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Moral Imagination and the Future of Sweatshops

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Moral Imagination and the Future of Sweatshops

DENIS G. ARNOLD AND LAURA P. HARTMAN

Disputes concerning global labor practices are at the core of contemporary debates regarding globalization. In this essay we explore two multinational corporations' global labor programs in an effort to illustrate the positive impact of moral imagination at the individual, organizational, and systems levels on the "sweatshop"¹ problem. The intent is to identify the factors that have allowed particular multinational corporations (MNCs) to respect at least some of the basic rights of workers and thereby exhibit positive deviancy from historical norms in the apparel and footwear manufacturing industry. The labor initiatives discussed below were trailblazing at their inception. However, they have become increasingly common thereby raising stakeholder expectations to the extent that a failure to provide these basic standards is regarded as morally unacceptable.

This essay is part of an ongoing research project regarding the moral and strategic dimensions of global labor practices.² Elsewhere we have defended the following conclusions:

- MNCs are properly regarded as morally responsible for the labor practices of their subcontractors.³
- MNCs have duties in their offshore manufacturing facilities: to ensure that local labor laws are followed; to refrain from coercion;

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to meet minimum safety standards; and to provide a living wage for employees.⁴

- MNCs that provide respectful health and safety conditions and a living wage will not cause greater harm than good to workers.⁵
- MNCs that respect the basic human rights of workers can gain certain strategic advantages such as improvements in worker productivity, corporate reputation, and employee morale.⁶

These conclusions form the background of the analysis that we provide below. Indeed, the analysis of the operation of moral imagination that we provide in this essay results partly from the fact that many MNC managers in the apparel and footwear industry now accept the soundness of at least some of these conclusions, if not all.⁷ The case studies that we use to defend our conclusions are based on recent field studies of Nike and adidas-Salomon contract factories in Vietnam conducted by Hartman.

This essay is organized into eight sections. Section one introduces the idea of moral imagination. Section two provides an overview of the globalization of the apparel and footwear industry. In section three, an overview of the global labor systems for the apparel and footwear industry is provided. Sections four and five provide, in turn, an overview of Nike's global sourcing system and an analysis of the role of moral imagination in the recent transformation of that system. Sections six and seven provide, in turn, an overview of adidas-Salomon's global sourcing system and an analysis of the role of moral imagination in the recent transformation of that system. Finally, in section eight it is argued that commonalities in these case studies regarding the practice of moral imagination at the individual, organizational, and systems levels provide insight into the evolution of moral imagination. We conclude that the exercise of moral imagination as demonstrated in these cases suggests a diminishing future for sweatshops.

1. MORAL IMAGINATION

The mental power of imagination has received a significant level of attention from philosophers. In the history of Western philosophy the most notable contributions have been made by Hume and Kant, while the contributions of Collingwood and Ryle stand out amongst

20th-century philosophers.⁸ Very generally, imagination is the power of forming mental constructions, typically of what is not real. As Collingwood notes, it is imagination that allows for the creation of possible worlds, at least some of which may be made real through action.⁹ Moral imagination is the subset of imagination that has as its subject explicitly moral constructions. It is moral imagination that permits us to create possible worlds that are either morally better or worse than the world as we find it.

Moral imagination has only recently received sustained attention from philosophers.¹⁰ In an important paper on the topic, John Kekes argues that moral imagination has both an exploratory function and a corrective function.¹¹ According to Kekes, the exploratory function of moral imagination allows us to acquaint ourselves both with the conventional ways of being proscribed by our own culture, and with possibilities other than those that exist within our own culture. This process occurs in two ways via the study of history, ethnography, and literature: First, by simply increasing the number of possibilities we have. Second, by increasing the breadth of our moral imagination so as to provide us with the ability to compare and contrast our own culture with that of others. Kekes argues persuasively that the exercise of exploratory moral imagination increases our freedom. "If freedom is the absence of coercion and the ability to do as we please," he writes, "then moral imagination increases our freedom by allowing us to go beyond the influences of culturally given possibilities and standards for evaluating them."¹² Put another way, the exercise of exploratory moral imagination provides individuals with more choices regarding courses of action and character development. As such, it allows individuals the possibility of choosing paths that would not otherwise have been available to them. It must be acknowledged that the social, political, and economic structures that partly constitute a culture frequently impose constraints on the exercise of such freedom. However, only the most oppressive regimes will be successful at stifling imaginative self-creation.

Kekes emphasizes the importance of culture to the formation of perceived choices. However, one's perceived choices can also be limited by other constraints such as ideology or lack of experience within one's own culture. Without the exercise of moral imagination, cultural myopia, ideology, and limited experience can individually and collectively constrain one's moral outlook and so limit one's

freedom. The corrective function of moral imagination allows for the retrospective imaginative recreation of past situations. The temporal and emotional distance from past experiences allows individuals to explore alternative courses of action in ways that were not possible at the time. This exploration can provide individuals with insight into past actions, and allow them to evaluate how reasonable they were in their appraisals of the possibilities open to them at the time.¹³ In this way, imaginative correction helps us to avoid narrow-mindedness, fantasy, and self-deception. Because the corrective function of moral imagination contributes to self-knowledge, it contributes to making our lives better.

The claim that moral imagination can improve managerial decision-making has only recently been the subject of serious study.¹⁴ In an important book, Patricia Werhane provides a sustained defense of the thesis that moral imagination is a necessary condition of innovative managerial moral decision-making.¹⁵ Like Kekes, Werhane is careful to emphasize the importance of recognizing the mediated nature of human experience for understanding moral imagination. Her analysis of moral imagination is grounded in metaphysical claims about the nature of human experience that have a long philosophical history. The key idea here is that the human experience of the world is mediated by conceptual frameworks. Werhane makes the point in this way:

We all perceive, frame, and interact with the world through a conceptual scheme modified by a set of perspectives or mental models. Putting the point metaphorically, we each run our "Camera" of the world through certain selective mechanisms: intentions, interests, desires, points of view, or biases, all of which work as selective and restrictive filters. We each have what I call our own metaphysical movies of the world, because they entail projections of one's perspective on the given data of experience. They are analogous to movies, because, like movies, each of our perspectives varies from stark realism to fantasy and even error, and because, like movies, the selective process leaves a great deal of the data of experience "on the cutting room floor."¹⁶

Drawing from the work of Kant, Kekes, and Johnson, among others, Werhane defines the functioning of moral imagination in the following terms. First, managers must have an *awareness of the particular* that includes the following:

(1) awareness of the character, context, situation, event, and dilemma at issue; (2) awareness of the script or schema function in that context and role relationships entailed in that context, and (3) awareness of possible moral conflicts or dilemmas that might arise in that situation, including dilemmas created at least in part by the dominating script or the situation itself.¹⁷

Second, managers must have a *capacity for productive imagination*. A productive moral imagination involves an awareness of an “incomplete, perhaps even limiting or distorting script” and a willingness to challenge that script. Third, managers must have a *capacity for creativity* that will enable them to “envision and actualize novel, morally justifiable possibilities through a fresh point of view or conceptual scheme.”¹⁸ Managers must, in other words, be capable of understanding, evaluating, and rewriting the script.

More recently, Werhane has extended her analysis of moral imagination to organizations and systems.¹⁹ She notes that both she and others who have written on the topic have focused on individual decision makers, while neglecting organizations and systems. This, she maintains, was an oversight. “Moral imagination,” she writes, “is not merely a function of the individual imagination. Rather, moral imagination operates on organizational and systemic levels as well, again as a facilitative mechanism that may encourage sounder moral thinking and moral judgment.”²⁰ We concur with this judgment and argue below that moral imagination at the organizational and systems levels has been an essential, if not catalytic, feature of the ongoing transformation of the labor practices of major elements of the global apparel and footwear industry.

2. THE GLOBALIZATION OF THE APPAREL AND FOOTWEAR INDUSTRY SYSTEMS

The global apparel and footwear manufacturing systems that we examine below developed within global economic labor and supply structures that have significantly impacted their evolution. One significant feature of globalization that is of particular relevance to our analysis is the increase in outsourcing by multinational corporations (MNCs). Prior to the 1970s, most foreign production by MNCs was intended for host-country markets. In the 1970s, new

financial incentives led MNCs to begin outsourcing the production of goods for North American, European, and Japanese markets to manufacturing facilities in developing countries. Encouraged by international organizations such as the World Bank and the International Monetary Fund, developing nations established “free trade zones” to encourage foreign investment via tax incentives and a minimal regulatory environment. In the 1980s, the availability of international financing allowed entrepreneurs to set up production facilities in developing economies in order to meet the growing demand by MNCs for offshore production. During the 1980s and 1990s, and into the 2000s, there was a remarkable increase in foreign direct investment (FDI) on the part of MNCs. Between 1985 and 1990, FDI increased at an annual rate of 30%; and between 1992 and the late 1990s annual flows of FDI nearly doubled to \$350 billion.²¹

Outsourcing production has many distinct advantages from the perspective of MNCs. Outsourcing has been especially popular in consumer products industries, and in particular in the apparel industry. The advantages of outsourcing include the following:

- Enhanced production flexibility, as a result of the utilization of a large pool of contractors. Such flexibility allows companies to vary the level of production to meet market demand.
- Enhanced product diversity, as a result of utilizing diverse contractors with a wide range of specialized skills and equipment.
- Reduced production costs, based on lower payroll and reduced expenditure on environmental protection.
- Enhanced product development, as a result of being able to experiment with new product lines at reduced financial risk. For example, the cost of manufacturing a newly designed product is typically borne by the factories bidding on the order.²²

The apparel and footwear brands first recognized the need for oversight of these outsourced and overseas contractor labor operations in the late 1980s when Levi Strauss & Co. uncovered violations of workers’ human rights in their Chinese contractors. In 1991, they became one of the first corporations in the apparel and footwear industry to establish comprehensive global sourcing and operating guidelines. Levi’s “Global Sourcing and Operating Guidelines” articulate a value-based framework to guide global sourcing

relationships.²³ At first most other firms did not consider themselves to be accountable nor responsible for the activities of their contractors, but later many followed suit, establishing similar codes that, for the most part, follow the principles articulated in the United Nations Universal Declaration of Human Rights.

3. GLOBAL LABOR SYSTEMS IN THE APPAREL AND FOOTWEAR INDUSTRY

In his classic discussion of systems theory, Gerald Weinberg argues that systems that are the product of human ingenuity constitute a point of view or a way of looking at the world.²⁴ There is no “real” system to be discovered, but rather individual interpretations of a web of relationships. It is foolish, he argues, to look for some purpose in such systems.

With “man-made” systems, we talk about “purpose” whereas such language is forbidden for “natural” systems. Yet much of the dissatisfaction with our man-made systems stems precisely from disagreement about what the “purpose” of the system is: that is, what the system “really” is. The answer, of course, is that the system has no “purpose,” for “*purpose*” is a *relation*, not a thing to “have.” To the junk dealers, General Motors *does* exist to put out scrap metal, yet the stockholders probably couldn’t care less whether General Motors is producing cars or string beans, as long as it is producing profits.²⁵

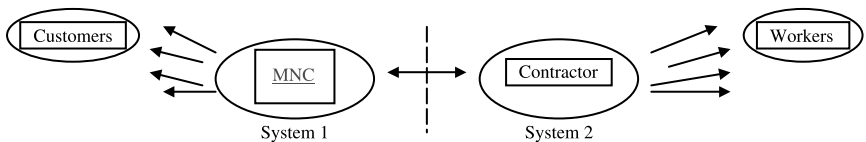
Weinberg’s point is that one’s interpretation of a system will depend on one’s relation to that system. And it is one’s relation to a system that determines one’s interaction within the web of relationships that constitute the system. Imagination allows one to conceive of new relationships within the system, while *moral imagination* allows one to conceive of the *moral relationships* that should be in place within the system. In this way moral imagination allows individuals to reorganize the web of relationships in a manner consistent (or, presumably, inconsistent) with the moral norms identified as important by individuals and organizations.

Recent changes in the global labor systems of the apparel and footwear industries demonstrate the potential impact of the exercise of moral imagination by individuals and organizations on systems. Historically, apparel and footwear corporations accepted

responsibility only for that which fell within the boundaries of their own organizations and specifically did not regard themselves as accountable for those particular labor abuses that occurred within the operations of their contractors. This original conception was the outgrowth of traditionally insulated domestic contracting relationships. When these corporations did business domestically, they were bound to the U.S. laws, as were their contractors and other stakeholders. When they began to globalize, they did not at first consider the need to be accountable for the actions of their contractors since that was not the case in their business operations in the U.S., where a comprehensive legal system was already in place. In addition, part of the allure of overseas contracts was the lower cost structure, in part the result of fewer legal requirements. As we will discuss, this conception changed as awareness grew on the part of MNCs and others regarding working conditions in these factories and the lack of legal protections for workers.

Under the original conception of the apparel and footwear supply chain systems, contracted factory workers were not considered by corporations in the apparel and footwear industry to be part of their system and therefore were beyond the bounds of their duties (see Figure 1). This exclusion reflected the low (or lack of) priority for workers and their working conditions not only on the part of MNCs, but also on the part of other stakeholders in that system. Until MNC managers exercised moral imagination regarding labor practices in contract factories, the boundaries were destined to remain the same.

FIGURE 1 Original Apparel and Footwear Supply Chain System Chart



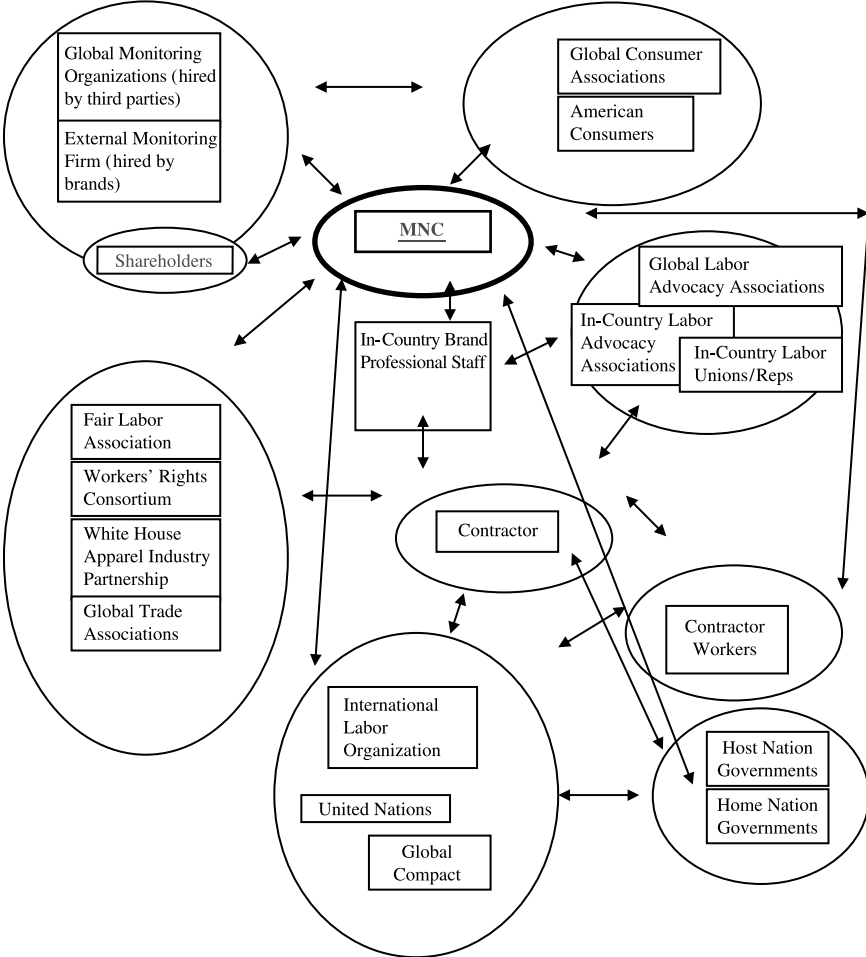
An increasing common alternative conception of the apparel and footwear supply chain systems involves a network of relationships among diverse stakeholders. These include the following:

the MNCs (Nike, adidas, and others);

the MNCs' in-country professional staffs (compliance monitors, sourcing personnel, etc.);
contractors;
factory workers;
in-country labor unions or representatives;
in-country labor advocacy organizations;
global, labor advocacy organizations;
global, monitoring organizations;
global, trade associations;
global, consumer associations;
home-nation governments;
host-nation governments;
global, intergovernmental organizations; and
consumers.

Each of these entities, or subsystems, contributes to shaping the social-political and economic environments in which the MNCs operate, and defines the boundaries within which the brands consider and reach decisions regarding the labor challenges they face. For example, decisions of government entities or the courts directly impact the legal obligations of MNCs and thereby create part of the host-nation environment within which these firms operate. They, in turn, might influence or be influenced by other governments (such as that of an MNC home-country) or intergovernmental agencies, such as the International Labor Organization, the United Nations, or The World Bank. North American and European consumers have recently become much more interested, engaged, and, informed regarding overseas labor practices in the apparel and footwear industry. They have the ability to act individually, through boycotts, or collectively, through participation in advocacy organizations. These actions influence the decisions of MNCs within the system since their very existence depends on consumers and their opinions. Host-country labor organizations may also play important roles in influencing the contractor. Or, the decision by one MNC to require a contractor's adherence to its code may encourage other MNCs to ask for similar standards at that particular contractor, and perhaps at others. As one can see, each of these interconnected relationships has the ability to impact the remaining relationships as if they were all different segments of one large systems web (see Figure 2). Similarly, the decision of one system participant to modify

FIGURE 2 Alternative Apparel and Footwear Supply Chain System Chart



the system may force others to either respond in kind or redefine the system to exclude that participant or resist the modification. Once MNC managers began to exercise moral imagination regarding labor practices, the manner in which the apparel and footwear supply chain systems were conceived was fundamentally altered. The exercise of moral imagination concerning labor practices, and

the attendant alteration in the conception of global labor systems, occurred at both Nike and adidas. Detailed examination of these cases will illustrate the practice of moral imagination at the systems level, as well as the individual and organizational levels.

4. NIKE'S GLOBAL SOURCING SYSTEM

This section provides a detailed background of Nike, Inc., as well as an analysis of several programs they have instituted as part of a system modification. We are not suggesting specifically that Nike (or adidas-Salomon, in following sections) has fixed all of its problems regarding global labor practices, but rather that it has made significant changes as a result of an exercise of moral imagination at the individual, organizational, and systems levels.

Nike was founded in 1964 by Philip H. Knight. Knight remains Nike's Chairman and CEO today. Nike, based in Beaverton, Oregon, has more than 22,000 employees and over 800 contract suppliers in about 52 countries throughout the world. Nike employs more than 550,000 workers who manufacture sports and fitness footwear, apparel, equipment, and accessories for worldwide distribution (over 400 of these suppliers are located in Asia).²⁶ Approximately 175 million pairs of shoes are manufactured each year for Nike, contributing in part to Nike's annual revenue for 2001, which totaled almost \$10 billion.²⁷ Nike's Code of Conduct, first sent out to manufacturers in 1992 and the second to be developed in the entire industry,²⁸ binds all Nike contract manufacturers and requires that all "manufacturing partners must post this Code in all major workspaces, translated into the language of the worker, and must endeavor to train workers on their rights and obligations as defined by this Code and applicable labor laws."²⁹

In 1988, journalists began to focus their attention on wage law violations in Nike's Jakarta, Indonesia suppliers. It is alleged that Nike moved operations to Indonesia when workers gained the right to organize in South Korea and Taiwan, where many of its contractors' factories were located. The United States Agency for International Development funded a large-scale survey to document wage law violations; that survey was subsequently supported by a study of the Indonesian shoe industry. When Nike first entered Vietnam, its critics claimed that Nike was paying its workers wages that left

them impoverished, even by Vietnamese standards. In addition to wage-related concerns, during the first two years after Nike entered Vietnam, the *New York Times* reported that a factory official had been convicted of physically abusing workers and another was under indictment for similar behavior. Countless protests resulted in support of these workers but Nike's response—despite the existence of their Code of Conduct for contract manufacturers—was that the workers and their working conditions were not their responsibility. Nike's response to labor abuses at this time seem to have been exclusively driven by public relations considerations. One commentator described their actions during that period in the following terms.

Rather than crack down on the abusive conditions in the factories, Nike has resorted to an elaborate international public relations campaign to give the appearance that it cares about the workers. But no amount of public relations will change the fact that a full-time worker who makes \$1.60 a day is likely to spend a fair amount of time hungry if three very simple meals cost \$2.10.³⁰

During this time in its history it is difficult to conclude that Nike regarded the actual welfare of its contract workers as a significant priority.

Nike has been manufacturing in Vietnam through factory partners since 1995, currently employing more than 43,000 workers, producing 22 million shoes annually, and exporting apparel totaling over \$450 million. Based in Ho Chi Minh City, Nike production accounts for 8% of Vietnam's manufactured exports and 32% of its footwear exports.³¹ As the largest employer in Vietnam, Nike has a significant impact on the Vietnamese economy and on the Vietnamese footwear and apparel system.

It was not until July 1998 that Knight publicly accepted responsibility on behalf of Nike for many of the issues facing its suppliers.³² This was the first time that Nike, at the individual or corporate level, accepted this level of accountability. This demonstrated an "awareness of the particular" necessary for moral imagination to function. At that time, Nike began to establish for itself goals and purposes, as well as a prioritization of those objectives with regard to traditional concepts of profit maximization. In a speech delivered at the National Press Club that evidenced Nike's capacity

for productive imagination, Knight accepted responsibility at the corporate level for the labor activities of its suppliers and established six initiatives for the firm. Knight explained that, as of that day, Nike promised to do the following:

- Increase the minimum age of new footwear factory workers to 18, and the minimum age for all other new light-manufacturing workers (apparel, accessories, equipment) to 16.
- Adopt the personal exposure limits (PEL) of the U.S. Occupational Safety and Health Administration (OSHA) as the standard for indoor air quality for all footwear factories.
- Fund university research and open forums to explore issues related to global manufacturing and responsible business practices such as independent monitoring and air quality standards.
- Expand worker education programs, including middle and high school equivalency courses, for workers in all Nike footwear factories.
- Increase support of its current micro-enterprise loan program to 1,000 families each in Vietnam, Indonesia, Pakistan and Thailand; expand its current independent monitoring programs to include nongovernmental organizations (NGOs), foundations, and educational institutions; and make summaries of the findings public.
- Involve NGOs in the process of factory monitoring, with summaries released to the public.³³

The statements represented a significant change in policy for Nike and produced a ripple effect through the apparel and footwear industry. Without self-reflection about Nike's role in the global workplace; disengagement from an almost exclusively profit driven orientation; a rethinking of its previous attitudes regarding their responsibility to contracted workers; and finally the awareness of the "incomplete, perhaps even limiting or distorting script" that existed in the system, this turnaround would not have been possible. However, some critics chastised Knight for not including several other commitments, including the protection of whistle-blowers within the factories; a Nike-directed worker rights education program; a guarantee of living wages and reasonable working hours; and the protection of workers' right to freedom of association.³⁴

It was critical at this point that Nike reframe its own internal and external scripts and create solutions that were viable inside its own organization (e.g., the internal parameters or practicalities that define, constrain, or encourage possibilities), as well as within the systems in which it operates (e.g., the externally defined constraints that sustain and promulgate current conditions). Prior to and since the time of Knight's pronouncement, Nike began to investigate the impact of its particular configuration on stakeholders, including those previously considered outside of its system boundaries—the contract workers. Throughout its supply chain, Nike has now developed an environment of comprehensive monitoring and remediation.³⁵ This includes a health management and safety audit program, and a significant global labor practice team that visits factories on an everyday basis,³⁶ and conducts training and awareness initiatives. In connection with auditing programs, Nike not only has coordinated these activities from inside, but also has engaged external auditors, as well as nongovernmental organizations, to monitor, audit, and report on ongoing activities from an external perspective. Nike is also a founding member of the Fair Labor Association, an industry-wide standard-setting and monitoring organization, and has committed to external independent monitoring throughout its contract factories. Though many have praised these efforts,³⁷ not all of Nike's critics have been pacified, as is specifically evidenced by scholar Dara O'Rourke's critique of the PricewaterhouseCoopers (PwC) labor monitoring program where he claims not only that PwC failed to catch and assess several violations, but also that it allowed for management bias in the audits and failed to effectively gather information.³⁸ Nonetheless, one of Nike's most harsh critics, Medea Benjamin of Global Exchange, notes that "things are changing for the better"³⁹ and that the firm has made an "astounding turnaround."⁴⁰

5. CASE EVIDENCE OF MORAL IMAGINATION AT NIKE WITHIN SYSTEM ENVIRONMENT

While the above discussion places Nike's current efforts within the Nike environment that encouraged their development, this turnaround is best described by exploring the nature of several of the actual Nike programs in place in Vietnam. For instance, during one of its ongoing meetings with suppliers, the owner of a Korean-owned

Vietnamese-based supplier informed Nike that its workers had requested and would benefit from an education program that could be attended after working hours. Given the financial pressure within Vietnamese families for all members to work, many individuals have not had the educational opportunities that citizens of developed countries have come to expect. Therefore, the onsite education programs may represent the only possibilities these workers have for continued learning.

In addition, in the Vietnamese labor environment, there was not a significant history of promotion from within. Managers were instead brought in from other, more developed countries, such as Korea. The Vietnamese workers, of course, strived for personal and professional development within their factories, including promotions. However, in order for Vietnamese workers to have the opportunity for promotion and career advancement, it was necessary that they have access to continued education. The boundaries of this system had not yet been expanded to include this form of reach or responsibility—it was up to each organization to exhibit creativity in these arenas in order to meet the needs or wishes of its workforce. By disengaging from the traditional contractor–employee relationship, and by building on promotion practices from the United States and other developed countries, Nike was able to rewrite the “relationship scripts” regarding expectations—they created new, morally praiseworthy possibilities such that these programs now seem obvious in their importance and utility.

Knowing the significant support throughout Nike’s organizational leadership for these internal personal development efforts, Nike’s local individual decision-makers were empowered to act on this suggestion. Though an education program may seem relatively basic to an American operation or even, now, to a global operation, Nike was one of the first corporations in the apparel and footwear industry to require an education program in contract factories. Nike’s environment also supported an informal process of decision-making in these arenas—encouraging the development of moral imagination at both the individual and organizational levels. A group of individuals involved in supply chain compliance and integrity at Nike, including Knight and President Dave Taylor, sat down to explore how Nike might be able to best support this project. During this stage of the project’s establishment, the group discussed the parameters of their corporate responsibility as well as the

investment they hoped to make, not only in these suppliers, but also in the workers and the countries in which they lived, highlighting the importance of top management's commitment to improving labor practices. It was determined that the most effective program would be one that was coordinated in partnership with the Vietnamese Ministry of Education so as to ensure that the Vietnamese equivalent of a GED was available to workers.

In practice, a supplier, in partnership with Nike and the Ministry of Education, work together to establish GED-like programs by hiring teachers and renting classrooms in local educational facilities near the factories. The programs cover the expenses of each student, including books, supplies, and a meal allowance. Nike currently funds 50% of the cost of after-hours education programs for each supplier. All Nike footwear suppliers in Vietnam currently have active education programs in accordance with this model. Thus, creativity at the individual level was institutionalized at the organizational level to become the new standard within this system.

A second product of the exercise of moral imagination on the part of Nike managers within the footwear and apparel system environment is Nike's microenterprise loan program. The system of apparel and footwear manufacturing often created a boundary that excluded the worker's family and other dependents. Originally, the obligations of contractors and brands extended only to these workers in the form of medical care, wages, savings accounts, or other benefits. However, often the worker's wages supported not just that individual but also an entire extended family of individuals, thus creating more significant burdens for the supplier and greater expectations for increased wages.

To provide some additional support for the families in the communities surrounding its suppliers, Nike established its loan program in 1998, first in Vietnam and later in Thailand and Indonesia. The purpose of the program was to respond to the challenge of creating a stronger infrastructure in the communities and families where the workers live. The loan program allowed individuals the chance to build small businesses that would ultimately enhance their family's economic well-being, as well as contribute to the community's overall development.⁴¹ Total Nike investment to date has been approximately 3.5 billion VND (\$244,755 US). Usually individuals will borrow the minimum amount for their first loan and increase the amounts for subsequent loans. More than 2,300 rural

women and former workers have received funds to help them in creating small businesses and, in Vietnam specifically, there have been *no defaults* on the loans.⁴² The program was developed and structured with the intent of self-sufficiency within several years. Based on interest charged and reinvestment of capital, the program will soon be able to afford its loans with no additional infusion of capital from Nike.

These loans, or similar financial programs, have now been implemented in other organizations where suppliers and/or workers themselves have begun to ask (or even expect) such benefits. Though it would be an exaggeration to suggest that this practice has been thoroughly integrated into the system at this point, we can see that a shift in expectations has led to a partial integration into the system. Furthermore, the success of Nike's microenterprise loan program, together with the knowledge that a well-designed program can become economically self-sufficient after several years, provides reasons for thinking that similar programs may proliferate within footwear and apparel supply chain systems in general, and in Southeast Asian systems in particular.

6. ADIDAS-SALOMON GLOBAL SOURCING SYSTEM

Adidas-Salomon has been sourcing in Asia for over 30 years, originally with German managers using Asian agents to develop partnerships. Asia currently represents the most important source of both footwear and apparel for adidas-Salomon, with 227 of its total of 328 first-tier supplier factories in Asia and 40 of its total of 242 second-tier supplier factories in Asia (figures for adidas brand only). These supplier factories are located in Cambodia, China, Hong Kong, India, Indonesia, Japan, Korea, Laos, Macao, Malaysia, Mauritius, Pakistan, Philippines, Singapore, Sri Lanka, Taiwan, Thailand, and Vietnam, representing a very wide geographic area, one that encompasses significant economic, social, political, and cultural differences.

Adidas-Salomon, formerly called adidas, was founded in 1949 and named after its founder Adolf (Adi for short) Dassler. It primarily produces athletic shoes, apparel lines, and sports equipment.⁴³ The company was nearly bankrupt until it shifted production to Asia in the early 1980s and strengthened its budget for marketing.⁴⁴

In the 1990s, under CEO Robert Louis=Dreyfus, adidas-Salomon shifted from being primarily a manufacturing company to primarily a marketing company, getting most of its production from contractors. In 1995 the firm went public.⁴⁵ In the year ending December 31, 2001 adidas-Salomon had net income of 208 million euros (approximately \$183 million) on net sales of 6.11 billion euros (approximately \$5.35 billion).⁴⁶ Footwear accounted for approximately 44% of sales and apparel accounted for approximately 36% during that year.⁴⁷

Contrary to the evolution of Nike's reformulation of system boundaries, the origins of adidas' attention to these issues of working conditions and treatment of workers instead developed during the 1990s as it shifted its orientation from that of primarily a manufacturing company to that of primarily a marketing company, thereby causing a shift of most of its production to outside contractors (Nike had begun this shift far earlier). In addition, as mentioned above, adidas-Salomon has consolidated its supplier base in order to have greater leverage in the factories where its shoes and clothing are made. In the late 1990s, adidas paralleled Knight's 1998 pronouncement by expanding its system to include responsibility for contract workers. Worldwide, adidas-Salomon held contracts with approximately 950 factories.⁴⁸ For the adidas brand alone, adidas-Salomon contracted with 570 factories in 2000 of which 267 were in Asia, 122 were in North and South America, and 181 were in Europe.⁴⁹ While adidas-Salomon makes up only a small percentage of many of the apparel factories' business, most of its footwear suppliers produce almost exclusively for adidas-Salomon. This allows them greater leverage in those circumstances to request modifications with regard to labor practices or issues surrounding safety, health, and the environment. Given its leverage with suppliers, adidas-Salomon concedes that "outsourcing supply does not mean outsourcing social responsibility."⁵⁰

Though striving to achieve similar results, the origins and implementation of system modification at adidas are slightly different from that at Nike. The general counsel for adidas-Salomon-North America, Susheela Jayapal, is generally credited with having spearheaded the establishment of the Standards of Engagement (SoE) at the corporate level in 1997—evidencing not only an individual capacity for an awareness of the particular, but also an individual capacity for productive imagination.⁵¹ Interest in developing these

standards stemmed from a controversy regarding the use of child labor in stitching soccer balls in Pakistan that tarnished the reputations of several firms in the sporting goods and apparel industry, including adidas-Salomon. Around 1997, adidas-Salomon, along with Nike and Reebok, were identified in the popular media as violating child labor standards in the production of their soccer balls. These companies or their direct contractors did not directly employ the child workers. They were employed by subcontractors, who, as was customary in the production of soccer balls, performed the stitching operations. Although Nike received more criticism in the United States, adidas-Salomon, as a European company, was more heavily criticized in Europe. Given adidas-Salomon's strong identification with soccer, this controversy posed a particular challenge for the company.

This episode was viewed as an embarrassment to the company; and the use of child labor in its products was an unsavory labor practice that conflicted with company values and principles, and with which adidas-Salomon did not want to be involved. Adidas-Salomon raised Jayapal's efforts at moral imagination to the organizational level. As a result, adidas-Salomon worked together with Nike, Reebok, and the nongovernmental organization (NGO), Save the Children, to put an end to the illegal use of child labor in this operation. This resolution also involved efforts to ensure that these children went to school—linking adidas' purpose with its priorities in an effort to extend and enhance its stakeholder boundaries. They compensated the children and their families for lost income and guaranteed the children employment at the completion of schooling and the attainment of legal working age. In addition, an effort was made to move subcontracting out of home-based workshops into factory-based stitching centers where use of child labor could more easily be prevented.

After this experience, Jayapal proposed the extension of the system boundaries beyond adidas' original conception; she encouraged the establishment of Standards of Engagement to ensure that other contractors would be acting in a socially responsible way with respect to employment practices and working conditions, thereby supporting a capacity for creativity throughout the system rather than just at the organizational level. The proposed Standards of Engagement were approved quickly by the board of directors of adidas-Salomon, then chaired by CEO Robert Louis-Dreyfus, and went into effect

in 1998. The quick approval of these standards reflected a recognition that the current business system and resulting environment required that firms ensure humane working conditions in their own factories and, to the extent possible, in the supplier and contractor firms with which they work.

The Standards of Engagement (see Appendix) were established with the aim of ensuring that all of adidas suppliers' factories are safe, fair places to work. Updated in 2001, the SoE are patterned after the ILO conventions and the model code of conduct of the World Federation of Sporting Goods Industries and reflect attention to the following labor, safety, health, and environmental issues:

- forced labor;
- child labor;
- discrimination;
- wages and benefits;
- hours of work;
- freedom of association and collective bargaining;
- disciplinary practices;
- health and safety;
- environmental requirements; and
- community involvement.

In order to reflect an extension of the original systems boundary, decisions at adidas-Salomon now require "triple signatures" from the Social & Environmental Affairs Department, the adidas-Salomon Country Manager, and the Director of adidas-Salomon Apparel Operations.

It is critical for the success of any system-wide modification that the factory owners and management "buy into" the effort. While this cannot always be achieved, it is more likely when the factory owners or management feels a part of any change process. To encourage the factories to own the programs for themselves, as part of an effort to encourage self-governance and self-sustainability, factory owners participate fully in the factory visits; are encouraged to offer feedback regarding the audit; engage in training programs arranged by adidas-Salomon for factory groups; attend "supplier summits"; engage in email communications with the adidas-Salomon SoE team; participate in follow-up visits; engage in costing negotiations with adidas-Salomon (which may relate to SoE compliance); and allow worker interviews.

In an effort to constantly reassess its system-wide efforts at boundary extensions, adidas-Salomon is involved with the Fair Labor Association (FLA), which provides external verification through monitoring. The FLA evaluates the performance of member firms as corporate entities in terms of their handling of health, safety, environment, and labor issues within their supply chain factories. FLA member firms agree to match or exceed these FLA standards. The initial FLA evaluations of corporate compliance with FLA standards are issued for member firms annually. In addition, adidas-Salomon has, on occasion, contracted with NGOs such as Verité to provide external monitoring of conditions in contract factories.

Public awareness of the compliance work they are doing with their international suppliers has been enhanced by the publication of an annual Social and Environmental Report beginning in 2001, a first for the apparel and footwear industry. Given stakeholder demands for greater transparency in corporate contracting procedures,⁵² the publication of these reports should be viewed favorably. Stakeholder groups and critics of adidas-Salomon who, in the past, had been concerned about adidas-Salomon's activities in the areas covered by the report, have found their ability to stay informed about performance in these areas improved by its publication.

7. CASE EVIDENCE OF MORAL IMAGINATION AT ADIDAS WITHIN SYSTEM ENVIRONMENT

Adidas' involvement in the Prince of Wales International Business Leaders Forum (IBLF), Vietnam Business Links Initiative (VBLI), provides an example of how partnerships among competitors who display moral imagination can create a better system environment for all involved and how commitment to growing the social capital of a country can produce benefits for the firms involved. The original system analysis evidences little responsibility for, or interest in, the social capital of a contractor host country such as Vietnam. If consumers were not concerned with a proactive impact on the host country, neither were the brands. However, the VBLI pushed that envelope beyond simply ensuring no negative impact to actually striving toward active involvement in raising standards for workers with *no contracted relationship whatsoever* with either the MNCs or their suppliers. In effect, the MNCs have taken responsibility for

individuals that are in no way linked to them or to their customers as stakeholders.

In early 1999, the Pentland Group (retailers of Speedo and LaCoste brands) completed a study and produced a report on the use of hazardous chemicals in the footwear industry in Vietnam. The report concluded that employees were at risk from hazardous chemicals, poor ventilation, inadequate safety equipment, and a lack of training. As a result of this report, the UK Department for International Development (DfID) partially funded a follow-up project on specific non-MNC contracting factories, and directed the program to include hazardous chemicals and general health and safety issues in the footwear production industry. DfID appointed the IBLF to draw up a workable, collaborative action plan to address these issues.

In December, 1999 IBLF approached adidas, Nike, and others to help fund a three-year project—The Vietnam Footwear Industry Business Links Initiative. The project was significant because it brought together competitive system participants to serve a system-wide objective. The factories in need of assistance were those not currently engaged in contracts with MNCs (those that were already subject to higher standards and enforcement by the MNCs themselves), so they became the focus of the IBLF's program plan. Nike, adidas, and the Pentland Group agreed to participate, in part to support the general social structure of a country within which they currently had suppliers, and in part to create more supplier options with higher health, safety, and environment (HSE) standards to support expanded Vietnamese operations. Moreover, by participating in the project jointly with a number of Vietnamese governmental units, Nike, adidas, and the Pentland Group also benefited from the close working relationships and increased trust that were bound to develop with these units. The participants thus altered the expectations of those both within and outside of the system with regard to responsibilities for standard-setting. Though not legally (nor, some would even argue, morally) their responsibility, the participants raised the standards in these non-MNC contract facilities so that the "high tide would raise all boats." In other words, though not related at the organizational level, these suppliers were indeed members of this system, and other participants, such as the MNC brands, accepted their system-imposed obligation to ameliorate their conditions.

From adidas' perspective, interest in the project was stimulated by the individual commitment and imagination of a previous global director of social and environmental affairs, David Husselbee. Through his awareness of the particular and his capacity for productive imagination, he encouraged adidas to extend its relationship boundaries and to work toward social sustainability in the countries within which they operated. Adidas was inspired at the organizational level through his individual passion and creativity to redevelop its priorities and relationships in its Vietnamese operations to the extent that it approved a commitment of two entire days each week by one adidas representative (in later phases reduced to two days per month). The desired end result of the project was to put into place a system for raising the HSE standards in Vietnamese suppliers, overall, and for transferring the management of the program entirely to the Vietnamese government departments in order to ensure greater sustainability.⁵³ Adidas committed to a three-year involvement, working toward this system-wide self-sustainability objective by beginning in an active role, then converting to an advisory role before its ultimate anticipated exit.

When asked whether there were "competitive" hurdles to overcome in participating in a partnership with one's direct competitor, Niall Middlehurst, adidas' manager of Health, Safety, and Environment for Vietnam and adidas representative in the program, responded, "if you're doing this HSE seriously, you care about the issue. You share the information. On HSE issues, there is no competition. We just want to improve HSE standards overall."⁵⁴ In fact, as three MNC representatives working with a large number of representatives from other types of entities, such as government or NGOs, it was often necessary for Middlehurst and his Nike and Pentland colleagues to work together as a cohesive unit in order to move forward and to defend each other, where necessary.

Another terrific challenge facing adidas and others within the global labor system is the issue of child labor. For purposes of this article, "child labor" refers to paid workers who are under 16 years of age. "Juvenile labor" refers to paid workers between the ages of 16 and 18. "Youth workers" refers to any worker under 18, grouping together the two other subgroups.⁵⁵ The ILO Convention No. 182, against the Worst Forms of Child Labour, came into force on November 19, 2000. That convention defines "child" to be anyone younger than 18 years of age. According to the new ILO estimates,

there are some 250 million children 5–14 years old who are toiling in economic activity in developing countries, with almost half working full-time.⁵⁶

In the United States our common response is to heavily regulate all forms of child labor, and to impose severe restrictions on the number of hours children may work during a school day. In developing countries, that is generally not the best answer for the children or the families involved. This is because full-time education programs are not universally available. Youths who are banned from working in the formal sector may end up working in less desirable, though profitable, activities such as prostitution or drug dealing.⁵⁷ Moreover, notwithstanding the possible educational alternatives in some environments, this proposed solution completely ignores the financial impacts of terminating the employment of a youth worker. The income generated by the youth worker may assist in supporting that particular youth's basic needs (food, clothing, shelter); or it may be critical in supporting the entire family. As a result of these conflicting cultural and regional expectations, many MNCs in this system find themselves without effective solutions to this challenge.

Adidas confronted a crisis when it discovered that 10% of the workers in one of its factories were under the age of 18. While the SoE division was contemplating its response to this finding and evaluating system expectations and solutions, several dozen child workers were immediately terminated, sometimes accompanied by threats should they return, without the knowledge of adidas at the time. Adidas SoE staff now knew that something must be done—and quickly, to reset the system boundaries in order to avoid losing contact with other youth workers, forcing these kids to consider alternatives far worse than the work environment they were forced to leave.

Potter and senior adidas production staff immediately expanded system parameters and told the factory manager that no more youths could be encouraged to leave, under any circumstances. Adidas felt incredible pressure to act without delay in establishing some parameters for the situation, even though a more drawn out process might have resulted in greater buy-in and participation from the factory, and a longer consultation period with the youths. Realizing the extent of its own expertise, adidas expanded its stakeholder network to include an NGO called Verité (a nongovernment

organization that focuses on human rights and standards in global outsourcing). Working with Verité and an education coordinator, adidas was able to develop what later became a complete and lasting modification to the system—adidas' global policy for managing similar situations, that is, a global vision:

The supplier meets with the worker and tries to persuade them to go back to school. If the worker agrees to return to school, schooling fees and other costs are paid for by the factory until the worker completes compulsory education. Any continued employment is conditional on enrolling the worker in a work study program of continued education.

The factory continues to pay the average monthly wage for the worker until the worker finishes school. This will make up for any lost income that the worker's family depends on in order to cover the basic needs of the family. The worker is required to provide the personnel manager proof of enrollment in school in order to continue receiving the monthly salary and school payments.

Finally, the factory agrees to provide a job for the worker once the worker has completed compulsory education.⁵⁸

While adidas was of tremendous assistance in the establishment of the programs, they did not contribute to the programs on a financial level. "We wanted them to know that we believed this was their responsibility and not a 'rescue'" says Kitty Potter, Regional Manager, Social & Environmental Affairs, South Asia. In effect, adidas sought to impact the systems within which these suppliers operated, in addition to its own.

Through two very different programs implemented under the umbrella of adidas' SoE structure, adidas has evidenced an awareness of the particular at the organizational level. Through the individual capacities of some of its executives, adidas has evolved into an organization that recognizes the scripts or schema that impact decisions in the footwear and apparel supply systems. Through a modification of its role relationships, however, it has been able to expand those scripts in order to transform the relationships that make up the system (i.e., competitors become partners toward a common goal; suppliers become enablers of youth rather than exploiters). Consequently, the capacity of individuals throughout adidas' operations to understand, evaluate, and rewrite the system scripts has transformed adidas at the organizational level, which, in

turn, has contributed to the transformation of adidas' supply chain systems.

8. THE FUTURE OF SWEATSHOPS

There are a number of important commonalities in the case studies discussed above. These commonalities provide insight into the function and evolution of moral imagination in decision-making at the individual, organizational, and systems levels. We contend that the exercise of moral imagination as demonstrated in these cases suggests a diminishing future for sweatshops.

First, both cases illustrate the importance of moral imagination at the individual or managerial level. The transformations of Nike's and adidas' global sourcing operations were initially prompted by high-ranking individuals within each MNC. Both Knight at Nike and Jayapal at adidas exercised corrective moral imagination. After being confronted by sustained criticism of the treatment of workers in their respective offshore contract factories, each executive engaged in a process of retrospective imaginative recreation of past practices. They sought to determine what practices, had they been in place all along, would have precluded criticism of their treatment of contract workers. They then produced a revised set of policies for dealing with contract workers in order to avoid future criticism.

Second, both cases illustrate the importance of embracing moral imagination at the organizational level. Knight and Jayapal initiated a set of organizational changes intended to institutionalize the revised policies within Nike and adidas. MNCs typically have well-defined internal decision structures that provide an internal mechanism for enforcing workplace standards. The internal decision structure of an organization comprises offices and levels of responsibility, together with the rules that allow managers to differentiate between corporate-level decisions and the decisions of individual employees.⁵⁹ While Knight and Jayapal may be credited with initiating the process, the change in corporate policies and practices were put in place via the internal decision structure of the organization and individual employees at a variety of levels. Both firms exhibited moral imagination at the organizational level, not only by maintaining a decision structure that permitted moral imagination at the individual level, but also by then evidencing receptivity to the

retrospective imaginative re-creation of past practices. The future and direction of many firms are predetermined as a result of their lack of such receptivity. Nike and adidas have both demonstrated a willingness to envision and actualize the novel, morally justifiable possibilities that their individually empowered managers and other decision-makers have created or imagined.

Third, both cases illustrate the importance of moral imagination at the systems level. The system within which these two organizations operate experienced a market and industry shift in the 1980s and 1990s, and each firm chose how precisely to respond to this shift. In both instances, these organizations recognized and even helped to engineer an expansion of their systems sphere to include additional, previously ignored, stakeholders. From the original conception of a vertical supply chain where brands were responsible only for their own employees, these two firms reoriented their concept of accountability to include secondary and sometimes even tertiary stakeholders, such as contractor employees or their families. To that end, Nike and adidas actively engaged in rebuilding and redefining the relationships they had with the contractors to include codes of conduct, monitoring with regard to the codes, working with the contractors to assist them in meeting the code requirements, and, if necessary, terminating relationships that did not meet these standards. In addition, through their in-country staff as well as a global compliance network, both firms established relationships with worker groups and labor advocacy organizations to ensure a clear line of communication that would not be impeded by a sole link to the contractor.

The foregoing analysis suggests an evolution of the exercise of moral imagination in each organization. Initial efforts at corrective moral imagination were driven mainly by negative publicity. While it may be argued that both the policy shift announced by Knight in July 1998 and the programs initiated by Jayapal in 1997 were purely strategic, this claim is unconvincing. Nike's response to critics prior to 1998 does appear to have been purely strategic, but it was also unsuccessful. (Adidas began using contract factories much later than Nike, and they were not subjected to the same level of media scrutiny as Nike, so their early stance regarding labor practices at contract factories is not as easy to characterize.) A purely strategic response, one designed to satisfy critics in order to maintain a positive corporate reputation while expending as few

corporate resources as possible, fails when subjected to close, public scrutiny. A response that will bear up to critical scrutiny (which is not, unfortunately, the same as satisfying one's critics) is one that takes seriously the basic rights of workers. Knight and Jayapal appear to have initiated a process at both Nike and adidas where relevant employees were asked to imagine a world in which the rights of contract workers were respected. At the organizational level, this effort resulted in the exercise of, in Werhane's terms, productive imagination. Managers at Nike and adidas were empowered to evaluate the practices of contract factories in order to determine whether labor practices at those factories were consistent with respect for workers' rights and to be creative and effective in their responses where they were not.

The evolution of the exercise of moral imagination appears to have proceeded to the level of what Kekes terms exploratory moral imagination and what Werhane terms a "capacity for creativity." At this level, Nike and adidas managers are engaged in rethinking fundamental assumptions regarding labor practices. They are, in effect, engaged in the process of reconstituting their respective corporate cultures with respect to attitudes toward labor practices. One product of this level of moral imagination was the Vietnam Footwear Industry Business Links Initiative, discussed above. This initiative required each organization to rethink core assumptions about competition in its relationship to workers' rights. The corporate cultures of Nike and adidas appear to have developed to the point where they are capable of putting aside competitive interests in order to promote the health and welfare of workers throughout Vietnam. Thus, the exercise of moral imagination as demonstrated in these cases suggests a diminishing future for sweatshops in Vietnam.

Sweatshops in the apparel and footwear industry have not been eliminated. They are still common throughout the developing world. And major obstacles to their elimination remain. For example, some MNCs with market niches different from those of Nike and adidas, such as companies that serve low-end retailers, may claim that lower margins and smaller revenue streams limit their ability to ensure that the basic rights of workers are respected. And even companies such as Nike and adidas do not yet appear to have made significant progress on the question of a living wage.⁶⁰ However, it is hoped that the corporate programs described in this essay will

provide positive models for individuals and corporations that wish to exercise moral imagination in the service of humanity. As a result, we might look forward to a diminishing future for sweatshops globally.⁶¹

NOTES

1. For the purposes of this paper we define the term "sweatshop" as any workplace in which workers are typically subject to two or more of the following conditions: systematic forced overtime; systematic health and safety risks that stem from negligence or the willful disregard of employee welfare; coercion; systematic deception that places workers at risk; underpayment of earnings; and income for a 48-hour work week less than the overall poverty rate for that country (one who suffers from overall poverty lacks the income necessary to satisfy one's basic non-food needs such as shelter and basic health care). For discussion of these issues see Denis G. Arnold and Norman E. Bowie, "Sweatshops and Respect for Persons," *Business Ethics Quarterly* 13 (April 2003):221-42.

2. See Laura P. Hartman, Bill Shaw, and Rodney Stevenson, "Exploring the Ethics and Economics of Global Labor Standards: A Challenge to Integrated Social Contract Theory," *Business Ethics Quarterly* 13 (April 2003):193-220; Arnold and Bowie, "Sweatshops and Respect for Persons"; Denis G. Arnold, "Human Rights and Business: An Ethical Analysis," in *Business and Human Rights: Dilemmas and Solutions*, ed. Rory Sullivan (Sheffield, UK: Greenleaf Publishing, 2003); Denis G. Arnold and Laura P. Hartman, "Beyond Sweatshops: Positive Deviancy and Global Labor Practices," paper presented to the Academy of Management, Seattle, Washington, August 2003; and the essays and case studies contained in Laura P. Hartman, Denis G. Arnold, and Richard E. Wokutch, eds., *Rising Above Sweatshops: Innovative Management Approaches to Global Labor Challenges* (Westport, CT: Praeger, 2004).

3. Arnold and Bowie, "Sweatshops and Respect for Persons"; and Denis G. Arnold, "Moral Reasoning, Human Rights, and Global Labor Practices," in Hartman et al., *Rising Above Sweatshops*.

4. Arnold and Bowie, "Sweatshops and Respect for Persons"; Arnold, "Moral Reasoning, Human Rights, and Global Labor Practices"; and Arnold, "Human Rights and Business: An Ethical Analysis."

5. Ibid.

6. Arnold and Hartman, "Beyond Sweatshops: Positive Deviancy and Global Labor Practices."

7. We are not, however, claiming that they accept these conclusions as the result of our work on these issues.

8. David Hume, *A Treatise of Human Nature*, ed. L. A. Selby-Bigge and P. H. Nidditch (Oxford: Oxford University Press, 1978); Immanuel Kant, *Critique of Pure Reason*, trans. Norman Kemp Smith (London: Macmillan & Co., 1929); R. G. Collingwood, *The Principles of Art* (Oxford: Oxford University Press, 1938); and Gilbert Ryle, *The Concept of Mind* (Chicago: University of Chicago Press, 1949).

9. Collingwood, *The Principles of Art*, 286.

10. See, e.g., Sabina Lovibond, *Realism and Imagination in Ethics* (Minneapolis: University of Minnesota Press, 1983); John Kekes, "Moral Imagination, Freedom, and the Humanities," *American Philosophical Quarterly* 28:2 (April 1991); and Mark Johnson, *Moral Imagination: Implications of Cognitive Science for Ethics* (Chicago: University of Chicago Press, 1993).

11. Kekes, "Moral Imagination, Freedom, and the Humanities."

12. *Ibid.*, 109.

13. *Ibid.*, 105.

14. See, e.g., Patricia H. Werhane, "Moral Imagination and the Search for Ethical Decision Making in Management," *Business Ethics Quarterly* The Ruffin Series: Special Issue 1 (1998):75–98; and Dennis J. Moberg and Mark A. Seabright, "The Development of Moral Imagination," *Business Ethics Quarterly* 10 (2000):845–84.

15. Patricia H. Werhane, *Moral Imagination and Management Decision Making* (New York: Oxford University Press, 1999).

16. *Ibid.*, 49.

17. *Ibid.*, 103.

18. *Ibid.*, 104.

19. Patricia H. Werhane, "Moral Imagination and Systems Thinking," *Journal of Business Ethics* 38 (2002):33–42.

20. *Ibid.*, 34.

21. Robert Gilpin, *The Challenge of Global Capitalism: The World Economy in the 21st Century* (Princeton, NJ: Princeton University Press, 2000), 169.

22. This list of advantages is similar to, but distinct from the list of outsourcing advantages provided in Pamela Varley, ed., *The Sweatshop Quandary: Corporate Responsibility on the Global Frontier* (Washington, DC: Investor Responsibility Research Center, 1998), 85.

23. For a thorough discussion of Levi's efforts to protect the human rights of its contract workers see Karl Schoenberger, *Levi's Children*:

Coming to Terms with Human Rights in the Global Marketplace (New York: Atlantic Monthly Press, 2000).

24. Gerald M. Weinberg, *An Introduction to General Systems Thinking* (New York: Wiley, 1975).

25. *Ibid.*, 57.

26. Nike, Inc., "Corporate Responsibility Report, 2001," 1; see also Amanda Tucker, Nike Director of Compliance for the Americas, during presentation transcribed in Richard Wokutch, "Nike and Its Critics," *Organization & Environment* 14(2) (June 2001):207-37, 212.

27. Nike Annual Report 2001. Available at http://www.nike.com/nikebiz/invest/reports/ar_01/pdfs/financials.pdf (accessed July 15, 2002).

28. Nike's code was second behind Levi Strauss, which disseminated its code in December 1991.

29. Nike, "Code of Conduct." Available at <http://www.nike.com/nikebiz/nikebiz.jhtml?page=25&cat=compliance&subcat=code> (accessed July 15, 2002).

30. Bob Herbert, "Brutality in Vietnam," *The New York Times*, March 28, 1997.

31. "Envoy Defends Nike's Practices in Vietnam," *Financial Times*, April 12, 1999.

32. "Nike Reviews Challenges and Successes of Corporate Responsibility Initiatives." Available at <http://www.nike.com/nikebiz/news/pressrelease.jhtml?year=2001&month=05&letter=g> (accessed July 15, 2002) (link to speech at bottom of page); see also Phil Knight, "New Labor Initiatives, May 12, 1998." Available at <http://cbae.nmsu.edu/~dboje/NIKphilspeech.html> (accessed July 15, 2002).

33. *Ibid.*

34. Tim Connor, *Still waiting for Nike to do it* (San Francisco, CA: Global Exchange 2001). Available at <http://www.globalexchange.org/economy/corporations/nike/stillwaiting.html> (accessed July 15, 2002), 5.

35. For Nike's overview of the challenges and successes of these initiatives to date, see "A Glance at Nike's Challenges and Successes of Corporate Responsibility Initiatives." Available at http://www.nike.com/nikebiz/news/pr/2001/p_challenges.jhtml (accessed July 28, 2002).

36. Currently, there are over 100 individuals in Nike's Compliance Department, including more than 20 people permanently housed overseas.

37. Daniel Akst, "Nike in Indonesia, Through a Different Lens," *New York Times*, March 4, 2001; Editorial, "Smelly Sneakers," *Asian Wall Street Journal*, March 2, 2001; "Knight Speaks Out on Improving Globalization," *Financial Times*, August 1, 2000; David Lamb, "Economic Program Revitalizing

Thailand's Countryside," *Los Angeles Times*, February 27, 2000; Business Brief, "Indonesian Workers to Get Boost in Entry-Level Wages," *Wall Street Journal*, March 24, 1999; and Editorial, "For Citizens of Vietnam, Nike is the Place to Work," *Oregonian*, March 6, 1999.

38. Dara O'Rourke, "Monitoring the Monitors: A Critique of PricewaterhouseCoopers Labor Monitoring" (Sept. 2000). Available at <http://web.mit.edu/dorourke/www/PDF/pwc.pdf> (accessed July 15, 2002).

39. Interview with Steve Hewitt, Nike — Vietnam, Corporate Responsibility Manager, July 6, 2001.

40. "Nike Critic Praises Gains in Air Quality at Vietnam Factory," *New York Times*, March 12, 1999.

41. Currently, there have been approximately 3,200 loans given with the average loan standing at approximately \$65 (maximum loan = 1 million Vietnamese Dong (~ \$75 US) and the minimum loan = 500,000 VND (~ \$37 US)).

42. Knight, "New Labor Initiatives." Also reported in PBS Newshour, "JUST DOING IT? CEO Phil Knight answers questions on Nike's new labor initiatives." Available at <http://www.pbs.org/newshour/forum/may98/nike.html> (accessed July 15, 2002) (confirmed in discussions with Dusty Kidd). For additional information on the loan program, see <http://www.nike.com/nikebiz/nikebiz.jhtml?page=26&item=asia> (accessed July 15, 2002) and <http://www.nike.com/nikebiz/nikebiz.jhtml?page=25&cat=communityprograms&subcat=smbizloans> (accessed July 15, 2002).

43. Adidas-Salomon, "Overview." Available at <http://www.adidas-salomon.com/en/overview/> (accessed July 15, 2002).

44. Hoovers Online, "adidas-Salomon: AG." Available at <http://www.hoovers.com/co/capsule/2/0,2163,92632,00.html> (accessed July 15, 2002).

45. Adidas-Salomon, "Overview."

46. Ibid.

47. Ibid.

48. Adidas-Salomon, "Clearer: Social and Environmental Report 2001" (Herzogenaurach, Germany: adidas-Salomon, 2002), 20.

49. Adidas-Salomon, "Our World: Social and Environmental Report 2000" (Herzogenaurach, Germany: adidas-Salomon, 2001), 22–23. These figures are for export production only. Additional factories supply production for sale in local markets only.

50. Ibid., 14.

51. The Operations Department headed by Glenn Bennett, the only American board member, also took a leading role.

52. This was a key concern relative to MNC activity in general raised in a May 31, 2001 meeting with members of the Asia Monitor Resource Council, a group that tracks MNC sourcing activity in Asia.

53. The program named a Vietnamese Program Director in Summer, 2001. Since that time there has been a substantial increase in cooperation and involvement from the Vietnamese partners.

54. Interview with Niall Middlehurst, July 3, 2001, Ho Chi Minh City, Vietnam.

55. The Global Reporting Initiative uses the term "young workers" and defines it as "a person who is above the applicable minimum working age and younger than 18 years of age." Global Reporting Initiative, *Child Labour Protocol, Draft for Public Comment*, May 17, 2002.

56. Kebebew Ashagrie, "Statistics on Working Children and Hazardous Child Labor in Brief" (Geneva: ILO, 1998), <http://www.ilo.org/public/english/standards/ipecc/simpoc/stats/child/stats.htm> (accessed July 15, 2002).

57. However, some advocacy groups fail to consider all perspectives. For example, the Global Reporting Initiative's discussion on its Child Labour Indicators fails to take into account the impact of the termination of children beyond their removal from the work place.

58. Adidas-Salomon, "Guidelines on Employment Standards" (2001), part two, chapter 3, p. 5.

59. This view of the corporation has been defended at length by Peter A. French. See "The Corporation as a Moral Person," *American Philosophical Quarterly* 16 (1979):207-15; *Collective and Corporate Responsibility* (New York: Columbia University Press, 1984); "Principles of Responsibility, Shame and the Corporation," in *Shame, Responsibility and the Corporation*, ed. Hugh Curtler (New York: Haven, 1986); *Responsibility Matters* (Lawrence: University Press of Kansas, 1992); *Corporate Ethics* (New York: Harcourt Brace, 1995); and "Integrity, Intentions, and Corporations," *American Business Law Journal* 34 (1996):141-55.

60. Significant progress could be made if Nike and adidas would take two important steps. First, agree to a context-specific method for determining a living wage in individual countries. Second, use this method to show that they are paying a living wage, or raise wages so that the living wage minimum is met. For discussion of this issue see Arnold and Bowie, "Sweatshops and Respect for Persons," 233-34.

61. An earlier version of this essay was delivered at the University of Minnesota and the Center for Ethical Business Cultures Conference on

Moral Imagination, Minneapolis, May 2003. Thanks to Norman Bowie for the invitation to write and present the paper; to Ian Maitland who served as our commentator on that occasion and provided us with helpful written comments; and to audience members for their comments. Thanks also to Patricia Werhane for her work on moral imagination, and for detailed written comments that led to several improvements in this essay.

APPENDIX: ADIDAS' STANDARDS OF ENGAGEMENT*

Authenticity. Inspiration. Commitment. Honesty.

These are some of the core values of the adidas brand. We measure ourselves by these values, and we measure our business partners in the same way.

Consistent with these brand values, we expect our partners—contractors, subcontractors, suppliers, and others—to conduct themselves with the utmost fairness, honesty, and responsibility in all aspects of their business.

These Standards of Engagement are tools that assist us in selecting and retaining business partners that follow workplace standards and business practices consistent with our policies and values. As a set of guiding principles, they also help identify potential problems so that we can work with our business partners to address issues of concern as they arise.

Specifically, we expect our business partners to operate workplaces where the following standards and practices are followed:

I. General Principle

Business partners shall comply fully with all legal requirements relevant to the conduct of their businesses.

II. Employment Standards

We will only do business with partners who treat their employees fairly and legally with regard to wages, benefits, and working conditions. In particular, the following guidelines apply:

Forced Labor: Business partners shall not employ forced labor, whether in the form of prison labor, indentured labor, bonded labor, or otherwise.

Child Labor: Business partners shall not employ children who are less than 15 years old (or 14 years old where the law of the country of manufacture allows), or who are younger than the age for completing compulsory education in the country of manufacture where such age is higher than 15.

Discrimination: While we recognize and respect cultural differences, we believe that workers should be employed on the basis of their ability to do the job, rather than on the basis of personal characteristics or beliefs. We will seek business partners that share this value, and that do not discriminate in hiring and employment practices on grounds of race, national origin, gender, religion, age, disability, sexual orientation, or political opinion.

Wages and Benefits: Business partners shall pay their employees the minimum wage required by law or the prevailing industry wage, whichever is higher, and shall provide legally mandated benefits. Wages shall be paid directly to the employee in cash or check or the equivalent, and information relating to wages shall be provided to employees in a form they understand. Advances and deductions from wages shall be carefully monitored, and shall comply with law.

Hours of Work: Employees shall not be required to work more than sixty hours per week, including overtime, on a regular basis and shall be compensated for overtime according to law. Employees shall be allowed at least 24 consecutive hours off per week, and should receive paid annual leave.

Right of Association: Business partners shall recognize and respect the right of workers to join and organize associations of their own choosing.

Disciplinary Practices: Every employee shall be treated with respect and dignity. No employee shall be subject to any physical, sexual, psychological, or verbal harassment or abuse.

III. Health and Safety

Business partners shall provide a safe and healthy working environment, including protection from fire, accidents, and toxic substances. Lighting, heating, and ventilation systems should be adequate. Employees should have access at all times to sanitary facilities, which should be adequate and clean. When residential facilities are provided for employees, the same standards should apply.

IV. Environmental Requirements

Business partners shall comply with all applicable environmental laws and regulations.

V. Community Involvement

We will favor business partners who make efforts to contribute to improving conditions in the countries and communities in which they operate.

*Adidas-Salomon, "Clearer: Social and Environmental Report 2001," 19.

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