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Thesis report

The Labor issues and workers' rights within the
global supply chain.

How to manage the work environment: the Nike
case.

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I. INTRODUCTION OF THE ANALYZED PROBLEM

In recent years, which represent the modern economic era, the supply chain management has taken on a greater value and it is used as a strategic asset to achieve a competitive advantage in the markets¹. In the 1990's, many companies opted for massive investment processes to streamline their global supply chains. Such investments focused on achieving a better customer satisfaction. In fact, these strategic moves aimed to achieve a greater value of the products/services offered by the company, as well as an increase in the internal production.

Nowadays, competition is not only based on a comparison between individual companies, instead it mostly relies on an advantage acquired through the global supply chains, as stated by the economist Christopher². Indeed, the secret weapon for a company can be obtained thanks to reduced expenses of the supply chain, together with added value given on the outputs sold by the firm.

From the analysis of the supply chain management, it is apparent that the fact that the dimensions to be studied are mainly three, characterizing all future entrepreneurial aspects. These dimensions can be categorized as integrations and are defined by means of three different concepts. The first is addressed to as functional integration: it involves the strategic aspects of procurement (such as the purchase of raw materials, machinery, etc.), the production of outputs, being them products or services, and all the distribution decisions, both within and outside the company. The distribution process is represented by the customers, the suppliers and all the third parties involved in the business process. The second dimension (concept) depends the geographical point of view: the geographical integration. The analysis consists in all the decisions related to the processes of outsourcing, offshoring, insourcing or inshoring. These evaluations are categorized by choices such as where to produce, whether to produce internally or whether to give to a third company the execution of all, or part of, the production. The third aspect (concept), the intertemporal integration, is characterized by all those strategic and operational

¹ Collin J., (2003). *Selecting the Right Supply Chain for a Customer in Project Business*. Helsinki: University of technology, pp. 8-213.

² Christopher M., (1998). *Logistic and Supply chain Management*. Financial Times, pp. 125-131.

decisions of supply chain management as when it results advantageous for the company to produce the output and the quantity to produce in order to optimize the production.

There are therefore two fundamental business aspects: the acquisition of the resources necessary to acquire a competitive advantage; its allocation and the improvement of it for the operational control of corporate decisions. Planning and *strategic* control characterize the former (the acquisition) and they are based on the processes that take place before the production process; on the other hand, everything that is represented by planning and *tactical* control is focused on the latter³ (the allocation), focused on the activities that take place after the beginning of the production process.

For the abovementioned reasons, the analysis of the supply chain management is of fundamental relevance under a managerial perspective and is one of the principal aspects that can let the company to reach a competitive advantage against its competitors. Many problems are also strictly related and linked to the supply chain management, especially when this concept is globally used. Problems related to workers' rights are most common, but also environments with poor working condition, bad working relationships between employees and employers, and bad governance are often common aspects in companies linked to the global supply chain.

II. PURPOSE OF THE THESIS

With this thesis I will analyze the concept of the supply chain under the global perspective. I will focus on the aspects and on the advantages that can be brought to the company through a great management of the supply chain as whole. The analysis will be divided into three parts. The first one will be focused on the managerial point of view with the consideration of all the aspects purely related to the organizational processes. The second part will be dedicated to the juridical analysis of the supply chain using a legal perspective. There will be also a deep focus on the workers' rights and the work environment. The last part will be the analysis of the Nike company and this analysis will be compared and referred to the concepts explained in the previous chapters. In this analysis I will discuss about both of the aspects, the legal and the managerial one, and I will consider how Nike managed to regain its leadership in the global market following

³ Shapiro J. (2002). Beyond Supply Chain Optimization to Enterprise Optimization. Ed: Ascet.

the scandals on child exploitation in Cambodia and Vietnam happened during the late 1990s.

As I said before, in the first part I will analyze the concept of management related to the supply chain, so, in short, I will focus on the supply chain management theory. My analysis will be focused on the strategic use of the supply chain management and I will explain why the strategic supply chain management is essential in order to reach the competitive advantage. Moreover, I will study why and how this strategic concept can be defined as a strategic asset for the company and what it means. Then, I will focus my analysis on the model called SWOT analysis in order to understand the external and the internal points of view of the supply chain management. The evaluation and the application of these two concepts can give the company an additional knowledge of the field and of the environment of the related market.

After this, the second chapter will be an analysis of the juridical aspects of the management of the supply chain. This part will analyze the labor law characteristics of corporate supply chain management. This evaluation will analyze what tools, such as governance, self-regulations methods, codes of conduct, CSR, compliance, etc., can be used for the purpose of gaining a competitive advantage.

The last chapter will be focused on the case analysis of Nike. I chose to examine this specific company because it is really important under both of the two perspectives for many reasons. Under the managerial point of view, Nike is considered one of the greatest companies of the modern era and it is the first sport brand worldwide under many different aspects. Not only because of the products sold by the company but mainly thanks to the management of the relationships with suppliers, employees and customers. This is one of the reasons why I decided to focus on this particular company. Under the legal point of view, Nike has had many problems of child labor exploitation, and workers' exploitation in general, during the late 1990s. These troubles were really close to destroy the brand image and the brand position of the company. Moreover, I will analyze how Nike has faced these issues and how it managed to regain its leadership in the sports market.

The conclusions will be based on the last data belonging to the website Nike.com focused on the managerial developments and on the juridical improvements of the company that help the company cleaning its image worldwide.

1. THE SUPPLY CHAIN MANAGEMENT

1.1 SC from The Managerial Point of View

1.1.1 Supply Chain Definition

The meaning of the concept of supply chain can be hard to be defined. This process, that we call supply chain, is complex, articulated and it requires attention and focus regarding the concept of planning all the processes related to it and regarding the allocation of the company's resources. The first goal of the organization is to increase the level of effectiveness and efficiency of the company in order to allow it to respond to the needs of customers and suppliers.

Nowadays, the competitive environment in which companies compete is radically changing and is more often based on the concept and use of the e-commerce. Companies then discover that managing their own business alone is no longer sufficient but that an optimal supply chain management is necessary in order to reach a competitive advantage and the market leadership. All the upstream companies that provide input (directly or indirectly), as well as the company network that is characterized by all the downstream companies, those therefore responsible for the supply of materials and of the after-sales assistance of the product to the customer, have to be involved in the management of the network of the analyzed firm.

The market share of the company has become an asset of fundamental importance for a strategic market integration and it can allow the company to survive and sustain growth objectives. The competition with other existent companies in the market is characterized by the concepts of logistics network and global distribution. These two notions are able to allow the shipment of products to customers through fast and efficient distribution channels in continuous evolution. The strategic positioning of the inventories is essential, so that the products are available when the customer wants them. The supply chain encompasses all the organizations and activities associated with the flow and transformation of goods from the raw material stage, to the end user, as well as the associated information flows. Material and information flows both up and down the supply chain⁴.

⁴ Hanfield R. and Nichols E., (2003). Supply Chain Redesign. 1st ed: Prentice Hall. Pp 30-38.

When hence the need to define the supply chain, two concepts are really important to be defined in order to clarify what aspects of the company management are fundamental under a firm perspective. Efficiency and effectiveness are two of the most important behaviors that a company should implement in order to acquire the biggest market share possible. Effectiveness means being able to minimize the resources necessary for the production of the company outputs in order to achieve previously set objectives. Effectiveness, instead, in this case, means studying and analyzing how the supply chain can be maximized in terms of designing the distribution channels. The performances on the quality and the delivery times of products, the backorder and the level of inventory, are characteristics that represent and define the efficiency, while, the quality of the service offered, both pre-purchase and post-purchase, is represented by the concept of effectiveness.

When a definition of the supply chain regarding an individual firm is necessary, hence the need to define also its upstream supplier network and its downstream distribution channel (figure 1). According to this explanation defining several management aspects is necessary. Some of the fundamental topics for a company, under this analysis, are managing information systems, sourcing and procurement, production scheduling, order processing, inventory management, warehousing, customer service, and after-market disposition of packaging and materials⁵. Input procurement, whether implemented directly or indirectly for the company, is represented, for all the various types of organizations, by the network of suppliers. Companies can have suppliers that give them the necessary raw materials to start the production of outputs or they can provide a semi-produced output for the company that has only to assemble them in order to create the final product ready to be purchased by customers. The supplier network can be represented by two fundamental divisions, it can be part of the internal division of the company or the company itself can rely on external suppliers. This type of network is one of the most important aspects for a managerial perspective because it can create the competitive advantage under a price or a quality perspective, as well as both of them at the same time. A given material may pass through different processes before arriving to the company because the supplier, that will give the product to the analyzed firm, may in turn have suppliers for its products that are represented by its own set of suppliers, called second suppliers. These second suppliers are not directly in contact with the final firm but

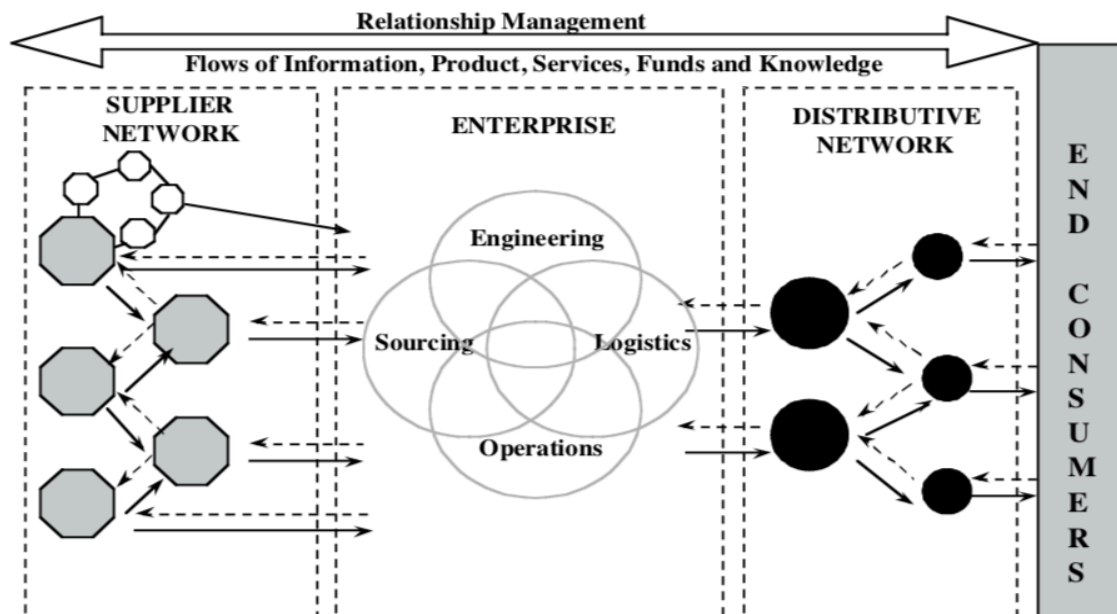
⁵ Hanfield R. and Nichols E., (2003). Supply Chain Redesign. 1st ed: Prentice Hall. Pp 9-11.

are also part of its supply chain, because they provide the input for the input that will be used for the final product. When we want to analyze the supply chain and we want to focus on the origins of the products, we can go through the whole process until we are able to trace the point called “Mother Earth” which is the last point at which all the raw materials used for our products are acquired. Then, they pass through the chain to the final product aimed at the consumer.

Regarding the *internal functions* of the firm, all the processes used have to be analyzed because they represent the steps through which the company can transform the inputs provided by the supplier network. The management of a company has to analyze all the different tasks needed to be implemented and, thanks to the use of different techniques, it has to schedule, organize and coordinate all of them in order to achieve the best output possible within the shortest amount of time. The schedule of all of these assignments may involve one, or all, of the following functions such as material requirement planning systems (MRP), scheduling work centers, employees, capacity planning, and machine maintenance⁶.

However, when you go analyzing the management of the supply chain of a

Figure 1: The integrated supply chain



Source 1: Handfield, 2002, p.9

company you can notice that it consists in an *upstream supplier network* and its

⁶ Mentzer J. T., DeWitt W., Keebler J. S., Min S., Nix N. W., Smith C. D. and Zacharia Z. G. (2001), Defining Supply Chain Management. Journal of Business Logistics, 22: pp 1-25.

downstream distribution channel (or distribution network). All the external agents regarding the *upstream supply chain* are outlined and defined with the analysis of the material flows that pass through all the organization forming part of this chain. The company staff is defined as the company function that must ensure that the necessary materials arrive in time at the planned locations. Suppliers are one of the fundamental parts of the company from a managerial point of view. The acquisition of resources and materials necessary for the correct execution of the production phase is represented by the responsible work force that assume the function of guarantor in order to let the company being able to select the best suppliers. It also assumes the responsibility to ensure that these suppliers are able to meet the cost and performance expectations but above all, with the time necessary for the company to be able to give the customer the best service in the market. The staff, belonging to the supply chain, responsible for these functions, must also ensure that there is a correct communication between the various suppliers and the company. Moreover, it must certify that there is a continuous flow of information between the company's departments that interact each other for the production of products or services⁷.

Furthermore, there is another part of the supply chain called *external downstream* that encompasses all the downstream organizations, processes, and functions that ensure that the product passes through on its way to the end customer as its final destination. Regarding this type of distribution network, we can include the finished goods of the firm, the warehouse, the pipeline inventory, the dealer network, and the sales operations. Different firms can have different sizes and different characteristics of the concepts mentioned above, with small supply chain but relatively widespread downstream distribution channels. The logistic function is really important for this part of the company and all the activities related to it because it is responsible to analyze and coordinate the flows of the materials between the firm's locations.

Mentzer⁸ has defined the supply chain with three different notions that are linked to the level of complexity of the supply chain network of the firm. They basically are:

1. Direct supply chain, which consists of a company, a supplier, and a customer involved in the upstream and/or down- stream flows of products, services, finances, and/or information.

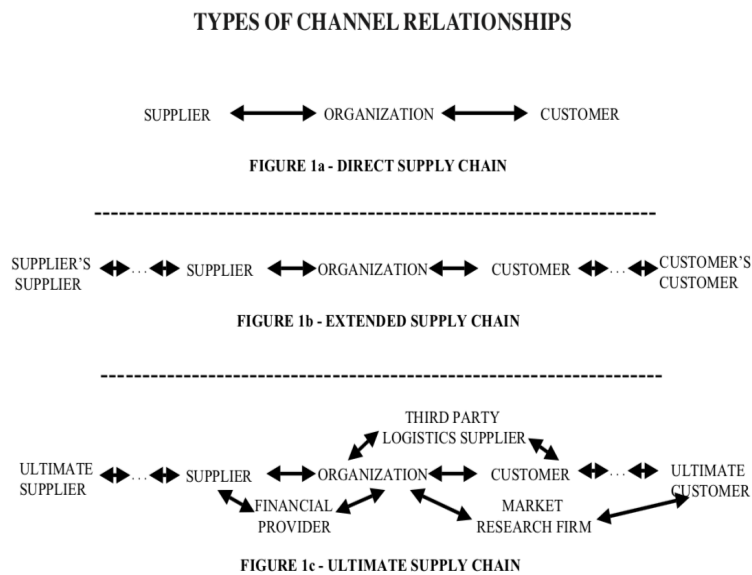
⁷ Hanfield R. and Nichols E., (2003). Supply Chain Redesign. 1st ed: Prentice Hall. Pp 9-11.

⁸ Mentzer J. T., DeWitt W., Keebler J. S., Min S., Nix N. W., Smith C. D. and Zacharia Z. G. (2001), Defining Supply Chain Management. Journal of Business Logistics, 22: pp 1-25.

2. Extended supply chain, which includes the set of suppliers of the immediate supplier, as well as customers of the immediate customer all involved in the upstream and/or downstream flows of products, services, finances, and/or information.
3. Ultimate supply chain, which includes all the organizations involved in all the upstream and downstream flows of products, services, finances, and information from the ultimate supplier to the ultimate customer.

The following figure (figure 2) can be explained with the three-channel relationships described above and it illustrates the complexity that characterizes the ultimate supply chain thanks to the use of a lot of different relationships all interconnected. In this type of relationship for

Figure 2: Types of channel relationships



Source 2: Journal of business logistics, Vol 22, 2001, p.5

the supply chain, there are third parties which may be financial providers, with the provision of financial advices, risks etc; they may be logistics providers, which can offer the logistic activities between two parties of the supply chain; or many other types of providers necessary for the supply chain to be effective and efficient.

The aim of the supply chain of a company is to create value for the company. In doing so, we can talk about the concept of “value system”. According to Handfield⁹ the value system is defined as follows:

“A connected series of organizations, resources, and knowledge streams involved in the creation and delivery of value to end customers. Value systems integrate supply chain activities, from determination of customer needs through product/service development, production/operations and distribution, including (as appropriate) first-, second-, and

⁹ Hanfield R. and Nichols E., (2003). Supply Chain Redesign. 1st ed: Prentice Hall. Pp 25.

third-tier suppliers. The objective of value systems is to position organizations in the supply chain to achieve the highest levels of customer satisfaction and value while effectively exploiting the competencies of all organizations in the supply chain.”

1.1.2. What is Management?

Supply chain need to be implemented at the highest grade achievable in order to reach all of the set goals for the organization. There is therefore the need to analyze how to behave and how the company must be controlled for these purposes. Managing a firm includes all of these aspects and can satisfy them all. Supply chain management therefore requires active management efforts by the organizations within the supply chain.

Therefore, the need to understand what an organization is. According to Lipovec¹⁰, an organization is defined as the relations existing between people that become members of a formed social unit. This organization must ensure that all of these people have the same goal and that they want to achieve this goal, all of this is represented by the characteristic of the social unit.

According to Rozman¹¹ three processes are strictly necessary for an organization in order to achieve these goals. The first one is the *organizational process* that is defined as the mechanism by which the rationality of the actions and their behaviors of people are assured in order to push the social unit to think in the same way. This definition is based on the concept of rationality. How to achieve and ensure the rationality? Thanks to the use of the second process, the *coordination*. This process means being able to organize and take care of all the problems related to the supply chain and being able to manage all the phases in order to satisfy the needs of the customers without problems or bottlenecks. The concept of coordination is based on various *decisions* that are parts of the decision making process of the firm. This decision making process encompasses all of the managerial properties of a firm that rely on the achievement of the goals, on the activities to implement, on the interests of the firm, and on all the relationships with customers, suppliers or workers belonging to the firm.

¹⁰ Lipovec, F. (1987): The theory of organization developed, The Economic Gazette (English version for the Ljubljana university), Ljubljana. Pp 40-41.

¹¹ Rozman R., (2002). Subject and method of organization. Ljubljana. (English version for the Ljubljana University), Ljubljana, pp 130-140.

At this point one question can be asked, what is management? What are the purposes of it? According to the Longman dictionary of contemporary English, the definition of management can be the following:

- The activity of *controlling and organizing* the work that a company or organization does.
- The *people* who are *in charge* of a company or organization.
- The way that people *control and organize different situations* that happen in their lives or their work.

Rozman¹² defined management as the process of coordination of divided activities, managerial processes or functions within an organization. This can be the correct definition but it needs to be implemented. In fact, according to most of the famous managers of the world, management can be defined also as the process that one individual, or more than one, uses in order to coordinate the others with the aim of achieving the results of the company that are not obtainable by one individual acting alone. It can be basically defined as the organization of a combination of different activities performed by different actors of the supply chain that form teams and departments within the company. Rozman (2000, p.6) claimed in his paper that the company, in order to implement the greatest level of coordination, has to interweave two different processes that can be the base to the building of the competitive advantage. He defined these two processes as *business and organizational process*. The business process is represented by three actions (processes) that are defined as: executing, planning and control of business. On the other hand, the organizational process is characterized by the following three activities: planning organization, actuating and controlling organization. The following table can explain the relationships between management processes, business processes and organizational processes.

¹² Rozman R., (2002). Subject and method of organization. Ljubljana. (English version for the Ljubljana University), Ljubljana, pp 8.

The distinction made with regard to business and organizational processes is differentiated according to the authors who analyzed and explained its characteristics.

Figure 3: Relations between Management, Business and Organizational Processes

| | | Business processes | Organizational processes |
|----------------------|---------|-----------------------|------------------------------|
| Management processes | Plan | Business planning | Planning organization |
| | Execute | Execution of business | Actuating (Staffing/leading) |
| | Control | Control business | Controlling organisation |

Source 3: Author, based on Rozman (2000, p.7)

Given these premises, management is therefore defined as planning, organizing, controlling and leading; these are the 4 fundamental aspects that Rozman defined in 2000 as the most important general features. Many authors define the concept of planning by relating it only to the concept of business planning. The company management does not include the concept of business execution but includes the concept of implementation of the business organization also known as "staffing and leading". Rozman wrote in his paper that most economic authors define control as control of the business, control of the magnetization and control of the audit, and this can be the correct definition of it.

Finally, Rozman¹³ defines *management* as a conscious process and divides it into three phases, as previously described: *planning, executing and controlling*. Planning is used when it allows you to think ahead about the desired objectives and results and it allows you to think about the best process to achieve them; instead, the execution of the planning is precisely the actual process of carrying out the proper action; and finally the control or the establishment of the will to execute and verify that the previously defined patterns are respected. The planning and control phases ensure the rationality of the (execution) process, while the execution phase generates a product or a service.

Thanks to the explanation of Rozman, we can state that *planning* all the activities can resolve most of the problems because the management of the company can evaluate different possible scenarios. *Organizational processes*, on the other hand, make the creation of permanent relationships among company employees possible thanks to the evaluation and creation of an adequate organizational structure. Thanks to this creation,

¹³ Rozman R., (2002). Subject and method of organization. Ljubljana. (English version for the Ljubljana University), Ljubljana, pp 92-94.

the execution of business plans and objectives is permitted. When it comes to dealing with communication and motivation of workers related to the company, the most important aspect is the leadership of a leader, or more the one, to the command that knows how to organize and implement the actions planned as optimal for a long-term goal. Moreover, there is the need to observe and control the auditing of the behavior of the workers in order to have and produce results that will be analyzed and controlled, but, above all, that will be compared with those initially planned in order to understand if there were deviations or if everything worked as planned.

In conclusion, I can state that management can be divided as follows: business and organizational *planning*, the definition includes short or long-term objectives, company policies and processes related to them; *guide* for all the people of the company thanks to the use of company's activities and support from leaders, that is basically the process of coordination; and finally *control* which is the final part of the management process. Its philosophy is based on the verification and comparison between the objectives achieved and the imposed ones by the company at the beginning of the activity. Business processes ensure efficiency and organizational processes guarantee the rational achievement of goals. A very important aspect from the business point of view is that the behaviors of the employees, like those of the chiefs, are coordinated among themselves for the achievement of a unique goal. It is therefore important that the company requirements can be known by all parts of the company in order to reach the objectives in an effective and, at the same time, efficient way.

1.1.3. Definition of supply chain management

The definition of supply chain management is one of the most argued definitions regarding the economic world. The following definitions, represented in table 1, explain the difficulties in finding a single explanation on the meaning of supply chain management. Many authors have different opinions and different definitions.

When we want to define correctly what supply chain management means, hence the need to define correctly what is our best definition of supply chain. As mentioned before in the paragraph 2.1., the supply chain can be defined as the “processes from the initial raw materials to the ultimate consumption of the finished product linking across supplier-user companies,” or as the “functions within and outside a company that enable

the value chain to make products and provide services to the customer”¹⁴. Moreover, we should define what is the definition, according to the APICS dictionary, of the concept of value chain. It is defined as those “functions within a company that add value to the products or services that the organization sells to customers and for which it receives payment”. There is only a subtle existing difference between these two concepts. The supply chain can be defined as precise sequence of actions, or activities, that are performed in order to take the input and transform it into the desired output ready to satisfy the customer. Doing so, the input moves from the raw material stage to the end customer. Each stage can be represented by a different entity, so by a different firm. On the other hand, the value chain is represented and characterized by all of those functions within one single firm that can add the value at that specific stage of the process, and that, of course, add the same value to the final product or service sold to the customer. Regarding these concepts, another fundamental notion has to be specified before analyzing and understanding what the management of the supply chain is. The mentioned term is “pipeline”. A pipeline is basically a part of the supply chain that is used only for one part of the product. We can have many different pipelines within the same supply chain because every process can be represented by a single pipeline.

Now we can define what a supply chain management is. It is still not easy to be defined but going through different definitions, we can have a better understanding of it.

¹⁴ Apics dictionary, 1995, 8th edition.

Table 1: Definition of Supply Chain Management

| | |
|--------------------------------------|--|
| Monczka, Trent, and Handfield (1998) | SCM requires traditionally separate materials functions to report to an executive responsible for coordinating the entire materials process, and also requires joint relationships with suppliers across multiple tiers. SCM is a concept, “whose primary objective is to integrate and manage the sourcing, flow, and control of materials using a total systems perspective across multiple functions and multiple tiers of suppliers.” |
| La Londe and Masters (1994) | Supply chain strategy includes: “... two or more firms in a supply chain entering into a long-term agreement; the development of trust and commitment to the relationship; the integration of logistics activities involving the sharing of demand and sales data; the potential for a shift in the locus of control of the logistics process.” |
| Stevens (1989) | “The objective of managing the supply chain is to synchronize the requirements of the customer with the flow of materials from suppliers in order to effect a balance between what are often seen as conflicting goals of high customer service, low inventory management, and low unit cost.” |
| Houlihan (1988) | Differences between supply chain management and classical materials and manufacturing control: “1) The supply chain is viewed as a single process. Responsibility for the various segments in the chain is not fragmented and relegated to functional areas such as manufacturing, purchasing, distribution, and sales. 2) Supply chain management calls for, and in the end depends on, strategic decision making. “Supply” is a shared objective of practically every function in the chain and is of particular strategic significance because of its impact on overall costs and market share. 3) Supply chain management calls for a different perspective on inventories which are used as a balancing mechanism of last, not first, resort. 4) A new approach to systems is required— integration rather than interfacing.” |
| Jones and Riley (1985) | “Supply chain management deals with the total flow of materials from suppliers through end users...” |
| Cooper et al. (1997) | Supply chain management is “... an integrative philosophy to manage the total flow of a distribution channel from supplier to the ultimate user.” |

Starting in the 1960s and 1970s, firms began to understand that they should have created functions and processes able to make them close to their customers. One of the first aspect that firms used to denote their processes was often referred to as material logistics management or also called material management. Thanks to the use of this structure, companies analyzed and studied how to improve customer service thanks to the use of their purchasing, operating and distribution functions, everything done in order to lower the costs.

Saying so, according to Fredendall L. D. and Hill E.¹⁵, the real power of the supply chain management is the ability of the company to include the customer as a partner of the supply chain. They explained that integrating him (the customer/s) in the supply chain can bring several advantages to the company and this can allow the firm to reach a competitive advantage against the competitors. The following are the two advantages described in their research paper:

1. A new and better flow of information can be added throughout the whole supply chain. The most important thing under a firm perspective is the collect of customers' data in order to understand their preferences, tastes, purchase behaviors etc. A real proximity to costumers is necessary because the further the firm is from the end costumer, the less knowledge it has about the preferences of the customers. This can create the so called *uncertainty*. This is one of the aspects that can create several problems within the firm and the supply chain in general. When someone does not know what to do and how to do it in order to satisfy the need of the customers, a problem will occur. Hence the need to create activities and process that reduce the level of uncertainty, to create a smaller inventory and consequently to shorten their lead times while reducing their costs.
2. An integration like this can produce a higher grade of integration to the product development process function that can then help all the other functions of the company to gain a greater value. Thanks to this type of integration, the staff of the development sections of the company can communicate more with the costumers both internally and externally. This can enhance the possibilities to reduce the product development time to produce the product / service.

¹⁵ Fredendall L. D. and Hill E., (2001), Basic of Supply Chain Management. 2nd ed: St. Lucie press. Pp. 5.

These two authors explained a concept that is really important when we want to analyze the managerial aspect of the supply chain. This concept is the *internal customer*. This is defined as the recipient (person or department) of another person's or department's output (product, service or information) within an organization¹⁶. The purpose of the internal customer logic is to keep each employee focused on the needs of the end customer (Fredendall L. D. and Hill E. 2001, p.8), and this can enhance the possibilities of a better understanding of how to satisfy the requests and the needs of the customers. The end customer is the most important part of the supply chain because he is the one that purchases your products and gives you the money to keep your company active and healthy through the years. The customers' requirements have to be well known throughout the whole supply chain and all the parties have to know what and how to do their job. The focus has to be on the needs of the customers and the information about them must be spread throughout the supply chain as soon as possible. The faster they are spread, the faster will be the reactions to the changes. Going back to the concept of uncertainty we can state that reducing it, the firm may reduce the need of inventory, as explained before, because there is less need for just-in-case inventory. And thanks to this, the members of the supply chain can have a better knowledge about the necessary quantity and they can make plans in order to produce only the inventory needed with small percentage of rescue. This will improve the level of service of the firm. We can state that the information is one of the most important aspects of the supply chain management and that the companies must have an advanced information system networks that can improve their management and that can help them in the decision-making processes.

The analysis of the drivers of the supply chain management is also fundamental because it can give the knowledge about what should be implemented and what resources are necessary to be acquired and used in order to achieve a better level of customer satisfaction. According to Fredendall L. D. and Hill E.¹⁷, there are two forces driving supply chain management. These forces are divided into two basic points. The first is related to the customers' satisfaction and it is based on the continuous change of the customers' demand that require lower prices for better products or services. The second one consists in a new communication technology available that allows managers to actively manage a supply chain. All the goals of improving the techniques to satisfy the

¹⁶ Apics dictionary, 1995, 8th edition.

¹⁷ Fredendall L. D. and Hill E., (2001), Basic of Supply Chain Management. 2nd ed: St. Lucie press. Pp. 29-30.

customers' demand are shared in many different philosophies that are represented mainly by *supply chain management, just-in-time production (JIT), quick response manufacturing, vendor management and agile manufacturing*. There are many other techniques that can change the aspect of a firm, but these are the basis to create a competitive advantage. They attempt to improve customer service thanks to the elimination of waste from the system. The role of the supply chain management is to embrace the other philosophies and extends their scope from one firm to all the firms in a supply chain¹⁸.

As I explained before, one of the elements that can create a barrier for the management of the supply chain is the human element that can cause a lack of communication. This can enhance the possibilities of misunderstanding, lack of knowledge and bad behaviors that open up to bad payoffs for supply chain managers and that doesn't let the company increase the profit for their shareholders. When the communication is not adequate, the supply chain cannot improve itself and is not able to increase the profits. The human element is one fundamental aspect for the management of the supply chain¹⁹. Supply chain management requires great level of communication between the members of the supply chain²⁰. The sharing of a continuous flow of information within the supply chain allows all parties to reach a higher level of productivity, thus allowing the entire system to take a competitive advantage both from the customer relationship point of view, both in terms of timing and quality of production and therefore of production processes.

We can state that the final point of the supply chain management, regarding the way thanks to which a firm can reach the competitive advantage, is based on the concept of *collaboration*. Collaboration can allow companies to have a better knowledge of many different aspects of the supply chain, and the management of it can open up new possibilities for a better output or a cost reduction that means, with the same level of sales, increasing profits. According to Fredendall L. D. and Hill E., collaborative planning requires from the firm to work with customers and suppliers in a continuous flow of information in order to ensure that the needs of the customers can be satisfied every day

¹⁸ Fredendall L. D. and Hill E., (2001), *Basic of Supply Chain Management*. 2nd ed: St. Lucie press. Pp. 29-30.

¹⁹ Fredendall L. D. and Hill E., (2001), *Basic of Supply Chain Management*. 2nd ed: St. Lucie press. Pp. 31.

²⁰ Fredendall L. D. and Hill E., (2001), *Basic of Supply Chain Management*. 2nd ed: St. Lucie press. Pp. 8.

but, more than that, that every parties of the supply chain knows what the need of the costumers are. This has to be done every day, so routinely, and not only when a crisis occurs. One of the most famous and important tools used by companies in order to succeed in the communication is the APS software, the *Advanced Planning and Scheduling*.

1.1.4. The APS software used to manage the supply chain

The Advanced Planning and Scheduling software can be developed into a set of methods that can allow the company to create and analyze forecasts and/or production plans and it can permit a better and faster control and monitoring by the other parties of the supply chain that can transmit immediately their analysis to the next partner. According to the definition given by the APICS organization, these APS systems are: “real computer programs that use algorithms and mathematical logics for questions of optimization and production simulation, in order to solve scheduling problems. Thanks to these techniques, APS can simultaneously manage a wide range of production limits by offering decision support to production planning and scheduling”. The meaning of these two new concepts are important to be explained in order to better understand what these systems are. Planning means basically to describe the activities that have to be implemented and how to perform them with both a medium and a long-term view. Scheduling, instead, is the proper schedule, so it consists in the decisions about the time of the processes to be executed in the short-time. Differently from the planning, the scheduling is more precise because it is based on the short term. In fact, in the scheduling, precise days and times are determined.

The analysis of the management fields is really important and this evaluation has to focus on the tools that can be used to accomplish it. According to the APICS website²¹, the APS software can be used in all the productive sectors, starting from the Make to Stock to the Engineering to Order.

- First, we can analyze the companies that are represented by the *Make to Stock productions* (MTS). This type of production is based on forecasts and therefore on Manufacturing Forecasting. Thanks to the availability of a lot of time, these

²¹ Apics.org. APICS is now part of the Association for Supply Chain Management (ASCM). [online] Available at: <http://www.apics.org/> [Accessed 23 Jul. 2019].

companies are able to formulate plans for the production of their product and, then, for the revisions of these plans based on the past experiences, then they can modify and correct their processes. The lead time, which is the time the company needs to hand in the product to the customer starting from the order of it, is usually greater than the average one required by the market (Business Dictionary website). All the companies that are characterized by this type of production are known to base their production on analyzed and studied demands. Due to the use of these demands, companies have to define what the optimal production mix is. This can be implemented thanks to the use proper forecasts and then align and base the output production on the effective forecasts.

- Then there are the production systems called Make to Order (MTO). In this type of production process, as the name explain, the production starts only after the order was placed. Everything is done only after the purchase, and the assembly process starts only when the demand actually occurs²². APS systems allow the company to easily program the load on each resource by minimizing the costs related to the production process but keeping the service level constantly under control. Thanks to the use of these systems, companies can simulate alternative scenarios and identify the best options for the production processes in order to have an increase of the effectiveness and efficiency levels.
- Another important type of process is called Assemble to Order (ATO). According to Investopedia website²³, it is defined as a business production strategy where products ordered by customers are produced quickly and are customizable to a certain extent. The importance of this type of production is that all the basic parts related to the product are already produced but they are not assembled. This process in fact occurs when an order is made and the assembly process starts. The APS system allows companies to balance the mix on the final assembly line, having all the materials limiting stocks (especially those with high consumption variability).
- The perfect application for the APS software takes place in the Engineering to Order (ETO) production. Companies, that use this type of process, produce their

²² Funda Sahin, Powell Robinson Jr, (2005), Journal of operations management, pp 579-598.

²³ Investopedia. Investopedia. [online] Available at: <https://www.investopedia.com> [Accessed 9 Aug. 2019].

output on customers' orders. According to F. Sahin and Powell Robinson Jr²⁴, this production process is the most complicated one and this is one of the most important reasons that make this system so important to be applied. In this situation the orders cannot be predicted and the delivery time is much longer than all the other systems. There is also a further problem related to the purchase of critical materials (in terms of time and / or costs) that must be planned. When the company receives the order from the customer it must order all the necessary raw materials and start the production process. The most tough part for the ETO process is that the company has to guarantee the delivery time to the clients and it has to produce the output within the forecasted time in order to satisfy the demand of the customers. This can be done thanks to the use of a perfect coordination and collaboration and thanks to a great organization of all the production processes. The above mentioned process has to be done respecting the constraints and simulating the consequences deriving from the changes. Production within ETO is characterized by a high crossing Lead Time and a high unit cost.

It is therefore important to explain and to understand what an APS software requires to be applied and implemented. The APS system uses advanced algorithms capable of permitting the analysis of the best solution that is not only able to bring together all the necessary logics (MPS, MRP / CRP, planning and scheduling with finite capacity) but, above all, it can allow to process all the business logics in a compact way with an approach called "Closed Loop" where the feasibility of the plan is verified at each step. Another fundamental aspect, for most companies, is that the finite capacity manages not only the loads of resources but also the constraints on materials, in order to eliminate the problems of lack of production²⁵. The APS software has to be adaptable for all the different firms and processes, within the same firm, in order to let the company to use it for every occasion and, moreover, to use it over the time. Last but not least, the integration of the APS system is a fundamental point because an Advanced Planning System requires regular frequency with data coming from the company ERP (Enterprise Resource Planning) and, eventually, by additional tools to support the production planning such as MES (Manufacturing Execution Systems). According to Thales Botelho de Sousa, it is necessary to specify that the APS system does not replace existing ERP systems but it

²⁴ Funda Sahin, Powell Robinson Jr, (2005), Journal of operations management, pp 579-598.

²⁵ Bothello de Sousa T., (2014), Describing the APS Systems: a Software Overview. 8th International Conference on Industrial Engineering and Industrial Management, pp 2-9.

integrates them for an advanced approach. He points out, in his research paper, that it is known that ERP systems are not made to work in the area of strategic business planning, so APS systems were invented to fill this gap and integrate ERP systems for optimal efficiency for the company.

According to Ou-Yang and Hon²⁶, APS systems develop adequate production planning to support potential orders, while ERP systems are used to integrate the execution of orders related to business processes and to manage activities and transactions basic, such as customer orders, accounting, etc. The extraction of information belonging to ERP systems is the task of the APS system which then analyzes and calculates the plans for the production and distribution of products. So, the task of the APS system is to extract the information belonging to and produced by the ERP system through the user interface, to then analyze the data, make the appropriate calculations that follow and then develop the resulting plans for distribution and execution. The APS sends to the ERP manufactured part needs, purchase part needs and projected order completions. The ERP sends APS requests (customer orders, forecasts, MPS, security stock orders, transformer orders), item information, BOM (Bill of Material) information, operational information, resource information, resource group information, WIP status, completed jobs and released, planned works, perform parameters, calendar, shifts and holidays. Planning and usage results can be saved in the database through the output interface²⁷.

1.1.5. Supply chain management as a set of activities

When a company establishes a philosophy, it has to ensure that a set of activities will be implemented in order to perform a consistent behavior. According to Mentzer²⁸, these activities can be summarized as:

- Integrated behavior.
- Mutually sharing information.
- Mutually sharing risks and rewards.
- Cooperation.

²⁶ Ou-Yang C, Hon S. J. (2008). Developing an agent-based APS and ERP collaboration framework. *The International Journal of Advanced Manufacturing Technology*, pp 943-967.

²⁷ Bothello de Sousa T., (2014), Describing the APS Systems: a Software Overview. 8th International Conference on Industrial Engineering and Industrial Management, pp 2-4.

²⁸ Mentzer J. T., DeWitt W., Keebler J. S., Min S., Nix N. W., Smith C. D. and Zacharia Z. G. (2001), Defining Supply Chain Management. *Journal of Business Logistics*, 22: pp 8.

- The same goal and the same focus on serving customers.
- Integration of processes.
- Partners to build and maintain long term relationships.

The integrated behavior is basically a set of activities that must be performed in a precise way in order to create a coordination effort that allows the company to have a great connection between all the actors of the supply chain. The management of this behavior, according to Mentzer is personal but has to have a correlation between suppliers, carriers and manufacturer in order to be able to respond and to satisfy all together the needs of the customers.

Due to the fact that the coordination is one of the most important aspects of the management of the supply chain, the mutual sharing of information takes on an aspect of fundamental importance for all the players in the supply chain. According to Cooper, Lambert and Pagh²⁹, updating information through the supply chain can give to the management an advantage because all the parties can have a more in-depth knowledge of all the processes executed for the output. Thanks to the mutual sharing of inventory levels, sales strategies, forecasts, marketing strategies etc., companies can be able to reduce the uncertainty level that, as explained in the previous chapters, can be a problem under a firm's perspective.

Sharing information is important, but also sharing risks and rewards can give to the supply chain sense of belonging to the same group. Risks and rewards sharing are important for long-term focus and cooperation among the supply chain members³⁰.

An effective SCM requires a great level of cooperation as explained in the previous chapters. Coordination allows companies, so the various parties of the SC, to perform the activities in a business relationship that open up the possibilities to reach a superior mutual outcome³¹. Cooperation starts with joint planning and ends with joint control activities to evaluate performance of the supply chain members, as well as the supply chain as a whole³². As explained before, planning and control are essential for the

²⁹ Cooper, Martha C., Douglas M. Lambert, and Janus D. Pagh 1997, "Supply Chain Management: More Than a New Name for Logistics," *The International Journal of Logistics Management*, p. 1-14.

³⁰ Ibidem.

³¹ Mentzer J. T., DeWitt W., Keebler J. S., Min S., Nix N. W., Smith C. D. and Zacharia Z. G. (2001), *Defining Supply Chain Management*. *Journal of Business Logistics*, 22: pp 9.

³² Cooper Martha C., Douglas M. Lambert, and Janus D. Pagh (1997), *Supply Chain Management: More Than a New Name for Logistics*, *The International Journal of Logistics Management*, Vol. 8, pp. 1-14.

SCM but, at the same time, they have to be implemented thanks to the addition of a great coordination that can reduce the inventories of the supply chain and pursue supply chain wide cost efficiencies.

Hence the need that all the parties related to the SC have the same goal and the same focus on serving customer. This is the basis of the firm and of course the basis on how to satisfy the customer, everyone has to have the same final objective. This can be described and established as a form of policy integration that can allow the company to be successful in the market. This point of view can also avoid or reduce redundancy and overlap that can be a problem for the management of the supply chain³³.

An integration of all the processes of the supply chain is necessary to perform a better output³⁴. Starting from the R&D to manufacturing and distribution, the integration must be accomplished throughout all the teams belonging to the SC, the cross-functional team, in-plant supplier personnel and third parties service providers³⁵.

The last point to reach a great level of effectiveness of the supply chain management is focused on the creation of many different partnerships that have to be built and maintained with a long-term relationship vision. Cooper (1997) claimed that there is the necessity to understand if the company wants to have a SC with less partners in order to increase the cooperation, and this is usually the better option, or with more partners in order to have more possibilities for the processes, but this supply chain is usually harder to be managed. Thus, forming strategic alliances with supply chain partners such as suppliers, customers, or intermediaries (e.g., transportation and/or warehousing services) provides competitive advantage through creating customer value³⁶.

³³ Mentzer J. T., DeWitt W., Keebler J. S., Min S., Nix N. W., Smith C. D. and Zacharia Z. G. (2001), Defining Supply Chain Management. *Journal of Business Logistics*, 22: pp 9.

³⁴ Cooper Martha C., Douglas M. Lambert, and Janus D. Pagh (1997), Supply Chain Management: More Than a New Name for Logistics, *The International Journal of Logistics Management*, Vol. 8, pp. 1-14.

³⁵ Ibidem.

³⁶ Langley C. John, Jr. and Mary C. Holcomb (1992), Creating Logistics Customer Value, *Journal of Business Logistics*, Vol. 13, pp. 1-27.

1.2 SC from the strategic point of view

1.2.1. Supply chain orientation

When scholars try to define the concept of supply chain management, another term takes place to help them to have a better understanding of it. This term is “*Supply Chain Orientation*”. Mentzer defined it “*as the recognition by an organization of the systemic, strategic implications of the tactical activities involved in managing the various flows in a supply chain*”³⁷. He stated that when a company is able to manage and understand all the downstream and upstream flows of the products, finances, information, services across their customers and suppliers, it can be claimed that that company has and

Figure 4: Supply chain orientation



Source 4: Mentzer, defining supply chain management, 2001, p.12

is able to pursue a Supply Chain Orientation. For example, from the figure 4 the company in the middle (Called Organization) may have a SCO because it has both a downstream and an upstream flow. On the other hand, the two companies on the end do not because they have only an upstream flow (Supplier) or a downstream flow (Customer). Mentzer in his research paper claimed that the SCO is the first step to reach the supply chain management that basically consists in the proper implementation of the orientation, they are mainly two different steps of the same managerial process. The supply chain orientation can be implemented but several things need to be applied and pursued. First of all, this orientation of the company mentioned before requires a Supply Chain Orientation across all the companies that are directly interconnected with the principal one and thus connected in the supply chain. We cannot argue about Supply Chain Management until the company has performed a coordination with a strategic point of view that opens up to new possibilities over the supply chain with a strategic orientation.

Supply chain management is also defined as the implementation of the supply chain orientation across suppliers and customers. This implementation requires that all the companies belonging to the supply chain of the analyzed firm are able to utilize part,

³⁷ Mentzer J. T., DeWitt W., Keebler J. S., Min S., Nix N. W., Smith C. D. and Zacharia Z. G. (2001), Defining Supply Chain Management. *Journal of Business Logistics*, 22: pp 12.

or all, of the processes discussed and presented at the beginning of the paragraph 2.5. Mentzer asserted that the companies that want to implement a supply chain management must first have a supply chain orientation because thanks to this they can have a precise idea on what they want to pursue and what are the goals they want to reach³⁸. The focus of the agents related to the supply chain is important to be analyzed because when there is a party that does not have a downstream or an upstream flow, such as the last purchaser (the end customer) or the first supplier, these parties are not involved in the supply chain orientation since they both are focused only on one part, or the downstream flow or the upstream, but not both of them simultaneously. In conclusion, Mentzer explained that “a Supply Chain Orientation is a management philosophy and Supply Chain Management is the sum total of all the overt management actions undertaken to realize that philosophy”³⁹.

1.2.2. Value creation for the competitive advantage

The knowledge of the necessary strategies that a firm should implement within the supply chain and the processes involved in their formation are fundamental to understand how to create value. The final objectives are mainly two and they are interconnected. The first is to gain a competitive advantage in the market in order to be superior than the competitors and the second one consists in the creation of value that will be later transformed in revenues for the company.

As I explained deeply in the previous paragraphs, the basis of the supply chain, and so of its management, consists in the fulfillment of a customer request thanks to the connection and the collaboration of all the parties of the supply chain such as suppliers, manufacturer, distributors, retailer, warehouses, and customers itself. The goal of the firm is to create value for the customer with the product / service sold in order to generate profit through their sales⁴⁰. According to Lambert the integration of key business processes has to be pursued across the supply chain because this is the best way to generate value for the stakeholders, so also for the customers. This integration involves many different processes of the supply chain such as logistics, procurement, information

³⁸ Mentzer J. T., DeWitt W., Keebler J. S., Min S., Nix N. W., Smith C. D. and Zacharia Z. G. (2001), Defining Supply Chain Management. *Journal of Business Logistics*, 22: pp 12.

³⁹ Ibidem.

⁴⁰ Lambert D. M., Cooper, M. C., & Pagh, J. D. (1998). Supply chain management: Implementation issues and research opportunities. *International Journal of Logistics Management*, pp 1–20.

technology, operation management and many others. All of this is done in order to gain the so called *competitive advantage*.

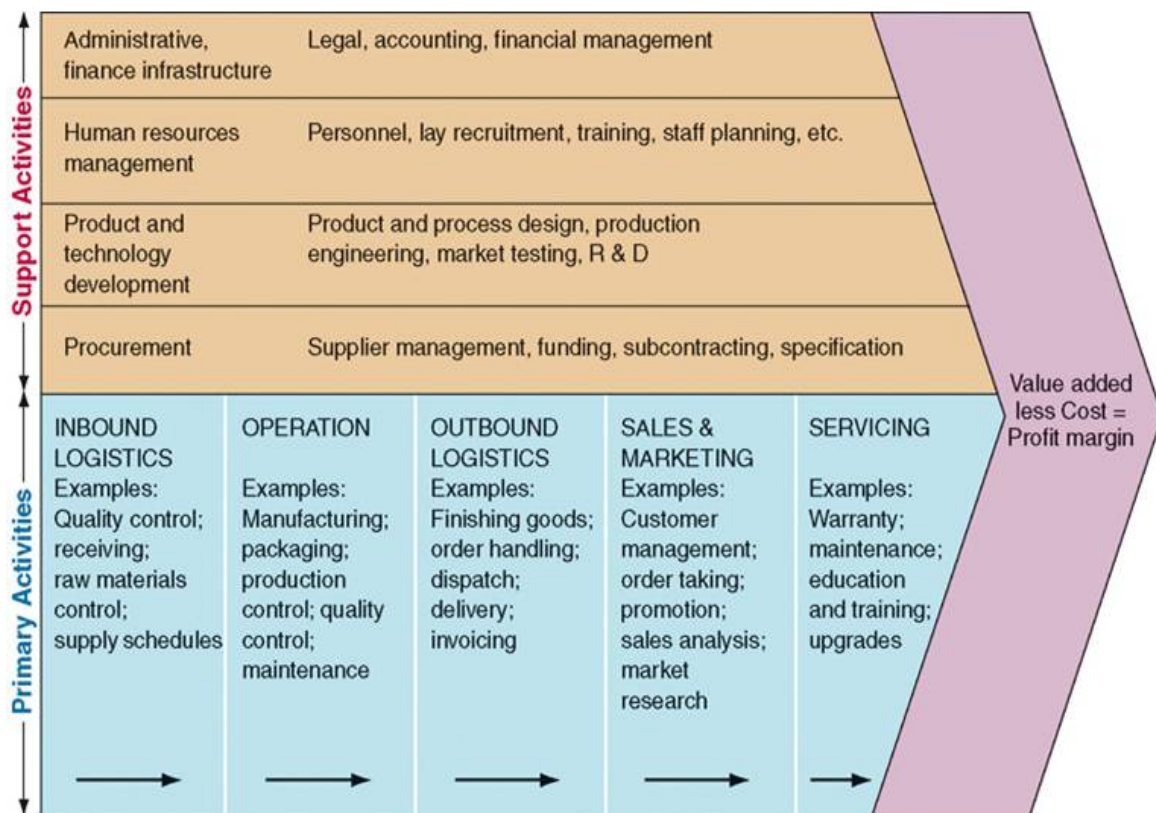
The question now is: what is a competitive advantage? How can firms gain it through the supply chain management? Porter in his book defined competitive advantage as an advantage gained by firms thanks to the use of lower costs and greater differentiation compared to the other firms or the other supply chains⁴¹. He stated also that the strategic management should be linked with building and sustaining competitive advantage of the firm. Basically, he claimed in his books and research papers, that a company can reach the competitive advantage when an attribute, or a group of attributes, allow the supply chain to outperform its competitors. The competitive advantage is actually reached thanks to the value generated by the strategies utilized and pursued by the supply chain management than can bring something unique to that industry. Another necessary thing for a firm perspective is that this advantage (or advantages if more than one) has to be unique but, more than that, has to be protectable. This means that the firm must use regulations and laws in order to protect their advantage, using for example patents, trademarks, copyrights, etc., in order to defend their benefit from the possibility of copy.

Competitive advantage can give to the company the possibility to achieve greater value for the customer and for the stakeholder in general and thanks to this they can not only outperform their competitors but also have an improvement of the performances of the supply chain in general. This advantage can be obtained thanks to several different processes such as differentiation, innovation and cost leadership with lower costs than the competitors in the market, operational effectiveness and efficiency in general along the supply chain. Porter stated that to be successful in the market, an industry must focus beyond its own operations by opening the view on its competition and studying its movements and developments, and then focusing on its own value chain where it can bring processes that increase the value for its stakeholders.

⁴¹ Porter M. E. (2004). *Competitive Advantage*. New York: Free Press.

According to Porter⁴², nowadays the competition is no more based only on the firms and their products / services but on their supply chains, that are able to give to the companies the advantages in many different ways. It is therefore necessary to incorporate competitive strategies into the value chain of a firm. The difference that is calculated between the costs belonging to the supply chain, that are incurred for the production processes, and the value that the final product takes on thanks to these production processes, therefore capable of satisfying the needs of the customers, is defined as the actual value of the supply chain⁴³. Porter in 2004 developed a competitive strategy plan in which the activities of the supply chain are divided in two main categories, primary and secondary activities. Those classified as primary activities are inbound logistics, outbound logistics, sales, operations and marketing. On the other hand, he defined the secondary, not for importance but only for the differentiation of them, activities as technology development, HRM (human resource management), infrastructure and procurement, outlining them as support activities (figure 5).

Figure 5: Porter's value chain with primary and secondary activities



Source 5: Porter, M. E. (2004). *Competitive Advantage*.

⁴² Porter M. E. (2004). *Competitive Advantage*. New York: Free Press.

⁴³ Lambert D. M., Cooper, M. C., & Pagh, J. D. (1998). Supply chain management: Implementation issues and research opportunities. *International Journal of Logistics Management*, pp 1–20.

Porter in his book claimed that the starting point of the supply chain is the proper development of the product, of a new product, that must be marketed and publicized based on the customer needs⁴⁴. If the customers' needs are satisfied, the customers will buy more products / services and this will increase the value of the company.

The basic of these activities, according to Porter, is to create a greater value than the costs of conducting those activities in order to generate a higher profit. He explained the primary activities as follows:

- Inbound Logistics: it includes most of the processes related to the raw materials such as warehousing, inventory and receiving them, so basically the control of the raw materials of the company. It also comprehends the relationships with the suppliers that supply raw materials.
- Operations: it includes all the operations that must be used and performed in order to transform the raw materials (input) in final product (output) or product used by the next step of the process.
- Outbound Logistics: it includes all the processes used in order to distribute a final product to the consumer. It incorporates storage and distribution system, and also the delivery. This system can be external, direct to the final customer, or internal, within the supply chain.
- Marketing and Sales: it includes all the strategies aimed at making consumers aware of company products such as promotions, advertising and pricing strategies. These activities are made in order to “persuade” customers to buy the products.
- Services: it includes activates such as customer service, repair, refund, exchange of the product etc., that are post sales services to maintain the fidelity of the customers.

Porter, then, defined the secondary activities with a precise purpose “they should improve, thanks to their support, the value of the primary activities” and he defined them as follows^{45 46}:

- Procurement: it consists in the process through which the companies acquire raw materials and it includes also the bargaining and the negotiations with suppliers

⁴⁴ Porter M. E. (2004). *Competitive Advantage*. New York: Free Press.

⁴⁵ McGee J. (2014). Value chain. In book: *Wiley Encyclopedia of Management Strategic Management Edition*, 3rd Chapter: value chain.

⁴⁶ Porter M.E., (1985) *Competitive Advantage: Creating and Sustaining Superior Performance*. New York: The Free Press.

and vendors. It is basically the acquisition of the inputs that have to be transformed in outputs. It is related to the inbound primary activity.

- **Human Resource Management:** it includes all the strategies and the process by which a company hires and trains its work force and employees. These employees have to fulfill business strategies as well as help design, market and sell the product. This is related to all the primary activities because hiring and training employees is fundamental for all the aspects of the supply chain.
- **Infrastructure:** it consists in the functions and all the support systems that allow the company to maintain operations. It comprehends all the legal and administrative functions of the supply chain and it is necessary for all the primary activities.
- **Technological Development:** it includes a lot of different processes that comprehend manufacturing techniques and automating processes such as developing, designing, equipment, software, procedure, technical knowledge etc. It is used in the supply chain management because it allows a company to reduce technology costs related to the changes of software, general systems etc.

According to Lambert⁴⁷ the supply value chain can be called also supply chain surplus because it is associated to the source of revenue that can be reached thanks to the profitability of the positive cash flow from customers. It is also defined as “the difference between the revenue from product sales and the costs across supply chain”⁴⁸. The attempt to have the highest value from the supply chain is important and it means to increase the positive cash flow as much as possible and then reduce all the negative cash flows related to the activities. In this chapter, and these paragraphs, I’m talking about decision and strategies, all of these are based on the decision making process that is the base to reach the competitive advantage. Having a correct implementation of the decision making process is fundamental and it can give to the company a correct flow of information, products, and cash. All these decisions must be made keeping in mind the objective of the company related to the surplus, to the value and to the desired profitability of the company and its value chain. According to Chopra & Meindl⁴⁹ this decision making

⁴⁷ Lambert D. M., Cooper, M. C., & Pagh, J. D. (1998). Supply chain management: Implementation issues and research opportunities. *International Journal of Logistics Management*, pp 1–20.

⁴⁸ Porter M. E. (2004). *Competitive Advantage*. New York: Free Press.

⁴⁹ Chopra S., and Meindl P. (2010). *Supply Chain Management: Strategy, Planning and Operation*. Hoboken, NJ: Prentice Hall.

process can be categorized into three different stages called phase 1, phase 2 and phase 3.

1. Phase 1 - Design or Strategy: within this phase the supply chain is organized and structured in order to last several years. Several subdivisions of the supply chain are represented at this stage including the configuration, the functionality, many procurement methods and allocation of company resources. Then the corporate objectives will be analyzed, relating precisely to the supply chain and, depending on which one it is, strategic decisions will be taken regarding resources, production, outsourcing, warehousing, the facilities to be used and when to use them, locations, transport and other decisions based on a long-term process.
2. Phase 2 - Planning: this phase is done with a medium-term perspective. In fact, it usually consists on a framework of up-to a year. In this phase the processes and all the developments used and produced by the phase 1 are used in order to produce the planning. In this phase, a fixed configuration will be provided and the goal is to overcome the constraints in order to produce value, so the so called surplus, for the whole supply chain. According to Chopra & Meindl in this phase the planning is initiated with demand forecast from different markets in the coming year and the decisions on the location, production, promotion, price and marketing are made based on the forecast of the future demand. They stated also that companies require uncertainty during this phase as well as market fluctuations, exchange rates, and competition parameters into their planning equation for successful execution of the operations.
3. Phase 3 - Operations: this phase is based on a short-term perspective, usually daily or weekly. The decision making process related to this phase is based on the daily customer demand and on individual customer orders. At this point all the operating policies are settled and all the supply chain configurations are defined and this phase has the duty to handle incoming customer in the most optimal manner. Order filling, inventory allocation for customer orders, delivery schedules, and stock replenishment are some of the supply chain activities on which decisions are made by companies at this stage. The main goal at this stage is to reduce uncertainty so as to increase performance.

According to the authors Chopra & Meindl, these phases are the foundations by which a company and its supply chain can manage and gain the competitive advantage.

A good implementation of a good strategy helps the supply chain to be the first company in the market⁵⁰.

1.2.3. Supply chain integration: Vertical vs Horizontal integration

Nowadays companies need to face a highly competitive market in which economic globalization, information technology and global supply network are pushing companies with their supply chains onto a focus on performance efficiencies. However, there are problems related to the supply chain, such as uncertainty in supply and demand, complex product structures or incomplete product life cycles that prevent supply chains from acquiring faster responsiveness and flexibility⁵¹. Because of this problem, supply chain integration (SCI) was formed in order to increase the level of flexibility and responsiveness of the supply chain. According to Du, Supply Chain Integration consists in the degree of integration between the firm, its customers, and its retailers or distributors. The supply chain integration is represented by a system that allows coordination and alignment within the supply chain in order to use a network of shared management systems between different companies belonging to the same supply chain. The integration of processes is based on several pillars such as trust, understanding, communication and above all common goals between partners along the supply chain. When the analysis of the integration is necessary, two types of SCI exist: Vertical and Horizontal.

1. Vertical Integration: this type of integration is based on the analysis and on the proper integration of the upstream or downstream supply chain. It is based on the acquisition of the control of another part of the supply chain in order to increase the power of the principal firm over the marketplace. Vertical integration is based on the fact that common objectives, pre-agreed standards, pre-decided working methods are analyzed and performed within the supply chain in order to reach a maximization of efficiency, costs reduction and a sustainability improvement. Through the use of vertical integration, a company of the supply chain acquires another company that operates in the same production process of the same

⁵⁰ Chopra S., and Meindl P. (2010). *Supply Chain Management: Strategy, Planning and Operation*. Hoboken, NJ: Prentice Hall.

⁵¹ Du L. (2007). Acquiring competitive advantage in industry through supply chain integration: A case study of Yue Yuen Industrial Holdings Ltd. *Journal of Enterprise Information Management*, pp 527–543.

industry. This process can open up to new possibilities such as the acquisition of upstream or downstream profits or can create new opportunities for new distribution channels. This process can also give to the company other advantages such as new operations to sell products to customers, new and higher efficiencies, or reduce the time of delivery and transportation. Vertical integration can be divided into three types:

- I. Forward Integration: it is focused on the downstream part of the supply chain. The implementation of this type of integration allows the company to achieve higher economies of scale and bigger market share. When the company that performs the acquisition is efficient enough to manage the downstream supply chain on its own, it can use this forward integration because it will be able to do it more effectively than in other situations. In this case retailers and distributors are less in number, are unproductive or are untrustworthy and this forces the company to work by itself. Thanks to this process the acquiring company will have a better control on the downstream processes and on every stage of its distribution process.
 - II. Backward Integration: contrary to the forward integrations that is based on the downstream of the supply chain, the backward integration is based on the upstream flow on a firm's supply chain. An efficient supply process of resources for the firm is the base of this integration. A firm should implement this process in order to have a maximization of the effectiveness of it when a limited number of suppliers is present in the supply chain, when there are higher margins for the suppliers and when they are inefficient or unreliable or when the input costs are volatile. These are the most common situations in which a company can opt for a backward vertical integration. The company basically decides to buy another company that makes an input product for the acquiring company's product.
 - III. Balanced Integration: it consists in a combination of the two above mentioned integrations. It is used in order to maximize the value creation throughout the firm's supply chain.
2. Horizontal Integration: this type of integration is based on the fact that a firm acquires another firm that works in the same industry. This strategy is used in order to strengthen the position in the industry thanks to different processes such

as mergers, acquisitions and hostile takeovers of the competing firms in the same value chain. These three terms are different but they have the same final goal. Hostile takeover means to force an acquisition of a company that is hostile, so that does not want to be bought. Mergers means a collaboration when two different entities decide to join together. Acquisition is a basic acquisition of another company that is opened to the possibility to be bought. Companies may choose to undergo horizontal integration in order to increase their size, diversify products or services offerings, achieve economies of scale, or reduce competition. These are the fundamental advantages that a company can opt for with this type of integration. The aim of the horizontal integration is to allow the companies to reach higher revenues compared to the ones reached working independently. It can also open up to overseas possibilities and it is usually used when the industry is growing.

The basic question that everyone has at this point is: is it better to implement a vertical or a horizontal integration? This cannot be answered easily because it really depends on the company's policies and value propositions. There are companies that should implement one integration and company, in the same industry, that should implement the other one⁵².

Table 2: Advantages and Disadvantages of Vertical Integration

| Advantages | Disadvantages |
|---|---|
| <ul style="list-style-type: none"> • Lower transaction costs • Less uncertainty • Strategic independence • Better positioning of local companies against foreign competition • Synchronization of supply and demand along the supply chain | <ul style="list-style-type: none"> • Increased costs to company to manage new activities • Chances of reduced efficiency and quality of products because of competition • Higher investments lead to reduced flexibility • Clash between new and old scopes of the firm, leading to confusion and disarray • Rigidness of organizational structure |

Source 6: Katie J., A report on horizontal and vertical business integration 2013

Firm's decisions will determine the strategies and the designs of the supply chain and this will let the management understand, after an in-depth analysis what integration is better to be applied in order to have all the several advantages related to it. Here below I put three tables that will explain, according to Katie J. in her book "A report on horizontal and vertical business integration", the advantages and the disadvantages of both the two

⁵² Katie J., (2013). A Report on Horizontal and Vertical Business Integration. California: GRIN Verlag.

integrations. The last table will explain the basic differences of the two integrations.

Table 2: Advantages and Disadvantages of Horizontal Integration

| Advantages | Disadvantages |
|---|---|
| <ul style="list-style-type: none"> • Greater economies of scale leading to lower costs, and higher efficiency in operations • Increased product differentiation • Increased market power over its upstream and downstream partners • Reduced competition due to industry consolidation • Entry to new markets used by the acquired firms • Monopoly pricing | <ul style="list-style-type: none"> • Mergers and acquisitions don't add value to the companies. Often, the expected synergies don't materialize • Monopoly due to HI is highly discouraged by many governments due to price control, and lack of competition. This necessitates governmental approval before any large HI taking place. • The flexibility of the supply chain suffers due to sheer size of the operations, reduced introduction of innovations to market |

Source 7: Katie J., 2013

Table 3: Differences between vertical and horizontal integration

| VI | HI |
|--|---|
| <ul style="list-style-type: none"> • More control due to control over upstream and downstream • Higher leverage due to increased benefits from success of a product • Collaboration is less rigorous • Maximum efficiency over flexibility • Higher risks, and disruptions • Increased capital requirement for finishing and distributing the product • Attitude is scarcity, meaning taking everyone else's share from the same value chain | <ul style="list-style-type: none"> • Less control due to dependency upon the upstream and downstream members • Leverage based on benefits from success of partners in the value chain • Requires frequent, open partner collaborations, and trust is critical to the success of this model • Maximum flexibility over efficiency • Lower, and mitigated risks • Decreased capital requirement since upstream and downstream functions are not controlled by single firm • Attitude is abundant, meaning helping upstream and downstream partners succeed, and compete with other value chains |

Source 8:Katie J., 2013

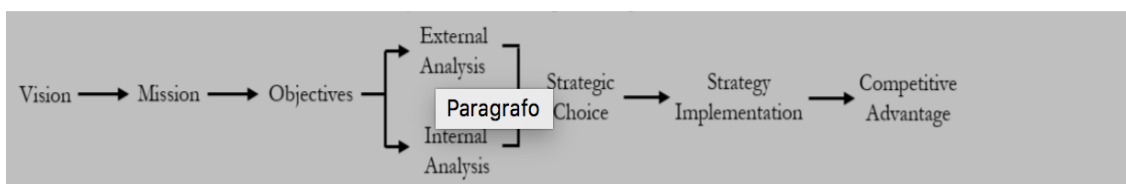
1.2.4. Swot analysis for the competitive advantage

I explained why today the organizations must implement a strategic planning in their management, they have to achieve their goals and the strategic tools are the easiest way to reach the objectives. They can allow the company to allocate the resources in a better way under an effective point of view, they can make the company more productive, they can help companies in the processes of creating, implementing and evaluating decisions for the reach of their goals. Thanks to the use of strategic management planning firms can be proactive, rather than reactive, and thanks to this they can begin their activity with the analysis of the vision of the company. It consists in a picture of the future regarding the position that the company wants to have. This is the first step for a strategic planning. The second step consists of the analysis of the mission. This is long-term purpose that the company sets itself defining what an organization aspires and what it wants to avoid. The next step is the setting of the goals, the objectives, the aims of the company, that consist in what the firm seek to reach. When everything is

set, the firm should, or better must perform the internal and external analysis called SWOT analysis. This strategic tool allows the company to analyze and understand the internal behavior of the company and, at the same time, the external one, so basically the market, with the analysis of the competitors and many other things. Thanks to this tool, the company examines how competition in its environment is likely to evolve, what the threats of it are and what they will become. Based on SWOT analysis, organizations can choose the appropriate strategy⁵³. In conclusion, I can state that thanks to the SWOT analysis a firm is able to choose its theory of how to obtain a competitive advantage, and after this analysis an implementation of the strategy is necessary. The following picture will explain figuratively the steps of the management process to reach the competitive advantage.

More deeply, an organization exists in two environments, internal and external. The process called SWOT analysis is the most used tool to analyze and understand both of these environments in order to produce a strategy for the achievement of the objective. Thompson⁵⁴ defined swot analysis as follows “SWOT Analysis is a simple but powerful tool for sizing up an organization’s resource capabilities and deficiencies, its market opportunities, and the external threats to its future”. This acronym stands for strengths, weaknesses, opportunities and threats. These 4 concepts are the basis of the analysis, in fact the SWOT analysis wants to underline the strengths of the company in comparison the its competitors; the weaknesses so all the point in which the competitor of the company are better than it; the future opportunities that the market will allow and, last

Figure 6: the strategic management process



Source 9: Emet Gürel and Merba Tab, The Journal of International Social Research, 2017

but not least, the future threats in which the company could occur if it decides to enter that market.

⁵³ Emet Gürel and Merba Tab, (2017). Swot Analysis: a Theoretical Review. The Journal of International Social Research, pp 994-1006.

⁵⁴ Thompson A., and Strickland, A. J., (1989). Strategy Formulation and Implementation, 4th, USA: Irwin Inc.

This process is basically divided into four main areas included in two dimensions. The internal factors, as I explained before, are the first two letters of the word “strengths and weaknesses”, that are attributes of the organization. The external factors are instead the last two letters of the word “opportunities and threats”, that are attributes of the environment and of the market in which the company is settled in. In fact, we can state that the strength and the weak aspects of an organization are analyzed thanks to the analysis of the environment of it while the opportunities and the threats are determined examining all the elements that belong to the outside. SWOT analysis is typically drawn down in a quadrant made by four parts but I will underline it as follows:

- Organizational Strengths: Characteristics that give advantage over others in the industry.
- Organizational Weaknesses: Characteristics that the competitors have at a higher level and that are problems for the analyzed organization.
- Environmental Opportunities: Benefits that can be given to the company due to the reaching of prospects of the external market.
- Environmental Threats: External elements in the environment that could cause troubles for the organization.

Going deeper, strengths are those elements that can give or create an advantage for the firm, they are those characteristics that add value to the product or service sold and that allow customers to have something more special compared to the competition in the market. When we analyze the strengths under the organizational point of view, this involves the assets and abilities thanks to which a company gains a competitive advantage and thanks to which it is able to give something different and better perceived by the customers. These strengths are revealed as a result of the analysis of its internal environment. Strengths are strictly connected to the increase in the efficiency and effectiveness of the company. According to Pearce and Robinson⁵⁵: “a strength is a resource, skill, or other advantage relative to competitors and the needs of the markets an organization serves or expects to serve. It is a distinctive competence that gives the organization a comparative advantage in the market place. Strengths may exist with regard to financial resources, image, market leadership, buyer/supplier relations, and other factors”. In conclusion, strengths are necessary for the firm in order to answer to the threats of the outside environment.

⁵⁵ Pearce J. A., and Robinson R. B. (1991). Strategic Management, 4th ed USA: Irwin Inc.

Weaknesses are the opposite of the strengths. While the second ones are a point of advantage, these are a point of disadvantage when compared to the other companies in the market. Weaknesses refer to something that the analyzed company does worse than its competitors because of various reasons, competencies, machineries, employees and many others possible causes. These are defined as negative and unfavorable for the company. When we explained this concept regarding the organizational level, we can state that the current existing capabilities of the companies are weaker compared to the ones of its direct competitors and this means that the firm is less effective and efficient in performing something than the others. The performances of the organization are badly influenced by these weaknesses and consequently products and services are negatively affected. According to Pearce and Robinson⁵⁶: “a weakness is a limitation or deficiency in resource, skills, and capabilities that seriously impedes an organization’s effective performance. Facilities, financial resources, management capabilities, marketing skills, and brand image can be sources of weaknesses”. The analysis and the knowledge of the weaknesses are fundamental for the correct management of the firm because inefficiencies and ineffectiveness should be known, improved and solved. This can help the organization in the long-term plans.

Opportunities are a positive goal-driven. Environmental opportunities can create something new with a positive trend for the company. They are situations or conditions suitable for activities that can create advantages against the competitors. Thanks to the opportunities, that can be of many different types, organizations can achieve their goals easier and faster than before and they can also create and sell their products or services more effectively and, at the same time, more efficiently. We can easily define an opportunity as a convenient time or situation that the external environment presents to the organization. Thanks to environmental opportunities, companies can take advantage of organizational strengths, overcome organizational weaknesses or neutralize environmental threats.

“Threats are situations or conditions that jeopardize the actualization of an activity”⁵⁷. Threats are referred to a bad situation that can create and bring to the company disadvantages. They are characterized by negative aspect that should be avoided or, at least, overcome. For the organizational point of view, threats are elements that can avoid

⁵⁶ Pearce J. A., and Robinson R. B. (1991). Strategic Management, 4th ed USA: Irwin Inc.

⁵⁷ Ibidem.

the possibility of reaching the goals and the objectives and they can happen because of the changes of the environment that may create a bad situation for the company or, worse than this, can prevent it from maintaining its existence or superiority in the market. They are basically defined as an impediment to success.

A deep difference between the internal factors, such as strengths and weaknesses, and external factors, such as opportunities and threats, exist. This dissimilarity is based on the fact that the external elements are referred to economic, demographic, political, social trends and events that can change the environment of the company and the market but that are not under the control or decision of the firm, the internal aspect instead are controllable activities that are performed especially well or poorly. The last ones related to the management are, the production/operations, the financial area etc. of a business. Strengths and weaknesses associated to them must be analyzed and evaluated in order to perform the best strategy possible for the firm that is directed to the achievement of the goals. To be successful a company must align internal activities with external activities thinking of what actions are necessary to satisfy the objectives. This is the basic assumption of the SWOT analysis, maximizing strengths, minimizing weaknesses, seizing opportunities and avoiding threats.

SWOT analysis can have advantages and also disadvantages that I will explain here below. The following advantages can also be depicted as characteristics that give something more to the business.

- + SWOT analysis has general perspectives and general solutions that allow companies to focus deeper on the fundamental activities to be performed. It is also defined as a map that guides the management to the correct activities.
- + SWOT analysis helps management in the macro evaluations providing tools to have two points of view, the internal and the external one. It allows businesses to add positive aspects to the company and to avoid those that badly affect it.
- + SWOT analysis forms a thinking model that opens up possibilities for the firm to gather information, analyze them and then decide the best activities that must be performed. It basically prepares the substructure for the strategic decisions⁵⁸.
- + SWOT analysis is a tool that allows managements to think about the future and to have a long term vision that opens up to forecast and to analyze for the future and the goals of the organizations.

⁵⁸ Pearce J. A., and Robinson R. B. (1991). Strategic Management, 4th ed USA: Irwin Inc.

Several disadvantages are also present with the use of the SWOT analysis such as:

- SWOT analysis is criticized to be not effective enough as a part of organizational strategy because it is judged not to go over the definition of the current situation. Some scholars defined it as a theoretical tool that cannot be as effective in practice as it is in theory.
- SWOT analysis has only a general perspective and cannot give to the management a long term vision but only general solutions.
- SWOT analysis is costly. Some scholars said that it is too costly compared to the benefits it is able to give to businesses.
- SWOT analysis is not focused on a comparison with the competitors in the market.

In conclusion, I can state that SWOT analysis is one of the most effective and efficient tools that can help companies to plan and decide what to do and how to do it. Over the years this analysis has been used a lot and helped many different businesses reaching their objectives in an easier, more efficient and more effective way. “The strategic management process begins with the evaluation of the organization’s internal analysis. The internal analysis is used to identify the internal sources and capabilities for competitive advantage. The external analysis is used to identify market opportunities and threats by analyzing general environment, competitive industry environment and rivals. While the internal analysis shows the resources that need to be improved and sustained, the external analysis enables an organization to align its strategies in accordance to the business environment”⁵⁹.

1.2.5. Most common benefits and barriers to successful supply chain management

The final corporate result is profoundly influenced by the way the supply chain is managed. These practices are in fact defined as the most important for today's companies and their implementation is of fundamental importance to achieve the required levels of effectiveness and efficiency. In fact, these practices require high-level knowledge and a high degree in managerial commitment. As Ducan stated⁶⁰ large organizations are characterized by long-term strategies that influence and delineate the

⁵⁹ Pearce J. A., and Robinson R. B. (1991). Strategic Management, 4th ed USA: Irwin Inc.

⁶⁰ Ducan R., (2001). The Six Rules of Logistic Strategy Implementation. London: PA Consulting Group, p. 1-5.

complexity of the supply chain. When a new strategy is formulated, various things can be changed, starting from the organizational structure of the company, arriving at the Information Systems, passing through the proper physical company structure used to store and move the various company products. Qualified as one of the most complicated processes, the implementation process involves the various changes on the actual task of the workers and the ways of updating them. It also makes changes to the reporting lines and analyzes the various systems that employees use on their changed roles within the organization. Ducan suggests that companies follow six basic implementation rules. These six rules for successful implementation of a logistic strategy can also be applied to implementation of supply chain management principles. They are⁶¹:

1. It is of fundamental importance that all the members of the senior manager engage before the start of the project.
2. At the beginning of the project, the management should introduce systems to measure logistic performance in order to implement the project in the best possible way.
3. It is necessary to identify and obtain the standards to be imposed on the resources before the start of the project.
4. The success of the supply chain finds its key in effective communication between the partners.
5. IT systems should not be an excuse not to proceed on other areas.
6. Responsibility for project implementation is not attributed to the project team but should be a burden of line management.

Supply chain management practices can have benefits but also barriers when advanced plans are implemented. Thanks to Fawcett⁶², I found a research made by the Centre of Advanced Purchasing Studies based on the most common benefits and the most common barriers of supply chain management. The scholars that made the research based their studies on 52 interviews of selected companies perceived as well-performing supply chain management. The survey showed that, the responsiveness of companies and its enhancement, the lower costs, a better quality and a great relationship with all the parties of the supply chain are the basis for the most common benefit.

⁶¹ Ducan R., (2001). *The Six Rules of Logistic Strategy Implementation*. London: PA Consulting Group, pp. 3.

⁶² Fawcett S, (2002). *Achieving World-Class Supply Chain Alignment: Benefits, Barriers, and Bridges*. Centre for Advanced Purchasing Studies, pp. 10.

Table 4: Benefits and Barriers of supply chain management practices

| Benefits | Barriers |
|---|--|
| <ul style="list-style-type: none"> • Increased customer responsiveness • More consistent on-time delivery • Shorter order fulfilment lead times • Reduced inventory costs • Better asset utilization • Lower costs of purchased items • Higher product quality • Ability to handle unexpected events • Faster product innovation • Preferred & tailored relationships | <ul style="list-style-type: none"> • Inadequate information sharing • Poor/conflicting measurement • Inconsistent operating goals • Organizational culture & structure • Resistance to change – lack of trust • Poor alliance management practices • Lack of SC vision (understanding) • Lack of managerial commitment • Constrained resources • No employee passion/empowerment |

Source: Fawcett, 2003.

This research demonstrated also that many bridges exist in order to help managers to overcome these barriers and to perform at the best efficient and effective level reachable. The following table will present some of them:

Table 5: Bridges to overcome barriers

| Bridges |
|---|
| <ul style="list-style-type: none"> • Senior & functional managerial support <ul style="list-style-type: none"> • Open & honest information sharing • Accurate & comprehensive measures <ul style="list-style-type: none"> • Trust bases, synergistic alliances • Supply chain alignment & rationalization <ul style="list-style-type: none"> • Cross-experienced managers • Process documentation & ownership • Supply chain education and training • Use of supply chain advisory councils |

- Effective use of pilot projects

Source: Fawcett, 2003.

All of these “bridges” can be summarized into management and organizational issues related to the organization with third party options, so with basically all the external partners of the company.

I can conclude that before we can have an efficient implementation of supply chain management techniques and before the principles attached to it can take place, there are numerous business activities that must be performed correctly. These practices are represented in the context of the right corporate strategic choices therefore aligned with the company’s requirements, defining then what is critical and what is not for an appropriate execution and implementation of the demarcated strategy. In the company, having the right work force to allow the development and execution of supply chain processes is absolutely necessary and fundamental to perform at the best possibilities. It is also necessary to possess and use a support that makes it possible to monitor the company's operational performance. Therefore, a system that can allow and facilitate the measurement of these practices efficiently is a prerequisite of fundamental importance from a managerial point of view for every company that belong to the supply chain. Last but not least, the collaboration. This term indicates one of the aspects previously described in the chapters of this thesis that outlines how communication and the desire to reach a common goal is of vital importance for the corporate well-being. Communication, coordination and cooperation in the supply chain can bring enormous cost advantages to the company that can reach levels of flexibility on the service that are difficult to obtain if these requirements are not met. I can therefore state that one of the most complex tasks in the business sector is the implementation of supply chain management. In fact, it requires specific managerial and organizational capacities to consolidate relationships between the various partners in the supply chain.

1.3 The Global Supply Chain

I argued about the concepts of supply chain and supply chain management without defining the boarder of them. I defined the supply chain in its home country never talking about those supply chain that involve products, customers, distribution centers, technologies and suppliers across multiple and different countries. These supply chains are called global supply chains (GSC). I can also state, and it derives from the proper definition of the paragraph 1.1.3., that the management on a global view, so the management related to the global supply chains is defined as global supply chain management and I am going to present it in order to understand the differences between the home country supply chain management and the global supply chain management.

Global supply chain management has been spurred by different new aspects of the market that basically derived from new trade agreements, the increase of the competition, the easier accessibility to customers worldwide, the lower costs of production in different countries and the necessity of satisfying different needs. The concept of global supply chain not only refers to the process of export of the product to other countries but it is also connected to the processes called outsourcing and offshoring.

- Outsourcing is defined as the process by which a company relies on an external company for the provision of services or for the production, in whole or in part, of company assets aimed for the end customer or intended to be inputs for the end products. This practice is usually used to reduce production costs. Production is often delegated to companies that are characterized by higher capacities, higher technologies or simply for general capabilities that allow them to have lower production costs⁶³.
- The offshoring process, differently from the outsourcing process, does not refer to foreign companies. This process is based on the transfer of one or more business operations to a different country. This may have several reasons but the most frequent is the shift in company production to third world countries, or to developing countries (such as China, Vietnam, Cambodia, Eastern Europe) thanks to different labor policies, but above all to lower costs of production. This process

⁶³ Investopedia. Investopedia. [online] Available at: <https://www.investopedia.com> [Accessed 9 Aug. 2019].

then exists when a company moves its production, or part of it, to a foreign country characterized by favorable economic conditions⁶⁴.

The company's success is strongly linked to the accurate management of all costs deriving from the supply chain and the consequent operations. The supply chains, according to Institute of Management Accountants, make up around 90% of the business costs, so efficient management is necessary for a business future⁶⁵. The management of a global supply chain includes the general services of all supply chains and all the companies, foreign or not, which are part of it. Companies are driven to develop dispersed production networks for many reasons, including lower costs, access to new markets, the search for strategic resources such as skilled labor, special technologies and others⁶⁶.

As I argued in the previous chapters about comparative advantage related to the supply chain, the global supply chain could reach higher comparative advantages thanks to the unique possibility of reaching different countries. Hence the need to be properly linked to assets such as procurement, distribution and processes that can allow the company to be a multinational firm. Global supply chain management (GSCM) allows companies to take on a different advantage at a higher level than the one achieved by basing their management only in their own state. This advantage can give diversity in the international environment thanks to the many differences related to different countries. These differences are represented by new labor force capabilities, input factor costs of production, different tax rates related to different countries, new process technology expertise and, of course, the capabilities of offshore vendors that should be different of the home-country ones, or at least better applied for the foreign customers that live in that country⁶⁷.

Global supply chains are characterized by a higher degree of management difficulty than those characterized by a need for local or national management. There are numerous major difficulties that a company may encounter if it decides to enter the global market rather than the domestic one. These critical points are mainly divided into 5 points

⁶⁴ Businessdictionary.com. (n.d.). Online Business Dictionary - BusinessDictionary.com. [online] Available at: <http://www.businessdictionary.com> [Accessed 29 Jul. 2019].

⁶⁵ Institute of Management Accountants (2008), Cost Management Update, IMA, Montvale, NJ.

⁶⁶ MacCarthy, B. L., & Atthirawong, W. (2003). Factors affecting location decisions in international operations-a Delphi study. *International Journal of Operations & Production Management*, 23(7), 794-818.

⁶⁷ Cohen, M. A., & Malik, S. (1997). Global Supply Chains: Research and Applications. *Production and Operations Management*, 6(3), 193-210.

that can be summarized with a great geographical distance, an infrastructural insufficiency of political and economic risks or a linguistic and communication barrier⁶⁸.

- Large geographical distance: thanks to the use of outsourcing and offshoring, firms usually meet with distances that are not the classic boundaries of the country. We can in fact associate long distances under a geographical point of view with the international operation of companies that have to face this issue in order to allow their operations to be globally executed. As I explained before, companies can allocate their resources when they outsource them, outside of their home country and this can create uncertainty that is one of the biggest problems of firms in general. Hence the need for these companies to use proper and correct forecasts in order to know and to understand what the necessary production will be for the future periods. Another problem related to the global supply chain connected to the geographical issue consists in the lead-time that has to be no longer than a precise and established interval. In global supply chain, firms are usually not able to communicate and interact directly with the end consumers and this is one of the reasons why the forecast process is fundamental to have the higher degree of efficiency and effectiveness for the company. Data have to be accurately communicated along the supply chain because forecasts will be based on them. Sometimes, it happens that end-customers data are communicated imprecisely and this can create a bullwhip effect that can cause a wrong production that will not be able to satisfy their needs. The geographical distance can also cause a different, and usually wrong perception of the end customers through the supply chain increasing coordination breakdown. This can cause a need of high stock level that can lead to an increased cost of production⁶⁹.
- Infrastructural insufficiency: when companies opt for the process of outsourcing or offshoring, they have to know that different countries have considerable differences. Usually setting up operations in developing countries may provide various different and new challenges for the company. Developing countries usually have less and worst transportation infrastructure compared to the home-country ones. Moreover, the telecommunication system is worst and less

⁶⁸ Manuj, I., & Mentzer, J. T. (2008). Global supply chain risk management strategies. *International Journal of Physical Distribution & Logistics Management*, pp. 192-223.

⁶⁹ Thomas, A., & Barton, R. (2006). Developing an SME based six sigma strategy. *Journal of Manufacturing Technology Management*, pp. 417-434.

advanced, harbors, roads, airports are all features that can create problems for the headquarter of the company or for the head of the value chain. All of these countries belonged to the third world are characterized by poor intra-countries linkages that can block the connection between different countries. More than that, within the home country supply chain, the transportation normally involves only one type of system, on the other hand performing or producing on a global scale require capabilities of multi-transportation systems management. These different infrastructures can create problems to the home country. Manufacturers may opt for a change also in the home country company even if this may not be the best move. Therefore, there is a need to increase and involve communication and transportation systems that allow companies included in a global context to be able to communicate and transport the necessary materials and information without hindrance.

- Economic and political issues: companies that decide to enter the global supply chain must refer to, analyze and study political factors such as the stability of the governments where they wish to be inserted, the tariffs and duties of the new countries and other various factors in the socio-political sphere⁷⁰. One of the simplest examples to do is currency exchange rates. The price of the products and services that are purchased using the supplier's currency may have a monetary value that has a profound effect on the financial performance of the global supply chain. Producers must therefore analyze the various scenarios meticulously by making correct decisions on time and quantity of purchases from foreign countries. There may also be natural disasters linked to that country that can strongly influence the economy of that country and the consequent profitability or disadvantage of entering that country.
- Language and communication barrier: this is the easiest example that everyone can think about when the company opts for cross boarder business practices. Communications challenge to the business operating in global supply chain represents the most common one but also the easiest one to override. Communication is fundamental under a supply chain point of view, moreover if it is involved in a global vision in which languages of different suppliers or

⁷⁰ Golgeci, I., & Arslan, A. (2014). Internationalization of emerging economy firms to developed economies: a discussion on institutional pressures and marketing and supply chain capabilities. *Journal of Strategic Marketing*, pp. 587-602.

subsidiaries are different. Errors in communicating a need can destroy the company and can create bullwhip effects that are dangerous for the company and the whole supply chain as well. Communication is fundamental in order to give information to all the parties of the global supply chain. Differences in communication methods combined with language and cultural constraints may result in higher order taking and fulfilment error rates⁷¹.

- Unique demand patterns: entering the market of a new country sets the company the obligation to face new models of demand that characterize that country. They are unique and not similar to national ones. They are defined as market share, price, order sizes and product life cycles. The market and product offer must therefore be adapted to the needs of the new countries, thus characterizing a new production quantity. This can have a strong impact on the general supply system and this can cause greater complexity throughout the global supply chain both from a management and coordination point of view of all activities. With growing product differentiation, maintaining and ensuring quality becomes critical. “Companies that expand into the international market often suffer from the lack of necessary market insights and perceptions about the value of customers in the host country”⁷².

The risks described above make it clear that extending the supply chain in a global perspective beyond the borders of the mother nation lengthens the chains and intensifies relationships by increasing problems and difficulties associated with it. These problematics can for example be defined as border crossings, multiple different modes of nation-to-nation transportation, different governmental systems and associated issues related to information and security flows. As described above, large geographical distances not only negatively affect transport costs but also make all operational decisions more complex. The differences in language, such as all the different cultural aspects, on the other hand, reduce the effectiveness of the processes which is a cornerstone of the well-being of the company and its annexed chain, due to difficulties in interaction with suppliers and customers themselves and many other problems. The lack of resources and infrastructure, on the other hand, may slow down the entire operational aspect of the

⁷¹ Lin C., Chow W. S., Madu C. N., Kuei C. H., & Yu P. P. (2005). A structural equation model of supply chain quality management and organizational performance. *International journal of production economics*, pp. 355-365.

⁷² Flint, D. J. (2004). Strategic marketing in global supply chains: Four challenges. *Industrial Marketing Management*, pp. 45-50.

company as it delays efficiency in company operations at a global level. Furthermore, the connection of the various business activities and the global supply chain requires effective and at the same time efficient coordination in order to maximize profits and costs. These difficulties can erode the competitive advantage that the company may be able to achieve thanks to its operational phase⁷³.

The aforementioned themes define the changes that characterize the company peculiarities. These describe the management limits that companies, that are part of the global supply chain and non-global supply chain, must overcome to compete at the highest levels.

⁷³ Ibidem.

Chapter 2: Labor standards in the Global Supply Chain

2.1 Workers' rights in global supply chains

In recent years, many discussions have taken place regarding labor policies, and working conditions, within multinational companies (MNEs) in developing countries. Labor regulations and, in particular, the rights of workers belonging to global supply chains have become of fundamental importance in order to understand how and why many global brands have decided to adopt systems and measures of conduct and regulation in order to regulate working environments. These systems are often voluntary and are applied to all the subjects belonging to supply chains to promote international labor standards in supplier factories. Rights and responsibilities are established by the legislation. Companies must comply with the internal legislation of the State in which they operate. Mechanisms such as CSR, codes of conduct, compliance and / or governance are tools that integrate but are not able to replace regulatory requirements because they do not have the mandatory power to do so. The real problem lies in the fact that laws of the production countries - usually countries belonging to the third world - are weaker and less advanced in terms of workers' rights and this implicates the exploitation of possibilities of action that companies would not have if they acted in countries most legislated under the legislative point of view.

The developing countries, which are often part of what is called the third world, are often characterized by multinational companies that set up their production factories in these countries given the lower production costs and the fewer restrictions laws (this practice is done through the use of the offshoring process above described). These characteristics explain their behavior that could not be possible in their mother countries. Most of the world's clothing brands are in fact known for having their manufacturing factories in developing countries. Employees, such as low-income young workers, who are forced to work in unfavorable conditions in order to get their monthly wages, often characterize these factories. Physical and psychological abuse may also happen within

MNEs. Nowadays, multinational corporations have therefore decided to introduce self-regulation systems in order to solve the problems described above⁷⁴.

Workers' rights, which belong to various companies, follow state laws and the legislation of the country in which they work. This legislation has different limits and uses depending on the country of ownership. Organizations such as the ILO and NGOs in general, do not have legally mandatory value but they are recommended guidelines that become mandatory for the Member States only if, and when, ratified. Companies, especially the international ones, grouped under the name of multinational enterprises (MNEs or MNCs), try to manage the risk of non-compliance with the directives issued by the International Labor Organization (ILO) congresses in order to bear witness to the core labor standards imposed by this organ (ILO). Companies at the head of the various global supply chains are the focal point of these failures, and of the lack of efficient regulations, as they have less control over working conditions in their supply chains. Those who have the real control over workers' conditions are the actual suppliers connected to these global supply chains.

The International Labor Organization (ILO) is an agency of the United States that has as its core objective of its policy, the respect of social justice and human rights. In particular, it deals with those rights that refer to the working environment, that are defined as workers' rights. International labor law aims to avoid the so-called unfair competition, the social dumping, and all those violations of the worker's rights used in order to obtain the competitive economic advantage against the direct competition. It is mainly constituted by the Conventions and Recommendations issued by the ILO, from all the statements in defense of human rights such as those stated by the United Nations or as the European Social Charter. The bilateral treaties between nations are then added to the rules just described. The ILO Constitution represents one of the fundamental sources for the international labor law. The international labor law expresses the core labor standards as the most important standards, under the workers' rights point of view, which are defined as the founding principles of the whole system of worker protection. They are defined as follows⁷⁵:

⁷⁴ Hoang, D. (2019). Labour Standards in the Global Supply Chain: Workers' Agency and Reciprocal Exchange Perspective. Leeds: Leeds Business School, Leeds Beckett University, pp.1-25.

⁷⁵ Ilo.org. (2019). ILO Declaration on Fundamental Principles and Rights at Work (DECLARATION).

- freedom of association and the effective recognition of the right to collective bargaining
- the elimination of forced or compulsory labour
- the abolition of child labour
- the elimination of discrimination in respect of employment and occupation

The core labor standards represent the main dangers and difficulties that can be encountered within multinational companies, particularly within their global supply chains. These can be defined as the poor health of the workplace often referred to these standards which are treated in the following eight conventions issued by the ILO.

Freedom of Association and Collective Bargaining – Convention 87 and 98

- *C87 Freedom of Association and Protection of the Right to Organize Convention (1948)*. This convention provides for the possibility for workers the right to build and organize all of their own organizations together without having to receive a prior authorization.
- *C98 Right to Organize and Collective Bargaining Convention (1949)*. This includes the provision that:
 - Workers are adequately protected against anti-union discrimination based on their employment. Specifically, they will be protected against the employment subject to the condition of not joining the trade unions they call. Furthermore, they will be protected from the obligation to renounce union membership. They will also have protection against dismissal or other prejudices that may be caused by union membership or participation in union activities.
 - Workers' organizations shall enjoy adequate protection against any acts of interference by the employer.

Prohibition of Child labour – Conventions 138 and 182

- *C138 Minimum Age Convention (1973)*. This includes the following provisions:
 - The minimum age for employment cannot be less than 15 years old. The completion of compulsory education is therefore defined as limits.
 - In the event that a Member State does not have economically and educationally advanced structures, or sufficient for the growth of the person, permission is granted to lower the minimum age of employment to 14 years old.

- iii. 18 years old is taken as the minimum age for workers belonging to any member state, in the event that the worker is forced to do a job that involves dangerous circumstances that endanger his safety and health.
- *C182 Worst Forms of Child Labour Convention (1999)*. This Convention outlines the prohibition and elimination of the worst forms of child labour which is defined as work performed by persons under the age of 18 which falls into the following categories:
 - a. All forms of slavery or practices similar to slavery, such as the sale and trafficking of children, debt bondage and serfdom and forced or compulsory labour, including forced or compulsory recruitment of children for use in armed conflict;
 - b. The use, procuring or offering of a child for prostitution, for the production of pornography or for pornographic performances;
 - c. The use, procuring or offering of a child for illicit activities, in particular for the production and trafficking of drugs as defined in the relevant international treaties;
 - d. Work in which, by its nature or its circumstances is carried out and likely to harm the health, safety or morals of children.

Prohibition of Forced Labour – Conventions 29 and 105

- *C29 Forced Labour Convention (1930)*. This Convention requires the ILO Member States to eliminate any type of forced or compulsory labor for all age groups. Forced or compulsory labor is defined as any kind of work forced by threats of sanctions or in which the person in question has not tried to pursue it.
- *C105 Abolition of Forced Labour Convention (1957)*. This convention has for goal that every Member of the ILO who ratifies the Convention must repress all types and forms of forced and / or compulsory labor.

Non-discrimination – Conventions 100 and 111

- *C100 Equal Remuneration Convention (1951)*. This Convention provides that the Member States, which ratify it, grant equal salaries to every person who performs work of equal work, regardless of male or female sex.
- *C111 Discrimination (Employment and Occupation) Convention (1958)*. It provides that Members oblige non-discrimination, preference or exclusion in

workplaces based on race, color, sex, religion, political opinion, national background or social origin⁷⁶.

There are obviously other preventions and other benefits that are known as cash standards. They are represented by working hours, wages, health and safety. They are not part of the core labor standards but they are nevertheless assumed as fundamental and of absolute importance in the work policies and in the dialogue regarding the work standards within the global supply chains⁷⁷.

As previously announced, companies are in danger of violating labor rights laws because they have less control than suppliers belonging to their global supply chains. This risk is linked to very specific sectors in which organizations such as the ILO have found the most frequent deficits and major violations. These global supply chains are characterized by subsidiaries or suppliers belonging to them and threatened in certain countries. Most of them belong to the third world or to developing countries. The outputs that come out of the production chains, denounced for the violation of workers' rights, are often associated with large productions that require intensive labor. Furthermore, strong pressure on price is a fundamental characteristic of these products and of these processes as it is the main source of the competitive and comparative advantage of companies. The sectors most affected by these deficits are clothing, footwear, toys, agriculture and consumer electronics⁷⁸.

The most recent years have been characterized by an exponential increase in requests for products belonging to clothing and footwear (which are however part of clothing). They are mostly produced in factories located in developing countries and this has resulted in an increased production of the factories themselves. What does the increase in production entail? Surely it can help these nations as new job openings are available and previously unemployed people can now find a job. However, these workers are required to make a greater effort to produce the quantities required by the market. The increase of the workload leads to consequences in work environments including working conditions, working hours and workers' health⁷⁹.

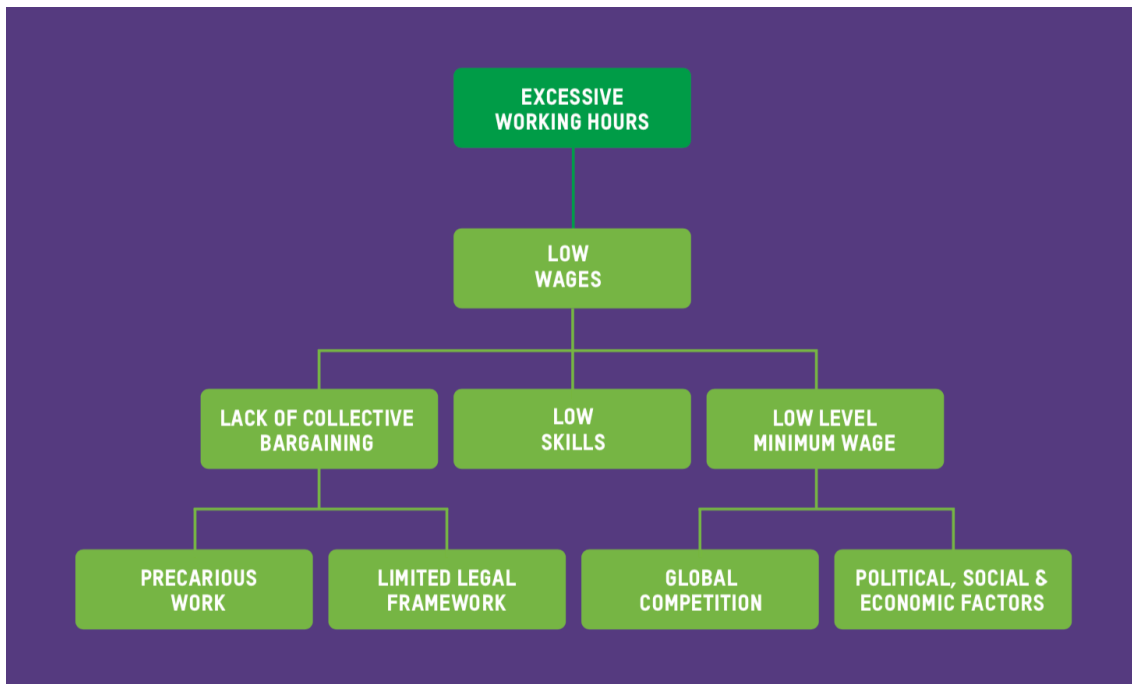
⁷⁶ Ilo.org. (2019). *ILO Declaration on Fundamental Principles and Rights at Work (DECLARATION)*. [online].

⁷⁷ Unglobalcompact.org. (2019). *Homepage | UN Global Compact*. [online].

⁷⁸ Elris, Experts in Responsible Investments Solutions (2009). *A Risky Business? Managing core labour standards in company supply chains*. pp.8-20.

⁷⁹ Ibidem.

Figure 7: Problems of working conditions in GSC



Source 10: Wilshaw et al., 2013

The leaders of global supply chains are the focal point for purchasing power, and they increasingly belong to the most famous international clothing brands. At the base of global supply chains are, instead, the production factories. These factories are one of the most important sources of competitiveness for their mother companies. This is because the lower the price of their products is, the more companies will be encouraged to buy from them. They are exposed to pressure from retailers to produce products at ever-lower costs (retailers also operate in a highly competitive market and they compete each other for customers). This means that suppliers, having lower profit margins, find themselves forced, to have a reasonable profit (for them), to require workers to produce more, to work more, at a lower salary. These issues are pursued by the suppliers in order to achieve lower costs of production. Companies subject to these processes work in countries where regulations are less restrictive, countries in which legal systems are weaker and less advanced in terms of workers' rights. This involves violations of workers' rights such as non-payment of salary, unpaid extraordinary work, no investment in safety or health equipment. These conditions can also make businesses more reluctant to recognize and negotiate with trade unions for fear that this will lead to higher wages. They are also often

characterized by practices such as the exploitation of workers or the use of child labor (they are paid less than the adult workers)⁸⁰.

One of the most famous scandals of recent years regarding these issues is attributed to the Spanish clothing multinational company, Zara. Zara is fast fashion brand owned by the Spanish group Inditex which is based in Arteixo in Galicia, northern Spain and was founded in 1975 by Amancio Ortega and his wife Rosalía Mera. Zara is the brand with the highest sales and distribution rate in the group with 2,232 locations in 93 countries. Over the years, Zara has repeatedly been the subject of judicial investigations for the exploitation of workers in very bad conditions both from the point of view of physical and mental efforts, and hygienic and sanitary conditions of the working environments. As described in paragraph 2.5, in the year 2013, there was a collapse of a building (Rana Plaza of Savar, Bangladesh) in which Zara had some textiles referred to for the production of its clothing. In this collapse, which had been anticipated the day before due to the cracks noted in the walls, many workers lost their lives.

The scandal I introduced earlier refers to a fact that happened in Brazil in 2011. In a Zara clothing supplier in the city of Sao Paulo, Brazil, 5 workers were found, photographed and documented, four of Bolivian origin and one of Peruvian origin, forced to work in unacceptable conditions of exploitation that violated workers' rights. The news, as soon as it emerged, was reported to the Brazilian government which issued 52 breaches of the workplace conditions in these laboratories. Zara immediately proceeded to get rid of the charges with a press release. It stated that the various infractions found in this laboratory cannot be attributed to the parent company, and therefore to the global brand, but must be attributed and associated to the production laboratory, even if this is part of the Zara global supply chain. In this production workshop 15 people were found working more than 12 hours a day. They perceived a salary of between \$160 and \$290 a month, which is much lower than the average Brazilian wage. Furthermore, not only an exploitation of workers but also child exploitation was found. A girl of only 14 years old has in fact been found working for the production of the clothing of the aforementioned brand. These workers were also forced to live where they worked. "We found children at risk, machines without protection, electric wires exposed, unhealthy rooms with a lot of dust and without air circulation, without sunlight - said the official of the Ministry of

⁸⁰ Elris, Experts in Responsible Investments Solutions (2009). A Risky Business? Managing core labour standards in company supply chains. pp.8-20.

Labor, Luis Alexandre de Faria, who took part in two blitzes at the factory - The workers had to ask the owner of the laboratory for permission to leave and they had to communicate where they were going”. The problems described above all refer to the directives issued by the ILO mentioned at the beginning of the paragraph. The Brazilian unions have demanded more control from the parent company, Inditex, although this has managed to escape accusations without too many problems. The Zara brand has freed itself from the accusations by communicating the impossibility to directly and “personally” control all the suppliers connected to its GSC. In an audit released in Brazil, Inditex, the group that owns Zara, stated that there was an unauthorized outsourcing by a supplier (the company Aha) and that it had committed an infringement of its code of conduct, which establishes rules for companies that work on direct and indirect order.

2.2 Human rights in global supply chain

Human rights are rights that belong to all people, all human beings, regardless of nationality of origin, residence, ethnicity, skin color, sex or any other social status that can differentiate them even in minimum part. All people have the same human rights without any discrimination. These rights are sometimes called universal and are expressed by law in various forms. These can be dealt with, general principles, customary international law, or other forms related to international law. International law has the power to manage and force governments to act in a certain way. All this has a specific purpose and it is to protect the human rights described above and to promote the freedoms of both groups and individuals⁸¹.

As I explained in the first chapter and partly in the second, the economy today can be defined as globalized because the companies belonging to the most different sectors refer to and are characterized by goods and services coming from, or produced by, complex supply chains. They are themselves characterized by suppliers located in countries all over the world. The main problem linked to human rights and workers' rights is that these different countries in turn have different legal practices, different regulations and therefore human rights can be analyzed and judged differently depending on the

⁸¹ Ohchr.org. (2019). OHCHR | Home. [online] Available at: <http://ohchr.org/> [Accessed 17 Aug. 2019].

country in which they occurred. One of the organizations dealing with these issues is the International Labor Organization (ILO). According to a study carried out by this organization, more than 450 million people worldwide work in global supply chains. The main problem related to global supply chains refers to the fact that from the moment they can offer multiple different jobs and employment possibilities, at the same time they can present serious risks related to human rights in their chains. Many companies are still unable to mitigate and respond effectively and efficiently to these issues. As already mentioned, the GSCs in order to increase their value, to have a cost advantage and, therefore, to have a competitive advantage on the market, refer to a large number of different suppliers and subcontractors. This leads to a control deficit and the possibility for suppliers, or companies in offshore contracts, to violate certain rights. The groups, or individuals, most affected by these violations in the GSC are those who do not have the real possibilities of attracting the attention related to these issues. They are people, workers, who find the remedy of these impediments difficult. These groups are usually female workers, migrant workers, underage workers and people living in rural or poor areas, such as the countries belonging to the so-called third world.

There are rules designed to regulate the conduct of companies regarding human rights. These international norms, such as the UN Guiding Principles, state that there is a need to adopt “human rights due diligence” measures. All this aimed at guaranteeing the rights to all workers from the human point of view and in order to control and, where possible, prevent violations of human rights by subjects belonging to the global value chains. Due diligence is a concept that derives from the American private and commercial law and indicates the investigation activity regarding the situation of a company or a supply chain in general. With this verification the value of the company is generally ascertained, assessing the risks and analyzing the strengths and weaknesses. In my analysis, due diligence refers to human rights by understanding and analyzing various measures aimed at evaluating probable and real risks in the area of human rights. They also aim to adopt measures to alleviate these risks but above all they are used in order to put an end to these abuses⁸².

The fundamental problem of our days is that these international standards, such as the aforementioned UN Guiding Principles, have no legal value and are not legally

⁸² IONOS Startupguide. (2019). Due Diligence: significato, definizione e storia della valutazione preventiva dei rischi. [online] Available at: <https://www.ionos.it/startupguide/avvio/due-diligence/> [Accessed 19 Aug. 2019].

binding for the considered companies. Many companies do not “follow” them and decide to ignore these directives as they are not affected by doing so. Many companies in the most varied global supply chains lack any form of due diligence on human rights. Very often, according to the carried out studies, these companies are the ones that are precisely characterized by the exploitation of child, racial, sexual or other different type of labor. Companies that do not have a corporate obligation to analyze and to follow human rights are those characterized by the violation of workers' rights.

Human Right Watch is a company that requires itself to control and check these problems worldwide. In the last twenty years it has controlled, analyzed and found all kinds of violations of human rights in the GSC in agriculture, clothing and footwear industry, mining, construction and many other sectors⁸³.

In 2016, there was a global summit of governments, employers and trade unions that set out to think about how to draft and set up changes regarding the security and protection of human rights. The name of this summit is “The International Labor Conference”. The main objective of this summit is to guarantee minimum work requirements within the global supply chains so as to allow what is called “decent work”⁸⁴.

The ones that should have the responsibility to control and protect human rights are the governments of the various nations, both those where the company has its headquarters and those where the supply chains have their suppliers (which is where they usually play their part against the human rights). The people who work and who are part of the GSC should be protected by these governments through national and international laws and / or regulations. Unfortunately, more and more often, governments are not able to supervise these practices implemented by the companies that have built their factories in their territories. From the moment that there are no legally binding standards, companies feel entitled to act as they wish. Despite this premise, many companies take their responsibilities seriously and they usually opt for the drafting of binding corporate self-regulation directives in the field of human rights due diligence. These voluntary standards, such as the above described Code of Conduct, Compliance, Governance etc. are precious, important and absolutely valuable but not sufficient.

⁸³ Human Rights Watch. (2019). Human Rights in Supply Chains. [online] Available at: <https://www.hrw.org/it> [Accessed 15 Aug. 2019].

⁸⁴ Ibidem.

Human Rights Watch has studied for more than 20 years these human rights violations and it documented the most common ones founded in and related to the global supply chain. Few of these abuses will be listed below in order to demonstrate the human rights problems on a global level.

- *Labor Rights Violation:* as already stated in this analysis, hundred million of people work and can be related to the global supply chain all over the world. The workers are the subject that I analyzed and I will analyze in this thesis because an increasing number is characterized by bad working conditions, by wage violations underlying the decent minimum threshold, by extraordinary forced labor, by child labor, by sexual abuse in the work environment, from exposure to toxic and harmful substances, from exposure to general risks that endanger the life of the worker, from retaliation against workers who try to organize themselves in order to have more rights. As mentioned in the previous paragraphs, these workers, do not often have access to complaint mechanisms, the protection of whistleblowers or legal resources to make up for the abuses suffered by employers. International law states that governments are responsible for the control and protection of workers who are part of the companies located in their countries. They have the obligation to grant workers the right to protest and also to be able to form trade unions. However, most governments belonging to the third world do not do so also because they have a monetary gain. A study conducted by Human Rights Watch found that around 21 million people are globally exploited, therefore forced victims of forced labor. To give a quick example, in 2013 there was a disaster called “Rana Plaza” in Bangladesh in which about 1,100 workers lost their lives and over 2,500 were injured. This disaster has highlighted the unhealthy working conditions and the various violations of human rights in the Bangladesh factories belonging to the apparel and footwear sectors of the world’s most famous brands. The building contained some clothing factories, a bank, some apartments and numerous other shops. When some cracks were noted on the building, the shops and the bank on the lower floors were closed, while the notice to avoid using the building was ignored by the textile factory owners. Workers were in fact ordered to return the next day, the day the building collapsed, collapsing during morning rush hours and killing and injuring 3,500 workers.

Human Rights Watch in its analysis has conducted studies documenting that a large number of workers in many factories built in Cambodia, Bangladesh

and Vietnam are victims of extraordinary forced labor, child labor and sexual discrimination such as the violation of paid maternity leave. Workers are often characterized by minimum wages and excessively dangerous working conditions. They are often dominated by employers who abuse their work and their few rights. More and more companies are “supplying” migrant workers because they are the cheapest ones. Passport confiscation is systematic and many workers arrive with significant debts on account of extortionate recruitment fees, which can take several years to repay. These workers are not able and do not have the possibility to form trade unions, nor can they resort to the judicial system as they do not have a passport that is withheld by the employer.

- *Environmental damage and violations of the right to health:* According to studies carried out by Human Rights Watch, more than 12 million annual deaths due to the malpractice of work environments and global supply chains can cause this number to increase. Many governmental and international bodies establish laws aimed at prohibiting unhealthy working environments and also aimed at protecting workers' rights to environmental health. Unfortunately, as already described above, since some laws are not legally binding, many companies ignore the directives or apply them in an unsatisfactory and inadequate manner. As an example, Human Rights Watch has found that in many of the 150 tanneries in Bangladesh, workers are exposed to harmful chemicals (such as chromium, sulfur, ammonium, and other chemicals), which if used without proper precautions, can lead to serious health problems and ultimately death. Workers assigned to this tannery have described and shown inhuman conditions on their bodies. They had prematurely aged, discolored skin burned by acids and used substances, characterized by rash, discolored. They often had nausea, dizziness, amputated and / or bled limbs.
- *Violations of the rights related to land, food, and water:* Often communities belonging to territories rich in raw materials find themselves in danger when companies decide to build factories and to penetrate these territories for mining, agri-food or other commercial purposes related to global supply chains. International law states that the right to water, food and housing are necessary rights that must be protected. Governments, under international law, are due to take precautionary measures and precautions in order to guarantee their citizens these rights. Unfortunately, exploitation by large commercial activities does not

follow these guidelines. The communities that are near to sources useful for global trade find themselves deprived of access, or in any case with less possibility of access, to water, food, or even to the possibility of cultivating products useful for their self-sufficiency. The indigenous beginnings are often the most affected because they are deprived of their territories that are bought by large companies. These companies buy commercial land that is useful for the sustenance of their global supply chain. According to international law, however, companies that want to build their factories and use these territories should seek free, preventive and informed consent before proceeding to the indigenous people living on those territories. However, they often do not act in this way by directly purchasing the territory and taking away the resulting resources.

The protection and safeguarding of human and workplace rights should be the responsibility of the governments of the various nations. They are obliged to draft laws that target the welfare of workers in commercial activities. Labor laws and imposed standards must be respected to remain in line with the International Labor Organization (ILO). The failure to comply with these standards is the main cause of gaps in labor law which therefore undermine workers' human rights. These standards should be applied as binding standards and they should be legally binding for companies in order to force them to comply with these directives. In the absence of these national and / or global standards, it is impossible to guarantee the protection of workers' rights in the various global supply chains in the various territories. Companies should take human rights due diligence seriously and apply it nationally and globally. The problem seems to be when a company decides to apply strict due diligence on human rights and, instead, another one decides to ignore this practice. The competing company that will ignore it will have an economic advantage, even if resulting from corporate misconduct, and will lead the company to a greater capital gain and monetary gain, which is the main objective of the company.

A new legally binding international standard on due diligence in human rights in global supply chains would be an important step towards strengthening responsible businesses around the world.

2.3 Child labor in global Supply Chain⁸⁵

Another important and serious problem affecting the current global economy is child labor. A subject that I will then go into in the practical case of the third chapter regarding the Nike company and the case of child exploitation of the 90s that created a big scandal in the world of sports shoes and more. Human Rights Watch has estimated that there are over 160 million children involved in child labor and about 50% of them, a number that is around 80 million children, are used for dangerous jobs that put their own lives at risk, both in terms of health and safety. Many of these children not only work underpaid and are too young to work, but they are also physically and psychologically abused, they are exploited and they are subjected to trafficking. Many of these children, find themselves being exploited from an early age so as to no longer be able to escape given the denial of the right to education, thus remaining trapped forever in the poverty trap. All this happens because many companies derive economic benefits thanks to child labor in their global supply chains. Children are used for tobacco cultivation, for example, in which pesticides are used, products that are very harmful to the body, especially if you are very young or very old. This exploitation can also be used for the purpose of exporting precious minerals from mines or processing and sewing leather for footwear and clothing companies connected to the world's largest brands. Following and analyzing international laws, these forms of child exploitation are absolutely prohibited and condemned, but many governments belonging to third world countries do not take the necessary precautionary measures to avoid this process. Governments often don't even want to end this exploitation because they take advantage of it because companies that set up their factories in their territories invest and bring money to these governments. Many of these children who find themselves part of these global supply chains, without even wanting to, find themselves having diseases, pains and injuries that in some cases can lead to death. All of this because of the dangerous nature of the work to which they are obliged.

Human Rights Watch has analyzed and noted that at the global level the most frequent area in which these children are exploited is agriculture, addressed both to local and global markets. Child labor in agriculture is harmful to anyone because of pesticides and all other harmful substances used, but it is especially dangerous for children who

⁸⁵ ILO-IPEC (2013). Marking progress against child labour. Geneva: International Labour Office, pp.1-60.

have to handle these substances without being prepared on how to do it. These children are forced to work with and use materials that are too heavy for their age or too sharp for their abilities. They are also exposed to unsuitable amounts of heat that is not healthy for their age.

To take a simple example, Human Rights Watch in its research found children used and exploited in Israeli agricultural settlements located in the West Bank. These children were subjected to inhuman conditions, all the more so given their young age. They were forced to handle heavy and dangerous objects, to spend hours in the scorching sun and to use and handle pesticides. Most of the agricultural products deriving from this exploitation are destined for the foreign market and for export between Europe and the United States.

Table 5: Children in employment, child labor and hazardous work. 5-17 years old.

| | | Children in employment | | Child labour | | Hazardous work | |
|--------------|-------------|------------------------|-------------|----------------|-------------|----------------|------------|
| | | ('000) | % | ('000) | % | ('000) | % |
| World | 2000 | 351,900 | 23.0 | 245,500 | 16.0 | 170,500 | 11.1 |
| | 2004 | 322,729 | 20.6 | 222,294 | 14.2 | 128,381 | 8.2 |
| | 2008 | 305,669 | 19.3 | 215,209 | 13.6 | 115,314 | 7.3 |
| | 2012 | 264,427 | 16.7 | 167,956 | 10.6 | 85,344 | 5.4 |

Source 11: ILO-IPEC (2013). Marking progress against child labour.

A study based on the child labor was conducted in 2012 by the International Programme on the Elimination of Child Labour (IPEC), part of the ILO (International Labor Organization), in which the authors claimed that the latest global estimate results indicate that the world is moving in the right direction regarding the issue of the child exploitation. This study analyzed a 12 years period starting from 2000 to 2012. The result of this investigation was that in 2012 there was about 78 million fewer child laborers compared to the data of year 2000.

The study conducted among children aged 5 to 17 years old has analyzed that there has been a drastic decrease, in a positive way, of the dangerous work done by these subjects. This type according to the ILO is the absolutely most serious and dangerous form for children's health. It has therefore decreased by more than half of the initial value for the year 2000, from 171 to 85 million children. The best period for the decline was the last four years, which is the period between the year 2008 and the year 2012. This means that there were important variations and important applications of standards in this area that have diminished the exploitation.

The following table will show the child labor divided by regional characteristics.

Table 7: Children in employment, child labor and hazardous work by region. 5-17 Years old. 2008-2012

| Region | | Children population | | Children in employment | | Child labour | | Hazardous work | |
|---------------------------------|-------------|---------------------|--|------------------------|-------------|---------------|-------------|----------------|-------------|
| | | ('000) | | ('000) | % | ('000) | % | ('000) | % |
| Asia and the Pacific | 2008 | 853,895 | | 174,460 | 20.4 | 113,607 | 13.3 | 48,164 | 5.6 |
| | 2012 | 835,334 | | 129,358 | 15.5 | 77,723 | 9.3 | 33,860 | 4.1 |
| Latin America and the Caribbean | 2008 | 141,043 | | 18,851 | 13.4 | 14,125 | 10.0 | 9,436 | 6.7 |
| | 2012 | 142,693 | | 17,843 | 12.5 | 12,505 | 8.8 | 9,638 | 6.8 |
| Sub-Saharan Africa | 2008 | 257,108 | | 84,229 | 32.8 | 65,064 | 25.3 | 38,736 | 15.1 |
| | 2012 | 275,397 | | 83,570 | 30.3 | 59,031 | 21.4 | 28,767 | 10.4 |

Source 12: ILO-IPEC (2013). Marking progress against child labour.

Table 6: Children in employment, child labour and hazardous work by sex. 5-17 Years old. 2000-2012

| Sex | | Children in employment | | Child labour | | Hazardous work | |
|-------|-------------|------------------------|-------------|---------------|-------------|----------------|------------|
| | | ('000) | % | ('000) | % | ('000) | % |
| Boys | 2000 | 184,200 | 23.4 | 132,200 | 16.8 | 95,700 | 12.2 |
| | 2004 | 171,150 | 21.3 | 119,575 | 14.9 | 74,414 | 9.3 |
| | 2008 | 175,777 | 21.4 | 127,761 | 15.6 | 74,019 | 9.0 |
| | 2012 | 148,327 | 18.1 | 99,766 | 12.2 | 55,048 | 6.7 |
| Girls | 2000 | 167,700 | 22.5 | 113,300 | 15.2 | 74,800 | 10.0 |
| | 2004 | 151,579 | 19.9 | 102,720 | 13.5 | 53,966 | 7.1 |
| | 2008 | 129,892 | 16.9 | 87,508 | 11.4 | 41,296 | 5.4 |
| | 2012 | 116,100 | 15.2 | 68,190 | 8.9 | 30,296 | 4.0 |

Source 13: ILO-IPEC (2013). Marking progress against child labour.

The regional framework of the table shows that the region in which this exploitation is most common is the Asian region and in the Pacific region. However, the region with the highest percentage remains sub-Saharan Africa where the incidence of minor labor is the highest in the world. In Asia and the Pacific, around 77.7 million children were exploited for child labor in 2012, while in 2008 they were around 113 million, so around 48% more. For the same age group taken into consideration in Latin America and the Caribbean, in 2008 there were around 14 million working children, while in 2012 they fell to 12 million. A small drop in percentage but still important if seen on large numbers. In sub-Saharan Africa, on the other hand, about 65 million children were employed in 2008, dropping to 59 million in 2012. There, more than one out of five children (21 per cent) from 5-17 years old are forced of working. This compares with 9% in Asia and the Pacific and with 8% in LAC (Latin America and the Caribbean).

This analysis (table number 7) differentiated also the gender of the children, analyzing and finding differences between girls and boys. The numbers represented on

the following table state that a big gender difference exists. Boys related to the child exploitation, related to the child labour in the year 2000 were about 132 million and around 99,7 million in 2012. Girls exploitation related to the child labour were about 113 million in 2000 and around 68 million in 2012. In the last year of the analysis, boys were

Table 8: Children in employment, child labor and hazardous work by age group. 2000-

| Age group | | Children in employment | | Child labour | | Hazardous work | |
|--------------------|-------------|------------------------|-------------|----------------|-------------|----------------|-------------|
| | | ('000) | % | ('000) | % | ('000) | % |
| 5-11 years | 2012 | 73,072 | 8.5 | 73,072 | 8.5 | 18,499 | 2.2 |
| 12-14 years | 2012 | 70,994 | 19.6 | 47,381 | 13.1 | 19,342 | 5.3 |
| 5-14 years | 2000 | 211,000 | 17.6 | 186,300 | 15.5 | 111,300 | 9.3 |
| | 2004 | 196,047 | 16.2 | 170,383 | 14.1 | 76,470 | 6.3 |
| | 2008 | 176,452 | 14.5 | 152,850 | 12.6 | 52,895 | 4.3 |
| | 2012 | 144,066 | 11.8 | 120,453 | 9.9 | 37,841 | 3.1 |
| 15-17 years | 2000 | 140,900 | 42.4 | 59,200 | 17.8 | 59,200 | 17.8 |
| | 2004 | 126,682 | 35.2 | 51,911 | 14.4 | 51,911 | 14.4 |
| | 2008 | 129,217 | 35.0 | 62,419 | 16.9 | 62,419 | 16.9 |
| | 2012 | 120,362 | 33.0 | 47,503 | 13.0 | 47,503 | 13.0 |

Source 14: ILO-IPEC (2013). Marking progress against child labour.

50% more than girls. But the important number is that boys have had a drop of about 25% exploited children and girls have had a drop about 40%.

According to the International Labor Organization and the International Programme on the Elimination of Child Labour (IPEC), the analysis of the different age group is really important. The next table will show this issue. A dangerous number characterizes the group of children from 5 to 11 years old: 73 million in 2012. This means that children that has to go to school, play with friends, learn how to live and understand the world they live in, have to work in manufactures for the profit of the global supply chains related to the biggest brands in the world. These children, according to the IPEC, are the most vulnerable group. Anyway, important data can be extrapolated from this table. There has been a drop of child labor of about 33% from year 2000 to year 2012 with 60 million children less of the 5 to 14 year old group.

Child labor is, as it is easy to think, more present and more easily found in the poorest countries. This study showed that about 23% of children living in the world's poorest countries are subjected to child labor (next table).

This means that more than 1 out of 5 children, almost 1 out of 4, is subject to forced labor at a young age only because they are born in low-income countries. These data should be compared with the 9% of the children belonging to lower middle income countries and 6% of those belonging to upper middle income countries. However, by analyzing these data differently, a different image can be considered. Middle-income countries, which include the last two data in the table (lower-middle and upper-middle income) host a greater number of workers. In these middle-income countries, according to the ILO-IPEC, there are a total of around 93 million child laborers compared to around 74 million in low-income countries.

Table 9: child labor distribution by level of national income. 5-17 Years old group.

| National income category | Total children | Child labour | Child labour |
|--------------------------|----------------|--------------|--------------|
| | ('000) | ('000) | (%) |
| Low income | 330,257 | 74,394 | 22.5 |
| Lower middle income | 902,174 | 81,306 | 9.0 |
| Upper middle income | 197,977 | 12,256 | 6.2 |

Source 15: ILO-IPEC (2013). Marking progress against child labour.

The next table number 10 will be focused on the sectorial distribution of the child labor as described at the beginning of this paragraph. As previously explained, agriculture is the predominant sector for the exploitation of minors in the workplace. In this sector,

Table 10: sectoral distribution of child labor, number and percentage share. 5 to 17

| Sector ^(a) | 2008 | | 2012 | |
|--------------------------|----------|---------|----------|---------|
| | ('000) | % share | ('000) | % share |
| Agriculture | 129,161 | 60.0 | 98,422 | 58.6 |
| Industry | 15,068 | 7.0 | 12,092 | 7.2 |
| Services | 55,109 | 25.6 | 54,250 | 32.3 |
| (of which domestic work) | (10,557) | (4.9) | (11,528) | (6.9) |

Note: (a) Excluding children with missing information on economic sector.

Source 16: ILO-IPEC (2013). Marking progress against child labour.

according to the IPEC, around 59% of all child laborers worked in the agricultural sector, more than 98 million children in global terms in the year 2012. A big drop considering that in 2008 this number was about 129 million, so 31 million less only in this sector over 4 years. However, 54 million children in 2012 worked in the service sector and about 12 million in the industrial sector. In all sectors, as shown above, there is a greater influence of male workers with the exception of domestic work in which girls are more exploited.

During the period analyzed, between 2000 and 2012, there have been important changes thanks to political help from various world governments. This commitment is perhaps best illustrated by the historically rapid ratification of ILO Convention n. 182 on

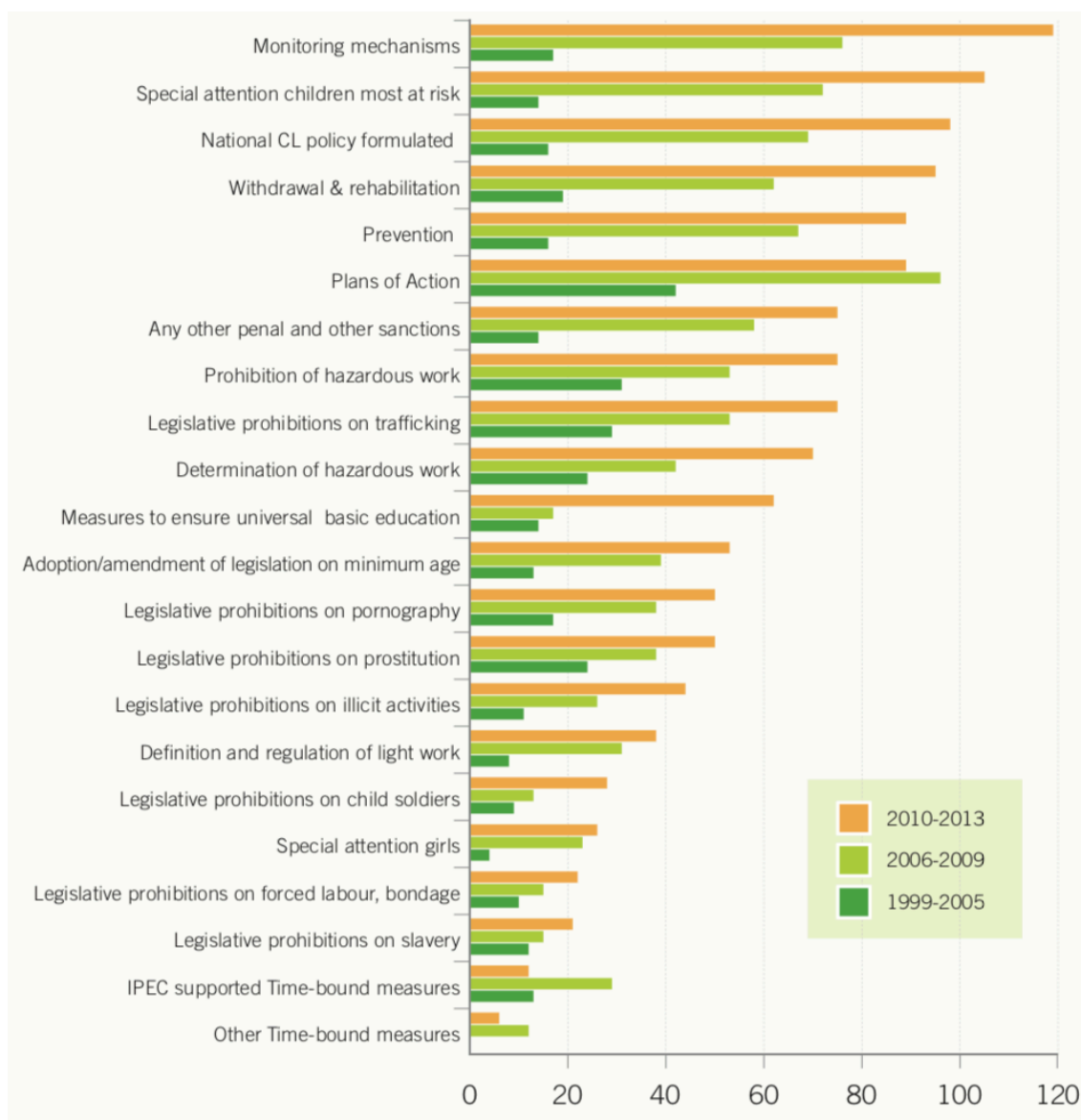
the worst forms of child labor and the parallel increase in the ILO Convention n. 138 on the minimum age for admission to work, the two main legal pillars for the global fight against child labor. 14 The Convention n. 15182 - adopted in 1999 - recorded the fastest rate of ratification between the ILO Conventions and 2000 was the year in which the Convention n. 138 has passed the 100-ratification mark. In ratifying these conventions, countries are formally recognizing that child labor is no longer acceptable and are taking responsibility for putting an end to it⁸⁶. These ILO standards on child labour have acquired recognition as part of the internationally accepted standards related to children's rights.

The following figure number 8 will show the various and different mechanisms that has been reported thanks to the use of Convention Nos. 138 and 182. They will be divided by type and by year with three different colors related two three different periods of time: orange for 2010-2013, light green 2006-2009 and dark green 1999-2005.

⁸⁶ ILO-IPEC (2013). Marking progress against child labour. Geneva: International Labour Office, pp.1-60.

Local legislation is the directive that the various companies must follow when they decide to build their manufacturers within that nation. Rights and responsibilities are established by the legislation. Companies must comply with the internal legislation of the state in which they operate. Mechanisms such as CSR or codes of conduct are tools that integrate but are not able to replace regulatory requirements because they do not have the

Figure 8: Number of children in child labour and hazardous work, actual 2000-2012 and levels for 2016-2020 assuming pace of progress during 2008-2012.



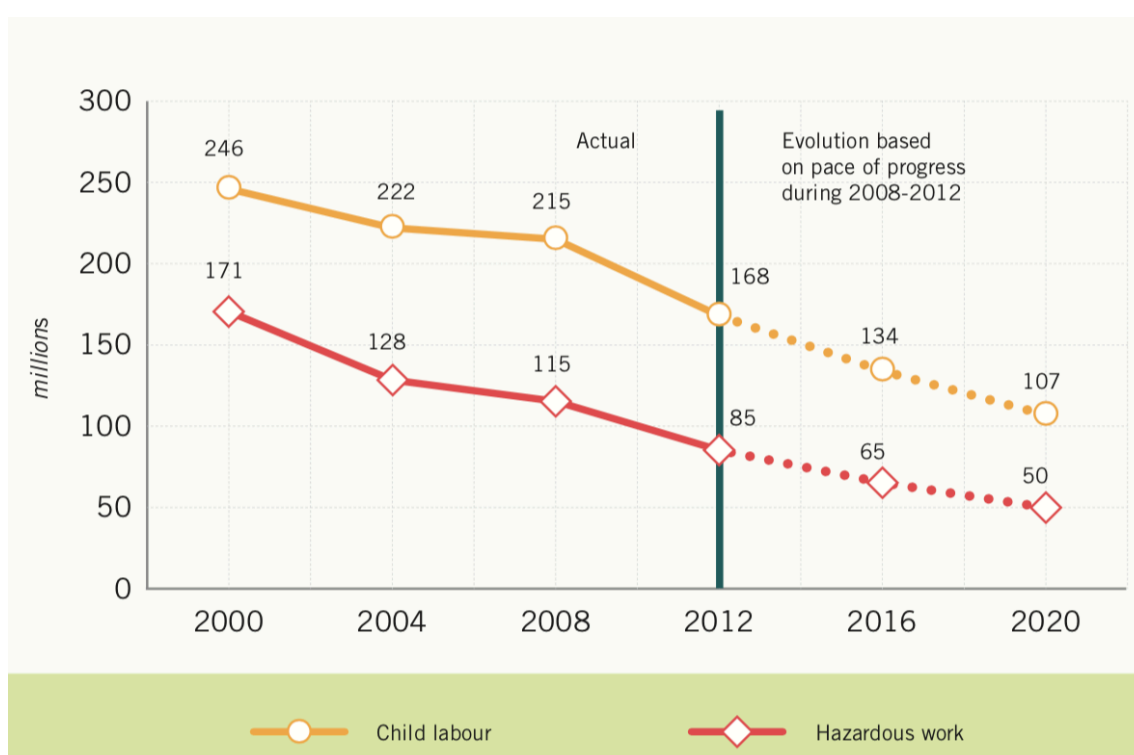
Source 17: ILO-IPEC (2013). Marking progress against child labour.

effective power to do so. The real problem lies in the fact that laws of the countries of production, are weaker and less advanced in terms of workers' rights and this involves the exploitation of possibilities of action that companies would not have if they acted in more legislated countries on a legislative point of view. Lately, according to the ILO, many

countries have taken initiatives aimed at improving their legislative and governmental system in order to slow down, with the aim of stopping forever, the exploitation of children in working environments. Many of these countries have taken steps to establish or revise their lists of what constitutes dangerous work, and to exclude the ban on this type of work for anyone under the age of 18 as part of applicable legislation.

The following figure shows and represents the progress made in the years 2000-2012. The graph represents the decline in the number of minor children forced to work. Although the progress is evident, the total elimination of child labor requires time, effort and commitment on the part of all subjects. Ending this scourge in the near future will require an enormous effort on the part of all the world states that are part of this problem.

Figure 9: number of actions reporting under Convention Nos. 138 and 182 by type.



Source 18: ILO-IPEC (2013). Marking progress against child labour.

The benefits that the end of child labor can bring are many. Children who grow up without having the obligation to work will have the freedom to exploit their rights to education, they can take advantage of their free time to grow up and they can set themselves future goals. For example, they can think of decent work achieved following the completion of a school career. If states do not make efficient changes, the problems for these children will become very serious. Child labor compromises the health and safety of these people and it leads to serious future deficits for their life and health. Children that belong to the worst forms of work, those defined as hazardous work, are

deprived of any form of freedom and possible future growth. They have no rights to freedom, to education, to personal growth. Turning a blind eye to child labor can erode the fabric of societies and can impoverish or even destroy the human capital needed for economic growth and poverty reduction.

2.4 Governance in global supply chain

Global supply-chain governance (SCG) is a governing system of rules, structures and institutions that guide, control, and lead supply chains, through policies and regulations, with the goal of creating greater efficiency. Governing systems are put into place by different actors, such as international organizations and individual firms, within the global supply chain analysis.

Corporate governance, both from a global and a national point of view, is a system based on three pillars which are shareholders, company directors and managers. The relationships between the parts described above is the fundamental starting point for a prosperous future and for a vision of long-term objectives, it is considered a must for the company. However, the interested parties are much more than I just described. In fact, suppliers and end customers represent the cornerstone for the financial stability. They are two of the main characteristics that represent corporate costs and earnings for companies. According to the corporate governance principles described in the OECD, Organization for Economic Co-operation and Development (2015, G20), suppliers of raw materials, intermediate products (that consist in the inputs destined to the company outputs, for example semi-finished products), and ended products for the final customer are interested parties in the company. Therefore, they contribute to the economic, and benefit of the global value chain (GVC)⁸⁷. The final success and the corporate competitiveness of the firm derive directly from the work and the coordination of all the interested parties including investors, customers, suppliers, employees, creditors, etc.⁸⁸⁸⁹. The success of corporate governance is achieved thanks to long-term relationships with all the interested parties, especially with suppliers.

⁸⁷ G20/OECD Principles of Corporate Governance, OECD, P.2015

⁸⁸ Ibidem.

⁸⁹ OECD, WTO, World bank: Global Value Chains: Challenges, opportunities, implications for policies, July 2014.

The concept of governance, one of the most analyzed concepts in the economic field in recent years, is defined as a process of analysis of the inter-organizational relationship that is then manifested in the structures and in the business processes.

In my analysis I referred the concept of governance to the notion of global supply chain, abbreviated as SCG (Supply Chain Governance). The economic performance of corporate governance is analyzed and used as the largest source of information for the corporate administrative department. Supply chain governance analysis allows the management of the parent company to analyze the supply chain performance (SCP). Control practices and roles description in the organizations are the main objectives of governance. Different practices need to be coordinated in order to guarantee a perfect governance success throughout the global supply chain. Governance can be basically described by the rules, the structures and the institutions that help companies, and the whole supply chain, in guiding, regulating and controlling social life, features emanated from the power at the top of the supply chain. Governance is not decision making, it is not management, but it is the framework where decisions are made, for any system⁹⁰.

The concept of Governance, associated with the definition of the global supply chain, takes on two aspects, similar but at the same time differentiable. Two “bands” of corporate governance can be categorized, one attributable to the sphere of work and one attributable to the normative sphere. The issue of governance in the *workplace* perspective requires considering tools developed by international institutions and by the governments of the States, and the tools introduced by the companies⁹¹. The last one mentioned introduce the concept of corporate governance as a control of the supply chain mostly in the form of soft laws which aim to define common parameters for the protection of workers regardless of where they are located. The second aspect of this concept, the *normative* part, is attributable to the normative aspect that characterizes it or rather the fact that the dominant company can be a multinational company that exercises control over the branches but it can also be a company that exercises a check on suppliers / contractors solely on the basis of commercial relationships. The question that companies, and not only them, ask themselves in the discussion of the concept of governance is “what are the measures to be adopted in order to guarantee and promote decent work within the

⁹⁰ Despres C. (2011). Models for supply chain governance. London: Academic Publishing Limited, pp.535-537.

⁹¹ ILO. (2016). Sectoral Studies on Decent Work in Global Supply Chains. Geneva: ILO, pp.19-36.

global supply chains?”. The ILO, as the main body, which aims to guarantee decent work in all national borders, emphasizes the role of national governments with regard to strengthening the control and inspection systems of companies within their borders⁹². According to this body, legislative measures must be applied in order to guarantee transparency and traceability in the global chains. Making the companies responsible for their work is another key point that the ILO defined as essential. Transparency standards must be instituted and applied in order to allow (to oblige) companies, both the leading companies of the chain and the suppliers associated to them, to draw up the necessary reports for the control of their chains. This because, when the governance from a work point of view is the focus of the discussion, stakeholders and shareholders have, in recent years, taken a critical point of view regarding the reputation of the company which they are associating with. Business partners must be reliable and completely transparent in order to prevent any damage to the corporate image (I will analyze this problematic with the help of the Nike case of the 1990s considered in the third chapter on my thesis). The governance system therefore aims to control the production of the outputs, whether they are intermediate inputs, semi-finished products or outputs destined for the final customer, through systems mainly in the form of soft laws that do not have a real legal aspect, as explained before, but that they are “only” necessary aspects to be part of the global supply chain in which the parent company imposed those directives as mandatory for them⁹³. In this context, this control takes place, under the legal aspect of production, keeping as its main objective, the achievement of the decent work as defined by the International Labor Organization. Tools such as corporate social responsibility (CSR), codes of conduct, corporate compliance and due diligence are precisely corporate laws that companies impose if they want to be part of the global supply chain associated with it. The fundamental problem still has to find the best way to overcome the extra-territorial limit, which is the pivotal point of the GSCs (or GVCs) because of the concept that different nations are and will be characterized by different legislative systems⁹⁴. Companies, exploiting extra-territorial limits paralyze the legal rules on the responsibilities associated with the company. At the same time, the ILO instead seeks to respond to these problems by requiring the introduction of new regulatory systems

⁹² ILO. (2016). Sectoral Studies on Decent Work in Global Supply Chains. Geneva: ILO, pp.19-36.

⁹³ Ibidem.

⁹⁴ ILO. (2015). Decent work in global supply chains. Geneva: ILO, pp.10-170.

including the due diligence. The ILO, as above explained, does all of this in order to respond to the difficult questions on the protection of workers within the many global supply chains in order to try to impose a regime of control within all the countries worldwide. Therefore, the problem found in this analysis, dealing with the concept of governance, is to whom to attribute the responsibility of the actions towards. Is it either the employees of the subsidiary companies (parent company liability) or of the suppliers (supply chain liability)? This fact wants to be accomplished without having territorial barriers, meaning regardless of where they occur, thus applying a standardization of global rules.

In certain countries, there is a legal rule that recognizes different degrees of responsibility for the chain's leader for the behavior of the affiliated branches associated with the value chain. On the other hand, however, it remains difficult, from a regulatory point of view, to assign responsibilities to the leading company when the network of connections with suppliers and across different countries is very extensive⁹⁵.

Collaboration is one of the most important terms when it comes to the concept of governance in global supply chain management. Efficient and effective cooperation is what allows corporations to have a long life. Reputation is another very important aspect for companies that are part of the GSC. In order to anticipate and eliminate any threats that may interact with the well-being of the company and the chain, the parent company opts to adopt sustainable practices aimed at anticipating these threats with, as a consequence, their elimination. These practices have therefore led to a governance system that is called sustainable supply chain governance⁹⁶. Several different objectives should be analyzed by the global supply chain such as: reassessment, adaptation, efficiency, cooperation. Along with these goals, long-term contracts will increase the chain's predictability and confidence for all chain members.

Gereffi in 2010 has divided the concept of governance into 5 different types all, related to the global value chain: hierarchy, captive, relational, modular and market (arranged in a precise order according to the power levels of the mother company, from the strongest to the weakest). The hierarchical relationship, that is the one defined by Gereffi as the most powerful, refers to the fact that a company can have total control over the relationship with the partner. The opposite situation is instead defined as a market

⁹⁵ Ibidem.

⁹⁶ Blowfield, M., and Dolan, C. (2010). Outsourcing governance: Fairtrade's message for C21 global governance. Pp. 484-489.

relationship⁹⁷. Gereffi has also defined that a durable supply chain is more easily and often represented by a strong asymmetry in which there is a coordinator who makes the decisions. This relationship is therefore defined and regulated according to a strongly hierarchical aspect. Hierarchical governance therefore seems to be the most useful type for a correct efficiency of the GSC. The coordinator can implement an extended corporate governance structure, without taking into account the interests of the partners. In contrast, market governance is represented by a relationship in which the partners have equal powers and there is no hierarchical differentiation. It is indeed the opposite of the one just described. Leaving the chain therefore has very low costs and few implications. The coordinators are not present in this type of relationship and the companies operate independently without the need for commands. Supply chain governance, if and when it exists, has a very low level that is close to zero.

2.5 Compliance in Global Value Chain

When we argue about global supply chains under the workers' and human rights point of view, the term of *compliance* needs to be deeply explained. In particular, the term of business compliance finds its place in the discussion regarding global value chains. This term refers to the acceptance of guidelines established by the company at the top of the global supply chain that dictates how the processes should be performed, in what way, and in what time. Therefore, the parent company may give general directives regarding all company aspects for the businesses belonging to the global value chain. For example, for a supplier or a company that produces an input directly, the compliance term could be referred to the certification used to satisfy the practices and processes required by the company headquarter of the GSC. These directives, as well as from the company itself, can also be issued by the government⁹⁸. Debating about compliance within company management in the global supply chain, this model therefore refers to the legislative requirements that the company carries out in accordance with the law and compliance

⁹⁷ Loconto A. (2010), Value Chains and Chains of Values: Tracing Tanzanian Tea, paper presented at the the 116th EAAE Seminar "Spatial Dynamics in Agri-food Systems: Implications for Sustainability and Consumer Welfare", October 27th-30th, 2010, Parma, Italy.

⁹⁸ Boeva, B. (2015). Corporate Governance and Global Supply Chains: How Self-regulation Replaces the Lack of Regulatory Initiatives or Do Regulatory Initiatives Add Value to Corporate Governance. Munich Personal RePEc Archive, pp.2-16.

with the imposed regulations. This, as aforementioned, refers to the proper management of the company, to the management of personnel and to the treatment, before and after sales, towards consumers. The idea of compliance is therefore based on ensuring that the company acts legally but, above all, responsibly.

Nowadays, the media dwell more and more on the unfavorable conditions for workers in the factories and, above all, on those cases of non-compliance affecting the regulations in the field of safety at work and on the health of workers. However, some researches carried out by some scholars have shown that the most common and most important problems were related to the effective regulation and functioning of the GSCs as a system⁹⁹. In fact, the GSCs have changed the world-wide working landscape, coming to be able to connect partners from different countries connecting then the most distant countries geographically. The global commercial panorama was therefore strongly changed both from a practical and a legal point of view given the arrival of this new management business model. Trade is therefore shifted from initially having the trade countries as subjects, to having, as its subject, the various partners of the global value chains located in different countries. Politicians, experts and international institutions (UNCTAD, 2013; WTO, OECD, World Bank, 2014) set among their priorities the regulation of the above reports.

When dealing with commercial theory, mentioning the fact that for TNCs (Transnational Companies) the costs of relationships that exist within the “parent” company are lower than the contractual relations that the parent company has with GSC's subsidiaries is important to be explained. More than in strictly monetary costs terms, these costs are analyzed under the risk, equity, technological and management point of view that characterize the relationship between parent company and subsidiary companies. One of the most dangerous factors, which needs to be integrated into the concept of non-compliance, is the possibility of opportunistic behavior by affiliated partners or, even worse, the total non-compliance with the rules of the contractual agreement between the parties. Everything I just described can cause an increase of high costs for the parent company which therefore has to decide whether the expansion at the global level was a correct decision or not and if it has to pursue this directive.

⁹⁹ Boeva, B. (2015). Corporate Governance and Global Supply Chains: How Self -regulation Replaces the Lack of Regulatory Initiatives or Do Regulatory Initiatives Add Value to Corporate Governance. Munich Personal RePEc Archive, pp.2-16.

One of the fundamental problems of compliance, related to the loss of competitive advantage in terms of cost, is based on the concept of the codes of conduct. Supplier wage competitiveness would be lost due to the increase in costs, and for example delivery times could be increased and buyers could opt to move to other suppliers. All this can happen in the clothing sector in which companies, at the head of global supply chains, can change suppliers at a cost close to zero. In 2008, for example, following national policies that increased Chinese labor costs, many manufacturing companies moved their factories to Vietnam or Cambodia in order to save almost a third of the cost of labor for production¹⁰⁰. However, the ethics of codes of conduct is one of the fundamental reasons why suppliers can lose their customers. However, some relationships that still last after the buyer is aware of ethical violations by suppliers who do not comply with the imposed codes of conduct. There are suppliers who specifically choose to deceive their buyers, the parent companies, in order to maintain a cost advantage. They voluntarily decide not to adhere to the compliance of the codes of conduct, compromising imposed standards such as wages, working hours, employee conduct, quality of work environments. As Vogel points out, “Non-compliance may risk suppliers reduce sale to western market, but compliance does not necessarily increase sale”¹⁰¹. Although the workers are aware of the codes of conduct and are aware of the rules and their rights, regarding the conditions of the working environments and the freedom of association, there are doubts about the real awareness of employees regarding their position on the global supply chain and on the value and the influence they have on it¹⁰². The fact that the code of conducts is not mandatory for the suppliers is important to be stated. Suppliers are not obliged to follow the code of conducts because of a legal aspect but they should comply with it only because they are part of the global supply chain, otherwise the parent company could opt for changing the supplier.

The importance of compliance analysis within the global supply chain management is of absolute importance for an effective and efficient management that makes possible the analysis of risks and performances of the chain in its entirety. Essig stated that guaranteeing correctness, continuity in both business and financial terms, and

¹⁰⁰ Mason P. Low (2010). Wage costs attract investors to Vietnam. (In BBC Asia Business Report) BBC: London.

¹⁰¹ Vogel, D. (2006). *The Market for Virtue: The Potential and Limits of Corporate Social Responsibility*. Brookings Institution Press: Washington, pp. 95.

¹⁰² Huong, D. (2019). *Labour Standards in the Global Supply Chain: Workers' Agency and Reciprocal Exchange Perspective*. Leeds: Leeds Beckett University, pp.2-17.

creating a reputation in the market, are objectives associated with and attributed to the concept of compliance¹⁰³. All stakeholders are involved in this process, suppliers, clients, employees, shareholders, government parties etc., despite all of them with a different role. The compliance resources are many and can refer to laws and standards used to monitor and, when possible, standardize the behavior within the GSC in order to increase its value. There are two concepts of absolute importance from a management point of view: “transparency” and “validity”. One of the most difficult management aspects for companies is the effective monitoring of supplier behavior. Suppliers that do not comply with company rules are increasing this problem. The compliance that characterizes the suppliers in the global supply chains characterizes also the relationship that the company has, and will have in the future, with its customers that are the reason why the company is able to “live”. This compliance helps streamline companies and standardize their internal procedures for dealing with vendors. In recent years, studies on corporate compliance have focused on the codes of conduct required from suppliers, on supplier risk management and on the actual selection of the best suppliers for the company. The monitoring of supplier behavior involves a combination of publicly available data, the supply of qualitative and quantitative data relating to supplier performance, ongoing audits. These activities obviously have a cost and the collection of these data requires time and money. This is a reason why the company must analyze various advantages and disadvantages and different alternatives as well. These problems include how to prioritize, simplify questionnaires and data gathering, or should they leverage third party services¹⁰⁴.

Companies at the head of global supply chains should analyze the compliance life cycle and improve their awareness by analyzing and understanding the compliance issues that exist within the GSC. These problems are increasingly linked to legal concepts attributed to the exploitation or bad management of subsidiaries by suppliers. Internal rules and processes should therefore be carried out and imposed within the chain, and parent companies should conduct continuous analyzes regarding compliance or non-compliance by suppliers with regard to these “rules”, also called codes of conduct. Rules and systems should therefore be defined and be imposed as mandatory when entering a

¹⁰³ Essig M., Hülsmann M., Eva-Maria Kern, & Klein-Schmeink S. (2013). *Supply Chain Safety Management*. Springer.

¹⁰⁴ McBeath B. (2012). *Supplier Risk and Compliance Management in Practice*. Chainlink, pp. 1-9.

specific global supply chain. Currently, companies are approaching compliance through business process management and data management. Thus, the need arises for companies to create an alignment between the specifications of processes and company data, and the specifications of all legal documents called prescriptive. The first point that companies define in the design of compliance standards is the compliance objectives. These are goals to which companies aim under the legal, labor and working conditions. The regulations that the company wants to relate to its objectives, the processes through which the company wants to meet these objectives and the data that the company makes available in order to achieve the previously defined objectives are then defined. Finally, the legal limits that the company needs for the production of its final inputs or outputs are then outlined. Later, legal requirements and processes and data will be compared and evaluated¹⁰⁵.

Figure 10: Compliance framework



Source 19: Mauermair, J. (2013)

These systems that are part of the compliance management system are represented by different approaches, structures, processes and applications that are used and addressed in order to build, carry out and refine the company's business from a management and financial point of view. Therefore, the goal of compliance management is to meet the administrative and financial requirements that are part of the company's business. All the stakeholder's roles are then called into question in order to deal with and meet compliance requirements.

¹⁰⁵ McBeath B. (2012). Supplier Risk and Compliance Management in Practice. Chainlink, pp. 1-9.

In 2013, Mauermair proposed a model called the compliance life cycle that theoretically makes possible and guarantees the compliance throughout the global supply

Figure 11: Compliance assessment framework



Source 20: Mauermair, J. (2013).

the *Running Stage* is developed. This phase is responsible for the transformation of the identified sources of conformity into supplier's organization. Moreover, it is responsible of the supplier processes and technologies, it is also responsible of the management of compliance affairs in daily activities, and it is the phase responsible of the administration of these issue above described. The, the third phase called the *Monitoring Call* is defined. In this phase, the company's control systems are implemented in which the company intends to control the work of the related suppliers. The fourth phase, which is called *Acting*, is based on an analysis of the suppliers aimed at detecting any actions against the law. Then, happens the last phase which is the one used for *Evaluation*. Here the conformity has been set and checked, then a scoreboard is drawn up to understand the suppliers with whom it intends to continue the partnership. The evaluation and control phase must be implemented constantly and periodically, also from the supplier's point of view. Ideally, this model can be used to detect risks at different stages¹⁰⁶.

chain. This model was designed from the perspective of the partner. The first phase, which is defined as *Construction*, is where effective and efficient rules are elaborated and decided in order to improve sustainability for all the partners involved in the chain. Then, what is called

2.6 CSR: Corporate social responsibility

Nowadays, each different type of relationship between companies and suppliers has taken more and more attention. The focus has moved from pure competition between

¹⁰⁶ Mauermair, J. (2013). Compliance and Supply Chain Safety. Supply Chain Safety Management. Ch 10.

firms to competition between their supply chains. Shareholders, stakeholders, international organizations, NGOs (non-governmental organization), trade unions and public authorities are converging their efforts and their interests into environmental and social issues related to international business. New concepts such as supply chain sustainability, environmental management, corporate greening, and, the most common one, corporate social responsibility (CSR) in the supply chain are taking place and receiving more and more attentions by all the interested parties and the corporate world. Currently many new companies are opting for the implementation of annual reports regarding the sustainability of their supply chains. Multinational corporations, called also multinational enterprises (MNEs), are applying voluntary codes of conducts in order to control their supply chains.

In recent years the integration of the various partners belonging to the chain, the processes that characterize them, and the efficiency of their supply chains in terms of both costs and customer service were the basis of the organizational theory of global supply chains. In recent years, however, a new corporate interest has characterized the choices of many companies to outsource production processes. Concerns about social and environmental impacts have in fact become of primary importance. This happened because the multinational companies began to undermine their manufacturing factories in developing countries characterized by low production costs. The new company logics have therefore led to an interest in environmental management, green supply chains and sustainable supply chains.¹⁰⁷

The concept of corporate social responsibility is associated with the concept of global supply chain thanks to the fact that the trade of good between companies is conducted, for the most part, through governance systems, thanks to partnership agreements and negotiations between companies in object¹⁰⁸. The concept of governance, briefly mentioned in the previous paragraph, refers to the assumption of social responsibilities by companies, mostly multinationals, concerning the division of inter-company tasks in order to improve the activities of all GSC participants¹⁰⁹. Multinational

¹⁰⁷ Andersen, M. and Skjoett-Larsen, T. (2009). *Corporate social responsibility in global supply chains. Supply Chain Management: An International Journal*. Emerald Group Publishing Limited, pp. 75–86.

¹⁰⁸ Gereffi, G. (1994), The organization of buyer-driven global commodity chains: how US retailers shape overseas production networks, in Gereffi, G. and Korzeniewicz, M. (1994), *Commodity Chains and Global Capitalism*, Greenwood Press, Westport, pp. 95-122.

¹⁰⁹ Gereffi, G. (2001), Beyond the producer-driven/buyer-driven dichotomy. The evolution of global value chains in the internet era, pp. 30-40.

corporations in charge of supply chains, in most cases, have their control centers (their headquarters) in developed countries and their factories in developing countries¹¹⁰. Their international power derives from the quantity, quality and scarcity of the resources they use, as well as the control that these companies have on the resources, just mentioned, necessary for the sustainability of the global supply chain. These companies also communicate their suppliers about what, how much and when output should be produced by providing their suppliers with the necessary support for the activities¹¹¹. Fundamental under the CSR point of view is not only the support given regarding the above mentioned aspects but regarding working conditions and environmental impacts.

Following the improvement in the technological and multimedia field in recent years, hiding the practical suppliers considered unethical is increasingly difficult for multinational corporations. Furthermore, an increasing number of stakeholders are exerting pressure in the ethical sphere. These stakeholders can be business partners, NGOs, shareholders, employees, trade unions and many others. Companies that therefore decide to undermine their factories in developing countries must take these aspects into account in order to control the environmental and social impact they have in offshore production locations. New technologies, and advances in communications, have allowed information regarding exploitation, or at least concerning irresponsible practices by companies practiced beyond national borders, to be communicated in a very short time. The violation of trade union rights, the use of child labor, racial discrimination, the dangerous conditions of the workplace, are just some of the most common violations for the largest multinational companies in the world. There are in fact, some examples of very famous brands including Gap, H&M, Walmart, Mattel¹¹² and Nike, which I will analyze in the next chapter.

By now, most of the MNEs have decided to develop, define and adhere to systems that are able to support and ensure compliance with certain rules by their subsidiaries. The interested parties described above have in fact lobbied for compliance at an extra national level with rules against the exploitation, or against general bad activities, performed by these corporations. Social and environmental standards have therefore been

¹¹⁰ Ibidem.

¹¹¹ Gereffi, G. (1994), The organization of buyer-driven global commodity chains: how US retailers shape overseas production networks, in Gereffi, G. and Korzeniewicz, M. (1994), *Commodity Chains and Global Capitalism*, Greenwood Press, Westport, pp. 95-122.

¹¹² Frost, S. and Burnett, M. (2007), *Case study: The Apple iPod in China*” *Corporate Social Responsibility and Environmental Management*, pp. 103.

set by companies in order to be diligently respected. Most companies then opted for a system based on corporate social responsibility in their global supply chains. However, most companies have opted in recent years for what are defined as corporate *codes of conduct*.

2.7 The codes of conduct

How can a code of conduct be explained? Some scholars define it as a document that indicates a series of social and environmental standards and principles that a company's suppliers should respect¹¹³. The codes of conduct have become part of the contracts that are drawn up between the purchasing company and its suppliers. What are these codes of conduct based on? When companies identify the principles they want to be associated with and the values that are absolutely fundamental for them to improve their appearance with their stakeholders, they decide to introduce these codes into their contracts. They are often based on previous conventions, local legislations, international standards and principles (such as the United Nations Global Compact, Sullivan Global Principles, Social Responsibility 8000, ISO 14001, Global Reporting Initiative and ILO Declaration on principles and fundamental rights at work)¹¹⁴. Many MNEs do not only include these codes of conduct in contracts but often coordinate advanced management systems with them in order to define, control and review the standards applied and defined by their codes of conduct¹¹⁵. However, according to some scholars, many large companies have implemented, and are still struggling to implement, these codes of conduct in their global supply chains. Because of this fact, one of the largest global multilateral company that deals with bad corporate conduct, called ILO, has performed an empirical study to investigate what are the management and control systems that MNEs use in order to implement these codes of conduct. This study was done on companies that work in the field of sports shoes, clothing and retail¹¹⁶.

¹¹³ Mamic, I. (2005), Managing global supply chain: the sports footwear, apparel and retail sectors, *Journal of Business Ethics*, pp. 81-100.

¹¹⁴ Organization for Economic Co-operation and Development (2001), *Making Codes of Corporate Conduct Work: Management Control Systems and Corporate Responsibility*, Organization for Economic Co-operation and Development, Paris.

¹¹⁵ *Ibidem*.

¹¹⁶ Mamic, I. (2005), Managing global supply chain: the sports footwear, apparel and retail sectors, *Journal of Business Ethics*, pp. 81-100.

Although the use of the codes of conduct is widely common nowadays, not all the corporations are positive regarding their effect. Why this issue? Codes of conduct are not mandatory. “They cannot be imposed as legal obligations and they cannot be used as legal requirements nor they are drafted in response to the needs of the employees of the companies they are directed towards”¹¹⁷. According to some scholars, codes of conduct are often used only to prevent new pressures by the stakeholders. Even if the efforts of many multinational companies are directed towards the application and legal activities of CSRs in their GSCs, a considerable gap can often be found between what is the theory of social responsibility and what is instead the effective implementation of the directives and therefore of the working conditions at their suppliers.

The codes of conduct, such as all the issues related to the CSR in supply chains, are strongly linked to the concept of embeddedness. These regulations in fact have to be embedded within the entire organization. This means that there must be a high degree of integrity throughout the global supply chain. When we analyze a company and its supply chain, from the point of view of the CSR, there is a need to analyze how deeply this concept is embedded throughout the global supply chain as a whole¹¹⁸. Four are the main methods in which the level of embeddedness within the organization can be analyzed and manifested. These four mechanisms are defined as follow: knowledge enhancing mechanism, knowledge controlling mechanism, firm specific assets, and corporate history (also defined as path dependency)¹¹⁹.

- The *knowledge enhancing mechanisms* are used by the companies in order to make the work better for all the actors connected to their supply chain and therefore involved in their CSR processes. These mechanisms can therefore increase the skills and abilities of the actors involved. They are then divided into two different categories, those directed and used to improve internal knowledge and those aimed at improving external knowledge. The most common way to enhance the *internal* knowledge of the employees is through a training period in which the company aims to control employees’ conduct. This control is defined

¹¹⁷ Andersen, M. and Skjoett-Larsen, T. (2009). Corporate social responsibility in global supply chains. *Supply Chain Management: An International Journal*. Emerald Group Publishing Limited, pp. 75–86.

¹¹⁸ Schmidt, K., Christen, F.M. and Øllgaard, H. (2001), Product orientation of environmental work, *Corporate Environmental Strategy*, pp. 126.

¹¹⁹ Andersen, M. and Skjoett-Larsen, T. (2009). Corporate social responsibility in global supply chains. *Supply Chain Management: An International Journal*. Emerald Group Publishing Limited, pp. 75–86.

and shaped by the codes of conduct. This can create a frame of reference that can help both employees and employers to understand how to perform their jobs and their tasks. The improved knowledges and skills allow them to act in an easier way, thus performing their duties in a more positive manner concerning environmental and social impacts. As I have just described, the internal mechanisms are able to create a common corporate framework within the organization. The mechanisms defined as *external* make possible the creation of a frame of reference outside the organization, between the company and its suppliers. The strengthening of this external knowledge has various mechanisms by which it can be applied. For example, it can be enhanced thanks to more visits or more dialogues with suppliers, formal training of suppliers or other similar mechanisms.

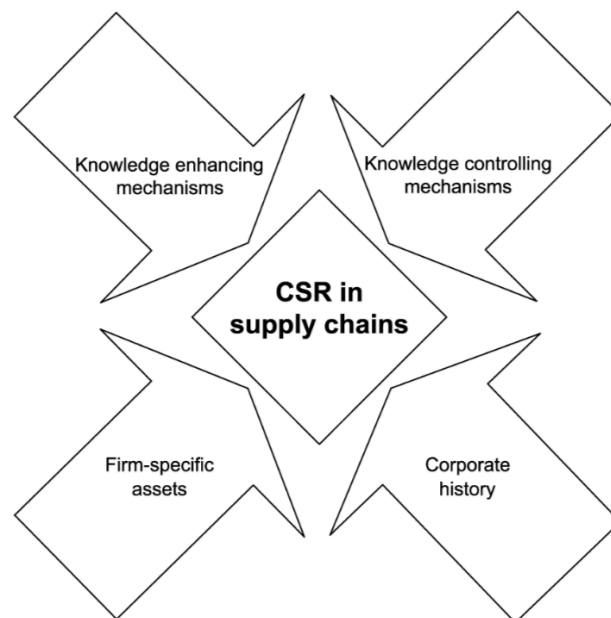
- The second way is defined as the *knowledge control mechanisms*. These mechanisms are used to measure and control employees' performance. They are also defined as incorporations of codes of conduct used for control within global supply chains. When a code of conduct is set, the employees, knowing that their behavior and jobs will be compared on the set standards, are encouraged to work effectively with suppliers on social and environmental issues. The codes of conduct are then used as a mechanism of comparison and a control tool. In addition, the company may opt for the use of the so called "change agents". These agents have the task of constantly checking the employees belonging to the factories. They are required to check that employees follow all the codes of conduct imposed and desired by the parent company. Standards have to be met and all the targets imposed, such as price, volume, general pollutions, turnovers, leftovers etc. have to be respected. Performance measurements can be reached at two different levels. The global level and the regional level. At the global level companies have to ensure that the global standards are followed throughout the entire system and the entire global value chain. At the regional level, companies have purchasing teams that have their own targets regarding their own price, volume, general pollutions, turnovers, leftovers etc.
- "*Firm specific assets*" is the third method considered. These assets are generally defined as the features that differentiate the company from the others and thanks to which it can attract more suppliers and therefore acquire and maintain a competitive advantage in the market. They are generally defined as the

dimensions of the company, the design of its global supply chain, its financial resources and its reputation. A company characterized by large dimensions, by future expansion projects in the market and by a large amount of available resources, facilitates the interest of suppliers in the implementation of the codes of conduct imposed by it to allow them to have a long-term partnership contract term. Having codes of conduct, characterized by difficult environmental and social compliance, also helps suppliers to attract demanding customers who base their choices also on these social issues.

- *Corporate history* is a mechanism able to attract suppliers and customers as it shows what the company actually does. A company tradition that concerns the fulfillment of social and environmental issues can help the company to introduce its codes of conduct into the global supply chain. This will force its associated suppliers into the daily execution of the related practices. Traceability and history in social and

environmental issues, a story about the meticulous choices of suppliers that accept the conditions imposed by ethically healthy codes of conduct, are company characteristics of fundamental importance for the company future goals. These features enhance the ease with which an organization takes up the idea of

Figure 12: CSR in GSC



Source 21: Andersen, M. and Skjoett-Larsen, T. (2009).

working with CSR in relation to suppliers. If the company is characterized by a long-term relationship with its suppliers, it will have an additional point of interest for the new suppliers that want to have a partnership contract with it, it can be stated that this is a good precondition for a future well-being.

The concerns regarding labour standards have, in recent decades, changed the relationship between companies and suppliers. Companies are in fact increasingly opting

for the use of suppliers' codes of conduct as a voluntary-regulatory measure. Companies are using these features in order to promote and follow the international labour standards in suppliers' factories¹²⁰. The introductions of the above-mentioned codes of conduct (CoC) by global brands aim at addressing these issues. Lately, there have been many criticisms regarding the aspects just described. Some scholars believe that the rules of the workers in the global value chain have not received the necessary theoretical improvements. They define the use of the codes of conduct as ineffective and inefficient as they are not mandatory. They believe that the implementation of the CoC in some production facilities located in developing countries have highlighted operational and institutional obstacles and therefore are resulted totally inefficient¹²¹. Autonomy, self-determination, self-discipline, mobilization, self-confidence, participation, are aspects of accountability which, according to some scholars, can help employees in fulfilling the imposed codes of conduct. Nowadays, however, there are still few certainties about how the role of workers has a real influence on codes of conduct and how these can positively or negatively influence working relationships.

¹²⁰ Huong, D. (2019). Labour Standards in the Global Supply Chain: Workers' Agency and Reciprocal Exchange Perspective. Leeds: Leeds Beckett University, pp.2-17.

¹²¹ Liubicic R. J., (1998). Corporate codes of conduct and product labelling schemes. The limit and possibilities of promoting International labor rights through private initiatives. Law policy international business, pp 111-125.

Chapter 3: Nike

3.1 History of the brand and its development

Figure 13: Nike logo



Source 22: Nike.com

The Nike brand was born in 1967 from the idea of Bill Bowerman, an athletic trainer born in Oregon with a passion for this sport and in particular for the race, and Phil Knight a sports athlete who had Bill as his coach. They initially started with the creation of a

brand to be applied to the shoes produced in Japan that they imported directly to America. In 1962 Phil Knight put his idea into practice by designing the “Blue Ribbon Sports” brand, which was the precursor of the world famous Nike brand. At that time, the companies that dominated the athletics shoe market were Adidas and Puma, two German shoe companies. Knight analyzed that many athletes belonging to the track and field were not fully satisfied with the characteristics of the shoes produced by the two brands just mentioned. His goal was to produce athletic shoes that were designed and produced by athletes like them.

Everything started thanks to a trip to Japan in 1962 where Bill Knight contacted the company called Onitsuka Tiger. In 1963, in December, Night received the first delivery of 200 Tiger shoes. He tried to think a way in order to sell shoes to truck and field athletes, that lived in Oregon, knowing that his brand did not have the fame that brands like Puma or Adidas had. He then began a process of dialogue and conviction sharing his passion for running with these athletes he wanted to sell his products to,

listening to their feedbacks of the shoes and speaking in the same sports language of these athletes¹²².

1964 was the year that Knight asked his trainer, Bill Bowerman, to share his corporate concept. They decided to found the Blue Ribbon Sports brand by investing \$ 500 both. In the first year of partnership they sold 1300 pairs of Tiger shoes, generating revenues of around \$ 8,000.

In 1965, revenues rose to around \$ 20,000 and profits came to just over \$ 3000. In 1967 they created the first shoe called “Marathon”. This shoe was made from a lightweight and durable nylon upper. The following year two new products were created: the shoe called Cortez, which was for some years the best seller of the company, and the shoe called Boston, the first shoe entirely padded on the sole. In 1969, two years after the first shoe was created, sales reached and exceeded \$ 300,000. Knight therefore decided to dedicate himself entirely, full time, to his own brand which now also included 20 employees.

In 1971, Knight decided that the time had come to change the name of the brand. Initially he had thought of the name “Dimension Six”, connecting to the six dimensions of sport, the name however turned out to be too long according to the other executives of the Blue Ribbon Sports company. One day, Jeff Johnson, an employee of the company, proposed the name Nike referring to the Greek god of victory. Due to the fact that there were no other better proposals than this one, the name Nike was accepted and branded. However, the problem of the logo remained. Twelve proposals had been suggested to Knight, but, at the end, the famous “Swoosh” that we all know was chosen and branded for a price of only \$ 35¹²³.

In 1973, Nike made its first marketing move by signing a partnership with Prefontaine, a controversial track and field athlete. He therefore was the first athlete to wear a pair of Nike shoes during the competitions. This athlete was categorized as a rebel with a tough past and because of this reason many people were asking why Nike opted for this partnership. Knight explained this partnership with the spirit of the athlete. He stated that this spirit was part of the soul of the company as well because Nike wanted to do everything necessary to beat the competition, that was the main aspect of the

¹²² Harvard Business School, (n.d.). Nike, Building a global brand, pp.330-351.

¹²³ Ibidem.

competition spirit of Prefontaine. One of the most important aspects of this sponsorship was based on the fact that it was relatively inexpensive but very productive.

In subsequent years, the Boston marathon-winning athlete wore a pair of Nike shoes. Then, thanks to the just mentioned circumstance, many athletes from other sports began to sign sponsorship with the Nike company, thus expanding the sport area that was not anymore only focused on track and field athletes. Furthermore, the number one in the world ranking of men's tennis had a sponsorship contract with Nike for the shoes¹²⁴.

Another very important aspect for the growth of the brand happened in 1974. Nike introduced the new shoe called Waffle Trainer. However, the thing that increased the knowledge of the brand and consequently of the Nike logo, was based on the fact that these newly named shoes were used not only in sports fields, but also in other environments, for example to walk around the city. The management of Nike realized that the choice to wear Nike shoes as a casual shoe was given by the fact that many athletes used shoes also for this purpose. They therefore understood that the sponsorships with the most famous world athletes, although they were very expensive, they were, at the same time, very profitable from the point of view of monetary sales for the company.

At the end of the year 1974, the hired employees came to be around 250 and Nike achieved revenues of around 5 million dollars. In 1978 there was the official change of the name to Nike Inc. Then, in 1980, Knight finally managed to take the number one place for the best company for sports shoes, especially for track and field athletes. The company came to have more than 2,700 employees and a turnover of around 270 million dollars worldwide. Knight, with his company, managed to overtake Adidas that, only 10 years earlier, had no rival if not Puma. In the 1980s, Nike reached about 50% of the market share in the United States. In the 1990s Nike began signing sponsorship contracts with many athletes from the world of football and basketball, becoming the official sponsor of the Brazilian national team in the World Cup of 1994. The Brazilian team finished the event winning the first place and being the best soccer team in the world, and one of the most famous ever. Nike also became a sponsor of many world-famous football teams, especially European teams, country where the football was the most played sport. This brand also signed a sponsorship with the famous USA basketball team of 1992, considered perhaps the best basketball national team of all time and called "the dream

¹²⁴ Harvard Business School, (n.d.). Nike, Building a global brand, pp.330-351.

team”. All these sponsorships have led to consolidate leadership of the company not only in the United States, but throughout the entire world, especially in Europe.

However, a major crisis occurred in 1996 when Nike had faced with an audit based on accusations of child exploitations and bad working environment within Nike suppliers’ factories in Vietnam and Cambodia. I will deal in depth with this problem in the paragraphs 3.5¹²⁵.

In 1988 Nike coined its brand slogan that nowadays everyone knows: “Just Do It”. This is a trademark of the company that can be related to all the aspect of the company,

Figure 14: Just Do It slogan in the 2019 basketball world cup



Source 23: Nike.com

starting from the sales ending up with the philosophy of the firm. Thanks only to this slogan, aimed to push people to do what they want to do with no fear of it, Nike was able to increase its North

American footwear business shares from 18% to 43% (from \$ 877 million to \$ 9.2 billion in worldwide sales) in only 10 years¹²⁶.

What is the Nike's current position? Nike is considered the largest retailer for sports shoes and sportswear of the modern era and it mainly fights for supremacy with its direct competitor, Adidas. Nowadays, Nike brand has focused its sales interests on the production and advertising of sports shoes, increasingly expanding the firm idea into new sports such as, for example, golf, American football or tennis. Focusing on new sports, Nike’s management decided to produce also sportswear and sports equipment related to these new sports. Moreover, accessories lines based on the efficiency and the effectiveness brought to these sports performances were elaborated and then produced.

¹²⁵ Harvard Business School, (n.d.). Nike, Building a global brand, pp.330-351.

¹²⁶ Statista. (2019). Nike's global net income 1995 to 2019 | Statista. [online] Available at: <https://www.statista.com/statistics/241685/net-profit-of-nike/> [Accessed 10 Aug. 2019].

Nike, as a company, has now a portfolio featuring 4 important and different brands: Nike Brand, Jordan Brand, Hurley and Converse. The geographical segmentation that characterizes this company, the point of view of the global supply chain, the sales network and all the retail stores linked to the brand are worldwide. In fact, the segmentation includes North America, China, Europe, Middle East and Africa, Greater China, Asia Pacific and Latin America, in a nutshell, the whole world.

Nike.inc operates throughout the whole world thanks to its vast and profitable global supply chain. Its suppliers and customers are located in many different countries of the world, going to characterize all continents. Product categories, distribution channels, customers and suppliers all belong to different countries and they consequently have different preferences and requirements. So, how can Nike be able to satisfy everyone? How can the firm know the preferences of individual customers belonging to different countries? This is one of the advantages that led Nike to be the company that sells the most sportswear products and accessories in the whole world. I will go deeper on the details of this fact in the following paragraphs.

In recent years, the sale of sports products has undergone major changes and the introduction of innovative sales mechanisms have changed the sports market. Mechanisms such as e-commerce, online sales, healthy lifestyle, the growth of women in sports activities have together changed the concept of sales and increased, and, at the same time, shifted, the competitiveness of the sector between the biggest global brands: Nike, Adidas, Puma and Under Armor. Nike, being considered as the absolute leader in the sports sales sector, has many competitive and comparative advantages compared to its direct competitors. One of the fundamental advantages of the Nike brand is its iconic figure that is distinguished all over the world easily. The famous “swoosh”, symbol of the Nike brand, which at the time costed only \$ 35 to be branded, now (2019) has an estimated value of \$ 32.5 billion, about 1 billion times higher 38 years after its creation¹²⁷. This appreciation makes Nike able to put premium prices compared to the price charged by the direct competition. One of the advantages derives directly from one of the most important sources of the global value chain (or global supply chain) of Nike: the suppliers. Nike has a huge bargaining power with its suppliers that none of its competitors has. The depth of the portfolio that characterizes Nike allows the company to increase its

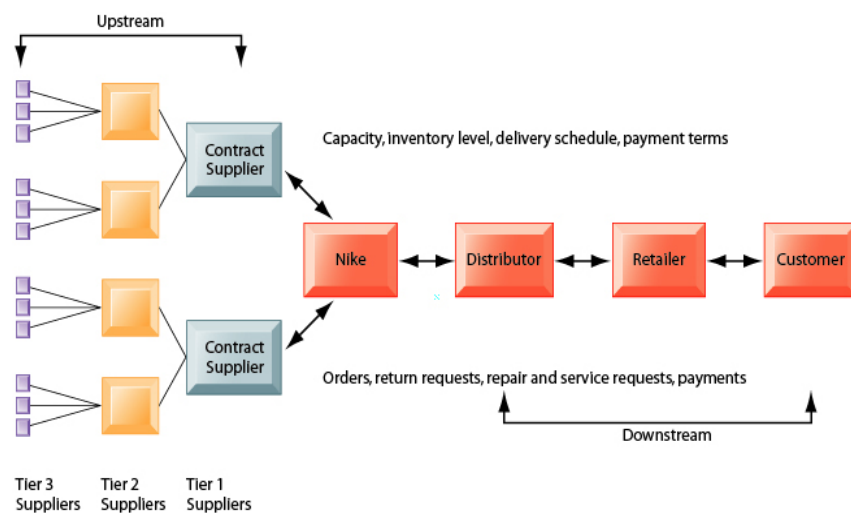
¹²⁷ Statista. (2019). Nike's global net income 1995 to 2019 | Statista. [online] Available at: <https://www.statista.com/statistics/241685/net-profit-of-nike/> [Accessed 10 Aug. 2019].

bargaining power with its suppliers. Nike, thanks to this fact, can decide when to change its contractors without risking too much cost increases, production deficits or product quality losses. This, which I will analyze later in my study during the paragraph 3.5, has however led Nike to legal problems because of the fact that the deeper your suppliers' portfolio, the more difficult it will be to control it. This fact can consequently lead to a bad supervision intended for the control of finished products for the direct sales or intended to be input of other products (semi-finished products). The problem takes place due to the toughness of controlling a portfolio characterized by too many suppliers. Furthermore, the company may not be able to verify that all products are executed without the exploitation of resources such as people or children, or without the privatization of health care at the workplace.

3.2 The Nike global value chain

As explained in the previous chapters, innovation along the global supply chain is one of the fundamental aspects for a profitable growth. Scholars and researchers have emphasized and highlighted this business aspect during the 21st century. Innovative practices in the *Figure 15: Nike global supply chain. Upstream and downstream flows.*

global supply chain are essential to keep pace with the times and characteristics of the world trade in recent years. Since product quality is a fundamental part of company's sales, a careful management of all the features



Source 24: Nike.com

and aspects of the supply chain must be pursued in order to reach and gain competitive advantages in the market. Nike, which is considered the largest manufacturer of sports shoes and sportswear, owes its success to the quality and efficiency of its global supply chain. The techniques developed and persecuted by Nike in its global business allow the

company to have an efficient and effective global supply chain. When we argue about Nike, we don't just talk about the quality of the products, which is unquestionable, but we discuss about the efficiency of the communication channels of the firm's products. This communication is realized through specifically designed marketing channels and marketing strategies. This communication allows Nike to connect with its customers and make them fall in love with the products even before trying them. Thanks to methods and marketing strategies, that have been studied in depth to meet the needs and attract the attention of customers, Nike has maintained, and still maintains, a strong competitive advantage. Nike reached the first place in the market especially thanks to a great management of its global supply chain. However, in recent years Nike evolved its supply chain by following the trends of the moment. The company opted to make the necessary changes in order to satisfy all the new desires of its customers. The supply chain network of Nike, at the global level, is of absolute importance and it allows the company to grow constantly and it allows the firm to be able to modify small details in a very short time. In the last two decades, Nike has evolved in terms of product quality, costumers service and quality of work environments in most of its manufacturing factories where, in the late 1990s, it had had several legal problems. The global supply chain of Nike has taken on important advantages in all the key areas for the growth of the brand. Nike, along its global supply chain, has reached an intelligent, efficient and agile level of management.

When the global supply chain is the focus of the analysis, discussing regarding the necessary resources that the parent companies need is necessary. Debating about raw materials and the manufacture of the products, Nike completely relies on external sources. It can indeed be said, through a careful analysis of the geographical distribution of its suppliers, that almost all Nike's products are produced by independent contractors. The growth of Nike's global supply chain business vaunts a large number of different suppliers. Although many suppliers are linked to its GSC, Nike's goal is certainly to guarantee and maintain the high quality of its products. The company, thanks to its management in the control center, is committed to guarantee the achievement of top quality raw materials. In the headquarters of Nike in Oregon, a global procurement team has been created with the objective of the analysis and the acquisition of raw materials with the best quality of the market. This team takes charge of the entire procurement

process that starts with the selection of the suppliers necessary for the partnerships¹²⁸. Nike needs multiple partnerships because it needs different capacities and different sources from which purchasing raw materials, semi-finished and / or finished products. Nike also intends to purchase sustainable raw materials from these sources in order to follow his own environmental rules. Going deeply into the features of the global supply chain of the Nike company, its extension to different nations and different continents can be explained. The nations that are characterized by at least one Nike factory are, according to the Nike website, 42. There are about 567 independent factories attributed, or connected to Nike, which employ approximately 1 million people. Of these 567 factories, 466 concern the Nike brand, 135 are Converse brand suppliers, located in about 18 different countries, and about 90 suppliers belong to the Hurley brand, located in about 17 countries. These 567 independent factories virtually produce all the products sold by Nike.Inc intended to the various markets worldwide. Discussing only regarding Nike brand, in the fiscal year 2018, only five of its manufacturers generated about 69% of all Nike brand sports shoe production. In 2018, 124 sports shoe factories produced Nike shoes¹²⁹. Indeed, a fundamental feature of the Nike company is related to the outsourcing process. In fact, Nike is not often the owner of the factories that produce the footwear or the sportswear of the company, but the firm relies on many different contractors.

Another aspect of the Nike brand that needs to be explained is based on the fact that Nike created partnership relations not only under a qualitative aspect, but all the partnerships are (and were) intended to be perpetuated over the long term. In fact, a strategy of its global supply chain is to have and to create long-term contracts with suppliers. However, In the past years, as quickly mentioned before, Nike had had many controversies throughout its global supply chain due to bad practices related to labor welfare within its contractors. More precisely, the firm had had problem that has been associated to the not compliance of labor rights within different countries. Following these issues, Nike's management focused on improving the practices associated with its global supply chain. The strategies associated with Nike suppliers have imposed, as a priority, the leadership and the pursuit of mechanisms such as the corporate social responsibility (CSR), the codes of conduct and many different sustainable practices in order to minimize both social and environmental impacts. In order to ensure that its

¹²⁸ Pratap, A. (2016). Nike supply chain management: Ethics, Sustainability and Efficiency. pp.1-7.

¹²⁹ Ibidem.

suppliers were acting in the best interest of Nike and in the so-called “best practices”, the company imposed its codes of conduct and many specific standards to the subcontractors’ factories in order to control their operations. In the following paragraphs I will analyze the problems that occurred within its supply chains in the late 1990s¹³⁰.

A competitive and comparative advantage of Nike has been achieved thanks to an efficient distribution network. In fact, its channels allow the company to meet the needs of customers belonging to different nations in a very short time. Nike’s global supply chain is characterized by distribution channels and logistics networks that allow the company to simply distribute products in different countries. This therefore allows the company to respond faster to changes in consumer demand. Nike, in addition of the use of production channels all over the world, reserves a critical attention aimed at satisfying the needs of its consumers. This feature just mentioned refers to the company’s sales channels. In fact, Nike uses thousands of retail stores, online sales channels and direct consumer sales. This makes the increasement of the speed for responding to the customer within the global supply chain possible, starting from the acquisition of raw materials to the actual customer sale, ending up with the after-sales service. For example, in 2016, Nike opened a logistics campus in Memphis, Tennessee, North America. This has been categorized as the Nike’s largest distribution center. This logistic center makes the distribution of Nike products available to over 2000 stores only in North America¹³¹. This retail store is about 260,000 m² in size and includes footwear, sportswear and equipment from Nike and Jordan brands. Nike, in fact, sells its products through proprietary retail stores and digital platforms that represent its direct operations. Moreover, Nike sells its products through independent distributors, licensees and sales representatives in many countries around the world. For the 2018 fiscal year, North America contributed of about 40% of the total revenues of the company, and it continues to represent the largest market of the Nike.Inc company in 2019. The Nike brand represents about 85% of the total Nike company revenues, while the shoe sector is the first category of products, representing about 61% of the brand’s revenues¹³². Thanks to its sales channels, and to its suppliers,

¹³⁰ Harvard Business School, (n.d.). Nike, Building a global brand, pp.330-351.

¹³¹ Nike News. (2015). Nike Opens Its Largest Distribution Center Worldwide In Tennessee. [online] Available at: <https://news.nike.com/news/nike-opens-its-largest-distribution-center-worldwide-in-tennessee> [Accessed 2 Sep. 2019].

¹³² Nike News. (2018). NIKE, Inc. Reports Fiscal 2018 Fourth Quarter and Full Year Results. [online] Available at: <https://news.nike.com/news/nike-inc-reports-fiscal-2018-fourth-quarter-and-full-year-results> [Accessed 1 Sep. 2019].

Nike is able to satisfy customers in an almost standardized way by increasing demand and consequently the sales. A critical point of the logistic process of the firm, belonging to Nike's global supply chain, consists on being able to reach a company higher cost efficiency by reducing delivery time and increasing service capabilities. However, it must be emphasized that a company like Nike encounters a wide variety of risks along its global supply chain. In addition to the strong competition that Nike has to face every day, Nike has to deal with problems that can be connected to the brand image and its related reputation. One of the fundamental problems that this company faces is associated to changes in consumer demand, and therefore to their preferences. There are other risks that Nike must face that can be overcome thanks to an optimal use of its global value chain:

- Technical innovation and high quality products to compete in the market;
- Obtaining or maintaining high-quality endorses of their products;
- General economic factors beyond their control, and changes in the global economic environment, suggest fluctuations in interaction and currency exchange rates;
- Seasonality of the product which could result in fluctuations in the operating results;
- Protecting their intellectual property rights;
- The ineffectiveness of their distribution facilities;
- The availability of high quality employees.

3.3 Nike's SWOT analysis

As theoretical explained in first chapter, the SWOT analysis is divided into four parts that are the strengths, weaknesses, opportunities and threats of the analyzed company. In this paragraph I will analyze these features using them for the Nike company in the fiscal year 2019.

- **Strengths:** the strengths of a company are the internal factors that can give to the it a comparative and / or competitive advantage against its competitors. These are related to the capabilities of both the management and the global supply chain as a whole. Analyzing the company, I can state that the strengths of Nike are the following:

1. Nike has one of the strongest *brand awareness* in the world, not only compared to the footwear brands but compared to all the brands in the world. Nike is one of the most known and recognizable brands in the world. Its name is easy to pronounce, it is simple but, above all, it is associated with efficiency, effectiveness, reliability and sport. The "swoosh" symbol described in the previous paragraph has allowed the Nike brand to be even more easily recognized by all the people in the world. Data extrapolated from a research carried out in 2019 says that Nike currently has about 31% of market share in the sports shoe market.

Figure 16: Revenue per Year. Comparison Between Nike, Adidas, Asics, Puma and Under Armour



Source 25: Statista.com (2019).

2. The Nike *customer base* is one of the largest in the world boasting millions of consumers who trust, and more than that love, the company and its products. Thanks to this consideration, the company created a customer loyalty process that allows continuous sales of its products, not just of the shoes but of all the products Nike.Inc branded. These consumers participate in company events, they visit some of the factories around the world and they provide the necessary products feedbacks, a necessary piece to attract new customers. Thanks to its customer base, Nike has had a positive market gap of around 115 million dollars compared to 2017 (in 2018).

3. Following the scandals of the late 1990s, the CEO of Nike Mark Parker based the Nike production on the concept of *sustainability*. This factor has attracted

customers that are sensitive to environmental issues and to the impacts that companies have in the communities and their environments.

4. A fact happened in recent years is the iconic awareness of the *Jordan brand* and the massive contribution given to the firm by this branch of the Nike.Inc company. The shoes produced by the Jordan brand take on a greater value than the sales one immediately after the sale happened. These shoes are produced in limited editions and this procedure attracts customers who want to have a unique Jordan branded piece.
 5. Nike can boast a multiplicity of relationships with suppliers which allows its management to have *lower production costs* thanks to the manufacture of products in countries such as Vietnam (47% of the total production), China (26%), Indonesia (21%).
 6. Nike also stands out for its *superior marketing and product advertising capabilities* that allow the company to introduce products to new customers and encourage them to buy from their worldwide stores. Between 2016 and 2017, Nike spent about \$ 3.3 million on digital marketing.
- Weaknesses: the weaknesses of a company are the internal disadvantages that can give to the competitors of the company a comparative and competitive advantage against the analyzed company.
 1. In recent years Nike had many problems with *poor labor conditions* in developing countries where the company had its production centers. For years Nike has been denounced for these facts including child labor, salaries below the minimum wage, very bad conditions in workplaces defined as “unsafe”. These problematics destroyed the love that customers had for the brand.
 2. Despite being a global company, Nike *relies heavily on its American market* and on the market shares deriving from it, both in terms of sales and revenues. In fiscal year 2018, all of Nike’s sales came to 42% from the American market and 52% from the rest of the world¹³³.
 3. In August 2018 there has been a *class-action* made by a woman who depicted the company as a xenophobic against the female gender by claiming that

¹³³ Nike News. (2018). NIKE, Inc. Reports Fiscal 2018 Fourth Quarter and Full Year Results. [online] Available at: <https://news.nike.com/news/nike-inc-reports-fiscal-2018-fourth-quarter-and-full-year-results> [Accessed 1 Sep. 2019].

women within the company were paid less and were prevented from improving their working position within the company.

- Opportunities: the opportunities, under a business point of view, are defined as the external set of circumstances that make doing something that can give to the company an advantage (or more than one) possible.
 1. Although Nike has a *global expansion*, many developing countries can give the company future opportunities not yet pursued. Countries like China, Brazil and India, for example, are countries that are growing a lot in recent years and could allow Nike to expand further.
 2. In addition to a territorial expansion, Nike can lean towards a *product extension*, thus *innovating* the products from a technological point of view. In recent years the innovations of this company have been manifold. For example, shoes have been created equipped with sensors that allow you to monitor the physical activities performed, or shoes that tie themselves and that take the shape of the foot. However, there are certainly many new opportunities for future product innovations.
 3. Nike relies on independent manufacturers. An opportunity could be to *internalize* some production processes without having to rely on external producers in order to have a greater efficiency in the supply chain.
- Threats: threats, under the business point of view, are defined as the elements in the environment that could cause trouble for the business, and that can destroy the competitive advantage previously gained.
 1. Today there are very high chances of finding *counterfeit products*. These products, usually deriving from the Chinese market, make Nike's reputation inferior but, above all, the revenues of the company can be affected by the sale of these products. Many sellers offer many types of luxury shoes (counterfeit shoes), or at least expensive shoes, at lower prices than the original ones. These illegal sellers tarnish the image of the brand.
 2. *Competition* is a threat that brands face every year. Although Nike dominates the industrial world of sportswear, every year new threats penetrate the market. These threats have the objective of taking a strong and personal position in the market. To cope with this, in 2018 alone, Nike spent more than \$ 3 billion on marketing and advertising.

3. Given the fact the Nike operates globally, the management of the company must be ready to cope with fluctuations in demand related to the various countries, but, above all, with changes in the exchange rates belonging to the various countries.

3.4 Porter's five forces analysis of Nike

Figure 17: Porter's five forces analysis



As explained in the first chapter, Porter's five forces analysis is divided into 5 parts: bargaining power of suppliers, bargaining power of buyers, threat of substitute, threat of new entrants and level of competition. I will analyze in this paragraph these issues relating them to the global supply chain of Nike.

Source 26: Porter M. E. (2004).

- Bargaining power of suppliers: the bargaining power of Nike's suppliers is low. As explained previously, Nike relies on about 570 factories divided into 42 different countries. Given that the suppliers are "small" in size, but above all they are many, Nike does not encounter big costs if it would decide to change one supplier with another. These are some of the reasons why suppliers cannot exercise strong bargaining power towards Nike. Nike, in turn, has a very strong contractual power towards its suppliers because, if the company opt for changing a specific supplier, this contractor would lose a great source of revenue. This is why Nike can exercise control over its suppliers thanks to mechanisms such as compliance, codes of conduct or corporate social responsibility that oblige suppliers at certain behaviors within the global supply chain.

- Bargaining power of buyers: the buyers' bargaining power is given by the fact that they can change brands at a specific cost. The cost they bear to change the brand is defined as switching cost and it defines the bargaining power of customers. In this case, they can switch from the Nike brand, to basically only Under Armor, Puma, reebok or Adidas if they want to maintain the same products quality. The other competitors can be defined as not direct as they do not guarantee the same quality and efficiency in the products that Nike, or the other well-known brands, are able to guarantee. Thanks to the performance and to the design features of Nike, the company is able to build a brand loyalty that decreases the bargaining power of buyers. Therefore, I can state that clients do not have a strong bargaining power but it can be defined as moderate.
- Threat of substitutes: the threat of substitute products can be explained in the same way as the customers' power had been explained. In fact, it is related to the numbers of products that can be direct competitors of Nike ones and that therefore give the customer a different choice from the Nike product. This threat is described by products belonging to brands such as Under Armor, Adidas, Puma or Reebok, or lower quality products belonging to other lesser-known brands, which however are characterized by lower prices. I can define this threat as moderate.
- Threats of new entrants: the threat of new companies entering the market is low against a company like Nike. I can claim this because, even if the investments to enter the market are not high, going to compete with brands like Nike, Under Armor or Adidas is mainly impossible nowadays. New brands can sell their shoes or sportswear, but they will be characterized by lower quality, or lower technologies, or lower marketing, or workers with lower capabilities than the ones belonging to the bigger brand above described. For these reasons I can state that for Nike the threat of new entrants in the market is low.
- Level of industry rivalry: the rivalry for Nike within the belonging global market is certainly very strong. Industry can be defined as saturated as it is entirely dominated by global brands such as Nike, Under Armor, Adidas, Puma and Reebok (also because nowadays they compete in many different sports). A deeper market penetration is what characterizes the

competitiveness in the market for these subjects. Everyone wants a bigger slice of the market but conquering it is not easy. I can therefore state that, although the number of direct competitors is low, the competition between these subjects is very strong.

3.5 Nike's image crisis.

As explained in detail in chapter 1 and 2, many companies at the head of global supply chains related to the major world brands rely on third parties for the execution of their products or their semi-finished products. These third-party companies, that are typically factories, are usually set in developing countries. Big brands rely on these factories for the outsourcing of their production processes because there is the possibility, thanks to fewer restrictions in the field of workers' rights, to have more production at the same costs, or to have the same production with lower costs. These factories are often located in South America (Argentina or Peru for example) and very often in the Far East (China, Vietnam, Cambodia). These practices are frequently characterized by the exploitation of workers and unhealthy environments. One of the most common features concerns the fact that these employees usually receive wages below the minimum state threshold. For example, in Bangladesh, some workers were paid around € 40 a month to work around 12 hours a month, to produce the clothing of the well-known Italian brand Benetton¹³⁴.

Figure 18: A child sewing a Nike soccer ball in a factory in Cambodia.



Source 27: Lapenna, 2018.

Discussing about the case I decided to analyze, the Nike company was also subjected to complaints relating to the use of these practices in the late 1990s in the

¹³⁴ Lapenna, D. (2018). Nike e Asics: dallo sfruttamento dei bambini, sino agli svenimenti in fabbrica per le condizioni di lavoro. [online] [Ilventunesimosecolo.blogspot.com](https://ilventunesimosecolo.blogspot.com). Available at: <https://ilventunesimosecolo.blogspot.com/2018/06/nike-e-asics-sfruttamento-minori.html> [Accessed 3 Sep. 2019].

factories it sourced from in Cambodia. In these years Nike has seen its corporate image suffering negative and critical publicity from all over the world. The major cause that triggered all this, and that made consumers infuriated, was related to the company's bad work practices in Asia.

In 1997, a labor watchdog agency released an audit made by Ernst & Young in 1996¹³⁵. In this review the authors reported that they found dangerous and inhuman working conditions within Nike's factories in Vietnam and Cambodia. According to them, these practices went against the principles of the International Labor Organization. In this review, the authors denoted and emphasized how the workers in these factories were forced to work more than 65 hours a week. They were also underpaid for the hours they worked. Moreover, the areas they were forced to work in were without ventilation and these employees were constantly exposed to the risk of ingesting the carcinogenic substances used for the production of the various shoes or clothing destined to Nike customers. Furthermore, the review pointed out that, in addition to underpaid workers, in these factories there was a presence of underage workers, younger than 16-year-old girls and boys forced to work in unfavorable conditions (they also found girls, children in general, that were around 5 years old). Although Nike defended itself by claiming that its Cambodian suppliers employed girls over the age of 16, the authors of this review were able to film inside the factories, where Nike was producing its products, demonstrating the exploitation of children and the conditions of the workers. Often, these women, men, boys and girls were people who tried to escape the poverty of the Cambodian countryside by looking for fortunes in the factories in order to send salaries to families that were still living in the countryside¹³⁶. Following the struggles for labor rights activists, Nike, like other accused multinational enterprises (Asics and Puma for example), pointed out that without the multinationals, in these countries there would have been more poverty and that the living conditions of the workers would have been even worse than what it was at that time. Working conditions were characterized by women (shoe and clothes staplers) employed for 10 hours a day, six days a week, in rooms without ventilation, within an ambient temperature of 37 degrees, hungry and tired since they could not take breaks. They received a monthly salary of about 170 euros when the monthly minimum salary, in Cambodia, was 340 euros, half of what they should have taken. The more than 700,000

¹³⁵ Harvard Business School, (n.d.). Nike, Building a global brand, pp.330-351

¹³⁶ Ibidem.

women employed in this sector (not only in Nike’s subcontractors) accept these conditions because they were able to become independent from their husbands and they were able to improve their condition of poverty in which they were living previously. Rebellions and strikes were oppressed with torture and often killings by local police. And it’s all so absurd if we stop thinking that the material to create a Nike shoe costs about € 5, the workforce about € 2 and that the product is sold to the public for around € 125¹³⁷.

Some consumers, following these issues, begun to buy more products from other brands and not anymore from the Oregon company. Nike lost its supremacy in the sportswear sector for a “short” period, but it re-gained it in the early 2000s. The bizarre fact that happened (visible in the Figure 7 that represents the stock price of Nike between 1980 and 2019) is that, while Adidas grew and took advantages of Nike’s problems at the end of the 1990s, the company of Phil Knight did not fall apart but remained constant and then returned to gain the leadership of the market few years later.

Figure 19: Changes in stock price of Nike. 1980-2019.



Source 28: Statista.com (2019).

One of the aspects that I want to analyze in my thesis is how Nike’s management has succeeded, following these problems, in recovering their image and moreover their

¹³⁷ Dunne, B. (2015). How Much It Costs Nike to Make a \$100 Shoe. [online] Sole Collector. Available at: <https://solecollector.com/news/2014/12/how-much-it-costs-nike-to-make-a-100-shoe> [Accessed 9 Aug. 2019].

revenues by returning to assume the leadership of the sports footwear and clothing market.

3.6 Nike's counter-measures

To respond to the problems and criticisms of the 1990s, Nike implemented countless changes in its corporate work policies. Nike decided to aim to become a leading company in the field of recruitment and relations with its employees. To respond to the criticisms of the 1996 audit mentioned earlier, Nike's management claimed that working conditions in the factories that had been criticized had already been improved and placed under close scrutiny. Adequate ventilation systems and air conditioning systems were installed in all the factories and the due contractual changes regarding the 65 working hours per week to which the employees were obliged to submit had been applied. The company also conducted an evaluation of its factories in Southeast Asia in 1997 along with the mayor of Atlanta, the state capital of Georgia, USA, and an UN ambassador, Andrew Young. This assessment certified that there was no evidence of systematic abuse or exploitation of personnel, but that the factories that were producing Nike products were following the directives and laws of the country in which they were producing. Anyway, in 1998 then, the company announced that new global labor standards had been implemented to improve working conditions in all the factories belonging to its third parties. These standards included age limits for workers, with a minimum age of 18 as a requirement. Furthermore, these directives specified that the use of solvents should have only taken place through the use of specific gloves and that these solvents should have only been used if they had been water based, less dangerous to the human body. A compliance with OSHA (The Occupational Safety and Health Administration) was implemented by the company to ensure minimum levels of air quality within the factories¹³⁸. More than that, Nike guaranteed constant control by third independent parties that had the task of checking that these labor standards were followed. In the same year, Nike's management set up a corporate division called the "Corporate Responsibility Division" to consolidate the working and environmental conditions of all parts of the company. The key objective of this business division, according to Phil Knight, was "to

¹³⁸ Harvard Business School, (n.d.). Nike, Building a global brand, pp.330-351.

lead in corporate citizenship through programs that reflect the caring world of our Nike, our team, our consumers and those who provide services to Nike”¹³⁹. Moreover, always in 1998, Knight became a founding member of the Fair Labor Association. This initiative was created by the White House in order to impose codes of conduct for the manufacture of products of US brands belonging to companies that operated on a global basis. Furthermore, this association set itself a constant control within the factories. In fact, Nike made available and published an audit carried out on its 500 factories around the world.

In 1999 Nike continued to implement and impose improvements in labor standards within the factories that produced its products for customers. In fact, this year, Knight, co-founder of Nike, imposed an increase of about 40% of salaries for workers in Indonesia. Furthermore, he became part of an international organization dedicated to improving the lives of young adults¹⁴⁰. The objective of this organization, called Global Alliance for Workers and Communities, was to guarantee and give instruments to young adults aimed at enabling them to continue a decent life and help their communities. In this cooperative there was a set of private, public and non-profit organizations. The objective of this cooperative was to identify the needs of the communities in difficulty, and the people who belonged to them, and to use the profits of multinationals like Nike in order to find means that could help these people. These were defined as non-financial operations aimed at helping people who previously accused Nike of workers exploitation and of work environments not suited to work, unsafe for health and in poor condition. In addition, Nike provided about 5,000 microloans to distressed women working in Nike’s subcontractor factories in Indonesia, Vietnam, Thailand and Pakistan¹⁴¹.

Despite all these operations aimed at proving that everything that happened in the subcontractors’ factories was not Nike’s fault or willingness, many people continued to accuse the company of exploiting the workforce. Then, Nike’s management decided to respond to the accusations with a program called “Transparency 101”. This program wanted to demonstrate and give access to the public to information regarding labor practices in the factories of subcontractors for which Nike was accused by the public. In

¹³⁹ Riddle, J. (2013). A Review and Analysis of Nike, Inc.’s Corporate Social Responsibility Program. pp.1-17.

¹⁴⁰ Ibidem.

¹⁴¹ Lapenna, D. (2018). Nike e Asics: dallo sfruttamento dei bambini, sino agli svenimenti in fabbrica per le condizioni di lavoro. [online] Ilventunesimosecolo.blogspot.com. Available at: <https://ilventunesimosecolo.blogspot.com/2018/06/nike-e-asics-sfruttamento-minori.html> [Accessed 3 Sep. 2019].

May 2000, Nike published the results of all its factory audits on its website and disclosed this non-financial information to the global public. Another important aspect of this program, that helped Nike cleaning up public accusations, happened during the university American Spring Break of the same year. Nike decided to send 16 undergraduate students to visit its factories. These students had requested to visit them and Nike allowed them to visit a total of 32 factories worldwide. Nike then asked these students to report on the conditions found inside the factories and then the company made copies of all of them which he published, as originals, on his website¹⁴².

A careful analysis has shown that if Nike withdrew its productions from Cambodia, the country in which the major problems occurred, there would have been more damages than positive aspects in it. The textile clothing industry and the footwear sector gives to Phnom Penh, the capital of Cambodia, about \$ 1 billion in annual revenues. These factories in fact have an essential value for the economy of the country as they weigh around 80% of total Cambodian exports, employing around 180,000 workers¹⁴³. Without American multinational enterprises, the country would have been faced poverty, or, at least, it would have lost a very large and important amount of capital and no one can state that this would have stopped the exploitation of workers in other factories, on the contrary, perhaps, the situation could have got worse. Nike therefore decided, to clean its image from these accusations, collaborating with the powerful confederation called Afl-Cio (The American Federation of Labor and Congress of Industrial Organizations) which is the largest trade union center of the United States of America formed by 55 unions national and international. This center established a permanent representative, Jason Judd, in the Cambodian capital with the task of monitoring and watching over the situation inside the accused factories. Then, the Cambodian government surrendered in 2002 by going to sign an agreement with the United Nations and opening its borders for the first time at the International Labor Organization¹⁴⁴. Thanks to these policies of the United States and to the pressure of the union Afl-Cio, Washington has offered the government of Cambodia an unprecedented deal. In this agreement the countries agreed that there would have been an improvement in the salary treatment of factories employees and that an improvement in the protection of workers' rights according to ILO standards

¹⁴² Harvard Business School, (n.d.). Nike, Building a global brand, pp.330-351.

¹⁴³ Rampini, F. (2002). La Repubblica/esteri: "Mai più sfruttare i bambini" ora la Nike cerca il riscatto. [online] Repubblica.it. Available at: <https://www.repubblica.it/online/esteri/nike/nike/nike.html> [Accessed 4 Sep. 2019].

¹⁴⁴ Ibidem.

and core labor standards would have been pursued. Furthermore, Phnom Pen was authorized to an 18% increase in the share of textile exports destined for the American market¹⁴⁵. This fact, according to the World Trade Organization, has helped also the United States as they could retain for the future a reserve that could serve as an aid in the case of future problems of trade exchange with China. More than this, the agreement between the USA and Afl-Cio provided for Jason Judd, the union leader in charge of the control of the factories, to also carry out a training period for the local trade unionists and for the managers of the local factories so as to allow them autonomous control for the future. The training of these trade unionists, and of the control bodies, was based on the codes of conduct, on the company compliance, on the corporate social responsibility and on all the policies foreseen by the ILO¹⁴⁶.

Another key aspect that Nike has pursued to remedy the bad news associated with the brand and the bad working practices within its factories is the so-called “lean manufacturing”¹⁴⁷. This program included a training period for supplier managers encouraging the application of this practical philosophy in Nike’s manufacturing factories. There were obviously standards for these production processes. The basis of this lean manufacturing is based on producing the minimum necessary, that is without having to waste. Nike decided that this type of production was necessary for improving working conditions and workers within companies. The methodology was based on a Japanese study that had been developed through the so called 5S. These Ss were five repeatable steps that could have been repeated constantly. The methodology was aimed at optimizing the work performances and the standards associated with them. According to this production philosophy everything that could have been classified as waste had to be eliminated. The 5S just described were defined as follows¹⁴⁸:

- 1) Seiri: to separate: to separate what is needed from what is not needed. Eliminate the useless because it uses useful resources.
- 2) Seiton: to re-order: what you just considered, in the Seiri step, to be useful now it must be ordered and put in its own place.

¹⁴⁵ Rampini, F. (2002). La Repubblica/esteri: “Mai più sfruttare i bambini” ora la Nike cerca il riscatto. [online] Repubblica.it. Available at: <https://www.repubblica.it/online/esteri/nike/nike/nike.html> [Accessed 4 Sep. 2019].

¹⁴⁶ Ibidem.

¹⁴⁷ Harvard Business School, (n.d.). Nike, Building a global brand, pp.330-351.

¹⁴⁸ Filip, F.C., Marascu-Klein, V.: The 5S lean method as a tool of industrial management performances. IOP Conf. Ser. Mater. Sci. Eng. 95, 1–6 (2015).

- 3) Seiso: to clean: the order you just created must be kept clean and constant.
- 4) Seiketsu: to standardize: when you have found an order, define the methodologies to be standardized so as not to waste time the subsequent times you have to perform the same action.
- 5) Shitsuke: to spread: extent this way of thinking to all your factories, or to all the parts connected to your global supply chain, and ensure that the thought is the same for all business activities.¹⁴⁹

The resulting question is: “Why did Nike want to apply this philosophy? How did the company manage to improve work standards?” Thanks to the lean production and employee training Nike succeeded in improving production performance, which has consequently improved employee-employer relations. All this has led to improvements in various salaries and benefits granted by the company to workers. A study conducted by Diestelhorst, and other colleagues of him, showed that these changes made by Nike were associated with important changes in the social performance of the factory. This fact happened, above all, with regard to the compliance concerning the analyzed factories¹⁵⁰. They have indeed carried out studies that have shown a reduction of about 15 percentage points of average in the noncompliant labor grades. This study has associated improvement in labor standards with greater involvement of workers in production practices¹⁵¹. Nike, in 2002, therefore decided that an improved mechanism for production was necessary so the company identified this method as the best for all the production processes within the subcontractors’ factories. The company identified a core value system and then the management of the company decided to adapt the production process around this concept: “managing to have a balanced production, eliminating waste, reducing inventory, increasing participation in production control by workers and improve operational stability in suppliers' factories belonging to its global supply chain”. With these practices Nike succeeded in improving the shipping process that was

¹⁴⁹ Filip, F.C., Marascu-Klein, V.: The 5S lean method as a tool of industrial management performances. IOP Conf. Ser. Mater. Sci. Eng. 95, 1–6 (2015).

¹⁵⁰ Distelhorst, Hainmueller, and Locke: Does Lean Improve Labor Standards? Management Science, 2017, vol. 63, no. 3, pp. 707–728.

¹⁵¹ The following description of Nike’s lean manufacturing program is based on a study of Distelhorst et al. that based it on internal documents provided by management and interviews and written correspondence with eight Nike managers over 2011–2014: four directors in lean manufacturing; one vice president, one director, and one development associate in sustainability; and one director in communications.

characterized by reduced times. Furthermore, the company succeeded in increasing productivity, reducing deficits and reducing production waiting times and any bottlenecks present in the various processes¹⁵²¹⁵³. Nike's success allowed the company to expand its lean production program, thereby increasing the size of its global supply chain. In fact, in November 2015, Nike had contracts with 396 supplier factories around the world (around 40 different states) and it employed more than 370000 people in these countries. Knight decided that, for an optimal improvement of the working relationships and for an optimal training of the workers, a senior manager was necessary for each factory (initially) in order to train the managers of the various subcontractors' factories regarding the lean production and the new labor standards imposed by the company. When the various suppliers had completed the training phase of the abovementioned managers, Nike sent inspectors, to their factories, who had the task of verifying that everything was done following the directives of the general management of the company in Oregon. These techniques included not only the lean production philosophy, but also different other techniques derived from the Toyota production system, from the inventory management techniques and from the quality improvement processes.

One of the reasons why Nike managed to improve the work standards of supplier factories was because the application of this production philosophy involved a high involvement of workers in the production process, they were no longer treated as production robots, but they were managed as people necessary for the realization of products for sale. Motivation was one of the fundamental aspects that helped workers to overcome problems and feel themselves as an effective part of the company. The decisions were no longer only centralized in the American headquarters, but the company began to decentralize some of the basic decisions, and this was another piece for the improvement of the relationships between factory workers and their employers. The workers thus had more responsibility compared to the classical mass production¹⁵⁴. The increased responsibilities of workers, who now had the task of controlling and supervising production chains (only managers at the highest levels of the factories could do it), had

¹⁵² Nike, Inc. (2012) Nike, Inc. FY10/11 sustainable business performance summary. Report accessed September 1, 2019, http://www.nikeresponsibility.com/report/uploads/files/Nike_FY10-11_CR_report.pdf.

¹⁵³ Nike, Inc. (2014) Nike code leadership standard. Report accessed September 1, 2019, http://www.nikeresponsibility.com/report/uploads/files/NIKE_INC_Code_Leadership_Standards.pdf.

¹⁵⁴ Appelbaum E., (2000). *Manufacturing Advantage: Why High-Performance Work Systems Pay Off* (Cornell University Press, Ithaca, NY).

led to an improvement in labor standards. “Workers will only contribute their discretionary effort to problem-solving if they believe that their individual interests are aligned with those of the company, and that the company will make reciprocal investment in their well-being”¹⁵⁵. Nike therefore decided to increase the benefits for workers by granting small salary increases, by reducing the total hours of work required for production (thanks to the new lean production), by regulating temperatures in factories, by providing better tools to work with, by providing better health facilities and conditions of dormitories for workers. These developments led to an improvement in the relationship between employees and managers, as already mentioned, which implemented the production and quality (and consequently the speed) of the products. The final result was an improvement in workers’ conditions and in respect for their labor rights within many different states.

The data reported on the conclusions of the Nike counter measures are taken from a research carried out on Nike compliance based on internal documents deriving from interviews with Nike management from 2011 to 2014. Four directors in lean manufacturing; one vice president, one director, and one development associate in sustainability and one director in communications were interviewed and data from these interviews were reported on a research conducted by Distelhorst, Hainmueller, and Locke¹⁵⁶. Moreover, a report published by Nike on 2019 regarding the environmental impact of its contract factories and regarding the advancing labor conditions is analyzed and the data are extrapolated and discussed to understand where Nike arrived to be nowadays¹⁵⁷¹⁵⁸.

Upstream suppliers in global supply chains are increasingly located in countries with developing economies, and this is certainly the case of Nike as well. The workforce that belongs to these countries is defined as understaffed. It has gaps in the knowledge of the techniques and technologies to be used. Anyway, this cannot be a reason that allow

¹⁵⁵ MacDuffie JP, (1995). Human resource bundles and manufacturing performance: Organizational logic and flexible production systems in the world auto industry. *Labor Relations Rev.* pp. 197–198.

¹⁵⁶ Distelhorst, Hainmueller, and Locke: Does Lean Improve Labor Standards? *Management Science*, 2017, vol. 63, no. 3, pp. 707–728.

¹⁵⁷ Nike (2019). Advancing Labor Conditions. [online] Nike Sustainability. Available at: <https://purpose.nike.com/labor-conditions-supply-chain> [Accessed 16 Sep. 2019].

¹⁵⁸ Nike (2019). FY18 NIKE, Inc. Impact Report. [online] pp.1-75. Available at: https://purpose-cms-production01.s3.amazonaws.com/wp-content/uploads/2019/05/20194957/FY18_Nike_Impact-Report_Final.pdf [Accessed 16 Sep. 2019].

companies to make them be subjected to processes of exploitation or to be deprived of their trade union rights. The factories of Nike were analyzed approximately every 12-18 months and the levels of corporate compliance and of the relative rights granted to the workers were analyzed and compared in the period of 4 years (2011-2014). This study showed that Nike sent some managers, belonging to the American parent company, to the suppliers' factories so that they could inform factory managers about the processes to be applied. They also had the task of training the workers and, above all, the factory managers, regarding the practices to be performed, regarding all the Nike's working philosophies and regarding the code of conducts that the parent company wanted to be applied in these factories. Moreover, they had to instruct these managers about the labor rights of workers that had to be guaranteed within the factories belonging to the Nike's global supply chain. These revisions gave a rating to each factory. This score had a range that stretched from the maximum score "A" to the minimum score "D". Nike decided to divide its considerations into two different sectors in order to categorize different violations: one audit was related to labor problems, the other audit concerned health, safety and environment (HSE). In both labor and HSE compliance the factories that managed to get an "A" score showed there were no breaches of the standards imposed by Nike. Factories that showed a "D" score, the worst score, were presenting critical issues regarding labor standards. This meant that the factory had violated the standards and/or the codes of conduct imposed by the parent company. According to this research the most common problems were those concerning working hours (which were between 60 and 72 hours), exploitation of minors, renunciation of granting workers benefits such as holidays, severance pay etc. To generalize, these factories categorized with the "D" score had not undergone improvements, not because of Nike bad management but, more often, because of the factories non-willingness or because of the countries that did not follow the ILO directives and that did not apply for these ordinances.

Nike analyzed that the use and the combination of the lean production and of the high employee involvement, through the use of assigned control managers for each factory, can improve, and has effectively improved, the social performance of factories belonging to most of the emerging economies. The study confirmed the connection between improving working conditions and the lean production approach. Progresses have taken place thanks to the fact that lean production philosophy, followed by the standardization of work, can be able to improve the relationship between employee and employer, consequently making the company able to improve working conditions and to

make increases to the standards and environments of the production factories. Lean production requires skilled workers who must be properly trained. The managers, for this reason, being those who train employees, were driven by this motivation of improving labor conditions in order to motivate the employees. When employees are happier to work, consequently the mother company benefits greatly because there will be less waste, fewer difficulties, fewer protests, less general problems, and that is what happened with Nike. In fact, at the end of the analysis cycle above mentioned, the company decided to invest again in these factories, guaranteeing better structures, new emergency exits and investing in improved and better-quality ventilation pipes. According to the research mentioned above, the main effects of this process were found in India, Malaysia, Thailand and Vietnam. Unfortunately, in the other countries, there have not been very great changes regarding the labor standards, not only because of the Nike company, but, above all, because of the failed adherence to the ILO core labor standards by the governments of these states.

Today, Nike requires its factories to meet the codes of conduct it imposes. They are all the standards that the firm wants to be implemented in all its contract production factories. Nike encourages suppliers to invest in the so called lean production process, the one I described above in the previous paragraph, and the firm wants them to invest in programs focused on the well-being of their workers. These mechanisms can in fact make workers “happier” to work and they consequently allow employees to perform a better job and to execute it at their best. The company aims to research and develop advanced communication mechanisms that can provide better communication support to the workforce. Nike’s goal is to redesign their global supply chain by placing the worker at the center of everything. The focus of the Nike’s GVC must be the employee, starting from the one working in Nike’s parent company, to the one who works in the Cambodian factory. In recent years, Nike has developed new requirements for protection and respect for workers¹⁵⁹.

In the last 20 years, Nike has focused on improving the contracts of workers belonging to its manufacturing factories as the main goal of the reconstruction of its GSC. Innovation, new technologies, new capabilities, new incentives are all fundamental aspects that Nike has decided to pursue and to enhance, improving them and all the

¹⁵⁹ Nike (2019). Advancing Labor Conditions. [online] Nike Sustainability. Available at: <https://purpose.nike.com/labor-conditions-supply-chain> [Accessed 16 Sep. 2019].

possible related aspects. Past and future investments focus on sustainability and production responsibility aimed at safeguarding and protecting workers who produce Nike.Inc products.

The following image depicts and demonstrates the developments in terms of sustainability that Nike carried out from 1992 to 2018. You can see how the first code of conduct was introduced in 1992, in 2001 there was the first report published on corporate responsibility, in 2004 there was the introduction of mandatory reports on compliance for Nike’s suppliers, in 2005 there was the publication of all the names and locations where Nike sourced for the production of their products. Many important changes have been made by Nike in recent years in order to improve sustainability within its supply chain and to improve the image that was in danger of being destroyed in the



Source 29: Nike (2019). Advancing Labor Conditions.

late 1990s due to the altercations regarding workers exploitations. As can be seen from the numbers shown in the image, Nike from 2009 to 2018 has halved the factories it supplied for its products to. This, according to the management of Nike, was done in order

to make the firm able to operate a closer control of its contract suppliers. The factories in 2009 were 1034, in 2018 they were 554. However, the data that surprises, and that makes perceptible the efficiency of Nike's work in terms of sustainability and control, is the percentage number of the corporate compliance. In 2009, only 32% of Nike's supply factories adhered to Nike's sustainability guidelines. Instead, in fiscal year 2017, the percentage rose to 91%, growing exponentially from year to year. This suggests that in 2018, where the data have not yet been reported, and in 2019 the percentage will be even greater. Nike's ultimate goal is to achieve 100% corporate compliance. This would involve the correct performance of all work practices within all the Nike supply factories in the various world countries.

Nike has forbidden the use of minors in all its factories for all the various productions of its outputs. The company also claims to periodically check the factories to follow company guidelines. According to the company, contract factories are required to comply with Nike's codes of conduct and core leadership standards imposed by the parent company. The codes of conduct of Nike, regarding child labor, place the 16 years of age as a mandatory requirement to start working. In some States, this binding rule is based on the fact that the workers must have passed the compulsory school age which is represented by a number even greater than 16 or, at most, 16. The Core Leadership Standards include specific mechanisms for suppliers to verify the age of their workers in their factories before they hiring them. The requirements include:

- Removing the underage employee from the workplace;
- Providing support to enable the underage employee to attend and remain in school or a vocational training until the age of 16 or the minimum legal working age, whichever is higher;
- Agreement to rehire the underage employee when they reach the age of 16 or legal working age if the worker wishes.¹⁶⁰

Furthermore, Nike's codes of conduct provide for a minimum wage based on the minimum national salary. They also provide that the employer must warn the employee regarding the dangers of the job he will perform, the employer must warn them of the possible consequences on their health and their safety.

¹⁶⁰ Nike (2019). Advancing Labor Conditions. [online] Nike Sustainability. Available at: <https://purpose.nike.com/labor-conditions-supply-chain> [Accessed 16 Sep. 2019].

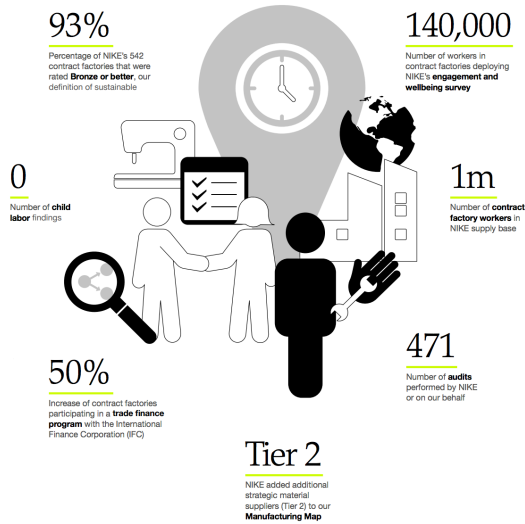
The following images represent the progress in terms of sustainability and decent work published by Nike in the 2018 fiscal year report¹⁶¹.

Figure 21 represents Nike's progress in terms of sustainable sources achieved in the fiscal year 2018. As explained in the previous paragraphs, Nike gives a kind of medal (reward classification) to its contract production factories. This award is based on the level of compliance and adaptation to the codes of conduct pursued by and executed in the analyzed factory. The data that emerge are that 93% of Nike's contract factories received a vote equal to "bronze" (499 factories) or better; 471 is the number that represents the audits performed by Nike to disclose the practices within the production factories. One of the most important numbers is represented by a 0: zero, the total number of children found working within Nike's contract factories in the 2018 fiscal year (May 2017 - May 2018).

In figure 22, on the other hand, we can see other data that represent Nike's projects in the context of workers' rights and sustainable themes. 10% of workers received a salary increase; 10,000 is the number of the employees that have received training to improve their skills and that allow them to facilitate their work; \$ 79.4 millions is the amount of Nike's total monetary investments for communities around the world in the fiscal year 2018 (until 2014 the total amounted to 396 million dollars); 16.5 million were the children helped by Nike to have a better live expectation; 1:1 is the salary ratio between male and female within the company and its factories.

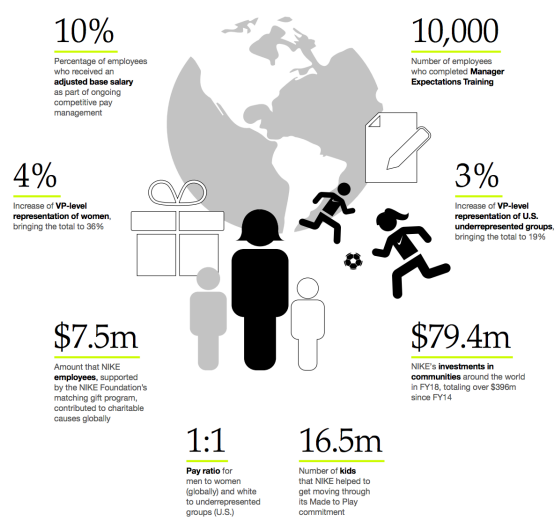
¹⁶¹ Nike (2019). FY18 NIKE, Inc. Impact Report. [online] pp.1-75. Available at: https://purpose-cms-production01.s3.amazonaws.com/wp-content/uploads/2019/05/20194957/FY18_Nike_Impact-Report_Final.pdf [Accessed 16 Sep. 2019].

Figure 22: Nike's sustainable sources FY2018



Source 30: Nike (2019). FY18 NIKE, Inc. Impact Report.

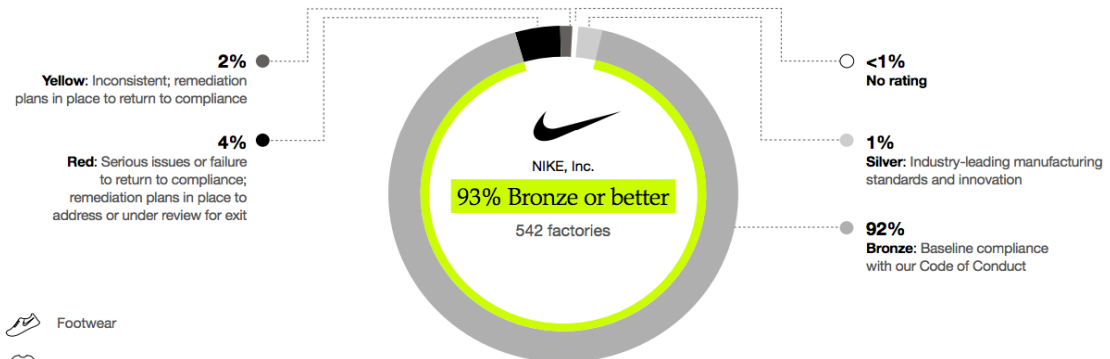
Figure 21: Nike's sustainable projects FY2018



Source 31: Nike (2019). FY18 NIKE, Inc. Impact Report.

Figure 23: Nike's sustainable projects FY2018

Sustainable Manufacturing and Sourcing Index (SMSI): Factory Ratings



IN COMPLIANCE with NIKE Code of Conduct and Code Leadership Standards

| | RED | YELLOW | BRONZE | SILVER | GOLD ⁴³ |
|-----------|--------------|--------------|---------------|-------------|--------------------|
| NO RATING | UNSUCCESSFUL | INCONSISTENT | MEETS | EXCEEDS | GLOBAL LEADER |
| 1 factory | 23 factories | 12 factories | 499 factories | 7 factories | 0 factories |
| Footwear | 4 | 0 | 113 | 7 | 0 |
| Apparel | 11 | 11 | 305 | 0 | 0 |
| Equipment | 8 | 1 | 81 | 0 | 0 |

Source 32: Nike (2019). FY18 NIKE, Inc. Impact Report.

4 Conclusion

The issue faced in this contribution concerns the work issues related to the workers' rights. Many multinational companies tended, and nowadays tend, to take advantage of the procedure of outsourcing production processes in order to achieve contained production costs, or an increased production at a lower cost, either way resulting in a lower production cost for the individual product. This process, called outsourcing, allows companies to indeed outsource their production rights to companies that are often located in developing countries (Cambodia, Vietnam, many Asian and African countries). The purpose of this work is to underline the fact that in developing countries the legal structure, which is supposed to protect the workers' rights, is far less developed as opposed to western ones. Furthermore, it was observed that the local governments did not adhere to the ILO Conventions and labor regulations in order to profit from the outsourcing processes (thanks to investments made by the companies that build instructions, open new jobs positions and bring money to the above mentioned developing countries). The problem posed through my thesis is whether there is a way to force these countries to adhere to the ILO directives. If not ratified by the countries, these Conventions are not legally binding and therefore follow these directives is not mandatory.

The hereby analyzed practical case shows that at the end of the 90's, Nike was accused of exploitation of the workers and, above all, of exploitation of child labor within the factories the company used for the production of their shoes and sportswear. Nike's suppliers had their production centers located in the developing countries listed above, when most of these did not adhere to the ILO guidelines and had not ratified the organization's conventions and labor standards. The aim of this thesis was to analyze and investigate how Nike, following these problems that nearly ruined once and for all the image of the Brand and the company as well, managed to restore its reputation, going back to the top of the ranking of sports brands for revenues and sales of products, as well as for customer loyalty, only a couple of years later.

To answer this, I first explained, in the first chapter, the theoretical aspects of the managerial part of supply chains and I thenceforth (this is not wrong but it's completely of line with rest of the writing) analyzed them from the global point of view. In the second chapter I analyzed and explained the theoretical aspects of the global supply chain using a legal point of view. The analysis of this chapter was focused on the workers and their

rights. After the theoretical analysis of the fundamental concepts, I proceeded to the study of the practical case. In the third chapter, I analyzed the company Nike starting from the historical point of view and its evolutionary phases, opening with its creation and arriving to the present day. Furthermore, I analyzed and explained the legal problems related to the company that led Nike management to change the way to analyze its suppliers and to change the company rules associated with them. Regarding the legal aspect of the Oregon born company, I referred to the data reported in their annual reports and analyzed the elements reported in them. These data let me understand what Nike changed to overcome these issues. In the course of my analysis I noticed that Nike initially distanced itself from its suppliers by saying that the company had no power over whether or not to ratify the ILO Conventions in the countries where the factories were located. Then, the management stated that these factories followed only the mandatory laws of the country where they were settled in. Subsequently, however, Nike has decided to impose new codes of conduct and new directives for its production factories based on the protection of the rights of the workers, on the age of the employees, on their working hours and on the conditions of the working environments. Furthermore, the American company imposed constant control over the fulfillment of these directives within the suppliers' factories. This process aimed to establish a better working environment in which the employees of the supply factories felt more secure and happier to work in. Following these Nike directives, some countries, such as Cambodia, decided to join and ratify the ILO Conventions for the first time in their history so as to make regulations on the workers' rights legally binding for all the companies that produced, and that still produce, within their national borders.

All the data reported in figure 21, 22, and 23, show that Nike has evolved a sustainable working environment, improving all the business aspects that previously represented a problem for the business. In recent years, Nike has in fact evolved its ideas taking into account the environmental impact that contract factories had with their workers, as far as their rights and the environment were concerned. I can conclude by saying that Nike's developments in its global supply chain have improved and increased the credibility and the value of the brand, and therefore of the company. The strategic moves of the management of Nike have saved the company from the criticisms that emerged at the end of the 1990's, and from the possible crisis by improving the negative aspects and trying to eliminate the legal problems that occurred over the years. Surely, the company still has a long way to go to be 100% a sustainable corporation that does not

infringe any moral rule, but I can certainly say, analyzing all the data reported in this thesis, that it has evolved a lot in recent years. Following a progress of this magnitude, Nike will be able to maintain its leadership in the shoe and sportswear market for many years to come. The innovations will always be the main point of its competitive advantage that will allow the company to attract new customers worldwide. The procedures concerning the improvement in the sustainable field and regarding the rights of the workers will allow the company to acquire comparative advantages that will keep customers loyal to the Nike brand.

I conclude by stating that there is a need for all the multinationals, which outsource their production abroad, to carefully assess the respect of the rights of workers hired by their contract manufacturing factories in developing countries. An association between bad work practices and the name of the brand can destroy any link between the company and its customers who, in recent years, are increasingly attentive to sustainable causes. Nike managed to come out of it in a great way thanks to a careful analysis of the causes and of the effects of the practices that took place in its contract production factories. The firm, as explained before, eradicated most of the problems by requiring the workers' rights to be respected worldwide. The company has thus managed to keep its customers, maintain its suppliers and increase its earnings, returning to be the largest and the best-known company in the world for shoes and sportswear.

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