The spotlight on the bottom line: how multinationals export human rights.
(child labor and sweatshop abuses by foreign contractors of American corporations)

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Full Text

In 1996 Kathie Lee Gifford made frontpage news. The well-liked television personality had lent her name to a discount line of women's clothing that, it was discovered, had been made by underage Central American workers. That same year, the Walt Disney Company was exposed contracting with Haitian suppliers who paid their workers less than Haiti's minimum wage of $2.40 a day. Nike and Reebok, makers of perhaps the world's most popular athletic footwear, were similarly and repeatedly exposed.

In all these cases, the companies accused were U.S. manufacturers of consumer products. They were being targeted for human rights violations committed abroad not by their own managers or in their own plants but by the subcontractors who produced their products in overseas facilities. Traditionally, the corporate response to this subcontractor problem has been predictable, if unfortunate. U.S. firms have argued that they cannot realistically or financially be held responsible for the labor practices of their foreign suppliers. "The problem is, we don't own the factories," a Disney spokesperson protested. "We are dealing with a licensee."

Recently, though, this attitude has started to change. As a direct result of heightened human rights activism, sharper media scrutiny, and the increased communication facilitated by the Internet, U.S. corporations are finding it difficult to sustain their old hands-off policy. Under pressure, they are beginning to accept responsibility for the labor practices and human rights abuses of their foreign subcontractors.

CODES OF CONDUCT

Much of this new activity clusters around the promulgation of voluntary codes of conduct. In just the past several years, U.S. industry has proposed and accepted a rash of codes. In 1996 Labor Secretary Robert Reich launched a "No Sweat" campaign designed to force foreign garment makers to comply with U.S. labor laws and to expose retailers who might be purchasing garments made under sweatshop conditions. This was followed by the widespread publication of a Labor Department "Trendsetter" list of retailers that had publicly agreed to "demonstrate a commitment" to U.S. labor laws and to monitor the working conditions under which their garments were produced. In August 1996 the White House established an Apparel Industry Partnership, which devised a workplace code of conduct defining decent and humane working conditions, applicable to all participating companies as well as to their overseas contractors. To ensure that the code became more than a public relations exercise, members of the Partnership also proposed that the code's adherents open their facilities to periodic inspections by independent monitors. Even more striking is Social Accountability 8000, an ambitious attempt to compel firms to comply with a certifiable set of labor and human rights standards, launched last year by the Council on Economic Priorities and a group of influential companies. SA8000 rests on market acceptance, not legal coercion. Firms would comply with the standards and the monitoring necessary to ensure compliance simply to win certification. Already, the retail giants Toys 'R' Us and Avon have announced their intent to demand that all their suppliers become SA8000-certified.
It is easy, perhaps, to be cynical about these codes. Prominent critics such as Louis Henkin of Columbia Law School have charged that they carry less weight than legal standards and lack bite. But it is not clear that such skepticism is warranted. In fact, codes of conduct have already begun to be a significant factor in the pursuit of human rights. By changing the calculus of U.S. firms doing business abroad, codes can change their behavior.

CAUGHT IN THE ACT

The logic follows a pattern that one might call the spotlight phenomenon. When U.S. corporations go abroad, they take more than their capital and technology with them. They also take their brand names, their reputations, and their international images. They bring in their wake the scrutiny of U.S.-based activist groups and the international media. When U.S. corporations are caught engaging in unfair or abusive practices, these groups spring into action, casting a shadow of scorn. To some extent, the process echoes the familiar muckraking of decades past, but the combination of an increasingly global economy and evermore sophisticated and diverse communication channels has recently expanded the reach of even small-scale critics. On the Internet, grassroots activism has, quite literally, been electrified. Using inexpensive electronic mailing campaigns, human rights groups can reach a far wider audience than in the past, drawing supporters from across national borders to mobilize consumer boycotts or political action campaigns. Once these campaigns reach the public arena, the perpetually hungry media brings attention to even small stories--especially those pitting giant U.S. corporations against hapless foreign workers.

Although this new form of muckraking creates its own potential hazards, it also affects the basic calculus of an investing firm. Suddenly, the advantages of lowercost labor or lower-cost inputs from more abusive suppliers must be weighed against the crush of negative publicity, the cost of public relations, and the possibility of consumer protests. For consumer products firms, the impact is particularly intense since highly visible brand names provide an ideal target for smear campaigns and other public attacks.

At the moment, public awareness of human rights issues is not fully decisive in the marketplace. Customers still seem to favor brand, price, and quality over perceptions of humane treatment and social responsibility. But these preferences are starting to change. In a 1995 survey, 78 percent of respondents said that they would prefer to shop at retail stores that had committed themselves to ending garment worker abuse; 84 percent said they would pay an extra $1 on a $20 item to ensure that the garment had been made in a worker-friendly environment. Similar results appeared in a 1996 survey--only this time, nearly 24 percent said that retailers and not just manufacturers should take responsibility for preventing the use of sweatshop labor. Such polls do not, of course, necessarily predict consumer behavior, but they do seem to show a heightened awareness of human rights issues and a newfound eagerness to hold manufacturers and retailers accountable for their behavior.

As public concern coalesces around issues of human rights, the promulgation of codes and standards completes the spotlight phenomenon. Once firms have adhered to publicly acknowledged standards, they magnify the effect of their own violations. So long as firms could argue that subcontractors were beyond their reach, they could limit the public fallout from findings of abuse. With codes in place, however, firms can no longer hide behind an arm's length relationship of indifference. Once they have agreed to comply, they will be forced to—not by the sanction of law but by the sanction of the market. Firms will cut off abusive suppliers or make them clean up because it is now in their financial interest to do so. The spotlight does not change the morality of U.S. multinational managers. It changes their bottom-line interests.

A RACE TO THE TOP
Already, early evidence supports the potency of the spotlight phenomenon. When reports surfaced that Reebok was purchasing soccer balls stitched by 12-year-old Pakistani workers, the firm sprang into action. It created a new central production facility in Pakistan and established a system of independent monitors. Eager to retain its image as a strong supporter of human rights around the world, Reebok affixed new "Made without Child Labor" labels to its soccer balls. The Gap also bowed dramatically to public pressure. After several high-profile protests in 1995, including one at a Manhattan store, The Gap signed an agreement with the National Labor Committee committing itself to independent third-party monitoring of its overseas suppliers. Starbucks Coffee, generally regarded as one of the most socially progressive U.S. firms, was heavily picketed in 1995 by activists demanding that the company keep closer tabs on the Guatemalan plantations from which it buys some of its coffee beans. The chain eventually complied, issuing a revised code of conduct and specific action plans for all of its supplier countries.

Recently, the spotlight has focused most frequently on Burma, whose ruling junta, the State Peace and Development Council, is one of the world's most repressive regimes. Facing mounting criticism of their presence in Burma, Levi Strauss, Macy's, Liz Claiborne, and Eddie Bauer all pulled their operations out of the country. So did oil giants Texaco and Amoco, even though just six months earlier Amoco's president had described Burma as one of his firm's most promising new regions for exploration. A spokesman for Eddie Bauer neatly captured the changed calculus facing the firms. "After months of researching the situation," he announced, "we deemed that the political climate and growing opposition to trade in Burma posed a potential threat to our future manufacturing opportunities." In other words, they were leaving purely for commercial reasons. The spotlight had made its way to their bottom line.

What makes this dynamic even more powerful is the potential for cooperation and collective action. The problem for competing firms is that the force of the market makes it difficult for any single company to pay higher wages or insist on superior labor standards. Of course, some firms do so out of conviction; others do so because they have a higher-quality or niche product that enables them to pass cost increases on to their consumers. Yet in the aggregate, the familiar problem of "free riders" remains. If one firm pays the higher wage or refuses to do business with an exploitative low-cost subcontractor, it risks losing market share to more callous competitors. Thus, multinationals have long been able to rationalize their use of low-wage labor or abusive subcontractors by appealing to the unstoppable force of global competition. If they held to higher standards, they claim, their rivals would instantly overwhelm them. Theoretically, the only way to solve this free-rider problem is through collective action. If all firms—or at least a good majority of the larger ones—adhere to the same standard, none is individually penalized. Collective action can thus force a race to the top rather than the much-heralded race to the bottom. What changes the direction of this race is the combined force of codes and publicity. Firms adhere to the higher standard because public attention forces them to do so. And the more companies adhere, the easier it is for even the low-profile or sluggish to join.

The Burma withdrawals showcased this collective dynamic. Once Levi Strauss pulled out, it was easier for Macy's and Liz Claiborne to follow. Collective action was also a major component of Reebok's approach to Pakistan. Before proceeding with its child-labor-free campaign, the company obtained approval and support from both the World Federation of Sporting Goods Industry and the U.S.-based Sporting Goods Manufacturers Association. When Reebok refused to sell balls made with child labor, so did all of its competitors. None, then, were left at a commercial disadvantage—and all collectively left themselves vulnerable to the scrutiny of the spotlight. As pressure for codes continues to mount, and as firms such as Price Waterhouse and Kroll Associates eagerly offer to perform audits of firms' compliance with the codes, such cases will probably proliferate. In the process, human rights are likely to improve.

STRANGE BEDFELLOWS
Human rights and U.S. multinational corporations are traditionally considered unlikely bedfellows. By nature, firms are not in the business of promoting human rights abroad, and advocates of human rights have typically disdained corporations rather than embracing them. When Washington has pursued a human rights agenda, U.S. firms have historically been little more than the awkward instrument of U.S. policy: their activities are denied to rogue states as retribution for human rights abuses.

But perhaps there is another way to think about multinational involvement. In some cases and industries, the natural impact of U.S. firms may well be to hinder the development of human rights. Sometimes multinationals funnel capital to repressive states or abuse the labor force they find at their disposal. Sometimes their presence cements the power of dictators or helps suppress opposition groups. Earlier this century, for example, United Fruit helped mastermind a coup in Guatemala; ITT played a key role in overthrowing the popularly elected government of Salvador Allende in Chile; and U.S. mining and oil companies forged cozy relationships with dictatorial regimes across Africa. But overall and empirically there is little to suggest that U.S. investment is inherently bad for human rights in the developing world. If anything, the available evidence indicates that the presence of U.S. multinationals usually corresponds to an improvement in human rights. This relationship certainly does not prove that U.S. investment causes human rights to be more respected, but neither does it give any credence to predictions of exploitation and malfeasance. Investment by U.S. firms may well help move human rights in a positive direction.

It would be absurd to advocate investment by U.S. firms as a panacea for the human rights abuses that pepper the globe. A multitude of ills can only be addressed through diplomacy, persuasion, or sometimes force. But there are things that multinationals, especially U.S. multinationals, can do. Simply by following their own interests, they may influence the local environment in positive ways. They bring jobs, capital, technology, know-how, management techniques, labor relations, and administrative structures that are unlikely to depart too dramatically from U.S. standards. These working standards will nearly always be higher than those that prevail in the local developing economy.

Finally, U.S. multinationals bring with them the glare of public scrutiny and the changes it can induce in an increasingly global marketplace. When local producers in Vietnam, Pakistan, or Honduras exploit their work force, few in the West hear of it, especially if the products are not exported to Western markets. But when those same producers become suppliers to Reebok, Levi Strauss, or Walt Disney, their actions make headlines in the United States. Changing their behavior becomes, increasingly, a bottom-line concern of Reebok, Levi Strauss, and Disney.

Under these circumstances, the old Leninist link between multinational firms and foreign exploitation seems outmoded or even contradictory. Rather than having an interest in subverting human rights, corporations--particularly high-profile firms from open and democratic societies--may well see the commercial benefits of promoting human rights. It is ironic, and certainly not obvious. But in a world marked by international media and transnational activism, U.S. multinationals could be--indeed, may already be--a powerful instrument in the pursuit of human rights.

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