

FINAL CONFERENCE PAPER

October 2005-10-26

Group name: “Sweatshop Crew”

Main objective: How does outsourcing interact with development in third world countries?

This will be shown through the case study of **Nike** and the notion of corporate responsibility.

“Crew” members:

Anita York, Teresie Marie Ellingsen and Jorgen Nesklev

The objective of this final conference paper is to address both the reasons and consequences of outsourcing and how this process has called for the notion of corporate responsibility. The links between these two will be summed up and addressed in the last part of the paper where it will be discussed whether the outsourcing process interfere with the development process in the third world and how the notion of corporate responsibility may be used as a boost to achieve development. The case study for this paper has been Nike. The reasons for Nike as case study is that Nike is the third strongest brand in the world, only beaten by Walt Disney at second, and Coca-Cola at number one.¹ Nike has been the pioneer company when it comes to no-limits spending on branding (explained below) and outsourcing of production.² Today, Nike has about 700 factories in over 50 different countries.³ Less than 1% of the total output of production has been kept within the United States.⁴ This shows both how multinational and global Nike is and therefore works as a representative for the major multinational companies. Initially we will address the process of outsourcing.

Outsourcing can be defined as "the management and/or day-to-day execution of an entire business function by a third party service provider"⁵. For corporations like Nike, outsourcing is about hiring contractors in third world countries to deal with the production. Multi-national companies are often offered "tax holidays"⁶, something that gives the companies the opportunity to move the production to a new place when they are required to start paying taxes. Because the minimum wage in these countries is very low, down to US\$ 3, 70 per day in the Bangkok area, the factories can make their products so inexpensively that the mark-up between the cost of production and the retail price can get close to 400 percent.⁷ The profit that the outsourcing process produces is merely redistributed to the new major expense for Nike and others called branding. Branding is the "idea" that it is the product; the lifestyle and attitude that sells, not the shoe or the t- shirt.⁸ Money is spent on sponsorships, packaging and advertising, and for it all to be cost- effective; as little as possible on manufacturing. Nike was the first company with the new philosophy of branding, and from 1985 to 1997 the companies' expenses on advertisement rose from 50 million \$ to 500 million⁹. The model below is taken from a 2004 report that brings the manufacturing of clothes made for the Olympics into focus. This model illustrates the interconnections between the different parties of outsourcing¹⁰:



Big retailers such as Footlocker dominate the supply chain and have great negotiator strength, because of their power to put the brands at the market. Footlocker's sales for 2002 were US\$ 4, 5 billion while the operating profit was US\$ 269 million.

Nike and other sports- brands outsource such as production, assembly, finishing, and packaging to contractors in the third world. The high profit inputs such as marketing and designing the products are kept to the Nike Corporation. This way of dividing the production of a commodity has proved to be a very profitable way of organising the production. For fiscal 2004, Nike's full-year revenues was \$12.3 billion. CEO Philip H. Knight: "It was a great year for the Nike brand"¹¹. Nike has a strong negotiating strength over its suppliers, because they are the ones that give access to the market and creates the demand as a result of their marketing/branding work. Trading companies are used by brands, and have the responsibility of making sure of that the price and quality is right and that delivering the products on time. Trading companies deliver a complete production package that includes everything from sourcing for materials to production management to freighting. Li & Fung, for example made US\$ 4.8 billion in 2002, while its operating profit was US\$ 146 million.

Some of the manufacturers are actually multinational companies, such as the Pou Chen Group. Their turnover was US\$ 1,939 million, and operating profit was US\$ 229 million. These manufacturers are the employers of the workers that make the products with their bare hands.

But there are many more small manufacturers that are desperate after supplying the big multinational brands and often with the support of their governments. The way for them to get a deal with a big brand like Nike is of course to cut the expenses to be able to produce at the lowest cost as possible. The easiest way to do this without actually losing money themselves is to cut the wages for the workers. These small manufacturers often come off as the losers when it comes to bargaining power, and to make sure that big deliverances are made in time, the solution for the smaller manufacturers is often to hire sub-contracted factories to help them manage. It is the workers at these factories that become the losers in this game. They are at the bottom of the “food chain”, vulnerable and without possibility to set any demand regarding wages and working hours if they want to keep their jobs¹². This is called the “race to the bottom”¹³.

What happens when you split the development of a brand on so many hands is that the question of responsibility gets tricky. Nike does not own any of the factories that produce its garments. Does this take some of the responsibility away from the company? It definitely takes away most of the control over the conditions in the factories compared to if they would own the factories themselves. Interviews show that even though Nike tries to improve the standards at their hired manufacturers by controlling the working conditions and interviewing the workers, it is usual that the workers are warned that they will be fired if they don't only speak positively and lie about their working hours.¹⁴

Nike is one of the most criticised brands in the world when it comes to the working conditions at their contracted factories. This is human rights violations and physical and sexual abuse, workers being denied to join working unions, terrible working conditions, forced overtime working without overtime payment, and generally low wages.¹⁵

In 1998, the Nike CEO Philip Knight presented a plan of how the conditions at their contracted factories would be improved. He promised to make sure that the workers got higher wages, better working conditions, support of free speech amongst the workers, and support of the right to join unions.¹⁶ This got the media's full attention, and New York Times editorial suggested that other companies should try to match these standards.¹⁷ However, a report from Global Exchange 2001 criticises Nike, and questions what has really been done to improve the working conditions.

There are many examples that support the contention that Nike has not done enough. In 2001, there was discovered that Nike had child workers at a factory in Mexico, where 15 year old girls worked 10 hour days for US\$ 1, 01 per hour.¹⁸

In 2003, the company agreed to pay US\$ 1, 7 million in compensation to Asian workers after accusations of lying about the conditions at the Asian factories. The list of violations is long. The examples of both

extortion and the gap between theory and reality show the difficulties that the outsourcing process creates. The possibilities on the other side will be discussed later in the essay. Issues such as workers rights and who that holds the responsibility leads us to the next part of the essay, corporate responsibility.

As mentioned earlier one of the major challenges when it comes to outsourcing is to make the manufacturer accept responsibility for its workers. It is a challenging task due to the fact that very few corporations own their factories. Of the mentioned 700 factories throughout the world where Nike gets their products from they own none, but hire them through contractors.¹⁹ Accusations of poor conditions can then be dismissed by the fact that technically, they do not have any employees in the regarding factories and are not responsible for them. In a marked where there are always cheaper locations, the contractors of the factories are often hesitant to demand higher wages or funds to improve conditions in fear of their corporate clients moving business elsewhere.²⁰

In recent years boycotts and demonstrations have forced the Nike Corporation to face the accusations of child labour, slave contracts and mistreatment of factory workers. Protests reached a high peak in 2001 with the firing of 4 independent union members that protested against factory management in the Kukdong factory in Mexico.²¹ The firings led to a massive strike among the other workers. Instead of recognising the rights of the workers on strike the factory management used police forces to remove the strikers from the premises. Outside societies brought accusations that Nike was ignoring these circumstances and a massive chain of protest occurred, demanding that it was Nike's responsibility to intervene and ensure the rights of the workers. The massive pressure worked and Nike promised to improve working conditions and to ensure the re- hiring of the fired workers.²²

The wide publicity of events like these has forced Nike to put corporate responsibility on the agenda. Nike needed to show the world that they took corporate responsibility seriously and now provides a "responsibility report" on their homepage.

Corporate responsibility is here presented as corporate ethics and social responsibility and emphasizes sustainability, meaning "how to produce the best products under the best factory conditions and remain profitable."

The corporations "Code of Conduct"²³ now consist of a promise that the "workers needs shall be equal to the needs of the investors"²⁴ To ensure that this expectations are met they lay down their goals accordingly:

·To see things through the eyes of the worker.

·To make sure workers are aware of their rights and our standards.

- To provide managers with clear compliance guidelines and effective tools.
- To do business with factories that respect workers rights and our standards.
- To monitor effectively to ensure our standards are met and exceeded.
- To correct compliance issues and invest in sustainable solutions.
- To show respect for everyone from worker to supervisor to manager to owner.
- To be transparent about what we find and what challenges we face.²⁵

Although the Nike Corporation seems to have the concept of corporate responsibility in order in theory, there are questions whether they execute them in reality. Reports of child labour and workers unable to establish independent unions are still brought to the public eye²⁶.

Nike admits to not having sufficient monitoring in the rapport and states at the same time that it is impossible to prevent that this will sometimes occur. This is explained that there are circumstances in some of the countries that are out of their hands. The rappers present a survey of some of the countries that produce merchandise for Nike, such as China and Cambodia. China is described as a Trade Union Monopoly where the “All China Federation of Trade Unions (ACFTU) is the only trade union recognized in China.”²⁷ This means that by law there is no possibility of truly independent unions forming in China, which compromises the workers freedom of association. Rappers of child labour are explained by the fact that in many developing countries the citizens lack birth certificates and that these are easily forged.²⁸ When Nike continuous to do business with these countries, these surveys does not seem sufficient as explanations, but rather as Nike running away from their responsibility.

The main problem of the Nike Corporate responsibility seems to lay in its failure to fulfil its promise to “meet the workers needs on equal terms as the investors”.²⁹ Their loyalty seems to still be focused towards the shareholders and the desire for profit. A pair of Nike shoes that costs 5 dollars to produce in Vietnam is sold for 100 dollars in America,³⁰ and as long as people are buying the merchandise there is no reason why they should start producing it in any other way. However, the incidents at the KukDong Factory shows that public pressure have the ability to demand changes.

The question is then, how do outsourcing and the notion of corporate responsibility interact with achieving development for third world countries? The idea behind outsourcing is, as well explained above, to maximize profit through cuts in manufacture expenses. When adapting such an approach it seems unlikely that Nike had the best interest of the third world countries in mind. However, the strong believers in outsourcing may put this process as favourable

for developing countries. This by adapting the neo-liberal economical philosophy, which has its origins in the World Bank and the International Monetary Foundation³¹, the outsourcing process may be considered as favourable for the third world as well as Nike.

Outsourcing creates three important factors for achieving development through the neo-liberal model. It creates trade, foreign investment and work. Trade may help developing countries to get a foot inside the global market, foreign investment may boost a country's internal economy as well as bringing the ties to the rest of the world closer and work may create an opportunity to both relief basic needs and with time create an internal consumer economy. However, may is the key word as this is all in theory. The process of outsourcing has shown once again the gap between theory and reality.

It was mentioned above "the race to the bottom". This race shows how outsourcing undermines the development process because the main agenda is to achieve the lowest cost and highest profit. "The race to the bottom" may be explained as the process a country goes through to get the contracts with Nike and other major multinational corporations (MNC). Nike has even though linking both the interest of shareholders and workers together a desire to contract those who will give highest profit³². To get these contracts, third world countries fight amongst each other, and the country which offer the best terms seems like getting ahead of their competing countries. However, when offering the best terms countries like Taiwan and China undermine worker rights with low salaries and lack of labour rights³³. It is also shown that this competition between middle-income developing countries leads to lesser earnings despite the increased trade³⁴. The race to the bottom undermines these worker rights that some hold as important for the development process, the process of democratization. Both the desire for foreign investment/trade and the mentioned fear of loosing the contractors that already works inside the country results in unfavourable conditions for the workers as we have seen many examples on above. The key dilemma for developing countries is that "jobs may just as easily be taken away from them as they were given to them"³⁵. This fear is mentioned as a key to tax-holidays, and shows the power of Nike. The fact that the from the profit of outsourcing only 33 percent goes to the country which gets the outsourcing³⁶ shows clearly who benefits and why Nike can use US\$ 800 000 annually on sponsoring sprinter Marion Jones and why David Beckham gets US\$ 161 million during his lifetime for representing Adidas³⁷.

It is shown above how in theory outsourcing may be used as a development tool and how reality undermines the development process. However, what can be done to close the gap between theory and reality and is the outsourcing process the desired tool to development?

When addressing this, the focus will be put on Nike as representing the MNCs and not on the development countries. Mainly because the key question in this essay is how the notion of corporate responsibility interact with development. The question is already addressed above under the part about corporate responsibility. With the enforcing of Nike's written goals of corporate responsibility, the

democratization process may achieve a boost. Worker rights and transparency of the outsourcing process through the enforcement of corporate responsibility is not only stressed by Nike but also outsourcing critical institutions like OXFAM³⁸.

To sum up this essay we may draw some conclusions. Outsourcing has led to extortion of tax-benefits and labour force in third world countries. The empiric examples above shows this, and as we have had our focus on Nike, the third largest brand in the world and with its 700 factories in over 50 countries one of the pioneers in outsourcing and as well in corporate responsibility, the list of shame is even longer than what we have presented. Similar lists of shame may be found if addressing other major companies, especially in the fashion and sport industry like Puma, Fila, Adidas and Levi's³⁹. However, if adopting the leading economical view on development since the late 1970's, neo-liberalism, you may also draw the conclusion that outsourcing may be used as a tool to boost development. Through increased trade and foreign investment that outsourcing may provide that the exclusion from the rest of the economical world vanishes or at least become less an obstacle than before. Outsourcing creates work, which again may result in increased consume and demand for new consumer goods. Unfortunately, this is not the reality in the major part of the world that receives the outsourcing. The strengthening of corporate responsibility may be an important factor to bring the positive effects of outsourcing into life and not only in theory. This through the importance of worker rights as part of the democratization process and fairer salaries as a tool to achieve this demand and consume that neo-liberalist crave for. Some of the responsibility lay with Nike and through transparency in the outsourcing process and a collectively effort to strengthen worker rights in the fashion industry the outsourcing may bring some positive development progress.

The empiric examples above and the definitions of outsourcing may lead to this conclusion: **Outsourcing was not created to benefit the third world countries but may be used to their benefit.**

Endnotes:

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¹³ OUTSOURCE THIS? American Workers, the Jobs Deficit and the Fair Globalization Solution page 18 [Online Accessed 20 October 2005] <http://www.fairjobs.org/docs/OutsourceThis!.pdf>

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³³ OUTSOURCE THIS? American Workers, the Jobs Deficit and the Fair Globalization Solution page 19. China and lack of worker rights. [Online Accessed 20 October 2005]

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³⁵ OUTSOURCE THIS? American Workers, the Jobs Deficit and the Fair Globalization Solution, page 17: Outsourcing and the development world. [Online Accessed 20 October 2005]

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³⁶ OUTSOURCE THIS? American Workers, the Jobs Deficit and the Fair Globalization Solution, page 19: South-south competition for jobs. [Online Accessed 20 October 2005]

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³⁹ Oxfam Australia [online accessed 23 October 2005] Olympic report

<http://www.oxfam.org.au/campaigns/nike/reports/lern.html> and Klein, Naomi, *No Logo*, Random House Limited, Toronto 2000 from Glob reader; how Levis through outsourcing pays down to under 84 cent the hour to the workers while the same manufacturing process in America used to cost them up to 13 dollars per hour.

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