

Corporate Outsourcing to Take Advantage of Cheap Labor in Developing Countries

Cecily Schenimann

A Senior Thesis submitted in partial fulfillment
of the requirements for graduation
in the Honors Program
Liberty University
Spring 2018

Acceptance of Senior Honors Thesis

This Senior Honors Thesis is accepted in partial
Fulfillment of the requirements for graduation from the
Honors Program of Liberty University.

Eric Richardson, Ph.D.
Thesis Chair

Edward Moore, Ph.D.
Committee Member

Chris Foley, Ph.D.
Committee Member

Marilyn Gadomski, Ph.D.
Honors Assistant Director

Date

Abstract

Corporate outsourcing is a common practice for many large corporations, and a primary reason that corporations outsource is financial: production in other countries, especially those that are developing is significantly less expensive. There are various reasons corporations use outsourcing and this choice often results in subpar and unhealthy labor conditions for those individuals working in developing countries. Reviews of China, Bangladesh, and El Salvador reveal that operations in developing countries often result in harmful working atmospheres. A call for increased corporate responsibility and accountability for corporations who choose to take their manufacturing and production elsewhere, but specifically to developing nations, is given.

Keywords: *outsourcing, labor, corporation, developing, developed, employment, regulations*

The Use of Corporate Outsourcing to Take Advantage of Cheap Labor in Developing Nations

Outsourcing is a practice used by corporations to move operations to another country for any number of reasons, a primary reason being financial. This practice can be beneficial for corporations in many ways, but oftentimes it has negative consequences for those who work directly for these corporations or for the suppliers who manufacture products for them. In developing nations, working conditions are often already substandard and harmful, especially when compared with the standards for working environments that are enforced in developed countries such as the United States and the United Kingdom (Basu, Chau, & Kanbur, 2010; Berik & Van Der Meulen Rodgers, 2010). These unsafe working conditions are typically only a symptom of a larger issue within the country: too few laws and regulations regarding the treatment of employees. However, even when the regulations exist, enforcement is necessary for the effects to take place, and underenforcement has been the case in China (Harpur, 2010-2011). Additionally, outsourcing to developing nations affects the employment opportunities available to individuals living in developed countries (Hijzen, Jean, & Mayer, 2011). It is important for corporations to consider all the consequences of outsourcing, as whether or not they choose to do it in an ethically accepted manner could potentially determine their success or failure. As can be seen from the example of Fair Trade organizations, it is possible to practice socially sustainable outsourcing, and corporations need to be aware of, and potentially change, the extent to which they are taking hold of their corporate social responsibilities (Goworek, 2011).

Reasons for Corporate Outsourcing

Even though low wages, and therefore decreased spending and increased revenue, and lack of labor laws are often the motivating factors for corporations who choose to outsource, there are several other reasons why corporations may choose to take parts or all of their production or manufacturing elsewhere. Among these are changes in technology, decreased risk, the search for flexibility, globalization, fewer regulatory costs, the tax benefits that are often available in foreign countries, the ability to downsize at will, quick turnaround time, accelerated time to market, commodification, and contractual certainty (Bustinza, Arias-Aranda, & Gutierrez-Gutierrez, 2010; Tayauova, 2012). Numerous tax benefits are available to American corporations in foreign countries, and, in addition to those tax incentives offered, many corporations, such as Exxon, Apple, and IBM, can pay significantly lower income taxes because of their utilization of offshore subsidiaries, and, therefore, have the ability to take advantage of the financial benefits available in the host country. For example, it is often the case that revenues left in the host country will not be taxed by the United States government (Deavers, 1997; Schieberl & Nickles, 2014). For many corporations, outsourcing is much more than expanding the business; it is a financially efficient and logical solution to many corporate issues and is applicable in many situations. Outsourcing a corporation's non-core operations allows the corporation to focus more time and energy on the core, high-priority operations of the organization. Outsourcing also makes corporations more flexible and allows them to change with the world economy as necessary. When corporations outsource their operations, they can essentially have a hands-off approach to

their overseas business dealings by hiring managers to oversee these portions of the company (“Advantages and Disadvantages of Outsourcing”, n.d.). Therefore, even though corporations are often criticized for their use of outsourcing, it does have many advantages that present viable reasons for corporations to justify utilizing the practice. However, it is important to consider whether the all-too-common result, substandard working conditions and wages, is worth the benefits that the practice brings to corporations.

Working Conditions in Developing Nations

Because of the strictly enforced labor laws in the United States and most of Europe, it is often difficult for Americans to understand the extreme and desolate conditions in which many of those living in the developing world work. Individuals born and raised in developed nations often take for granted the safe and healthy conditions of their work environments, not even realizing that many people working in third world countries live with preventable diseases caused by their working conditions. In the early 1990s, it was estimated that one million individuals in China had silicosis because of occupational exposure to dust, and in some developing nations, asbestosis is the primary occupational disease among workers in the mining, construction, and asbestos industries (La Dou, 1992). However, despite these stats, the Canadian asbestos industry supports and even promotes the use of asbestos because the concerns for workers’ health are outweighed by the desire for low-cost construction and building materials. Additionally, lead poisoning is a prominent issue in many nations. For example, in Malaysia “the blood levels of lead in many lead-acid battery workers is three times higher than allowed in

U.S. workers” (La Dou, 1992, p. 554). These are just a few examples of the many nations in which individuals work in health-hazardous conditions, but it is also important to realize that there are different demographics who have fallen victim to substandard working environments and practices. Those two broad categories, children and adults, should be considered and discussed separately (Basu, et. al, 2010; Berik & Van Der Meulen Rodgers, 2010).

Child Labor

When inexpensive, unethical labor comes to mind, one most often thinks of child labor. One always imagines children living in developing nations being forced to work in desolate conditions for little to almost no pay. It is estimated that 250 million children between the ages of five and fourteen are working (Nam, 2013). A 2006 National Labor Committee report entitled “Child Labor is Back: Children are Again Sewing Clothing for Major U.S. Companies” stated that “an estimated 200 to 300 children (...) are sewing clothes for Hanes, PUMA and Wal-Mart at the Harvest Rich plant in Bangladesh” (p. 1). According to this same report, some of these children are under the age of eleven and work for pay as low as six and a half cents per hour and at times work up to one hundred and ten hours a week. This factory was approved by the Worldwide Responsible Apparel Production (WRAP) monitoring group with the understanding that Hanes and the other corporations were in full compliance with all relevant workers’ rights laws and standards. Unfortunately, WRAP and the corporations failed to notice the many child workers, routine beatings, forced and excessive overtime, and failure to pay any of the workers the overtime they were legally due (National Labor Committee, 2006; “Children found

sewing clothing for Wal-Mart, Hanes & other U.S. & European companies - National Labor Committee”, n.d.). In India alone from 2009 to 2010, it is estimated that 4.91 million children were working, even though that is a decrease from 9.07 million from 2004 to 2005, and many of these children are working in hazardous conditions (Mukhtar & Rather, 2014). Children are often the most vulnerable workers since many of them are orphans or abandoned and have no other options.

It is thought that most children involved in child labor are not involved in market or formal labor, but instead are working in what has been called hidden child labor, that is, household work, or work on the family farm or in the family business. In developing countries, many children do not attend school and are not engaged in paid employment, but rather are working in these various forms of hidden labor that are not paid but do benefit the family in some way (Webbink, Smits, & de Jong, 2012). However, corporations are not responsible, at least not directly, for these working conditions since they are more related to the economic conditions of the respective governments.

Adult Labor

A common misconception is the belief that slavery is no longer a problem or that human trafficking is the only form of slavery yet to be eradicated (McClain & Garrity, 2010). However, millions of people around the world work either in forced labor or bonded labor (Kara, 2011). Forced laborers usually work for private individuals, not the military or the State (although work for the military or State is required in nations such as North Korea and China), and are often members of minority groups which already suffer discrimination and live in locations which make them susceptible to slavery. At least 20.9

million people work in forced labor around the world (“Forced Labour”, n.d.). Bonded labor does not occur through force, but rather through the demand for their labor in order to pay off a loan. Once the individuals begin working, the employer does not allow them to work for anyone else and some employers even go so far as to keep their employees under surveillance to ensure their loyalty. In the Asia-Pacific region alone, at least 11.7 million people are in forced labor and the majority of these are victims of bonded labor. Even though bonded labor is illegal, many of the individuals who are in bonded labor are members of marginalized social or class groups and have extremely limited access to resources, including resources that should be available to all humans such as basic judicial rights and education (“Bonded Labour”, n.d.).

However, the presence of substandard working conditions does not always mean that individuals are working in dangerous situations. Oftentimes, it means that the working conditions are harmful to the health of the workers, either physically or mentally, and that those health conditions could be prevented by an improvement in the equipment or facilities used by the employees. This is quite a prevalent problem, for example, among sewing machine operators in Botswana. Economic diversification is a major need in many African countries, and in 1990, the Botswanan government passed the Financial Assistance Policy in an attempt to bring in investors who would build manufacturing plants, thereby not only diversifying the economy, but also creating employment opportunities for the 30 percent of its population living below the poverty line. Through this, the textile industry grew in Botswana, but at the cost of worker health due to deficient factory facilities and equipment. Additionally, these sewing machine

operators worked ten-hour days with only a thirty-minute break, and the chairs they sat in caused Musculoskeletal Disorders that could have been easily prevented if different chairs and varied tasks had been provided. Another cause of these Musculoskeletal Disorders was a lack of training that these sewing machine operators had in the operation of sewing machines, a reality that was only furthered by the fact that most of the workers were not able to understand, due to a lack of education and reading ability, the sewing machine manuals (Sealetsa & Thatcher, 2011).

Impact of Labor Laws and Regulations

The labor laws and regulations imposed by governments play a major role in whether or not substandard working conditions are an issue in the country. Additionally, there is a significant and obvious difference between passing labor laws and regulations and actually enforcing those standards. As will be discussed further, China is a prime example of what it looks like to have unenforced health and safety regulations for workers.

Developed Nations

In the United States, labor laws and regulations have long been in place to protect the rights of not just workers, but of employers and individuals in general. The Fair Labor Standards Act (FLSA) was passed in 1938, establishing regulations on “minimum wage, working hours, equal pay, and child labor”, and the FLSA was just the first in a series of laws that would further regulate labor standards (“Fair Labor Standards Timeline”, 2013, p. 2). Many states require individuals to be sixteen years of age before they can legally work. Furthermore, all states have the ability to set their own minimum wage, and those

vary from \$5.15 to \$12.50 an hour. Many states are set to increase this standard over the next few years (Brainerd, 2018). Additionally, the average workday in the United States is only eight hours, as compared to the ten-hour workday in the textile industry in Botswana, and a regular work week is forty hours, with two days off each week. If an employee is paid by the hour, employers are required to pay overtime wages, one and a half times the regular wages, if the employee works over forty hours a week. All of these norms are the law and expectation in the United States, and other developed nations have similar regulations for businesses and employers. In the United Kingdom, for example, workers, with some exceptions, are prohibited from working more than forty-eight hours each week, and if an individual is under the age of eighteen, he or she cannot legally work more than forty hours a week (“Maximum Weekly Working Hours”, n.d.).

Additionally, the United Kingdom has even stricter regulations than the United States regarding minimum wages, which are dependent on the individual’s age and whether or not he or she is an apprentice (“National Minimum Wage and National Living Wage Rates”, n.d.). These regulations, however, are just basic workers’ laws and rights, and are some of the foundational regulations that all businesses, corporations or not, are required to adhere to in developed nations. The situation in developing countries, however, is much different.

Developing Nations

In many developing nations, sweatshops and factories are the preferred employment opportunity for most individuals, since frequently these production plants pay equal to or more than the average living wage of the country. In El Salvador, for

example, the legal minimum wage for individuals working in the textiles and clothing industries is \$1.23 per hour (“Legal Minimum Wage Increase in El Salvador”, n.d.). It has also been found that in Cambodia, Haiti, Nicaragua, and Honduras, working a seventy-hour workweek in a sweatshop provides that individual with an income that is twice the national average income. The working conditions found in local businesses are often extremely substandard and dangerous, a reality that makes working in a sweatshop preferable for most individuals. The alternative employment opportunities for individuals in El Salvador include agricultural work and street vending, and those are not careers that offer any kind of stability. Therefore, while sweatshops and similar factories do provide better working conditions for working individuals in developing nations, these low employment standards provide a loophole for multinational corporations to take advantage of the situation and utilize fewer financial resources in ensuring the physical and mental health of their employees (Skarbek, Skarbek, Skarbek, & Skarbek, 2012). Additionally, while these sweatshops and factories do produce goods for multinational corporations, most of the clothing and textile products produced around the world are not directly manufactured by the corporation, but rather are produced by organizations which are subcontracted by the multinational corporations, a fact that allows the labor standards of the country to be even more prominent in the working conditions (Clark & Powell, 2013).

The United States continues to further regulate the practices of corporations. While not all of those regulations are bad, most are more constricting. In response, many corporations leave the country and use the labor of foreign nations. Many of these foreign

nations are developing and, therefore, lack many of the corporate regulations that are so prominent in the United States and Western Europe. Some developing nations, however, are taking steps to reform their labor laws. In India, for example, the Child Labour (Prohibition and Regulation) Act was enacted in 1986 and the National Child Labour Project (NCLP) Scheme was enacted in 1988. The former works to prohibit employers from hiring children under the age of fourteen to work hazardous jobs, and the latter seeks to rehabilitate children who are taken out of child labor systems. The NCLP Scheme is currently working in 266 districts and the goal is to eventually be actively involved in 271 districts (Mukhtar & Rather, 2014).

China is another nation that has always had a reputation for inexpensive labor, but in 2008, the government passed the Labor Contract Law, which significantly increases the rights of workers. The law also seeks to decrease the abuse and exploitation of laborers by both foreign and domestic corporations (Garcia, 2009-2010). Many times, however, the problem is not whether or not the workers' rights and labor laws and regulations exist, but whether or not they are properly and effectively enforced by both the national and local governments.

Case study. In many situations, enforcement, not existence, is the problem with labor laws and regulations. This, for example, has been the major issue with workers' rights in the clothing and textiles industry in China in recent years. In 2002, the Chinese government introduced the *Law of the People's Republic of China on Work Safety* – the country's first specialized workplace safety law. However, while this regulation addresses work safety, and later specialized safety laws have addressed chemical

production, coal mines, construction, and other more dangerous occupations, none of the recent laws have mentioned anything about the textile and clothing manufacturing industry. Therefore, those who work in this particular industry are under general regulations as provided in the *Law of the People's Republic of China on Work Safety 2002*. Additionally, while these occupational safety hazard laws are in place, they are not being properly enforced, as is evidenced by the severe lack of inspectors. There are only 45,000 inspectors in the entire country, and they are responsible for the inspection of over three million firms. Currently, China is largely focused on economic development, even at the cost of worker health and safety. Therefore, the passing of these laws is primarily to appease governments, mainly European and American, who have been calling for formal laws regarding occupational safety hazards. Many safety and health violations have been reported from these manufacturing plants, including lack of safety masks or equipment, loud noises that resulted in significant hearing loss, and dangerously high heat and fumes. Interestingly, however, in many of these plants, these issues were not present when factory inspectors from the United States or Europe were in the factory. In addition to extremely substandard working conditions, most Chinese workers, especially internal migrant workers, worked over fifteen hours a day, seven days a week on a regular basis. The number of hours differs among the various factories, but in some extreme cases, the factory management has forced individuals to work forty-eight hours straight (Harpur, 2010-2011; "United States Textiles and Clothing Imports by Country and Region", n.d.).

Unfortunately, this unethical use of workers is only furthered by the fact that many of China's exports go to the United States and other developed nations, whose

imports from China are estimated only to increase in coming years. It was estimated that China's general manufacturing exports to the United States increased by 55 percent from 2001 to 2010 (Chan & Nadvi, 2014; Harpur, 2010-2011). Additionally, according to the World Bank, in 2016 the United States imported more textile and clothing products from China than it did from any other singular nation. From China, the United States imported approximately 41.2 billion USD worth of textile and clothing products, and Vietnam was the second largest single-nation provider at approximately 11.4 billion USD ("United States Textiles and Clothing Imports by Country and Region", n.d.).

These statistics are significant to the issue of corporate outsourcing, as many Chinese factories are suppliers of brands and corporations based in the United States, such as Mattel. Even though many of the manufacturing plants in China are suppliers or subsidiaries of United States-based corporations, the massive amount of exports from China that are imported to the United States is indirectly feeding the mistreatment of individual workers and encouraging the continued utilization of substandard working conditions (Harpur, 2010-2011). Therefore, to a certain extent, it is the responsibility of the corporations and other organizations who use the products produced and provided by these plants to hold them accountable for the treatment they give their employees.

The choice. For many nations, however, the choice is often between allowing corporations to come in and take advantage of the lack of labor laws and giving up a better overall national economy. Allowing corporations to operate can have many benefits for a host nation, including increased employment opportunities, increased access to technology and economic diversification, and general economic improvement.

Many governments also hope for spillover effects from operations of foreign corporations, as they can often strengthen the competitive advantages of domestic firms. Unfortunately, governments often choose these advantages over the basic human rights of their own citizens. For example, in Nigeria foreign oil companies bring a significant amount of revenue to the government and contribute greatly to the country's GDP, but the local citizens are negatively affected by the unfavorable effects on the environment and the constant military presence in their home regions (Anway & Nguyen, 2011; Giuliani & Macchi, 2014). Additionally, it is often the case that when a nation attempts to enact and enforce corporate rules and regulations to protect the rights of workers, the corporation will move to a nation that does not have or does not enforce strict labor laws. Many structural adjustment programs are flawed because they essentially force developing nations to compete for corporations to move to their country by cutting back in order to export more products and services at a less expensive rate. It is not uncommon for corporations to leave one nation and move their operations to another country with fewer or different regulations and labor laws. Coca-Cola has closed its business dealings and operations in Zambia because of disagreements about tax exemptions; Nike utilizes less expensive labor in Southeast Asia. In 1992, Levi Strauss & Company was exposed in its use of prison labor to make jeans. For many nations experiencing this dilemma, the economically and financially logical option is to allow the corporations to operate in the nation, even though it may result in fewer basic workers' and human rights (Shah, 2006).

Effects of Outsourcing on American Citizens

Even though a prominent disadvantage of outsourcing for the exploitation of less expensive foreign labor is the effect on those in the third world nations who are hired to work for these corporations, it is also important to consider the domestic side of this ethical issue. When corporations decide to outsource their operations to foreign nations, the unavoidable consequence is that some individuals in the United States or Europe could potentially lose their jobs (Hijzen, et. al., 2011). Essentially, there have been three waves of outsourcing United States jobs to foreign countries. The first began in the late 1980s and was essentially the outsourcing of blue-collar jobs, such as industrial and manufacturing positions. This, consequently, forced the United States to shift to a more service-oriented economy with a stronger focus on white-collar employment. The second wave, which has been pegged the “new wave”, has begun in recent years, and is the outsourcing of these white-collar jobs that Americans have come to depend on so heavily (Woffinden, 2007, p. 483). Because of technological advances, the further spread of globalization, and increased access to the Internet and other technology, white-collar jobs can be outsourced to foreign nations so that corporations can take advantage of the less expensive labor. In 2007, it was estimated that the revenue from outsourcing service jobs was between 100 billion and 200 billion USD. However, this estimate also predicted that by the year 2015, approximately 3.3 million American service jobs would have been outsourced. In the third wave, companies and legal firms are sending domestic legal work overseas to attorneys in foreign nations. Foreign legal work is significantly less expensive and provides broader access to the legal system. If those 3.3 million jobs included only

service jobs, it is difficult to imagine how many jobs have actually been sent abroad since the first wave of outsourcing began in the late 1980s (Woffinden, 2007).

Additionally, for low-skilled workers, it has been shown that their unemployment risk only increases when corporations outsource their operations. Low-skilled workers include those individuals with only basic and/or vocational education, and when corporations move their operations, the adjustments costs for low-skilled workers are high (Munch, 2010). However, highly skilled workers tend to be positively affected by outsourcing and often experience wage increases. These are important considerations since these effects have the potential to widen the gap between lower and upper classes in developed countries and potentially diminish the middle class (Geishecker & Görg, 2008).

Consumer Attitudes

Consumers drive industries, and without them, industries would not exist because there would be no foundation or support for their existence. Most often, however, consumers are unaware of the power they have to decide whether or not a specific organization or industry will ultimately be successful. Additionally, consumer attitudes contribute greatly to the way that corporations do business, including whether or not they utilize sweatshops in foreign, developing nations. If consumers feel strongly enough about an issue, they will speak with the way in which they spend their money. Because of the massive amount of information about corporations and their inner-workings available today on the Internet, consumers are more aware than ever of the individuals corporations employ and, even more importantly, how those individuals are treated in the workplace.

If consumers find that employees are being treated unfairly or are being paid unethically low wages, they may choose to boycott that brand and take their business to another organization that advertises socially sustainable practices.

Recently in the luxury apparel industry, many luxury brands, including Calvin Klein, Ralph Lauren, and Victoria's Secret, have been exposed to be utilizing sweatshops in developing countries for product manufacturing. Marketers have been learning that not only do consumers care about the specific products and prices that brands offer, but they also care about the environments in which those products were produced in order to make those prices possible. However, for some consumers, price is the ruling factor and the conditions in which the product was made do not have an effect on whether or not they purchase the product. Yet, it has been found that if consumers know a certain brand manufactures its products in sweatshops, those consumers are willing to pay more for luxury apparel that is not manufactured in sweatshops (Phau, Teah, Chuah, 2015).

Unfortunately, however, many consumers are not aware of the working conditions in which many products are made, or are not financially able to choose a more expensive option that is ethically produced. Additionally, consumer awareness of sweatshop conditions does not automatically mean that consumers will seek brands that are socially sustainable and are manufacturing products in an ethical manner. It has also been shown that consumers may often be more aware of environmental rather than social issues (Kozar & Hiller-Connell, 2013). Other factors that may hinder consumers in ethical clothing and textile purchases are the belief that different products will negatively impact

their personal image, an ignoring of the issue, and even the doubt that they could make an impact on the existing conditions (Bray, Johns, & Kilburn, 2011).

Adding to this problem of consumers often feeling forced to choose between buying within their financial means and purchasing products that were ethically manufactured is the issue of fast fashion. This phenomenon is spurred by the ever-changing styles and therefore, the ever-changing consumer demand for constant newness. Because of fast fashion, consumers are able to buy new and different clothing items practically every week. Many clothing items sold by major chain retailers, such as Old Navy, are designed and made to be worn fewer than ten times. A 2009 study showed that one in five young female consumers admits to purchasing a new clothing item every week. The underlying issue with fast fashion is not the socially unsustainable ways in which the clothing products are produced, but rather the lack of awareness of those conditions. Consumers who are so concerned with staying up-to-date with their clothing are typically almost completely unaware of the substandard conditions in which those clothing products were manufactured. In order for consumer buying habits to change, consumers have to be aware of the harmful conditions in which individuals work in order to produce these fast fashion products that will be off the market and out of style in a short amount of time. Overall, studies have shown that consumer attitudes towards unethically-made products change when the consumers know and understand the social consequences of the manufacturing process. Unfortunately, this change in attitude does not always lead to a change in consumer buying behavior (McNeill & Moore, 2015).

Cost of Buying American-Made

Recently an attitude has arisen that promotes the belief that buying American-made products is the best choice and also the solution for bettering the United States economy and decreasing the nation's involvement in other nations. An organization called The Made in America Movement has taken on the cause of promoting American businesses and supporting the decrease of outsourcing in order to bring jobs back to the United States. On their website, visitors will find detailed information about their interactions with the government and an extensive list of organizations they have vetted and consider to be completely American and, therefore, acceptable and appropriate for consumers. Currently, this movement represents approximately 20,000 American-sourced companies, and while that may seem like a large number, there were around 375 million businesses in the United States in 2015 ("About the Made in America Movement", n.d.; United States Census Bureau, n.d.). Therefore, buying only or primarily American-made products is a difficult and seemingly impossible endeavor due to the increasingly globalized nature of the world economy and the small number of organizations that are committed to those self-inflicted standards. Additionally, purchasing products that were made in other countries is not inherently wrong. Whether purchasing a product is unethical is dependent on the way in which the product was manufactured and whether its product required the exploitation of individuals who may have had no other options. Additionally, purchasing only domestically-made products is usually significantly more expensive than purchasing imported products, and as stated previously, price is often a determining factor when consumers are choosing between items. So, while many

consumers may believe that choosing American products is the best option, whether or not they actually purchase those products purposefully is another matter entirely.

Purchasing from brands that are made entirely in the United States requires research that can sometimes take extensive time and effort that some consumers are not willing to sacrifice. Furthermore, it is important to consider the cost and consequences of purchasing domestic products rather than imported goods.

Relatively speaking, the number of brands which produce their products completely in the United States is quite small, and few are the popular, name brands, such as Nike, Gap, and Old Navy, that most consumers prefer due to image and quality perceptions. Some clothing brands that pride themselves on being 100 percent American-made are Emerson Fry, Grown & Sewn, American Apparel, and Pointer Brand (Brown, 2017). An Internet search for American made products produces an extensive list of websites giving reasons for purchasing American-made goods, tips for finding these products, and ways to determine which brands are actually being truthful about manufacturing products that are completely American made (Brotherton-Bunch, 2017; Livingston, n.d.; “10 Reasons Why You Should Buy American-Made Products”, 2016).

However, it has been shown that generally American consumers do not know the origins of the products they purchase, nor do they care to pursue knowledge of this information. In one study, only a small number of participants were able to correctly identify the source countries of relatively famous brands (Samiee, Shimp, & Sharma, 2005). So, while the Made in America Movement may be a popular and recent trend, its effects on actual consumer buying habits appear to be minimal at most (Samiee, 2008).

Individuals working in developing countries for these suppliers and manufacturers are often working for these corporations because that is their best option. Therefore, if jobs are returned to the United States, those individuals are left with the limited and typically even more substandard job opportunities provided by local and domestic organizations. Corporations who take their manufacturing and production operations to developing countries usually pay at least the minimum wage, and in some cases their employees make up to twice the legal rate. This can be the difference between surviving and thriving for a local family. For example, the legal yearly minimum salary in the United States is 15,080 USD. Compare this with the legal yearly minimum salary in Vietnam: 1,002 USD (“Minimum Wages Around the World”, n.d.). If a corporation moves its operations to Vietnam and hires local citizens and pays them even just fifty percent above the minimum wage, that is significantly increasing their economic quality of life and their ability to further themselves even more, either through educating themselves or their children. Therefore, both corporations and consumers need to consider the full weight of bringing corporate operations back to the United States, as it will affect much more than the United States economy.

Case Study: A Fair Trade Retailer

Fair trade is becoming more commonplace as consumers become increasingly aware of the need for individuals to work in safe and healthy environments and, in turn, call for ethically-made products. A concern for many corporations, that often deters them from switching to ethical production, is that they will lose customers because of the potential for increased prices or a smaller product line. There are, however, examples of

organizations that have been successful since switching to ethical production, and the creation of these organizations was driven by the development of ethical consumerism. The rise of ethical consumerism has led to the development of a market for ethical clothing products. Ethical fashion has been described as “fashionable clothes that incorporate fair trade principles with sweatshop-free labor conditions while not harming the environment or workers, by using biodegradable and organic cotton” (Goworek, 2011, p. 75). People Tree is a small-to-medium enterprise based in the United Kingdom that in 2006, after only five years of operation, achieved a sales turnover of 1 million GBP, which, at the time, represented about twenty percent of the Fair Trade fashion market in the United Kingdom. However, even though People Tree does turn a profit, Safia Minney, the organization’s chief executive, has implied that profit is not the motivating factor for People Tree. Another factor that differentiates People Tree from nearly all other clothing brands is the company’s transparency: customers have access to the details about the where and how of each product’s manufacturing and production. This has been a concern as many consumers and campaigners for Fair Trade labor want absolute assurance that organizations, such as Nike and Gap, are complying with fair labor standards as they claim (Shaw, Hogg, Wilson, Shui, & Hassan, 2006). Brands need to do more than claim to be a part of the ethical fashion movement and actually demonstrate through public support of ethical fashion and realistic and achievable business strategies, that they are taking part in bringing social change. Additionally, ethical fashion brands should be aware that in order for the company to be successful, the company needs to keep its promises of meeting fair trade labor standards (Beard, 2008).

However, with the information provided, consumers know People Tree's production sources, which works as evidence that People Tree is actually an ethical, Fair Trade company.

People Tree partners with approximately seventy Fair Trade organizations in twenty developing countries, including Bangladesh, India, Nepal, and Kenya, and when customers browse People Tree's website, they can select any product and see the specific organization where it was manufactured. This transparency answers the concerns of many consumers: that clothing brands which claim to follow ethical and socially sustainable practices are not actually living up to their own claimed standards, but rather give the appearance of ethical production to increase revenue. People Tree takes a different approach to ethical clothing production: through their operations, the company prioritizes ensuring not only the health and safety, but also the personal growth of their suppliers' employees through educational and financial opportunities that would not be available otherwise. Specifically, in Bangladesh, People Tree ensures that the individuals who work for their suppliers are provided with basic health care, education for their children, and interest-free loans. Additionally, in Nepal People Tree provides funding that covers fifty percent of Kumbeshwar Technical School's Primary School expenses. At this school in Kathmandu, 450 women have a stable income and 250 children attend school for free because of Fair Trade operations (Goworek, 2011).

Many factors have contributed to People Tree's success since its founding in 2001. First, People Tree not only prides itself on socially sustainable fashion, but also on its environmentally ethical production, since many of the products are made from organic

materials. Secondly, People Tree has worked hard at combating the negative public perceptions of ethical clothing: many consumers view ethically-sourced clothing as unfashionable. Furthermore, as stated previously, People Tree is highly transparent regarding the source of its products; the company's website openly provides details about the materials with which the products were made and the specific supplier and location where the product was manufactured. Each of these factors has played an important role in People Tree's success, and they are all based on a foundational belief that corporations should hold themselves to a certain level of social responsibility (Goworek, 2011).

A critique and recent issue with Fair Trade clothing is the limited variety of product types and sizes. Specifically regarding People Tree, one study participant claimed that it was virtually impossible to purchase trendy, fashionable clothing. Another respondent stated that though he or she would like to purchase Fair Trade clothing, brands like People Tree do not have larger sizes available (Shaw, et. al., 2006). Furthermore, ethically manufactured clothing products tend to be more expensive, and that is a major deciding factor in consumers' decisions to purchase the products they prefer and can afford, whether or not the products were produced ethically. Therefore, ethical clothing brands need to focus on diversifying their product lines and providing products that are available at a wide variety of prices (Joergens, 2006).

The Role of Corporate Social Responsibility

Corporate social responsibility is the idea that companies have an obligation to do more than make money and expand business operations in order to increase profits even more. In regard to corporate outsourcing, do corporations have an ethical and moral

responsibility to their employees? Ideally, corporations would be socially responsible no matter their operating location. It is obvious, however, that many corporations consider only the impersonal advantages of outsourcing without even contemplating the ethical implications of their decisions (Craciun, 2015). Corporate social responsibility awareness has been a highly discussed topic over the last ten years because of several factors: consumer pressure, increased government regulations (both domestically and in foreign countries), increased demand for operational transparency, and several corporate scandals. Four levels of corporate social responsibility have been determined: economic, legal, ethical, and philanthropic. As a corporation moves up these levels, adhering to the respective responsibility becomes increasingly expensive, but an organization may struggle to survive long-term if it ignores the third and fourth levels. Corporations may not see the potential internal benefits of being socially responsible. Therefore, the issue is whether, and if so, how, corporations should be rewarded or punished for their use or ignorance of ethical accountability (Zutshi, Creed, Sohal, & Wood, 2012).

Private social auditing, also referred to as the compliance model, emerged in response to the outsourcing scandals of the 1990s. Essentially this model calls for non-governmental organizations (NGOs), trade unions, student organizations, and the media to pressure multinational corporations into adopting social and environmental sustainability standards for their manufacturing operations in developing nations. NGOs have been defined as “private organizations that pursue activities to relieve suffering, promote the interests of the poor, protect the environment, and provide basic social services or undertake community development” and have been commonly used in

attempts to enforce corporate social responsibility (Levitt, 2016, p. 6). If put into actual practice, the compliance model would penalize those corporations who did not adopt sustainability measures and reward those who did. Unfortunately, however, this model has not been as successful as was originally anticipated and some research has called for it to be extended or modified in order to increase its effectiveness. First, investigations need to be made into whether or not corporate purchasing practices affect the extent to which suppliers and manufactures abide by imposed labor standards in developing countries. Secondly, corporations need to consider building better relationships, and therefore human capital capacity, with their suppliers in developing nations. By so doing, corporations would increase the value of their human capital since those individuals would likely be more invested in the workings of the corporation, a change that would lead to decreased employee turnover and increased productivity. Overall, better human resource management is believed to lead to increased compliance with imposed labor standards. Finally, local NGOs, organizations, trade unions, or individuals in developing countries could potentially be hired as monitors of manufacturers and suppliers of these corporations. These organizations or individuals would provide regular reports of the actual conditions of the work environment, such as the treatment of workers, health and safety issues, average hours worked, and any other issues that could arise (Lund-Thomsen & Lindgreen, 2014). Other solutions, however, have been proposed since often compliance models are considered unreliable or biased. One such solution that has already taken effect in many corporate settings is that of NGOs stepping in as unbiased and honest mediums in order to monitor the workings of corporations in developing

countries and ensure that labor standards are being followed. Fair Labor Association and Social Accountability International are two NGOs that were created with this purpose in mind. Unfortunately, their effectiveness is being debated and there is concern over whether or not they are actually ensuring that corporations are complying with imposed labor standards (Prakash Sethi & Rovenpor, 2016).

Ultimately, it would seem, the utilization of corporate social responsibility is the decision of each corporation, as many times legal ramifications are never enforced. Consumers will have to decide to support either businesses that practice social sustainability or those corporations which continue to exploit workers in developing nations, if any long-term, permanent changes are to be made.

Conclusion

In recent years, the awareness of corporate outsourcing to developing nations and its uses and consequences has been greatly increasing due to the widespread use of the Internet and easy access to information about corporations. Developing nations typically already have relatively substandard working conditions, and while working for one of these suppliers or corporations may be the preferred option, that does not necessarily mean that substandard treatment should be acceptable. Consumers are becoming increasingly aware of the conditions in which many of these individuals in developing countries work. Many are choosing to purchase their clothing and textile products from ethically-minded organizations, such as People Tree, which ensure that their employees and their suppliers' employees are not only healthy and safe, but also have educational opportunities available to them and their families. Ethical consumerism is on the rise, and

with it comes the downfall of traditional corporate outsourcing in which individuals are exploited for the financial gain of corporations and, indirectly, the benefit of consumers who have become accustomed to choosing the fast fashion purchasing options.

References

- About the Made In America Movement. (n.d.). Retrieved from
<http://www.themadeinamericamovement.com/about-us/>
- Advantages and disadvantages of outsourcing. (n.d.). Retrieved from
<http://www.globaloutsourcingagency.com/adv.html>
- Anwar, S. & Nguyen, L.P. (2011). Foreign direct investment and export spillovers: Evidence from Vietnam. *International Business Review*, 20(2), 177-193.
<https://doi.org/10.1016/j.ibusrev.2010.11.002>
- Basu, A.K., Chau, N.H., & Kanbur, R. (2010). Turning a blind eye: Costly enforcement, credible commitment and minimum wage laws. *The Economic Journal*, 120(543), 244-269. Doi: 10.1111/j.1468-0297.2009.02298.x
- Beard, N.D. (2008). The branding of ethical fashion and the consumer: A luxury niche or mass-market reality? *Fashion Theory: The Journal of Dress, Body & Culture*, 12(4), 447-468. Doi: 10.2752/175174108X346931
- Berik, G. & Van Der Meulen Rodgers, Y. (2010). Options for enforcing labour standards: Lessons from Bangladesh and Cambodia. *Journal of International Development*, 22, 56-85. Doi: 10.1002/jid.1534
- Bonded labour. (n.d.). Retrieved from
http://www.antislavery.org/english/slavery_today/forced_labour/default.aspx
- Brainerd, J. (2018, January 2). State minimum wages | 2018 Minimum wage by state. Retrieved from <http://www.ncsl.org/research/labor-and-employment/state-minimum-wage-chart.aspx#Table>

- Bray, J., Johns, N., & Kilburn, D. (2011). An exploratory study into the factors impeding ethical consumption. *Journal of Business Ethics*, 98(4), 597-608. Doi: 10.1007/s10551-010-0640-9
- Brotherton-Bunch, E. (2017, December 21). Why buying American-made matters so much. Retrieved from <http://www.americanmanufacturing.org/blog/entry/why-buying-american-made-matters-so-much>
- Brown, C. (2017, April 18). Here are 100 brands that are 100% made in the USA. Retrieved from <https://clark.com/shopping-retail/american-made-in-the-usa/>
- Bustinza, O.F., Arias-Aranda, D., & Gutierrez-Gutierrez, L. (2010). Outsourcing, competitive capabilities and performance: An empirical study in service firms. *International Journal of Production Economics*, 126(2), 276-288. Doi: 10.1016/j.ijpe.2010.03.023
- Chan, C.K.C. & Nadvi, K. (2014). Changing labour regulations and labour standards in China: Retrospect and challenges. *International Labour Review*, 153(4), 513-534. Doi: 10.1111/j.1564-913X.2014.00214.x
- Children found sewing clothing for Wal-Mart, Hanes & other U.S. & European companies - National Labor Committee. (n.d.). Retrieved from http://www.law.harvard.edu/programs/lwp/NLC_childlabor.html
- Clark, J.R. & Powell, B. (2013). Sweatshop working conditions and employee welfare: Say it ain't sew. *Comparative Economic Studies*, 55(2), 343+. Doi: <http://dx.doi.org/10.1057/ces.2012.38>

- Craciun, D. (2015). Ethical norms and legal regulations in modern business. *Cogito*, 7(1), 43-56. URL:
liberty.edu:2048/login?url=http://search.proquest.com/docview/1696718380?accountid=12085
- Deavers, K.L. (1997). Outsourcing: A corporate competitiveness strategy, not a search for low wages. *Journal of Labor Research*, 18(4), 503-519. URL:
liberty.edu/long?url=https://search-proquest-com.ezproxy.liberty.edu/docview/214020757?accountid=12085
- Fair labor standards timeline: Evolution of federal minimum wage law. (2013).
Washington: Congressional Digest, 92(5), 2.
- Forced labour. (n.d.). Retrieved from
http://www.antislavery.org/english/slavery_today/forced_labour/default.aspx
- Garcia, M. (2009-2010). China's labor law evolution: Towards a new frontier. *ILSA Journal of International and Comparative Law*, 16(1), 235-256.
- Geishecker, I. & Görg, H. (2008). Winners and losers: A micro-level analysis of international outsourcing and wages. *Canadian Journal of Economics*, 41(1), 243-270. Doi: 10.1111/j.1365-2966.2008.00462.x
- Giuliani, E. & Macchi, C. (2014). Multinational corporations' economic and human rights impact on developing countries: A review and research agenda. *Cambridge Journal of Economics*, 38(2), 479-517. <https://doi.org/10.1093/cje/bet060>

- Goworek, H. (2011). Social and environmental sustainability in the clothing industry: A case study of a fair trade retailer. *Social Responsibility Journal*, 7(1), 74-86. Doi: 10.1108/174711111111114558
- Harpur, P. (2010-2011). New governance and the role of public and private monitoring of labor conditions: Sweatshops and China social compliance for textile and apparel industry. *Rutgers Law Record*, 38.
http://lawrecord.com/files/38_Rutgers_L_Rec_49.pdf
- Hijzen, A., Jean, S., & Mayer, T. (2011). The effects at home of initiating production abroad: Evidence from matched French firms. *Review of World Economics*, 147(3), 457-483. URL: <http://www.jstor.org/stable/41485876>
- Joergens, C. (2006). Ethical fashion: Myth or future trend? *Journal of Fashion Marketing and Management: An International Journal*, 10(3), 360-371.
<https://doi.org/10.1108/136120206106>
- Kara, S. (2011). Supply and demand. *Harvard International Review*, 33(2), 66-71. URL: <http://web.b.ebscohost.com/ehost/pdfviewer/pdfviewer?vid=1&sid=d8672984-0f89-41f9-ab43-adcb0b40f797%40pdv-v-sessmgr01>
- Kozar, J.M. & Hiller-Connell, K.Y. (2013). Socially and environmentally responsible apparel consumption: Knowledge, attitudes, and behaviors. *Social Responsibility Journal*, 9(2), 316-325. Doi: 10.1108/SRJ-09-2011-0076

La Dou, J. (1992). First world exports to the third world—capital, technology, hazardous waste, and working conditions—who wins? *Western Journal of Medicine*, 156(5), 553-554. URL:
<https://www.ncbi.nlm.nih.gov/pmc/articles/PMC1003326/pdf/westjmed00093-0093.pdf>

Legal minimum wage increase in El Salvador. (2017, February 21). Retrieved from
<http://www.fairlabor.org/report/legal-minimum-wage-increase-el-salvador>

Levitt, T. (2016). *Partners for good: Business, government and the third sector*(1st ed.). Burlington, VT: Gower.

Livingston, A. (n.d.). Products made in the USA-Reasons to buy American-made goods. Retrieved from <https://www.moneycrashers.com/products-made-usa-american-made/>

Lund-Thomsen, P. & Lindgreen, A. (2014). Corporate social responsibility in global value chains: Where are we now and where are we going? *Journal of Business Ethics*, 123(1), 11-22. Doi: 10.1007/s10551-013-1796-x

Maximum weekly working hours. (n.d.). Retrieved from <https://www.gov.uk/maximum-weekly-working-hours>

McClain, N.M. & Garrity, S.E. (2010). Sex trafficking and the exploitation of adolescents. *Journal of Obstetric, Gynecologic & Neonatal Nursing*, 40(2), 243-252. Doi: 10.1111/j.1552-6909.2011.01221.x

McNeill, L. & Moore, R. (2015). Sustainable fashion consumption and the fast fashion conundrum: Fashionable consumers and attitudes to sustainability in clothing choice. *International Journal of Consumer Studies*, 39(3), 212-222. Doi: 10.1111/ijcs. 12169

Minimum wages around the world. (n.d.). Retrieved from <https://www.minimum-wage.org/international>

Mukhtar, S. & Rather, S.A. (2014). Hazardous child labor in India: Issues and concerns. *International Journal of Trade & Global Business Perspectives*, 3(2), 1042-1049. URL: [liberty.edu:2048/login?url=http://search.proquest.com/ezproxy.liberty.edu:2048/docview/1649002462?accountid=12085](http://search.proquest.com/ezproxy.liberty.edu:2048/docview/1649002462?accountid=12085)

Munch, J.R. (2010). Whose job goes abroad? International outsourcing and individual job separations. *The Scandinavian Journal of Economics*, 112(2), 339-360. Doi: 10.1111/j.1467-9442.2010.01607.x

Nam, S. (2013). Child labor in Latin America. *Law and Business Review of the Americas*, 19(4), 523-549. URL: [liberty.edu/login?url=https://search-proquest-com.ezproxy.liberty.edu/docview/1544215657?accountid=12085](https://search-proquest-com.ezproxy.liberty.edu/docview/1544215657?accountid=12085)

National Labor Committee. (2006). Child labor is back (Rep.). Retrieved from National Labor Committee website: <http://www.globallabourrights.org/reports/200610-IGLHR-Child-Labor-Is-Back.pdf>

National minimum wage and national living wage rates. (n.d.). Retrieved from <https://www.gov.uk/national-minimum-wage-rates>

- Phau, I., Teah, M., & Chuah, J. (2015). Consumer attitudes towards luxury fashion apparel made in sweatshops. *Journal of Fashion Marketing and Management*, 19(2), 169-187. Doi: 10.1108/JFMM-01-2014-0008
- Prakash Sethi, S. & Rovenpor, J.L. (2016). The role of NGOs in ameliorating sweatshop-like conditions in the global supply chain: The case of Fair Labor Association (FLA), and Social Accountability International (SAI). *Business and Society Review*, 121(1), 5-36. Doi: 10.1111/basr.12079
- Samiee, S. (2008). Advancing the country image construct-A commentary essay. *Journal of Business Research*, 63(4), 442-445.
<https://doi.org/10.1016/j.jbusres.2008.12.012>
- Samiee, S., Shimp, T., & Sharma, S. (2005). Brand origin recognition accuracy: Its antecedents and consumers' cognitive limitations. *Journal of International Business Studies*, 36(4), 379-397. Doi: 10.1057/palgrave.jibs.8400145
- Schieberl, J. & Nickles, M. (2014). Outsourcing U.S. jobs abroad: Why? *The International Business & Economics Research Journal*, 13(2), 253-258.
- Sealetsa, O.J. & Thatcher, A. (2011). Ergonomics issues among sewing machine operators in the textile manufacturing industry in Botswana. *Work*, 38, 279-289.
Doi: 10.3233/WOR-2011-1131
- Shah, A. (2006, May 28). Corporations and worker's rights. Retrieved from <http://www.globalissues.org/article/57/corporations-and-workers-rights>

- Shaw, D., Hogg, G., Wilson, E., Shui, E., & Hassan, L. (2006). Fashion victim: The impact of fair trade concerns on clothing choice. *Journal of Strategic Marketing*, *14*(4), 427-440. Doi: 10.1080/09652540600956426
- Skarbek, D., Skarbek, E., Skarbek, B., & Skarbek, E. (2012). Sweatshops, opportunity costs, and non-monetary compensation: Evidence from El Salvador. *American Journal of Economics and Sociology*, *71*(3), 539-561. Doi: 10.1111/j.1536-7150.2012.00827.x
- Tayauova, G. (2012). Advantages and disadvantages of outsourcing: Analysis of outsourcing practices of Kazakhstan banks. *Procedia – Social and Behavioral Sciences*, *41*, 188-195. Doi: 10.1016/j.sbspro.2012.04.023
- United States Census Bureau. (n.d.). Statistics of U.S. Businesses (SUSB). Retrieved from <https://www.census.gov/programs-surveys/susb.html>
- United States textiles and clothing imports by country and region. (n.d.). Retrieved from https://wits.worldbank.org/CountryProfile/en/Country/USA/Year/2016/TradeFlow/Import/Partner/all/Product/50-63_TextCloth#
- Webbink, E., Smits, J., & de Jong, E. (2012). Hidden child labor: Determinants of housework and family business work of children in 16 developing countries. *World Development*, *40*(3), 631-642.
<https://doi.org/10.1016/j.worlddev.2011.07.005>

- Woffinden, K. (2007). Surfing the next wave of outsourcing: The ethics of sending domestic legal work to foreign countries under New York City opinion 2006-2. *Brigham Young University Law Review*, 2, 483-529. URL: [liberty.edu/login?url=https://search-proquest-com.ezproxy.liberty.edu/docview/194370179?accountid=12085](https://search-proquest-liberty.edu/login?url=https://search-proquest-com.ezproxy.liberty.edu/docview/194370179?accountid=12085)
- Zutshi, A., Creed, A., Sohal, A.S., & Wood, G. (2012). Consideration of selflessness and self-interest in outsourcing decisions. *European Business Review*, 24(3), 287-303. <https://doi.org/10.1108/09555341211222521>