Global Firms: Can we hold them Accountable?

But, one might ask, Can't firms shop the globe for the lowest-cost locations where they are least constrained by oppositional groups that might challenge shareholder supremacy? The honest answer to this is yes, at least for those companies whose products and services can be manufactured or performed outside of a local market area. That is, your favorite restaurant has to have a local presence and serve you near home. But if it is part of a chain, some of its supplies are likely to be sourced globally. Firms that can transport their products to their customers from anywhere on the globe have many choices of where to source parts of their products and services. The challenge then becomes how to either work with or control global corporations. Here a little history of Nike might help identify the options for taking on this task—and their limits.

Learning from Nike

Nike was one of the first multinational firms to figure out that it could manufacture most or all of its products sold in the United States in other countries. As far back as the 1960s, when Nike was founded, it pioneered a business model in which it designed and marketed its athletic gear and apparel in the United States but manufactured them in lower-cost countries. Its first stop in the search for low-cost production havens was Japan. That lasted about a decade before it realized that Korea was capable of producing high-quality shoes and apparel at a much lower cost. Within a decade, Nike had replaced Korea with a variety of lower-cost Asian countries such as Indonesia, Vietnam, and China.

This model worked extremely well for Nike. Its excellent marketing strategies (including signing up icons such as Michael Jordan for its commercials) and innovative products soared to the top of the sales charts in the industry and in returns to shareholders. By the early 1990s, however, a new problem arose. Some of its suppliers in the developing countries where Nike contracted out the manufacturing process began attracting increased media exposure and criticism for violating safety, health, and child labor standards. Nike's first response was "This is not our fault or our problem; these are contractors, not Nike employees." That response did not work. By the mid-1990s, Nike executives saw that as the media accounts increased, the company's stock price decreased. CEO Phil Knight famously said at one point that he was tired of the fact that "Nike's products have become synonymous with slave wages, forced overtime, and arbitrary abuse!"[1]

Nike's decision to acknowledge its responsibility for working conditions throughout its supply chain sparked a major effort within the organization. Among other things, Nike:

[1] Quoted in Richard Locke, *The Promise and Limits of Private Power* (New York: Cambridge University Press, 2013), 49. The material on Nike in this chapter draws directly on the research findings reported in this book.

1. Created a Corporate Social Responsibility unit (CSR) and charged it with improving conditions in its supply chain and working externally with the media, academia, and customers to improve its image.

2. Established a code of conduct—standards that it would expect all its suppliers to meet on issues that included safety and health, limits on hours worked, use of toxic substances, and compliance with environmental regulations. Nike also made it clear that it expected its suppliers to stop hiring children.

3. Sent auditors, either staff from Nike's CSR unit or consultants Nike hired to audit selected suppliers to measure compliance with its Code of Conduct.

4. Provided management advice to contractors on how to change their production and workplace processes so they could improve efficiency, quality, and employment practices.

5. Began working with various NGOs that were active in publicizing labor standards violations in supplier firms and with NGOs that provided independent auditing services on the issue of labor standards.

6. Shared its auditing data with selective and highly respected academics who the company trusted but who also retained their independence and commitment to publishing the results of their analysis.

7. Created a website (https://web.archive.org/web/20141018001852/http://nikeinc.com/pages/responsibility) that made public the locations of its supplier factories, the results of its audits, and analysis of the strengths and limitations of its monitoring and control efforts.

8. Met (at MIT and later at Stanford) with academics, other multinational firms, NGOs, and International Labour Organization officials in multi-stakeholder forums aimed at promoting "Just Supply Chain" practices.

Nike was not alone in taking these actions. Other apparel firms, consumer electronics firms, and food and beverage companies came to the same conclusion: They had to respond to increased pressures from NGOs and consumers by taking greater responsibility for the labor and environmental practices of their global suppliers. This opened up a new avenue of research and debate among academics, labor representatives, and NGO activists working on these issues: Were these so-called soft laws, or private regulatory efforts, successful in improving labor conditions in supplier firms or were they mere public relations facades?

A team of MIT researchers led by Richard Locke has done the most extensive and widely acclaimed study of this question. He was the first trusted yet independent academic that Nike shared data with and worked with to learn from its audit experiences. Rick not only organized an army of graduate students to go with him into the field to see first-hand how the codes and all other aspects of Nike's efforts were working, he and his students also mined Nike's data to determine what factors accounted for the wide variations in auditing results they observed both in the numbers and in their plant visits. He was then able to get other companies in the apparel industry and later in the electronics industry to also share their data with him. Over the course of a decade of research he concluded:

1. The initial pressure from NGOs was essential to initiating the chain of responses on the part of companies, international agencies, consumers, and members of the research community to this problem.

2. The Codes of Conduct and the audits had a positive effect on improving conditions, but reached a plateau of somewhere between 50 and 60 percent on a scale where 100 percent would measure complete compliance with all the standards included in the codes. The standard violated most frequently: limits on hours of work and overtime. The standard most ignored or misreported: freedom of association. His conclusion from these data was that something was needed beyond compliance.

3. Those suppliers that received management consulting help on a consistent basis scored better on the audit measures, as did suppliers located in countries that had stronger reputations for a rule of law—that is, those that had less corrupt governments, more human rights laws, and sound commercial laws.

Why, might you ask, are hours of work and overtime standards so hard to enforce? It is simple. The corporate staffers responsible for predicting which new items or styles of dress will take off and be hot items in a given selling season are not very good at their trade. They often can't anticipate fluctuations in demand accurately. So when they see signs that they have underestimated demand for something that takes off, they call their production colleagues and insist on getting more of the hot items as soon as possible. The pressures to deliver quickly then reverberate down through the supply chain to the contractors who are told, "Deliver what's needed now or you will lose this business and any future orders." The contractor then turns to his employees and says, "Deliver at all costs asap." The result: the contractor and his workers feel tremendous pressures to ignore the limits on hours and overtime that are written into the codes of conduct. The lesson: Marketing and purchasing executives trump the CSR staff when it comes to questions of how to realize the profits to be made by meeting fluctuating and only partially predictable changes in consumer demand and consumer tastes. (Yes, that's us.)

A decade of research on these issues has led Richard Locke and most others who study these issues to conclude that (1) private regulatory efforts such as those pioneered by Nike and its peers are necessary but not sufficient to constitute a systemic strategy for monitoring and upgrading employment conditions in global supply chains; (2) assistance and technical support for management, strong labor and employment laws that are enforced effectively, and ongoing workplace representation institutions, whether they come from NGOs or labor organizations, are complementary and necessary elements of the system. We need to promote the use of all these elements if we are to continue to make progress in improving labor conditions in global supply chains.

The lesson: Global corporations need to be held accountable by consumers, governments, labor organizations, international organizations, and NGOs to meet acceptable labor, safety, and *environmental standards across their full supply and distribution chains. This requires a systemic approach that involves enforcing corporate- or industry-wide codes of conduct, effectively monitoring and enforcing systems, supporting efforts to build viable rules of law and effective enforcement regimes in host countries, and creating workplace institutions that promote effective management and give workers an ongoing role in the task of monitoring and upgrading employment practices.*

But wait: Haven't we left an element out of the system? It is us—consumers. The evidence on whether we consumers are willing to help enforce global labor standards is mixed. Individually, those of us with sufficient discretionary income are willing to pay a bit more for some items if we are told they come from some certified source (think about coffee, chocolate, or other foods sold in upscale food stores such as Trader Joe's or Whole Foods). But overall, marketers do not perceive that the purchasing decisions of individual consumers send a signal that companies need to pay much attention to these issues.

However, don't tell that to those who are trying to sell athletic gear and labeled T-shirts and sweatshirts to big university clients where well-organized groups of United Students Against Sweatshops are active. Universities as diverse as Wisconsin, Cornell, and Brown have mounted successful boycotts against certain brands and insisted that those who produce their university labeled apparel demonstrate that they are complying with acceptable labor standards.

The lesson here is obvious: While we as individual consumers need to do our part, the real power to change things comes when we, like these college student groups, band together in strategic ways that can make a difference. The Students Against Sweatshop organizations that are active in big-market university athletic programs have shown the way.