
The Reasons Companies Use Sweatshops, And The Impacts Of That For Business And For Society

Abstract

A 'sweatshop' refers to a "workplace in which workers are employed for long hours at low wages and under unhealthy – and often illegal – conditions" (Fan, Q 2018). The core motive for companies in utilising sweatshops in their production line is to reduce costs and therefore maximise profits. Minimum wage laws in developed countries such as Australia and the U.S., force major organisations to pay their employees a specified wage in correlation with legislation. Hence, Multinational Corporations (MNC's) such as Nike outsource production to developing countries where workers are not protected by minimum wage policies. For businesses, this presents an opportunity for financial growth as inputs can be minimised and outputs maximised, increasing efficiency. However, this may also have negative impacts for the company in the form of a poor reputation for social responsibility, which will in turn reduce competitiveness. Sweatshops also incur additional impacts on society, particularly those subjected to sweatshops. The workers in such societies receive minimal wages and are force to work in unsafe conditions.

Presentation of views on the issue taken from a review of the literature

Organizational leadership, ethics and the challenges of marketing fair and ethical trade

The notion that a more collective approach to fair and ethical trade is essential for transformation is extensively explored in 'Organizational leadership, ethics and the challenges of marketing fair and ethical trade' (Low, w Davenport, E 2009). The traditional boycotting of commodities associated with the use of sweat shops in their line of production as a tool for "shopping for a better world" (Low, w Davenport, E 2009, pp.99), is an individualistic approach that provides minimal contribution to transformative change. To facilitate such transformative change, collectivist approaches may need to be utilised through mission-driven organisations as a catalyst for promoting ethical and fair trade, encompassed under the conception of "ethical leadership". Such approaches might include the use of fair trade sources for outsourcing production and marketing this.

Ethical dilemmas in fair and ethical trade

The Fair- trade movement has aimed to mainstream food products to supermarkets that have been certified and branded. The goal, therefore, is to convey to contemporary society that "...people in prosperous countries should factor global social justice into their buying decisions" (Low, w Davenport, E 2009, pp.99). The intended impact for society in developing countries is a push towards equality and a raised standard of living. For the businesses in question, outsourcing from fair trade labelled sources may incur extra costs. As a result, a new ethical dilemma is presented whereby large organisations only outsource a small portion to fair trade

sources. However, outsourcing to fair trade certified companies can in fact be marketed to the public in a positive light.

Marketing Fair Trade products

The use of Fair trade approved sources for outsourcing production can incur positive impacts for businesses. Fair trade certified production means that the workers involved with producing these commodities were treated in correlation with fair trade standards, which can in turn place the company in a favourable light to its consumers. This ultimately increases competitiveness of the firm as consumers are more willing to purchase products from a socially responsible business.

Public pressure against sweat shops as perceived by top management of apparel and footwear companies

Furthermore, 'Public pressure against sweat shops as perceived by top management of apparel and footwear companies' (Park-Poaps, H 2010) delves into the ideals of MNC's and the influences on company use of sweatshops. Park-Poaps H (2010) found through an array of surveys portrayed "...statistically significant influence of firm size, tenure, and firm ownership type on perceived public pressure for fair labour practices" (pp.300). Public pressure for labour practises were shown to be more significant than gender, age, education, business type and percentage of foreign sourced merchandise. This serves to highlight the influential impact of public pressure on business actions.

Stakeholder management and social responsiveness

The main underlying ideological theory underpinning the concept of corporate social responsibility is the notion that a business must adhere to and "...satisfy the values and demands of the society in which it operates" (Park-Poaps, H 2010, pp.302). Hence, the concept of stakeholders presents vast importance to businesses because they incorporate consumers, government and suppliers (as the primary stakeholders). Pressures from these groups are influential to the business in question as the company strives to meet their demands and interests.

Top-management and corporate social responsibility

Top management has been found to influence ethical culture and plays a significant role in shaping corporate actions. This "...shapes the nature and scope of social responsibility for the firm" (Park-Poaps, H 2010, pp.303). Therefore, top management can directly impact both businesses and society through the exploitation of sweatshops as ethical understandings and procedures are compromised.

Introduction

The last few decades have seen Multinational corporations seek out developing countries to be used as a source of cheap labour. It is often alleged that such companies exploit its workers from these developing countries, having them work in unsafe and unhealthy conditions that

characterise 'sweatshops' for poor wages. One of the most prominent and controversial of these organisations is Nike. Nike is a Multinational corporation that is currently the dominant figure in the athletic apparel industry.

Nike is an effective example of an MNC that illustrates the actions of businesses in international relations over the past few decades. Nike admits that "We have also faced criticism for sourcing from contract factories – often called "sweatshops" – with low wages and poor working conditions" (LEARNING FROM OUR PAST n.d.). This in turn serves to highlight the actions of businesses such as Nike when enforcing unfair wages, despite its "annual sales of \$US28 billion" (Lutz 2015).

Furthermore, government regulations provide little to no protection for workers in developing countries. Minimal laws are put in place that prevent individuals of developing societies from being subjected to such working conditions. This in turn establishes an easy avenue for Nike to exploit sweatshops for production purposes as there are no policies and regulations that prohibit such actions.

Societies in developing countries have no choice except to continue working in such poor working conditions as they don't possess the necessary power to initiate change. However, the actions of societies in developed countries, such as boycotting Nike products, can be extremely influential on the imposition of sweatshops. Such actions have already proved influential in Nike's activities. These impacts can be seen in through Tohiro, who "has worked at a Nike contract factory for 18 years. When she first started, she learned how to cut and sew. Today, she helps make a new type of shoe every six months. Tohiro's job helps provide for the future of her two children, including paying for their education" (LEARNING FROM OUR PAST n.d.).

Aims

The main aim of this case study is to uncover the reasons as to why companies such as Nike use sweatshops in their production process and the implications this has for business and society.

Method

The research was carried out through the examination of both primary and secondary sources which were collaborated and recorded. The primary sources revolved around information provided directly from Nike in the form of online websites and statements. To build on this information, newspaper articles and written accounts were scrutinised to erect further supporting evidence and information.

Results

The results answer the aim in that "Nike is profiting from the cheap labour cost of production" (UK Essays 2015). It was found that Nike had been involved with the use of sweat shops over past decades. However, Nike has renewed its reputation and ceased the use of sweatshops over the last 5-10 years.

Discussion of the case comprising a critical review of the case

from your perspective

Business

Nike's past dealings with sweatshops as one of the dominating athletic apparel companies in the world has seen a large percentage of production sources implementing sweatshop environments. Nike's success is largely facilitated by the cheap labour sought out in developing countries such as Indonesia. This reduction in cost assists with an increase in efficiency, accelerating its growth and is therefore the reason for companies use sweatshops. Besides the obvious impact of economic growth, the use of sweatshops can impact businesses negatively through tarnished reputations of its brand. To build on this, Nike's use of sweatshops also encourages other businesses to implement similar outsourcing strategies in order to maintain competitiveness.

There are other principles that may be applied to maintain growth without employing socially irresponsible methods. "Socially responsible Business can lead to economic development based on the principle of sustainability" (Fan, Q 2018).

Government

A lack of government intervention is another reason presented in the case study as to why businesses use sweatshops. Minimal government regulations simply make it easy for large corporations such as Nike to exploit cheap labour. Without government intervention, multinational corporations such as Nike can exploit the communities in developing countries who are desperate for income to support their families. Nike attempts to support itself in the case study by referring to Tohiro as an individual from Indonesia who can provide for her family because of her job at Nike. However, this does not state how much she earns or whether her wages are fair.

The sustainability of communities is reliant on the four principles of fair trade. These include: direct trade with producers, long trading relationship so as to ensure security, determination of a floor price that equals (the cost of production + the cost of living + the cost of complying with fair trade standards) and payment of a social premium to the organisation of producers.

Society

Society in developed countries contribute largely to the reason companies use sweatshops. This is Nike's target market and exists in an extremely competitive market. Therefore, Nike's use of sweatshops stems from the desire to increase competitiveness and adhere to the demands of modern developed societies. The influence that developed societies have over businesses however, also contribute to the reduction in use of sweatshops. This is because socially and ethically irresponsible businesses are perceived negatively by the public. Therefore, businesses are encouraged to be more socially and ethically responsible to satisfy the wants and needs of its target market.

Society in developing countries are devastatingly impacted by its interactions with government and business. Lack of government regulation and legislation in conjunction with exploitation by Nike force communities to work from an early age in poor working conditions and for low wages,

dramatically reducing quality of life. This strips individual of any possibility to receive an education and advance their lives as their sole focus is survival. A social premium should be enforced

On the other hand, this does present some arguable notions about Nike's outsourcing. Nike strives to convey how international business interactions have supplied developing countries with the provision of jobs necessary for survival. Without the work supplied by Nike, many families would not be able to survive. "Lea has dedicated her career to understanding and improving working conditions, particularly for women. She joined Nike seven years ago, recognizing the potential Nike had to revolutionize footwear and apparel manufacturing" (LEARNING FROM OUR PAST n.d.).

Conclusion

In summation, the main drive for companies to utilise sweatshops for production purposes is to reduce costs and maximise profits. Minimum wage laws in developed countries such as Australia, force major organisations to pay their employees a specified wage in correlation with legislation. Hence, Multinational Corporations (MNC's) such as Nike outsource production to developing countries where workers are not protected by minimum wage policies. For businesses, this presents an opportunity for financial growth as inputs can be minimised and outputs maximised, increasing efficiency. However, this may also have negative impacts for the company in the form of a poor reputation for social responsibility, which will in turn reduce competitiveness. Sweatshops also incur additional impacts on society, particularly those subjected to sweatshops. The workers in such societies receive minimal wages and are forced to work in unsafe conditions.

It may be proposed that Multinational corporations must ensure that 100% of its products are certified Fair trade approved sources of production. Such regulations should be enforced in all developed countries that sell outsourced products from any industry. This can be enforced through heavy fines which may be applicable to companies who do not produce their commodities according to fair trade. The ultimate goal is to increase the standard of living of the global society and increase equality.

In addition, developing countries may also devise legislations that work towards regulating misconduct of multinational corporation. This should in turn protect the workers from being exploited and improve quality of life.

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