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## **Antecedents and determinants of sweatshop establishments: If the shoe fits...**

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### **Abstract** (Article Summary)

The authors present a framework for researching the causes of predatory behaviors by the managers (ie, knowingly supporting sweatshops) of multinational corporations. Nike is the focus of this paper.

### **Full Text** (7056 words)

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#### **[Headnote]**

Abstract

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In 1938, it was thought that the enactment of the Fair Labor Standards Act would consign sweatshops in the US to near extinction. However, recurring abusive labor practices by multinational corporations (MNCs) have renewed public outrage (Khoury, 1998; Moure-Eraso, Wilcox, Punnett, McDonald and Levenstein, 1997). Even when corporations have taken steps to monitor conditions in its contractors' factories, negative publicity continues to impact the corporation's reputation.

#### **[Headnote]**

In this paper, the authors present a framework for researching the causes of predatory behaviors by the managers (i.e., knowingly supporting sweatshops) of MNCs. For the purposes of this paper, we have elected to use the MNC Nike - designer and marketer of sport and fitness products - as our focus. To that end, we: (1) define what sweatshops are, and demonstrate their current importance; and, (2) provide a framework of antecedent and determinant variables (legal context; home and host country and culture; industry; and corporate structure and strategy) in an attempt to explain cases of corporate predatory behavior.

Some significant benefits can be derived from the use and empirical testing of this model. First, this framework gives future researchers a starting point for the systematic investigation of sweatshop occurrences. An empirical, historical study analyzing published instances of sweatshop occurrences could establish a baseline of the prevalence and incidence of sweatshops. Second, interested stakeholders can use this framework to identify firms and cultures, which should be targeted for examination. Third, we believe that this framework can identify countries with cultures where progress may be made toward the enactment of legislation affording protections.

shop Establishments: If the Shoe Fits...

Adorno and Horkheimer (1933/1944) and Adorno (1991) use the marketing of films and the strategies employed by the motion picture industry to describe the workings of what they called the 'culture industry.' They describe an industry, which uses the tools of propagandists to convince consumers of the benefits to be derived from buying products that have been produced according to a set formula. Their reasoning can also be applied to the techniques used by some of the multinational corporations (MNCs) producing consumer goods. The marketing of these products involves the manipulation of the images of the product, and the benefits derived from its use, and of the company marketing the product. This manipulation occurs without regard for the reality of how the product is actually brought to market. Unfortunately, this process often involves the systematic abuse and exploitation of production workers. One such case where this exists is with the case of the US apparel industry; it is quite enlightening.

Historically, factory work in the US was dangerous and unregulated. While more contemporary examples exist, e.g., the 1991 North Carolina poultry plant fire, one of the better-known examples of the abuses occurring under the prevailing "laissez-faire" attitude occurred in March 1911, when one hundred and forty-six women and children died in the Triangle Shirtwaist Company fire. In spite of the public reaction to this tragedy (see <http://www.ilr.cornell.edu/trianglefire/>), it was not until 1938 that the Fair Labor Standards Act, made sweatshop conditions illegal in the US (Khoury, 1998; Mandel-Campbell, & Alden, 2001). Over time, MNCs have negated the intent of labor laws and regulations, by locating their suppliers or operations in Third World countries. This allows them to decrease labor costs and increase competitiveness and profitability. However, these improvements are derived at the expense of workers in both host and home countries.

During the last decade, abuses of labor by MNCs have received public attention (Khoury, 1998; Moure-Eraso, Wilcox, Punnett, McDonald, & Levenstein, 1997). Examples include:

Honduran children producing the Kathie Lee Gifford clothing line; garment workers in the Northern Mariana Islands working as indentured laborers, seven days a week, for low pay; and 50,000 workers in Saipan suing various retailers (e.g., J.C. Penney's, J. Crew, Nordstrom's, and Brooks Brothers) in a Federal class action suit (Houghteling, 1999; Miller & Ferriolo, 2000).

Perhaps the best-known ongoing example of labor abuse is the instance of the Nike Corporation and its contractors, on which the remainder of this paper will be focused.

Nike designs and markets athletically oriented products, but it subcontracts its' production. Nike's revenues for fiscal year 2000 were about \$9 billion (US) (Nike Annual Report, 2000). About 500,000 people worldwide produce Nike's products in more than thirty-five countries. It was not until 1988 that Nike's sweatshop associations came to light, when newspaper reports surfaced about poor working conditions existing under the employ of a South Korean contractor (Clean Clothes Campaign, 2001). Since then, Nike has been portrayed as a global corporate predator, improving their profits, in part, from the low wages paid to the laborers making their products. Countering the negative publicity, Nike's codes of conduct were revised in 1997 to address some issues of sweatshop abuse. Additionally, Nike signed the Clinton Administration's Apparel Industry Partnership Code of Conduct.

While Nike has improved the monitoring of conditions in its contractor's factories, further incidents have hurt their reputation. First, there is the alleged mistreatment of strikers at the Kukdong factory in Atlixco, Mexico (Dougherty, 2001; Mandel-Campbell and Alden, 2001). Workers claimed that they were unjustly fired after a one-day strike and for attempting to unionize. This factory was supplying sweatshirts to fourteen US universities. Under pressure from Nike and several US universities, the strike leaders were reinstated. Then, Nike contracted with Verite, recently approved by the FLA to audit conditions at the factory. Second, on February 22, 2001

the Global Alliance (public, private and not-for-profit organizations supporting the improvement of opportunities for factory workers) released a comprehensive report regarding working conditions at nine of Nike's Indonesian contractors' factories, which employ 54,000 people (Fick, 2001; Luh, 2001). Although the report applauded Nike's efforts at transparency, it contained findings regarding harassment, abuse, inadequate salaries, and other troubling workplace issues. Contrary to these efforts, Nike refuses to release the locations of all of their contract factories (Lee and Bernstein, 2000). This is consistent with the depiction of 'culture industry' firms. The carefully constructed positive image of Nike as a socially concerned company-e.g. supporting women's athletics, and hence, equal rights-is directed toward replacing the negatively perceived reality of Nike as a company which supports sweatshops as suppliers. There is a disunity between what is presented for perception and the actual behaviors taking place (Adorno, 1991).

The authors' goal is to present a framework for research on the causes of corporate predatory behavior, specifically the use of sweatshops, by MNCs. Understanding the causes of corporate predatory behavior, specifically the use of sweatshops, is of great interest to academics, the public, and MNCs, because of the social costs associated with such behavior. Significant economic harms are done to the workers in the host countries, who are receiving substandard wages. Eventually, as home MNCs derive an unfair, unethical competitive advantage from these low wages, pressure can be exerted on home country nationals to lower their wages or lose jobs to low wage countries. This pattern has been seen time and again, and has been successful in extracting wage concessions from workers (Freeman & Medoff, 1984; Glassman, Davidson, & Cummings, 1988). The result of this is that it creates a general effect of suppressing wages, thereby lowering the overall standard of living (Freeman & Medoff, 1984).

In the following sections we (1) define the concept of a sweatshop; (2) illustrate why their prevalence is worth examining; and (3) provide antecedent and determinant variables (legal context; home and host country; industry; and corporate structure and strategy) which may predict and explain the occurrence of MNC managers' predatory behaviors.

### Sweatshops Today

Definition. According to Hearts and Minds (2001), sweatshops are described as having "unsafe and unhealthy working conditions... including locked exits and poor ventilation.. low... or no wages, long hours or work with no overtime pay, and [management] retaliation against workers who stand up for their rights." The US General Accounting Office's definition adds violations of child labor, and health or safety laws. These criteria refer to a clear pattern of labor or social abuses.

For a number of reasons, sweatshop issues have become more important to major global corporations. First, over the last twenty years there has been increased student activism at major universities demanding increased transparency and a halt to sweatshop abuses. For example, the United Students Against Sweatshops (USAS), have coordinated the efforts of student activists at 200 university campuses. The USAS has forced Nike to disclose the locations of fortytwo plants that make college apparel. Nike was also forced to make public, results of the audits of labor practices at 600 manufacturing locations (United Students, 2001; Houghteling, 1999; Bernstein, 1999). The recognition of the development of this subculture has led to changes in marketing strategies by Nike and other MNCs. The social labels accorded by non-governmental organizations (NGOs) have become major marketing tools for brand name enhancement, e.g., "dolphin-free tuna." Clearly firms are aware of the beneficial economic effects of appealing to a buyer's social conscience. This further illustrates the readiness of offending firms to make use of the image of social responsibility to further their own profit goals.

Second, beyond the student organizations, broad-based social coalitions have formed, to focus public attention on sweatshop abuses of MNCs. One example is the Netherlands-based Clean

Clothes Campaign, which is a broad-based coalition of unions, consumer organizations, solidarity groups, and world shops in nine European countries (Clean Clothes, 2001). Cooperating shops are given a window sticker signifying that the clothes sold within were manufactured under acceptable working conditions. Clearly, the consumers patronizing these establishments are exposed to the issue of labor abuses, at least, when they are shopping for needed goods.

Third, there has been increased international pressure to conform to acceptable codes of conduct, as promulgated by a number of domestic and international organizations. The OECD (OECD, 2001), ILO (ILO, 2000), and the Japanese Federation of Economic Organizations (Japanese Federation, 1996), have adopted guidelines covering most of the major abuses of sweatshop type operations. In April 1997, the Apparel Industry Partnership (created by the Clinton Administration includes:

Nike, Liz Claiborne, and Patagonia) publicized its code of conduct (USDL Charter, 1998). As a result, many multinationals, including Nike, have espoused codes of conduct requiring contractors to fix harsh or abusive worker conditions (Bernstein and Malkin, 2000; Inside Track, 2000). Recently, Polo-Ralph Lauren, Donna Karan International, and Chadwick's of Boston, have pledged to begin independent monitoring of their factories (Houghteling, 1999).

However, in spite of these inhibitory pressures, the use of sweatshops persists. So, what factors facilitate a firm's using sweatshops, even with the current popular concern and media publicity regarding this problem? We argue that, given the current legal context, the country and culture (of home and host firms), industry (life-cycle, unionization, global), and corporate (organization, size and strategy) factors are key determinants of sweatshop establishments.

#### Framework

The hypothesized model of sweatshop determinants discussed here is composed of those causal and predictive main effects that the authors believe will be useful to consider if

#### Figure 1

one is trying to analyze the relationships between these variables and the decision to employ sweatshops. The legal environment is considered highly important. In the short-run, the likelihood of it changing is low; thus, it is included in our model as an antecedent condition. As it encompasses and affects the other independent variables, it is discussed first. The other independent variables, country, industry and company, are represented in a Venn diagram, as intersecting circles. Each is discussed in turn. The intersecting circles suggest that as each independent variable more strongly supports sweatshop adoption in a particular instance, the more likely it is that the host firm will employ sweatshops. No single variable is expected to be sufficient to induce sweatshop adoption.

#### Legal Environment

In the absence of legal constraints, abusive host companies will subordinate the interests of their workers to the interests of their stockholders (Schaffer and Agusti, 1998) and managers (Miceli, 1996). This section is an overview of the legal environment within which sweatshops exist. It includes the rules and regulations of host countries, international organizations, home countries, and MNCs.

#### Host Countries

Sweatshop establishments are hosted in both industrial and developing countries because of fierce competition for factory production jobs. Individual countries that need factory jobs for their citizens will not enact labor laws that would disadvantage their country versus other countries having less regulation and lower concomitant labor costs (August, 2000). Specifically, host countries are not likely to enact pro-worker laws that regulate wages, hours, health and safety, physical and mental coercion, child labor, forced labor, and union suppression (Varley, 1998). These are the types of laws needed to suppress sweatshop formation. (Ayoub, 1999). Accordingly, sweatshops should be more likely to occur in countries without a pro-worker legal environment.

Even if host countries have laws that prohibit labor abuses, adequate enforcement remains a widespread problem for several reasons. Labor inspectorates are underfunded and understaffed. Training is nonexistent or inadequate. Labor inspectors are poorly paid and easy targets for corruption. Moreover, honest inspectors face public indifference, industry hostility, and popular non-cooperation. Inadequate fines and penalties for breach of the labor laws also undermine effectiveness (Department of Labor, 1998). We would expect countries with pervasive poverty to have ineffective labor inspectorates, thus, encouraging sweatshops to be established.

Examples of host countries' lack of legal protections abound. In Mexico, it is illegal to hire children under 18, who make up half of the population. Despite the law, between 5-10 million children are illegally employed because of a porous regulatory system. In Guanajuato, for example, five child labor inspectors oversee 22,000 businesses and make only 100 total inspections a month (Schaffer and Agusti, 1998). Consequently, we would expect the lack of inspectors and resources to encourage. However, the lack of legal enforcement is not the only problem. The best long-term solution for host countries is macroeconomic development and national education policy (Department of Labor, 2000). In the short term, however, sweatshop conditions continue because of the competition of poor host countries for manufacturing jobs. International legal protections, applicable to all host countries, would seem to be the solution.

#### International Organizations

The International Labor Organization (ILO) (a United Nations agency), should provide such protections. The ILO's core labor conventions, and the Declaration on Fundamental Principles and Rights at Work, deal with many sweatshop issues. Unfortunately, for sweatshop workers, these ILO principles have not been put into practice. Few member countries have ratified all of the core conventions (Varley, 1998). Cumbersome enforcement procedures overtax developing countries, and monitoring countries' practices are inadequate (Cooney, 1999). Even if a country is noncompliant, the ILO imposes no sanctions. The ILO's Declaration is voluntary in nature, and it has no sanctions (Hepple, 1999). Failure to have adopted the ILO Principles should encourage the presence of sweatshops.

Because of this, there have been attempts to write core labor standards into the World Trade Organization's (WTO's) multilateral trade framework, where trade sanctions could be imposed. Corporate interests and free trade advocates resisted; developing countries even resisted such attempts more strenuously. Developing countries believe that linking core labor standards with trade sanctions gives developed countries an opportunity to inhibit the export of developing countries' products (Schaffer and Agusti 1998; Varley, 1998). Some would argue that the GATT already permits such sanctions under Article XX "public morals" language (Howse, 1999). Even if that is the case, the political and practical obstacles to such sanctions are tremendous. For example, consider the political and practical problems of meaningful worldwide wage minimums in a world of nation-states at different stages of development and rates of monetary exchange (Drummonds, 1999).

#### Home Countries and MNCs

In the absence of host country and international legal protections, either the home countries or the MNCs themselves might offer protections. Unilateral attempts by a home country to expand its own labor laws to other countries would likely violate current international trade laws and impose on the sovereignty of other nations (Schaffer and Agusti, 1998; Ayoub, 1999). Because of that realization, the current trend among many nations, including the US, is to no longer link trade with social problems (Varley, 1998). This trend increases the likelihood of sweatshop formation, across the board.

Home countries are, however, permitted to regulate their own MNCs that outsource production to host countries in order to reduce capital risk, production costs, and cycle time and increase flexibility, specialization, and capacity (Varley, 1998). However, US companies almost never directly engage in dubious employment practices. Accordingly, home countries find it difficult to regulate their MNCs, thus increasing the likelihood of indirect utilization of sweatshops.

As a result many home countries have not regulated their MNCs, but they have encouraged MNCs to adopt codes of conduct. If such codes become further established, the host countries could pass laws requiring that they be followed in a manner similar to when the US followed the Sullivan Principles (Varley, 1998). The Sullivan Principles were fairly successful because of public concern about apartheid, a credible and influential religious leader (the Reverend Leon H. Sullivan; See <http://tigger.stthomas.edu/mcc/SullivanPrinciples.htm>), a reputable monitoring and rating firm, public dissemination of ratings, and company participation in the development of the program (Varley, 1998). Any government-encouraged, MNC implemented code of conduct, such as the Clinton Model Business Principles or the Apparel Industry Partnership, would need to follow similar guidance (Department of Labor, 1996).

This is only one of the weaknesses of codes of conduct. Fewer than 10% of the USbased MNCs have even adopted codes of conduct (Ayoub, 1999). Most codes do not support any concerns of labor that would hurt MNC's profits. For example, of 121 codes of conduct collected by the Investor Responsibility Research Center, only twelve discuss the right to organize and bargain collectively or the right to overtime pay and bonuses (Varley, 1998). There are other problems with codes of conduct being able to ameliorate sweatshop establishments. Codes often require that suppliers follow the laws of the host country, which usually are not adequate. They sometimes require termination of the supplier relationship, which harms sweatshop workers, having nowhere else to work. Codes do not directly impact a host country's domestic industries, only those of the exporting industries (Varley, 1998).

Antecedent Legal Environment:

Summary

The current legal environment insufficiently deters sweatshop establishments. The prospects for "hard law" labor regulation at the host country or the international level run into serious political and economic obstacles. The "soft law" regulation of MNCs responding to market forces, along with home country influence, lacks adequate enforcement. Perhaps a blend of soft law concepts with hard law home country regulations would help reduce sweatshop establishments (Van Wezel Stone, 1999).

Country

Wage Differentials

Using sweatshops requires a host country with a pool of fairly unskilled low-wage workers. Generally these are developing countries (Henderson 1996) where sweatshop wages often can

be much better than those of average non-skilled or semiskilled workers. However, sweatshops can also be found in countries with concentrated, isolated, immigrant populations (e.g. London, New York, Miami, Los Angeles), or where strong migration from agrarian to city settings (e.g. Cuba) provides workers who have lower skills and the incentive to accept much lower wages than average workers. Leontiades (1985) suggests that firms use financial criteria and rationally bounded decision rules to choose their plant locations; of these, he lists labor costs as one of many components. This means that as long as significant wage differentials exist between or within countries, firms can consider locating their facilities in areas with low wage rates relative to their home. While this is not sufficient to induce the establishment of sweatshops, it strongly motivates firms to locate in low wage countries. Like the products of Adorno's (1991) 'culture industry, he links branded products with high marketing costs (image manipulation) and a low cost operating strategy (set formula) as influencing outcomes of location strategies.

### Labor Unions

If the host country has strong activist employee-oriented unions, these will strongly limit the ability of sweatshop managers to impose inhuman conditions. The Los Angeles American Jewish Congress' report on the apparel industry (Report, 1999) cited the weakness of organized labor as one of the causes of implementation of sweatshops. This is easy to understand for employee-oriented unions; whether the union structure is corporatist or not may have a minimal effect in reinforcing the given but already inadequate legal context. Khoury (1998) reports that US and international labor union activists actively monitor sweatshops and have been instrumental in spotlighting the poor performance of companies, such as Wal-Mart, Guess, Nike and Disney. Without the strong advocacy of labor unions and with currently inadequate legal protections, there are few barriers to sweatshop operations.

### Culture

In his seminal cross-cultural study, Hofstede (1980, 1984) introduced four dimensions: power distance, uncertainty avoidance, individualism, and masculinity. Each of these will be defined and discussed in terms of how they facilitate the establishment of sweatshops.

**Power distance.** Hofstede defined power distance as, "a measure of the interpersonal power or influence between B[oss] and S[ubordinate] as perceived by the least powerful of the two (1980, 1984: 71)." Research (Earley, 1999; Morgan, 1997) indicates that in high power distance societies, people are more likely to accept this inequality as normal. Thus, both B's and S's will accept that it is appropriate for the S to do the B's bidding. Accordingly, sweatshops should be more likely to occur in high power distance societies, or in subcultures where high power distance exists.

**Uncertainty avoidance.** Hofstede described uncertainty avoidance as being, "partly a matter of personality, partly a matter of culture (1980, 1984: 118)." He described this tendency as, "the tolerance for uncertainty (ambiguity) which can be found in individuals and which leads some individuals in the same situation to perceive a greater need for action for overcoming the uncertainty than others (1980, 1984: 118)." Research (citations) indicates that in high uncertainty avoidance societies, people will be less tolerant of uncertainty related stress (Harrison, McKinnon, Wu, and Chow, 2000). This means that S's are more likely to minimize the stress associated with job search or unemployment, even if changing jobs would improve their situation. B's will act to maximize production to increase their income, which would reduce their uncertainty. In turn, this would strengthen their ties to their buyer as being a valuable supplier (Morgan, 1997). Accordingly, sweatshops should be more likely to occur in high uncertainty avoidance societies, or in subcultures where high uncertainty avoidance exists.

**Individualism** Hofstede said that individualism "describes the relationship between the individual

and the collectivity which prevails in a given society (1980, 1984:148)." He went on to discuss the propensity for persons to act in either a self-directed or others-directed manner. This means that individuals' behaviors are directed either toward achieving goals for themselves, or as members of the larger group. This means that in a low individualism (collectivist) society, S's are more likely to maintain their ties to their work group of similar persons (Harrison, et al., 2000), even if changing jobs would improve their situation. B's will be able to take advantage of this tendency, thus increasing their rewards (Earley, 1999; Morgan, 1997). Accordingly, sweatshops should be more likely to occur in low individualism societies, or in subcultures where low individualism exists.

Masculinity. Hofstede used masculinity to "refer to the dominant sex role pattern in the vast majority of both traditional and modern societies (1980, 1984:190)." He went on to discuss the masculine "assertiveness interests (earnings, advancement)" versus feminine "nurturance interests (relation with manager, cooperation, atmosphere)" which are typically found in the research (1980, 1984: 190). This means that in a high masculinity society, S's are more likely to acquiesce to management (Harrison, et al., 2000), even if resistance or unionization could improve their situation. B's will be able to take advantage of this tendency, thus increasing their rewards (Morgan, 1997). Accordingly, sweatshops should be more likely to occur in high masculinity societies, or in subcultures where high masculinity exists.

Profile and potential implications.

The most destructive situation would occur where the environment or subculture has high power distance, high uncertainty avoidance, low individualism, high masculinity, and managers or owners willing to take advantage of the situation (Earley, 1999; Hendry, 1999; Hofstede, Neuijen, Ohayv, and Sanders, 1990; Husted 1999; McNeese-Smith, 1999). In such a situation, the manager or owner likely believes that they have the right to act as they do (Irvine, 1988; Mills, 1956), to gain their rewards, even if their behaviors can be considered to be antisocial (Gorenstein, 1991; Sankowski, 1995). The employee likely accepts that belief, along with the idea that they are working in their proper place (Morgan, 1997).

The implications of the reinforcement of this belief system are sobering. History provides too many examples of dominant groups ill-treating subjugated groups, i.e., Native Americans (Brown, 1970); African Americans (Kozol, 1991); women and children (Anderson, 1993; Sidel, 1992); and European Jews (Borkin, 1978; Manchester, 1968). This abusive treatment parallels that encountered in domestic abuse cases (Harris, 1995), and in modern organizations, where such abusive treatment is institutionalized and reinforced (Estrein, 1996; Hendry, 1999; Vredenburg and Brender, 1998).

At the organizational level, culture can be used as a control mechanism to support the status quo and extract compliance to the individual owner or manager's goals (Earley, 1999; Hakanson, 1995; Laufer and Robinson, 1997; Stevenson and Bartunek, 1996; Welch and Welch, 1997). Dubinsky, Kotabe, Lim, and Wagner (1997); Hofstede, et al. (1990); and Tayeb (1987) have found consistent country differences, which explain more of the variance of beliefs and values, than is explained by organizational differences. Thus, country profiling will likely be very important in predicting and preventing the support of abusive behavior by responsible organizations (Garfield, 1995).

Industry

Globalized, or widely dispersed industries are more likely to utilize sweatshop establishments. Globalized industries use their transportation and communications capabilities to develop multiple supply sources; and thus, they capitalize on lower labor costs outside the home country. They also are extremely competitive and they are currently undergoing consolidation (Khoury, 1998)

Intense competition depresses retail prices and margins, putting further pressure on the firm for cost reduction. Thus, it does not surprise one to find that Wal-Mart ("We sell for less!") has been guilty of using sweatshop production. Branded ('culture industry') products also fit the profile of sweatshop users. Their reliance upon elevated marketing expenses supporting their product's image, further intensifies the pressure for lower labor costs. This fits the Kathie Lee Gifford/WalMart example, as it shifts funds that could pay fair labor rates, into the increased advertising a firm uses to capitalize upon a celebrity's association with the product.

As an industry's life-cycle (Vernon, 1966) shifts to a standardized product, prices fall, and the production technology becomes diffused. Firms then pursue savings, by sourcing products from developing countries. An extreme example of this occurs in the case of Tiger Woods, who endorses both Nike and General Motors (GM) products. Based on the present analysis, we would expect that Nike would be more likely to use sweatshops than GM. Both industries are competitive, and undergoing consolidation, but, the simpler product, lower required worker skill levels, and closer integration of Mr. Woods to Nike's products than GM's support this position.

### Company Subcontracting

Transaction costs are central to the development of multinational enterprises. Thus, many MNCs use subcontracting, both internally and externally, to minimize monitoring costs where workers are lower skilled or untrained and need training. Hennart (1982:126) relates that subcontracting and internal contracting became popular in Great Britain very early in industrialization because they greatly reduced the transaction costs of supervising workers and transferring information across the hierarchical levels of a multiplant firm. Thus, firms will outsource low skilled production or assembly to contractors specifically because they do not need, or want, to know location specifics, and how workers operate. This is also the case pushing for internationally brokered contractor supply agreements (Ghemawat, Porter and Rawlinson, 1986), as these arrangements transfer monitoring costs and responsibilities to the subcontractors. This last point keeps liability for abuses at arm's length from the MNC beneficiary, thus increasing the chance of sweatshops being established.

### Size

A firm's size affects its' supply agreements. Larger firms tend to concentrate their contractual arrangements with a relatively small but constant set of suppliers with whom they build lasting relationships. This could work to reduce the inadvertent use of sweatshops, if top management clearly acts to do so, with contracting officers gathering information about production facilities over time. On the other hand, larger firms are more likely to cultivate multiple suppliers in several countries and can more easily shift production or assembly if costs warrant. Thus, large firms' cost pressures and power may be more likely to push their suppliers into contracting with sweatshop operators, as goal congruence keeps suppliers' and MNCs' rewards aligned.

### Global Strate

Since sweatshops rely on a pool of unskilled, cheap labor, it is not likely that the firm will be pursuing a multi-domestic strategy, as those it relies on most likely will not be purchasers of its products. Also Leontiades (1985:106) points out that offshore or satellite plants having little or no connection with a specific national market may be crucial if the location is cost rather than market oriented. While the country of origin may not itself be a determining factor, it may affect the product strategy used. Porter (1990) points out that American footwear and apparel firms often failed in relatively standardized products, but they succeeded when focused on relatively upscale designer clothing or particularly American segments, such as running shoes. These products are historically manufactured in low-wage rate developing countries, but they involve very high levels of advertising expenditures.

## Overview and Conclusions

At this point, we have advanced a relatively simple main effects model. While a full discussion of the potential interaction between the independent variables is beyond the scope of this paper, a few points should be made. First, the legal environment is posited as being the slowest to change. Hence, it is considered to be an antecedent condition. Generally, the weak legal environment does not prevent sweatshop formation in targeted countries or subcultures. Enforcement of host country laws are ineffective, and MNCs avoid violating home country laws.

Second, MNCs target low-wage countries, with readily available low-skill workers. Further, jobs are deskilled to reinforce downward wage pressure and union suppression. The hostile cultural profile described (high power distance, high uncertainty avoidance, low individualism, and high masculinity) probably interacts with and reinforces the country specific issues discussed, thus increasing the chance of sweatshop establishment and use. The prevalence of managers fitting the above cultural profile also increases the chance of overemphasis on how following the 'culture industry' strategy rewards the MNC, the individual manager, and the sweatshop owner. So long as the harms are displaced, and they are not affecting managers and their peer group, there is no disincentive to use sweatshops.

Third, the salience of the harms ties in with the company variables (life-cycle; dispersion; size; and strategy). The large, widely dispersed, mature firm, using the 'culture industry' strategy (low cost = set formula; high marketing = image manipulation) effectively insulates the MNC and its managers from legal retribution or economic penalties. Even with the relatively recent media focus on the Nike Corporation and corporate predatory behavior (Greider, 2001; Pereira, 2001), the inhibitory effects of such exposure are limited at best. For example, the recent notice given about Nike's refusal to stitch the word, "sweatshop" onto a pair of customized sneakers (Chen, 2001), led to a significant increase in the inquiries and purchases of personalized sneakers. The consumer mindset is deeply entrenched, and the harms to others have little salience to most customers. Possibly, cognitive moral development or some other ethically based treatment is needed to surface the causes of reward overemphasis and lack of empathy (Miceli, 1996).

In any event, the current model offers a multidisciplinary framework to guide initial research. We found that the literature on sweatshops is largely lacking. We have drawn upon legal, cultural, and strategic theory and literature in an attempt to construct a model for subsequent testing. We believe that this model will be of value to: (1) stakeholders who initially may want to focus their efforts at improving labor conditions to those countries where they can be most effective; and (2) responsible individual and institutional investors who want to examine firms' practices and assess their likelihood of being abusive.

As Kerlinger (1990) stated, theories and models are designed to explain, control, and predict behaviors and events. Given that future research is clearly needed, examination and extension of the present model can lead to a more refined model. It is hoped that this model can be applied to historic data for validation. It should also be determined as to which factors are most instrumental in determining whether given firms are prone to establishing or patronizing sweatshops.

The direct and indirect harms of sweatshop utilization, (e.g., home and host country wage and union suppression; lack of economic development in host countries; health and safety harms; reinforcement of ethnocentrism and prejudices; etc.) may be seen by a sizable proportion of consumers as less salient than their price sensitivity for the products they purchase. So long as these harms are seen as removed from ones' self and peers, the consumer's mindset is not significantly different from that of those MNC's managers, and sweatshop owners who are the more direct offenders. It may be that the "softest" model components, i.e., culture, values, and beliefs, are the ones that are most significant in determining whether labor abuses become more or less widespread in the future.

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