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« Les Multinationales et L'Avenir des Sweatshops  
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Sweatshops”)

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## Les Multinationales et L'Avenir des Sweatshops

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# Les Multinationales et L'Avenir des Sweatshops

Laura P. Hartman & Denis G. Arnold

## 1. Introduction

In the field of business ethics today, one of the most passionately disputed tensions is that between free-trade advocates of unregulated globalization and those in favor of greater constraints on the multinationals corporations (MNCs) who inspire, encourage and then exploit that process. The stakeholders are copious and vary greatly in the power they wield. In particular, members of the global workforce are in many instances those who are impacted the most significantly, though they are often also those with the least influence over their own destinies. One central issue that arises, therefore, surrounds the protection of the human rights of the individuals who contribute labor resources to the globalization process, and therefore to the bottom lines of those who profit the most from that economic development.

One area of extensive global expansion in recent history is the manufacture of clothing and footwear. Large multinational retailers have discovered the value of utilizing a worldwide supply chain to produce the goods they sell, thereby reducing labor costs drastically compared to the costs required to maintain a predominantly domestic workforce. In fact, when labor costs begin to increase in one host country, the retailers often have several alternative locations from which to choose that may offer even lower cost labor, often referred to as the « race to the bottom ».

The past decade, however, has demonstrated the power of the united voice of multiple stakeholders, such as consumers, unions, and human rights organizations, in effecting changes in the global labor policies of MNCs. These changes have taken place within but a few MNCs, those who have chosen – for a variety of reasons – to deviate positively from the norm in that particular market or industry. Prior research suggests that one possible explanation for this positive deviation is a corporate culture that encourages moral imagination, a concept that has been hypothesized to lead toward more ethical and accountable decision-making on the part of corporate leadership (Arnold et Hartman, 2003; Arnold et Hartman, 2005a).

The purpose of this paper is threefold. First, we explore the disagreement between the perspective of the free-trade economists and that of the labor advocates with regard to voluntary responses to the sweatshop dilemma. Second, we introduce and define the concept of positive deviancy and relate it to global labor markets in the apparel and footwear sectors. Third, we explain how the exercise of moral imagination may explain this deviancy and then demonstrate how moral imagination may lead to the enhancement of norms in the area of global labor challenges. If positive deviants can be identified and the motivation for the deviation explained, that same structure or motivation can be replicated in other environments to encourage similar deviation, creating a new, higher norm, thus raising the industry standard overall.

## 2. Defining « Sweatshops »

While « sweatshop » is a commonly used word, its meaning varies among users. According to the U.S. General Accounting Office, a sweatshop is a place of work where an employer violates more than one federal or state labor, industrial homework, occupational safety and health, workers' compensation, or industry registration law. The AFL-CIO Union of Needletrades, Industrial and Textile Employees (UNITE) defines sweatshop as a place of employment with systematic violation of one or more fundamental workers' rights that have been codified in international and U.S. law. Most often, for example, UNITE identifies sweatshops where workers are not given the right to organize. The Interfaith Center on Corporate Responsibility defines sweatshops much more broadly; even where a factory is

clean, well-organized and harassment-free, the ICCR considers it a sweatshop if its workers are not paid a sustainable living wage. Elsewhere 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) (Arnold et Bowie, 2003; Arnold et Hartman, 2003).

Strict labor laws, effective labor unions, and the growth of employee mobility and opportunity have attempted to eliminate sweatshops in most developed countries. The vast majority of sweatshops currently are found in economically underdeveloped countries, especially those with large pools of unskilled labor, high unemployment, and few regulatory constraints. As did their predecessors, modern sweatshops engage in practices that range from substandard to subhuman. In order to attract purchasers for their goods, suppliers must keep labor costs low and therefore pay workers wages at subsistence level or below.

Why do sweatshops exist, if their mistreatment of workers is so widely regarded as morally illegitimate? Though few, if any, would argue for the continuation of these circumstances, economists are at odds with labor advocates regarding what to do about them. Labor advocates argue that the traditional concept of free trade fails to provide social clauses for the protection of workers serving that trade environment. While free trade agreements encourage multinational companies to do business in lesser developed economies, thereby increasing the gross national product of those economies, it is argued that these agreements are at the expense of the work forces involved. Moreover, if the suppliers raise wages to at least subsistence levels, they will need to raise their prices to the contracting retailers, who will then arguably seek lower prices elsewhere – and find them. In the following section, we provide an overview of the conventional debate over sweatshops that has dominated public discourse on the issue in recent years.

### **3. Sweatshops: Contentions for Free-Market versus Regulated Market Implications**

#### **3.1. *The Laissez Faire Approach to Sweatshops***

The current debate over global labor practices may be characterized as a tension between trade economists and libertarians on the one hand, and human right’s and union activists on the other hand (Arnold et. Hartman, 2005a). Proponents of free market, laissez-faire economics contend that the exploitation of a national resource – cheap labor -- allows developing countries to expand export activities and to improve their economies (Henderson, 2001; Krugman, 1999; Kristof, 2000; Maitland, 1997; Norberg, 2003). In fact, they would argue that the only path to economic development for these poorer countries may lie in their ability to compete effectively – perhaps exclusively – on a world scale. This economic growth brings more jobs, which will cause the labor market to tighten, which in turn will force companies to improve conditions in order to attract workers. Though an unpopular sentiment with the general consuming public, economist Paul Krugman claims that the maintenance of sweatshops is clearly supported by economic theory:

You may say that the wretched of the earth should not be forced to serve as hewers of wood, drawers of water, and sewers of sneakers for the affluent. But what is the alternative? . . . Should their own governments provide more social justice? Of course--but they won't, or at least not because we tell them to. And as long as you have no realistic alternative to industrialization based on low wages, to oppose it means that you are willing to deny desperately poor people the best chance they have of progress for the sake of what amounts to an aesthetic standard--that is, the

fact that you don't like the idea of workers being paid a pittance to supply rich Westerners with fashion items (Krugman, 1999, p. 85).

These economists conclude that free trade without regulation in the form of labor restrictions generates future prosperity and better working conditions for the host nation by providing developing nations with access to cheaper goods and, in turn, opportunities to exploit cost advantages in export markets. They would contend that jobs - even terrible jobs - provide some positive externalities for a society, benefits that accrue to others who are not parties to the transaction between a laborer and employer. From this perspective, workers will benefit from the improved economic and social conditions that economic growth brings, which is only possible if developing countries can capitalize on their low cost advantage to attract foreign development.

### **3.2. *The Argument for Increased Regulation of Global Working Conditions***

There remains little doubt in modern economics that free markets generate multiple benefits. However, those benefits are dependant on certain fixed conditions such as a free flow of information, truly voluntary transactions, the ability to make rational decisions about one's self-interest, and reasonable market of buyers and sellers. One or more of these particular conditions may not always be present in developing economies thus resulting in potential for market failure. For these reasons, critics of sweatshops contend that the empirical premise is false. Instead, they argue for the mandated improvement in working conditions via regulation (International Council on Human Rights Policy, 2002).

For example, workers may not have the ability to make rational decisions when offered a position in a sweatshop since they may be faced with no possible alternatives for supporting themselves and their families. Accordingly, critics of sweatshops argue, the fact that workers agree to work under poor or substandard conditions does not necessarily mean that this agreement was entered into under the conditions of a free market economy (Gray, 1998; Langille, 1996). Alternatively, critics of sweatshops challenge the conclusion that sweatshops result in many positive externalities. They argue that greater economic and social development will not result from the kinds of skills developed through the routine factory work offered to these workers. In addition, where a factory opts to close and relocate instead of paying increased labor costs, job losses in that manufacturing sector result in significant social disruption. These social costs are not often considered in the cost-benefit analyses of economists, and present significant doubts about the empirical premise of the argument in support of sweatshops. The global market may not be an effective arbiter of the trade-offs between improved working conditions and levels of economic development, production cost, and product price. While some economists resist these challenges and claim instead that markets will correct even the worst sweatshop practices, other economists and many non-economists remain unconvinced. (Bhagwati, 2004; Gray, 1998; Langille, 1996; Leary, 1996; Levinson, 2001).

Notwithstanding any possible economic arguments, critics contend that it is simply morally impermissible to subject individuals to extended periods of grueling and mind-numbing labor in conditions that put their health and welfare at risk and which provide them with inadequate compensation ((Arnold, 2003; Arnold and Bowie, 2003; Varley, 1998). The argument in this case is based on certain core human rights as a moral minimum, the application of which does not depend on cost-benefit calculations. Concern for human dignity and basic rights simply prohibit some practices.

There exists at least a minimal convergence of beliefs from Western and non-Western societies regarding human rights demonstrated by one particular analysis that found relatively universal acknowledgement for the following (Hartman, Shaw & Stevenson 2003):

- Just and favorable working conditions, including a limit to the number of hours a human should have to work each day and a healthy working environment;
- Minimum age and working conditions for child labor;
- Nondiscrimination requirements regarding the *relative* amount that a worker should be paid and the right to equal pay for equal work;
- Freedom from forced labor;
- Free association, including the right to organize and to bargain collectively in contract negotiations.

Thus, analysis of existing labor standards suggests that, at least in theory, there is considerable agreement about what rights *ought* to be respected.

#### **4. The Nature of Positive Deviancy in Global Labor Practices**

Realistic attempts to redress sweatshops conditions must take into account the pressures of globalization as well as the poor economic conditions of developing nations. A more pragmatic approach will benefit the myriad stakeholders involved and, in fact, research does suggest that there exist solutions that satisfy these variables while remaining true to both the demands on MNCs as well as the human rights due the global workforce.

In any industry, there exist strategic, legal and ethical norms that define basic expectations of industry participants. MNCs must accordingly find some way to (a) work within the constraints of developing nation economies and social conditions (strategic and legal norms), while (b) respecting the world-wide concern for the ways in which workers are treated (ethical norms). The concept of positive deviancy suggests that industry participants can focus on positive examples in order to move beyond the entrenched, polarized political debate of economic efficiency versus increased regulatory protection for workers' rights. Furthermore, companies may find that there are positive consequences to a proactive response to questions of global labor practices. As has been argued elsewhere, for example, employees who are treated with respect tend to be more loyal and productive workers; consumers in industrialized countries increasingly prefer to purchase goods and services from companies that treat workers with respect; and potential employees increasingly care about the ethical reputations of the companies with whom they take a job, raising the cost of low-reputation companies to hire high quality employees (Arnold et Hartman, 2005a; Arnold et Hartman, 2005b). These forward-thinking organizations can be categorized as exhibiting « positive deviance » with respects to their labor practices.

##### **4.1. Defining Positive Deviancy**

Scholars have only begun to explore the concept of deviance within and among organizations. The phrase itself was first used by Sternin and Choo (2000) who suggested that the study of positive deviants in particular industries could encourage similar responses from industry participants seeking similar successes as those demonstrated by the deviant organization. Two questions that need to be answered in this exploration are how to determine the baseline from which the deviance occurs and how to encourage like responses. In an important discussion of deviancy, Warren (2003) seeks to place the baseline in relationship to a specific reference group grounded in explicit criteria. In our own recent analysis, we seek to use a more comprehensive conceptual typology of deviance to apply this baseline analysis to the global supply chains of footwear and apparel industries (Arnold et Hartman 2005a).

Though Warren acknowledged the possibility of deviancy with respect to a variety of reference groups, at a variety of social levels, our typology extends her analysis of deviance at the individual and organizational levels to include at least five levels at which deviance may take place within an industry.

These include the *individual, work group, program, organizational* and *system* levels. At each social level, whether or not deviance is positive or negative depends upon the extent to which the relevant agents adhere to strategic, legal and ethical norms (Arnold et Hartman 2005a: 213-214).

Strategic norms refer to standards within an industry such as generally accepted best practices. Positive deviance from this norm occurs when a work group or company, or another social level, deviates from the baseline in a way that improves a company's strategic position measured in market share, revenues, and profits. Negative deviance from this norm occurs when a work group or company, or another social level, deviates from the baseline in a way that adversely impacts a company's strategic position.

Legal norms are those that have been effectively articulated and required by legitimate governing authorities. In this category, the baseline may be understood to correspond to the reference groups attitudes toward local laws. Positive deviance from this norm occurs when a work group or company, or another social level, deviates from the baseline in a way that improves a company's respect for the rule of law. Negative deviance from this norm occurs when a work group or company, or another social level, deviates from the baseline in a way that adversely impacts a company's respect for the rule of law.

The area that concerns the remainder of our current analysis is ethical norms. These may include standards determined by reference to basic human rights, and to corresponding worker rights where relevant. Positive deviance from this norm may occur when a work group or company, or another social level, deviates from the baseline in a way that improves a company's respect for basic human rights, and corresponding worker rights. Negative deviance from this norm would exist when a work group or company, or another social level, deviates from the baseline in a way that adversely impacts a company's respect for basic human rights, and corresponding worker rights.

That some organizations or corporations do deviate positively from each of these norms is not at issue. Instead, the key question for this discussion is why certain organizations do engage in positive deviance while others do not. It is our contention that the answer to this query is in the presence – or lack thereof – of an organizational structure that permits or even encourages the exercise of moral imagination.

#### ***4.2. Positive Deviance as the Result of Moral Imagination***

Contrary to the concept of positive deviance, the concept of imagination has been explored by philosophers over time and in depth, and has been defined as the power to form mental images or constructions of what is not real (Hume, 1978; Kant, 1929; Collingwood, 1938; Ryle, 1949). The extension to involve distinctly *moral* imagination is relatively recent. (Werhane 1999, 2002; Arnold et Hartman 2003). Relevant to our discussion of deviance is the power of moral imagination that allows us to create possible worlds that are either morally better or worse than the world as we find it. Moral imagination allows us to be aware of both the conventional ways of being proscribed by our own culture (the standard norms within an industry), as well as possibilities other than those that exist within our own culture (potential for deviation). The use of moral imagination increases our freedom to choose. « If freedom is the absence of coercion and the ability to do as we please, » writes Kekes, « then moral imagination increases our freedom by allowing us to go beyond the influences of culturally-given possibilities and standards for evaluating them » (Kekes, 1991, p. 109). In other words, moral imagination makes positive deviance possible.

Werhane (1999) applies Kekes contention to managerial decision-making and concludes that moral imagination is a necessary condition of innovative managerial moral decision-making, which by our analysis can lead specifically and perhaps naturally to positive deviance. In applying the earlier philosophical conceptualization of imagination, 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. (1999, p.103)

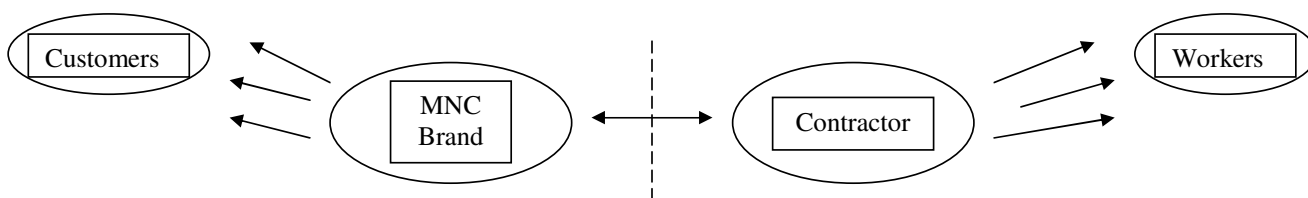
Second, managers must have a capacity for productive imagination. A productive moral imagination involves an awareness of an “incomplete, perhaps even limiting or distorting script” and a willingness to challenge that script. Third, managers must have a capacity for creativity that will enable them to “envision and actualize novel, morally justifiable possibilities through a fresh point of view or conceptual scheme” (1999, p. 104). Managers must, in other words, be capable of understanding, evaluating, and rewriting the script and must exist in an institutional culture that not only allows for these capabilities but perhaps is structured to ensure them. In other words, “moral imagination 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” (2002, p 34). Moral imagination at the organizational and industry levels has been an essential, if not catalytic, feature of the ongoing transformation of a number of industries. The following section explores the contention that moral imagination, as a structural component of certain MNCs in the footwear and apparel industries, has stimulated positive deviance and should be viewed as a model for others in those industries.

## 5. Evidence of Moral Imagination in the Footwear and Apparel Industries, leading to Positive Deviancy

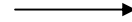
Based on a number of catalysts, the global labor systems of apparel and footwear industries have undergone significant changes, which demonstrate the potential impact of the exercise of moral imagination by individuals and organizations on systems. Theorist Gerald Weinberg argues that systems such as these constitute a point of view or a way of looking at the world (Weinberg, 1975). There is no “real” system to be discovered, but rather individual interpretations of a web of relationships.

This is relevant to our analysis as the perception by the MNCs of their relationships, and therefore the scope of their systems, evolved over time. Originally, when faced with accusations of responsibility for sweatshop conditions in factories that produced their products, the involved MNCs denied any accountability whatsoever. They based their distancing of liability on the traditionally insulated domestic contracting relationships they created with suppliers. In actuality, part of the allure of overseas contracts was the lower cost structure, in part the result of fewer legal requirements. Under the original conception of the apparel and footwear supply chain systems, contracted factory workers were not considered by the MNCs to be part of their system and therefore were beyond the bounds of their duties. Since the prioritization of stakeholders and values affects the perception of boundary conditions and decisions, this exclusion reflected the low (or lack of) priority for workers or their working conditions not only by the brands but also by other stakeholders in that system. Until a modification was made regarding that prioritization, the boundaries were destined to remain the same.

**Exhibit A:** Original Apparel& Footwear Supply Chain System Chart







System 1

System 2

An increasing common alternative conception of the apparel and footwear supply chain systems involves a network of relationships among diverse stakeholders such as MNCs, contractors, workers, NGOs, and consumers (Arnold et Hartman, 2003: 432-433).

### 5.1. Case Example: Evidence of Moral Imagination at Nike, Inc., leading to Positive Deviancy

United States-based Nike, Inc. provides a valuable example of a MNC that has made significant changes as a result of an exercise of moral imagination at the individual, organizational, and systems levels, resulting in positive deviancy from ethical norms in the footwear and apparel industries.<sup>1</sup> In 1988, Nike suffered a public relations disaster when journalists began to focus their attention on employment law violations in Nike's Southeast Asian factories, including those in Vietnam. Nike has been manufacturing in Vietnam through factory partners since 1995, currently partnering with nine footwear and thirty apparel factories, employing more than 130,000 workers and exporting merchandise totaling over \$782 million. Nike production accounts for 3% of Vietnam's manufactured exports and a much larger percentage of its footwear exports (Nike, 2005). Based in Ho Chi Minh City, Nike's business has a significant impact both on the Vietnamese economy as well as on the footwear and apparel system and environment (Nike is the largest employer in Vietnam).

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#### 5.1.1. Positive Deviancy at Nike

The first time that Nike accepted a level of accountability for the conditions in its contract factories, at the individual or corporate level, was in 1998 when then CEO Philip Knight publicly accepted responsibility on behalf of Nike for many of the issues facing its suppliers (Knight, 1998). This demonstrated an "awareness of the particular" discussed above as necessary for moral imagination to function. At that time, Nike began to set new boundaries for its system, establishing for itself goals and purposes, as well as a prioritization of those objectives with regard to traditional concepts of profit maximization. At that time Nike committed to:

- Increasing 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;
- Adopting 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;
- Funding university **research and open forums** to explore issues related to global manufacturing and responsible business practices such as independent monitoring and air quality standards.
- Expanding worker **education programs**, including middle and high school equivalency courses, for workers in all Nike footwear factories;

<sup>1</sup> We are not suggesting specifically that Nike has or has not fixed all of its problems regarding global labor practices, but rather that it is an important case study of a firm that evidences moral imagination leading to positive deviancy, for purposes of this analysis.

- Increasing support of its current **micro-enterprise loan program** to 1,000 families each in Vietnam, Indonesia, Pakistan and Thailand; expanding its current independent monitoring programs to include non-governmental organizations (NGOs), foundations and educational institutions and making summaries of the findings public;
- **Involving NGOs** in the process of factory monitoring, with summaries released to the public.

These statements represented a significant turn of events for Nike and produced a ripple effect through other apparel brands. 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 programs; a guarantee of living wages and reasonable working hours; and the protection of workers' right to freedom of association (Connor, 2002).

It was critical at this point that Nike create solutions that were viable inside its own organization (e.g., the internal parameters or practicalities that will define, constrain or permit 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. This includes a health management and safety audit program, and a significant global labor practice team that visits factories on an everyday basis, and conducts training and awareness initiatives. In connection with auditing programs, not only has Nike coordinated these activities from inside, but Nike has also 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 factory base. Though many have praised these efforts (Akst, 2001; *Financial Times*, 2000; Jensen, 2000), not all of Nike's critics have been pacified, as is specifically evidenced by scholar Dara O'Rourke's critique of the 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 (O'Rourke, 2000). Nonetheless, one of Nike's most harsh critics, Medea Benjamin of Global Exchange, notes that things are changing for the better and that the firm has made an "astounding turnaround" (*New York Times*, 1999).

### 5.1.2 Moral Imagination at Nike

While the above discussion places Nike's current efforts within the Nike environment that encouraged their development, the positively deviant behavior of Nike concerning its workers is best described by reviewing the actual Nike programs in place at its suppliers. A number of Nike programs exist by which to demonstrate Nike's positive deviation from the norm in this industry, including those involving the implementation of the commitments described above. (Hartman et Wokutch, 2003) For example, the Nike Jobs and Microenterprise Program, conceived in 1997 and established in 1998, was designed to provide support for women in the communities surrounding its suppliers through financial assistance for building small businesses that will ultimately boost their family's economic well-being, as well as contribute to the community's overall development. In addition, since Nike has a global prohibition

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against any at-home work, the microenterprise loan program provides enhanced financial stability without outsourcing Nike manufacturing.

The Nike Cultural Sensitivity Training Program is another example of a pragmatic response to significant management challenges in connection with cultural issues. When Nike's code of conduct was first implemented, there remained a cultural gap between the workers and the managers in many of its Asian and Southeast Asian supplier factories. Nike recognized that there existed an expectation gap as a result of different management styles, a language barrier that prevents free-flowing communication, a power differential, and a lack of awareness regarding rights, combined to result in lower productivity, higher attrition, a possible abridgement of rights, and a consequent low sense of morale in the workplace. Accordingly, in lieu of asking the workers to modify their perceptions and to learn new communication skills, Nike concluded that those in power had the responsibility to learn about those with whom they worked. It implemented an awareness campaign and began with training of the top management staff from Nike footwear supplier sites in Vietnam, Indonesia and China. The cultural training program has now been integrated into Nike's monitoring program called SHAPE ("Safety, Health, Attitude of Management, People Investment, Environment").

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Nike's onsite education program in Vietnam perhaps serves as the most effective example since it has been replicated by other MNCs and trade associations in the field.<sup>2</sup> As such, it is a prime illustration of the value of positive deviancy in motivating industry players to raise the norm overall. 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 we have come to expect in developed countries. 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 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 relationship of contractor-to-employee and by building on promotion practices from the United States and other developed countries, Nike was able exhibit positive deviance regarding its global labor practices.

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 brands to require an education program in its footwear 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 could 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 that they hoped to make, not only in these suppliers, but also in the workers and the

<sup>2</sup> See, e.g., Child education program at Bangladesh Garment Manufacturers Association, <http://www.bgmea.com/social.htm>; Social Accountability International, Social Accountability 8000 (SA 8000) global standard for ethical sourcing; Ethical Trading Initiative.

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countries in which they lived, highlighting the importance of top management commitment to the Nike's philosophy with regard suppliers' contract workers. It was determined that the most effective program would be one which was coordinated in partnership with the Ministry of Education to ensure the Vietnamese equivalent of GED compliance where desired by the students.

In practice, a supplier, in partnership with Nike and the Ministry of Education, work together to establish GED programs by hiring teachers and renting classrooms in local educational facilities near the factories. The programs cover the expenses of each student including books and other supplies and a meal allowance. Nike currently participates in all after hours education program by funding 50% of the cost of the program to 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.

Further evidence of Nike's impact on both organizational as well as system-wide changes is its integration of these and other practices into Nike's training programs, serving as a foundation for long-term relationships and a stimulus for modification of industry-wide norms. The programs therefore meet Nike's strategic objectives in several ways. Dusty Kidd, Nike's Vice President for compliance, explains that the value here is not only as a gesture of Nike's commitment to the work force and supplier's future, but also result in the long-term efficiencies that can be realized by investing in education. Subsequent to the establishment of some of the early programs, Knight in 1998 made the education program a Nike standard, promising that, by the end of 2001, Nike would only order footwear from manufacturers that offer a "Jobs + Education" program to workers. A new boundary was thereby created for this system through this and other programs and, in this way, Nike exhibited positive ethical deviance regarding worker rights.

## **6. The Future of Sweatshops**

In reviewing the case example of Nike, above, one can gain insight into the function and evolution of moral imagination in decision-making at the individual, organizational, and systems levels (Arnold et Hartman, 2003: 431-435). The exercise of moral imagination as demonstrated in this case suggests a diminishing future for sweatshops. In particular, the case of Nike illustrates the importance of moral imagination at the individual or managerial level. The transformation of Nike's global sourcing operations was initially prompted by high-ranking individuals. After being confronted by sustained criticism of the treatment of workers in its offshore contract factories, Knight engaged in a process of retrospective imaginative recreation of past practices. He sought to determine what practices, had they been in place all along, would have precluded criticism of their treatment of contract workers. He then produced a revised set of policies for dealing with contract workers in order to avoid future criticism.

Moreover, the case illustrates the importance of embracing moral imagination at the organizational level. Knight initiated a set of organizational changes intended to institutionalize the revised policies within Nike. Nike 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 recreation of past practices. The future and direction of many firms are predetermined as a result of their lack of such receptivity; Nike has both demonstrated a willingness to envision and actualize the novel, morally justifiable possibilities that its individually empowered managers and other decision-makers have created or imagined.

Finally, the case illustrates the importance of moral imagination at the systems level. Notwithstanding the fact that the system within which this organization operates experienced a market and industry shift in the 1980's and 1990's, Nike chose how precisely to respond to this shift. It recognized and even helped to engineer an expansion of its system 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, Nike re-oriented their concept of accountability to include secondary and sometimes even tertiary stakeholders, such as contractor employees or their families. In this way Nike embraced the idea that it had a responsibility for helping to ensure that the rights of its contract workers were protected.

One or several instances of positive deviance, inspired by a corporate structure that encourages moral imagination, cannot serve to eliminate sweatshops from the global labor marketplace. In addition, some MNCs may claim that smaller revenue streams severely limit their ability to engage in the positive deviance exhibited by the larger or more profitable MNCs such as Nike. This contention, however, is resoundingly similar to that originally offered by Nike from within the original footwear and apparel system, yet Nike was able to deviate and perhaps even to set new norms and expectations within that industry. It is hoped that Nike's transformation may provide positive models for other companies that wish to exercise moral imagination in the service of human rights. As a result, one may hope for a diminishing future for sweatshops globally.

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