audit the factories on decent living wage. Recently, Adidas has started to work with the FLA (Fair Labour Association) to strengthen the audits and close gaps in wage fairness. The Social and Environmental Affairs Team tries to identify and tackle problems within the organization regarding respect, fairness and dedication. Adidas would like to focus on key areas to create a long-term change in the organization.

Moreover, Adidas has created other programmes such as “Empower Women” to reduce gender inequality in the organization. Five years ago, the factories in Adidas’s supply chain where run mainly by men, just one per cent of the managers were women. Nowadays, after the implementation of the programme, 29 per cent of the managers are female.

Besides, Adidas is trying to improve the safety standards for workers in the factory by providing training and coaching. The organization conducted various initiatives and projects, such as an OHS (Occupational Health and Safety) officer training, an Electrical Safety audit plus workshop, an Indoor Air Quality test and training, and an Automation Machine Safety risk assessment (Adidas, 2015).

## 8.1 Examination of Adidas

### 1. Warning letters

When Adidas audits a factory and discovers non-compliance to the company's vision, goals and objectives, the company receives a warning letter. This letter is sent to the company in order to improve the practices. If the company is not able to or willing to improve the practices a second warning letter will be sent. After the third audit of Adidas, a third warning letter will be sent to the company if the practices have not been improved. The third letter is a letter of termination. However, Adidas does not audit every company every year. This means that when a company receives the first warning it could take years before the company receives the letter of termination. This means that employees in that company will face bad working conditions and other violations for many years.

### 2. Compliance ratings

Adidas's companies are rated through a C-Key Performance Indicator Assessment (Social Compliance Rating). The ratings are divided into five specific grades; 1C, 2C, 3C, 4C and 5C. The rating system from bad to excellent is, 1C, 2C, 3C, 4C, 5C. The grade 1C means that numerous severe non-compliance issues are present in the company, no management systems are in place or delivered well and effectively. The grade 5C means no non-compliance issues whatsoever, all management systems are in place and delivered well and effectively. In 2015, the sustainable progress report of Adidas states that 31 per cent of all factories are rated with 1C and 2C. This means that the factories have numerous compliance issues and could be terminated from Adidas if no further improvement follows.

### 3. Self-governance

Adidas's licensees, companies that directly fall under the ownership of Adidas, have the ability to govern the company. Moreover, it allows the companies to do the audits of the company themselves. This may result in biased audits conducted by the companies.

### 4. Third party audits

Adidas works with third parties such as the FLA in order to conduct audits in the companies. In 2015, 1135 audits were conducted. Only four of those audits were conducted by a third party, in this case the FLA. As theory explained, audits from third parties are more reliable and unbiased. Since Adidas conducted over 99 per cent of all audits, it is questionable if the audits are one hundred per cent correct.

#### **5. Employee safety**

Although Adidas stated that employees and managers are trained and coached in order to improve health and safety on the work floor, still injuries occur in companies. For example: in 2015 in a factory in Hong Kong, 112 working days were lost due to injuries of employees. In this factory only 300 people are employed. This results in a high percentage of workers getting injured on the work floor.

## 9. Analysis

As stated in chapter 3.1 Methodology Scope, the focus of this report will lay on the Stakeholder Engagement Theory created according the OECD guidelines, GCNG and BSR as described in chapter 2.1 Stakeholder Theory. Also, this report focuses on Nike's Sustainable Business Report.

In chapter 9.1 Nike's engagement and the stakeholder engagement strategy will be compared. The social performance of Nike in the stages of engagement is analysed. An overview is created in chapter 9.1.1 in order to make it more comprehensible. The social performance standard and Nike's social performance is analysed in chapter 9.1.2.

### 9.1 Comparing Nike and Stakeholder Engagement

When comparing the found theory -the stakeholder engagement strategy theory- to the practices of organizations, such as Nike, similarities and dissimilarities are discovered. When it comes to Stakeholder Engagement, it is not stated in the business report of Nike if the company engages stakeholders as described by experts in chapter 2.3 or in the overview in chapter 9.1.1. Nike uses the Code of Conduct, while stakeholder engagement should be voluntarily commenced between organizations and stakeholders through dialogue. This does not mean Nike lacks engagement with their stakeholders in the supply chain to improve social performance. Though, due to the fact that Nike practically "owns" the factory after the Code of Conduct is signed, the organization makes sure that the factories improve social performance by rating them with the SMSI Rating System.

Although Nike's business report does not display how the organization chooses the contract factories, it is clear how the stakeholders are rated. Nike's stakeholders are the contract factories in its supply chain. The contract factories are rated by a SMSI Rating system that Nike has developed. Nike uses this system to rate how well contract factories are operating regarding sustainability, including labour practices. The rating criteria are based on Nike's Code of Conduct and Code Leadership Standards. Although BSR has not stated that stakeholders are obliged to sign the code of conduct in order to engage an organization's stakeholder, Nike acts differently. By signing the code of conduct, the contract factory automatically becomes Nike's stakeholder. Therefore, Nike is able to skip stage zero; creating a baseline understanding stage and step 1; stakeholder mapping. An overview on the steps of engagement is created in chapter 2.3 and in chapter 9.1.1.



The SMSI system is divided into five different colours, each colour represents the successfulness of the contract factory. The colour red represents an unsuccessful factory in case of sustainability; the factory is under review for exit. Yellow represents an inconsistent enterprise. In this case, Nike creates remediation plans to meet compliance of Nikes code of conduct. Bronze is the base level, the minimum level that has to be reached in order to “pass the test”. At this point, the contract factory is in compliance with Nike’s code of conduct and shows commitment to lean, environmentally responsible, manufacturing. Factories rated with “silver” exceed; it shows that the contract factory is industry leading in manufacturing standards and innovation. The colour gold is the best result a factory is able to achieve, it is seen as a global leader in manufacturing standards and innovation. Nike’s contract factories’ performance monitoring, takes the form audit visits both unannounced and announced. It is questionable if Nike is unbiased in rating its factories; therefore Nike works with third parties such as the Fair Labour Association (FLA) in order to conduct independent audit visits on regularly bases. This step can be seen as the third step in the BSR Engagement Strategy; Preparation. BSR explains that organizations and their stakeholders should be communicating often. It is the duty of an organization to engage the stakeholder into improving the social performance, and sustainability, of the contract factory. Moreover, in this step communication between organization and stakeholder remains crucial in order to succeed the project(s). The difference between how Nike operates and how BSR implies an organization should operate is that Nike has a code of conduct that the stakeholders have to sign. This code of conduct constrains the stakeholders to improve social performance in the factories. Though, communication is necessary for organizations in order to be valued by a stakeholder. The inform stage, which is also present in the preparation step, makes sure that organizations keep on informing its stakeholders on the process and how well the stakeholder is doing (BSR, 2012). Nike informs its stakeholders by rating them with the SMSI rating system. Nike communicates with its contract factories, thus stakeholders, what the rates are and what should be improved.

Moreover, Nike helps its contract factories towards health, safety and environmental excellence, using an HSE (Health, Safety and Environmental Excellence) management system. The system focuses on prevention, identification and elimination of risks and hazards to workers. Nike aims to empower workers to speak up and identify potential safety issues. According to Nike, the HSE management system is based on the highest internationally recognized standards. Due to the engagement with Nike’s stakeholders, contract factories,

the environmental impact has been reduced with 20 per cent in the supply chain of the contract factories (NIKE, 2015). In terms of the Stakeholder Engagement Strategy, this would be the final stage. The engagement stage, according to BSR, is when the organization and the stakeholder engage in preventing risks, improve social performance and enrich sustainability within the supply chain. BSR stated that the final step, the action plan, is often forgotten by organizations. Nike does document the results by rating the contract factories using the SMSI system. Organizations fail to act on information and fail to document the outcomes of the project. This plan ascertains an organization to document the outcomes, inform the stakeholders by creating a reporting document, which contains new objectives and long- and short-term goals, and develop a new plan for engaging new stakeholders (BSR, 2012). These results, along with Nike's social performance, are visualised in a table in chapter 9.1.1 and in a table in chapter 9.1.2.

#### 9.1.1 Comparing Engagement Strategy to Nike's Engagement and Nike's Social Performance

This overview is created in order to distinguish the engagement strategy, as explained by experts, to Nike's engagement. Nike's social performance per stage of engagement is analysed in the overview too.

Green = Sufficient.		
Orange = Questionable		
Red= Wrong implementation according to Engagement Standard / Social Performance Standard		
BSR Engagement	NIKE's Engagement	NIKE's Social Performance in each stage
Step One of the Engagement Strategy; Set vision and review past actions.	It remains unclear how Nike sets vision and reviews past actions. Nike's SMSI Rating System could be used to review past actions. Though, this is not stated in the business report. Thus, this point rests on speculation. (NOTE: If Nike does this, it would be similar to the Engagement strategy. If Nike has not implemented this,	If the SMSI Rating System is used in this step of engagement the social performance of Nike is respectable. The rating system is developed in order to rate the sustainability, including labour practices of the factories. (NOTE: If Nike uses the SMSI Rating Systems, it would be good practice regarding social

	the Engagement standards are not met.)	performance. If Nike does not implement this in the Engagement Strategy, it is not a good practice.)
Step Two of the Engagement Strategy: Stakeholder Mapping; identify and prioritize stakeholders.	It remains unclear in Nike's reports on how they map the stakeholders.	Due to the lack of information it is not sure if social performance is present in this stage.
Step Three and Four the Engagement Strategy: Preparation; set rules and determine the logistics for engagement.	The preparation of engaging factories (contract factories) is done by rating potential contract factories. The SMSI Rating System is used in this stage as well.	Again the SMSI Rating System is used in this stage. Only if the potential contract factory meets the minimum standards of social performance, it is able to become Nike's contract factory.
Step Three and Four of the Engagement Strategy: Engagement	Once Nike's SMSI Rating System approves the contract factory, the contract factory has to sign a code of conduct. Experts state that when using a code of conduct, the contract factory is forced to sign it. If the contract factory does not sign, it will not be Nike's contract factory since the CoC is obligatory to sign.	Nike helps the contracting factories towards health, safety and environmental excellence using an HSE management system and the SMSI Rating System.
Step Five of the Engagement Strategy: Action Plan; handle feedback and document outcomes.	Nike has implemented an action plan in order to give feedback on their contracting factories, by providing them with the rates they scored	Nike created multiple projects in order to skill workers, minimize the environmental footprint, create positive impact in

	and information on how to improve the factory. In this document contracting factories can find information on how the long-term and short-term goals of Nike and how the contract factory is able to contribute to the goals.	local communities and innovate to get kids moving. Although these projects seem positive, some of them are not efficient. Nike wants to skill workers by creating an application that workers can download in order to develop their skills and gain knowledge. What Nike did not think about is that only 37% of the people living in developing countries own a smartphone. Nike operates in many developing countries such as Bangladesh. This means that 63% of all the workers in the contract factories are not able to gain knowledge and improve their skills.
Engagement of existing contract factories in order to improve social performance	If the contract factory is a stakeholder of Nike already, the organization helps the contract factory improve the social performance of the stakeholder. Nike audits the contract factory and rates it in order to provide the company information on its practices.	Again, Nike helps contracting factories improve sustainably, including labour practices. Nike also helps in preventing risks, improve social performance and enrich sustainability within the supply chain by the SMSI Rating System and HSE.

### 9.1.2 Comparing Social Performance and Nike's Social Performance

This overview is created in order to compare social performance, as how it is described by experts, to Nike's social performance.

Social Performance	Nike's Social Performance per subject
Are stakeholders engaged?	Stakeholder engagement is important in order to improve social performance. Nike engages the contract factories by creating a dialogue with them. In which stage (Stakeholder Consultation, Stakeholder Dialogue Platform, Stakeholder Initiative or Stakeholder Implementation Partnership) Nike's stakeholders fall within is not clear. Though, stakeholders have to sign a code of conduct, which is obligatory to sign.
Are stakeholders trained or coached in order to improve social performance?	Nike conducts audits in order to rate the contract factories. These rates will eventually reach the contract factory. Therefore, Nike informs the stakeholders on what they need to improve.
Are employees in the factories receiving some sort of personal development?	Yes, Nike created an application for employees in order to develop skills. But, in developing countries only 37% of the people own a smartphone that is able to download the application. Thus, not all employees are able to develop skills and gain knowledge.
Are third parties involved in order to conduct audits at the contract factories?	Nike involves third parties such as FLA. Though, third parties conducted only 6% of all audits in 2015. This means that Nike conducts 94% of the audits, this could lead to unfair audits.
Do stakeholder factories help identify issues in the factory?	Nike's Sustainable Business Report does not state that contract factories are engaged in this way. The report states that Nike and

	third parties help identify issues, but factories are not mentioned.
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## 9.2 Comparing Adidas engagement to the Stakeholder Engagement Strategy

When comparing Adidas's stakeholder engagement to the stakeholder engagement strategy that is created by experts, it is seen that Adidas adheres to this strategy. Not every step is clearly stated in the Sustainable Progress Report of Adidas, however adequate information is gathered in order to learn more about the company and its stakeholder engagement.

Adidas does not display how it takes step one, set vision and review past actions, in the Engagement strategy. However, the following steps that Adidas takes to engage the stakeholders in the supply chain are according to the stakeholder engagement strategy created by experts.

For instance, step two in stakeholder engagement is to identify and prioritize the stakeholders within the supply chain. Adidas does this along with experts in order to obtain qualitative information. Eventually, after stakeholder mapping the company tries to engage stakeholders by creating a dialogue to identify mutual problems already.

The third step Adidas takes to engage stakeholders in the supply chain is to set rules and determine the logistics of the engagement. Adidas and its stakeholders create plans for long-term goals in order to create long lasting change within the supply chain. The social performance within the company's supply chain has improved as result of the changes made together with the stakeholders.

The fourth step in stakeholder engagement is the actual engagement. Adidas is ticking the right boxes by engaging, communicating and informing the stakeholders. Actually, in Adidas's case it goes further than that. Adidas engages its stakeholders in a way that the stakeholders become "stakeholder implementation partnership", the highest collaboration option in the collaboration commitment (explained in chapter 2.2.2.).

Lastly, dealing with feedback is hard according to BSR (BSR, 2012). Though, Adidas finds itself in a suitable position to collaborate with stakeholders fully. The stakeholders are

able to provide the company with feedback on the engagement, but also on the training and coaching.

#### 9.2.1 Comparing Engagement Strategy to Adidas's Engagement and Adidas's Social Performance

This overview is created in order to distinguish the engagement strategy, as explained by experts, to Adidas's engagement. Adidas's social performance per stage of engagement is analysed in the overview too.

BSR Engagement	Adidas's Engagement	Adidas's Social performance
Step One of the Engagement Strategy; Set vision and review past actions.	It is not stated how Adidas sets vision and review past actions.	Due to the lack of information, it remains unclear if Adidas has social performance in this stage.
Step Two of the Engagement Strategy: Stakeholder Mapping; identify and prioritize stakeholders.	Adidas tries to promote collaboration with stakeholders in order to achieve mutual goals. A dialogue is created in order to determine the stakeholders' norms, values and goals. Moreover, Adidas uses experts, such as Sustainable Apparel Coalition, to identify the stakeholders.	In this step of engagement Adidas engages stakeholders in order to improve social performance in the supply chain.
Step Three and four of the Engagement Strategy: Preparation; set rules and determine the logistics for engagement.	In the third step of engagement Adidas determine long-term dialogues and long-term goals in order to create long-lasting change within the supply chain of the company.	Adidas communicates with the suppliers effectively on a bilateral manner. This way, the company in the supply chain is able to pinpoint certain issues within the company. Thanks to the dialogue Adidas has the company is able to improve

		the issues and thus improve the social performance.
Step Three and Four of the Engagement Strategy: Engagement	Adidas is ticking the right boxes when it comes to stakeholder engagement. The engagement strategy exists of three steps; engage, communicate and inform. Adidas does a good job due to the high participation rate of stakeholder regarding implementation.	As stated by various experts, engaging stakeholder engagement is crucial in order to improve social performance. The stakeholder engagement of Adidas causes companies in the supply chain to improve on social performance. This improvement is created by training and coaching of employees and managers at the site 120 times a year (in 2015). Also, various programmes and health and safety trainings are conducted while engaging with stakeholders.
Step Five of the Engagement Strategy: Action Plan; handle feedback and document outcomes.	Stakeholders and Adidas create future plans together in order to hold on to the knowledge and the lessons learned. Stakeholders gave feedback for Adidas's own learning and improvement of certain issues.	Adidas states that the feedback it received have influenced the organizations ability to improve social performance positively. Adidas created a SMS Hotline in order to receive from workers working in companies in the supply chain. It was the organization's intention to tackle issues regarding fair wages and safe workplace conditions.



Engagement of existing contract factories in order to improve social performance	It remains uncertain if Adidas obliges stakeholders to sign the Code of Conduct in order to improve social performance. However, Adidas's stakeholders are in the stage of "Stakeholder Implementation Partnership" which is the best result possible regarding commitment of collaboration.	The companies within the supply chain are able to improve thanks to the stakeholder engagement, training and coaching of Adidas.
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#### 9.2.2 Comparing Social Performance to Adidas's Social Performance

This overview is created in order to compare social performance, as how it is described by experts, to Adidas's social performance.

Social Performance	Adidas's Social Performance per subject
Are stakeholders engaged?	Stakeholder engagement is important in order to improve social performance. Adidas engages the contract factories by creating a dialogue with them. Eventually, Adidas would like to see the stakeholder as collaborating with the organization. This is called collaborative implementation. The commitment to collaboration in this case is called: Stakeholder implementation partnership.
Are stakeholders trained or coached in order to improve social performance?	Adidas's stakeholders are trained and guided. The organization has created training teams in order to improve social performance in the supply chain. (Teams such as the Occupational Health and Safety teams as explained in chapter 8)
Are employees in the factories receiving	Yes, Adidas'ss makes sure that certain

some sort of personal development?	training and coaching for managers, the factories but also the workers are conducted. The workers are able to develop skills online but also on paper in the factory, thus everyone is able to train skills or gain new knowledge. Also, women are empowered thanks to this trainings; an increase of women holding manager position has augmented with 28 per cent.
Are third parties involved in order to conduct audits at the contract factories?	Adidas uses third parties to conduct audits. However, audits conducted by third parties cover only 0.4 per cent of all audits.
Do stakeholder factories help identify issues in the factory?	The stakeholder identifies issues within the company along with Adidas. This give the stakeholder the opportunity to tackle issues that has been in the factory for a longer period of time. Moreover, this helps Adidas understand the problems within the company better and is then able to know what has to be improved in the company.

### 9.3 Comparing Nike's and Adidas's Engagement Strategy

The two organizations engage stakeholders in a different way. In this overview the engagement strategy, created by experts, is compared to Nike's engagement strategy and Adidas's engagement strategy.

Engagement Strategy	Nike's Engagement	Adidas's Engagement
Step One of the Engagement Strategy; Set vision and review past actions.	It remains unclear how Nike sets vision and reviews past actions. Nike's SMSI Rating System could be used to review past actions. Though, this is not stated in he business	It is not stated how Adidas sets vision and review past actions.

	report. Thus, this point rests on speculation. (NOTE: If Nike does this, it would be similar to the Engagement strategy. If Nike has not implemented this, the Engagement standards are not met.)	
Step Two of the Engagement Strategy: Stakeholder Mapping; identify and prioritize stakeholders.	It remains unclear in Nike's reports on how they map the stakeholders.	Adidas tries to promote collaboration with stakeholders in order to achieve mutual goals. A dialogue is created in order to determine the stakeholders' norms, values and goals. Moreover, Adidas uses experts, such as Sustainable Apparel Coalition, to identify the stakeholders.
Step Three and four of the Engagement Strategy: Preparation; set rules and determine the logistics for engagement.	The preparation of engaging factories (contract factories) is done by rating potential contract factories. The SMSI Rating System is used in this stage as well.	In the third step of engagement Adidas determine long-term dialogues and long-term goals in order to create long-lasting change within the supply chain of the company.
Step Three and Four of the Engagement Strategy: Engagement	Once Nike's SMSI Rating System approves the contract factory, the contract factory has to sign a code of conduct. BSR states that when using a	Adidas is ticking the right boxes when it comes to stakeholder engagement. The engagement strategy exists of three steps; engage, communicate and inform.

	code of conduct, the contract factory is forced to sign it. If the contract factory does not sign, it will not be Nike's contract factory since the CoC is obligatory to sign.	Adidas does a good job due to the high participation rate of stakeholder regarding implementation.
Step Five of the Engagement Strategy: Action Plan; handle feedback and document outcomes.	Nike has implemented an action plan in order to give feedback on their contracting factories, by providing them with the rates they scored and information on how to improve the factory. In this document contracting factories can find information on how the long-term and short-term goals of Nike and how the contract factory is able to contribute to the goals.	Stakeholders and Adidas create future plans together in order to hold on to the knowledge and the lessons learned. Stakeholders gave feedback for Adidas's own learning and improvement of certain issues.
Engagement of existing contract factories in order to improve social performance	If the contract factory is a stakeholder of Nike already, the organization helps the contract factory improve the social performance of the stakeholder. Nike audits the contract factory and rates it in order to provide the company information on its practices.	It remains uncertain if Adidas obliges stakeholders to sign the Code of Conduct in order to improve social performance. However, Adidas's stakeholders are in the stage of "Stakeholder Implementation Partnership" which is the best result possible regarding commitment of collaboration.

#### 9.4 Comparing Nike's and Adidas's Social Performance

Nike and Adidas are both willing to improve social performance of companies in the supply chain. However, the organizations act differently in order to improve the social performance in the supply chain. In this overview the social performance created by experts is compared to Nike's social performance and Adidas's social performance.

Social Performance	Nike's Social Performance	Adidas's Social Performance
Are stakeholders engaged?	Stakeholder engagement is important in order to improve social performance. Nike engages the contract factories by creating a dialogue with them. In what stage (Stakeholder Consultation, Stakeholder Dialogue Platform, Stakeholder Initiative or Stakeholder Implementation Partnership) Nike's stakeholders fall within is not clear. Though, stakeholders have to sign a code of conduct, which is obligatory to sign.	Stakeholder engagement is important in order to improve social performance. Adidas engages the contract factories by creating a dialogue with them. Eventually, Adidas would like to see the stakeholder as collaborating with the organization.
Are stakeholders trained or coached in order to improve social performance?	Nike conducts audits in order to rate the contract factories. These rates will eventually reach the contract factory. Therefore, Nike informs the stakeholders on what they need to improve.	Adidas's stakeholders are trained and guided. The organization has created training teams in order to improve social performance in the supply chain. (Teams such as the Occupational Health and Safety teams as

		explained in chapter 8)
Are employees in the factories receiving some sort of personal development?	Yes, Nike created an application for employees in order to develop skills. But, in developing countries only 37% of the people own a smartphone that is able to download the application. Thus, not all employees are able to develop skills and gain knowledge.	Yes, Adidas makes sure that certain training and coaching for managers, the factories but also the workers are conducted. The workers are able to develop skills online but also on paper in the factory, thus everyone is able to train skills or gain new knowledge. Also, women are empowered thanks to this trainings; an increase of women holding manager position has augmented with 28 per cent.
Are third parties involved in order to conduct audits at the contract factories?	Nike involves third parties such as FLA. Though, third parties conducted only 6% of all audits in 2015. This means that Nike conducts 94% of the audits, this could lead to unfair audits.	Adidas uses third parties to conduct audits. However, audits conducted by third parties cover only 0.4 per cent of all audits.
Do stakeholder factories help identify issues in the factory?	Nike's Sustainable Business Report does not state that contract factories are engaged in this way. The report states that Nike and third parties help identify issues, but factories are not mentioned.	The stakeholder identifies issues within the company along with Adidas. This give the stakeholder the opportunity to tackle issues that has been in the factory for a longer period of time. Moreover, this helps Adidas understand the problems within the company better

How can Stakeholder Theory help Improve the Social Performance of Companies in the Supply chain?



## 10. Conclusion

How can stakeholder theory help improve the social performance of companies in the supply chain? Problems in the supply chain have caused organizations to observe the social performance in the company. The social performance of companies within the supply chain can be improved by applying Stakeholder Engagement. Applying Stakeholder Engagements is an attempt at making organizations and stakeholders collaborate. In order to improve the social performance of companies in the supply chain, the organization and the stakeholder should collaborate.

Still, there are two disadvantages of applying Stakeholder Engagement. It is stated in the Stakeholder Engagement theory that different forms of collaboration within the engagement theory exist. These different forms of engagement could withhold the improvement of social performance of companies in the supply chain due to the lack of participation of the stakeholders. Additionally, theory explains that organizations are not likely to engage with its stakeholders, nor improve the social performance in the organization without peer pressure.

Nike's social performance and stakeholder engagement are analysed and compared. Nike could improve its Stakeholder Engagement by letting contract factories unrestricted in signing the Code of Conduct. However, Nike's social performance is well developed. The organization tries to improve the social performance by the implementation of its SMSI System and the Health, Safety and Environmental Excellence program for contracting factories.

Adidas's stakeholder engagement and social performance are analysed and compared too. Adidas's engagement strategy is compared to the stakeholder engagement strategy created by experts. Moreover, the social performance of the company is compared to social performance as experts described it. Adidas's social performance is more sophisticated compared to Nike's performance. This is the result of the fact that Adidas engages its stakeholders better and creates a dialogue. Besides, Adidas trains and guides its staff, managers and workers in the factories, in order to develop skills. This training and guidance has created more women empowerment and improved health and safety in the supply chain.

Nike and Adidas are compared on the companies' social performance and stakeholder engagement strategy. Adidas engages stakeholder better than Nike because it engages the stakeholder as how experts explained it. Though, Nike is not failing its engagement strategy



but scores less regarding stakeholder engagement. This is the result of the lack of mapping critical stakeholders. Adidas does map critical stakeholders and the organization has help from experts.

These observations are the result of the research on social performance, the supply chain, Nike, Adidas and the stakeholder theory. In order to gain knowledge on these topics, information is obtained by researching the work of various experts.

The research on social performance is completed by the work of experts such as John Ruggie, the assistant Secretary-General for Strategic Planning of the United Nations. Furthermore, experts on the stakeholder theory that have been used are BSR, the OECD Guidelines that are related to the standards of the United Nations, the Global Compact Network Germany and MVO Nederland. Nike and Adidas have been analysed by using publicly available information written by the organization itself.

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## 12. Appendices

### Appendix A

#### AUDITS COUNT BY NIKE, INC., FLA AND BETTER WORK

	<b>FY14</b>	<b>FY15</b>
NIKE, Inc.	654	615
FLA	0	14
Better Work	31	25
<b>TOTAL</b>	<b>685</b>	<b>654</b>

Source: (NIKE, 2015)

### Appendix B

#### TOP ISSUES OF LABOR NON-COMPLIANCE IN CONTRACT FACTORIES (CODE OF CONDUCT VIOLATIONS)

	<b>FY14</b>	<b>FY15</b>
Age	<1%	<1%
Freedom of Association and Collective Bargaining	0%	<1%
Harassment	2%	2%
Hiring	2%	1%
Hours	53%	56%
Other	9%	12%
Wages	35%	27%

NOTE: Percentages may not add to 100 due to rounding.

Source: (NIKE, 2015)

## **Appendix C**

### **Interview Nicky Buizer and Sharron Haasnoot**

#### **1. What is Corporate Social Responsibility?**

It is the sense of responsibility of companies towards the community and environment (ecological and social) in which they operate both concerning the impacts of the company's decisions and activities. In this sense their decisions and activities should contribute to sustainable development, including health and welfare of society, take into account expectations of stakeholders, comply with applicable law and international norms of behaviours and be integrated throughout the organisation (not only in separate department).

#### **2. How should CSR be used?**

I think it should be integrated in the company's activities, vision, mission etc. However, once this is done, companies can use communication on their CSR to promote themselves in this aspect, especially since CSR is becoming the norm and many importers will demand companies to be able to show what they do regarding social performance.

#### **3. What is important to integrate into a CSR guideline to improve social performance in the supply chain?**

When it comes to social performance in the supply chain I think it starts with getting to know your suppliers (1 tier, 2<sup>nd</sup> tier), identifying possible risks, engage in dialogue with them how to tackle certain issues or prevent them from happening, and also provide training in this.

#### **4. How could an organization improve social performance in their supply chain?**

Basically by the process I described under 3. Of course it helps if this is also expected/demanded of the organisation by actors further along in the supply chain (importers/buyers up to consumers), certifications/standards could also help.



**5. What problems occur in the supply chain regarding CSR?**

Depends a lot of the supply chain, e.g. in cacao forced and child labour can be an important issue. But when working in factories with heavy machinery, health and safety at work may be more of an issue. In any case it is important to ensure fair wages and decent work conditions are respected, often further along in the supply chain e.g. in agriculture day labourers are hired for harvest periods which are not always given contracts, decent working hours (long days because of peak period), fair wages etc.).

**6. Where do those problems come from? e.g.: Is it because the retailer would like to see low prices and therefore create problems with wages, forced labour/ child labour? Or is it because the norms and values of the producing countries?**

It can have multiple causes. One is the one you mention, the race to the bottom. But also volatility of world market prices for commodities can have an effect. Also often importers demand more socially and environmentally responsible practices but are not always willing to pay more for this – this way the burden often ends up further down in the supply chain e.g. at the farmer. In some cases it can also be a lack of awareness, many employers may not know what the level of a living wage is and think they are paying normal wages (especially if the minimum wage is below the living wage in a certain country) through training and coaching they can be made aware and start with some steps in improving this.

**7. How can organizations solve these problems?**

Try to focus on 2 or 3 main problems that need to be tackled and work together with different actors in the supply chain (suppliers + customers/buyers) to come to a workable solution.

**8. Do you think that stakeholder engagement (within the supply chain) could help to improve the social performance in the supply chain?**

- **If yes; why?**
- **If no; why not?**

Yes definitely, of course there are different stakeholders, but supplier e.g. are also stakeholders, they often need to be guided/trained in improving in social performance, but

How can Stakeholder Theory help Improve the Social Performance of Companies in the Supply chain?

also need the incentive to do this. Also buyers etc. need to take responsibility and not expect very low prices and still expect companies to act socially responsible. External stakeholders – governments, civil society etc. can also put pressure on companies (especially multinationals) to change their behaviour, think of reputation damage etc.

*Source:* (Buizer, 2016)