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Workers' Rights and Labor Compliance in Global Supply Chains

Is a Social Label the Answer?

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ROUTLEDGE

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The Designated Supplier Program and the Alta Gracia Label

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In 2005, the Worker Rights Consortium (WRC), a U.S. nonprofit labor-rights-monitoring organization founded by student anti-sweatshop activists and universities that maintain licensing agreements with sportswear-apparel brands, proposed a system by which licensees would be expected to enforce enhanced labor standards in the production of university-logo apparel and to pay prices to their suppliers sufficient to make compliance feasible. This initiative—known as the Designated Suppliers Program, or DSP—has been endorsed by several major U.S. universities and colleges; however, stiff opposition from the apparel industry and other obstacles have prevented the program's implementation. Recently, however, one apparel brand, Knights Apparel, working with a former sportswear-apparel factory in Villa Altagracia in the Dominican Republic, has launched the Alta Gracia brand of T-shirts and sweatshirts. This brand, designed for the U.S. collegiate market, embraces key principles of the DSP. Workers have a union and are paid a 'living wage' three times above the national minimum wage for the industry. Knights Apparel ensures that the factory is in an economic position to pay the living wage, meet all other labor standards, and employ workers fulltime, year-round. The factory's labor conditions are integral to the marketing of the products, which bear hang tags explaining the meaning of a living wage and a union to workers. In the first part of this two-part chapter, Scott Nova of the U.S.-based Worker Rights Consortium makes the argument for initiatives such as the DSP and Alta Gracia, which are geared toward a reform of the industry-pricing and sourcing practices to make social compliance in apparel supply chains feasible. In the second part, John Kline, Professor at the Walsh School of Foreign Service, Georgetown University, considers the social labeling challenges that the Alta Gracia case poses for NGOs, corporations, and consumers.

1 How Apparel-Industry Pricing Practices Undermine Labor Rights Progress

After nearly two decades of corporate codes of conduct and monitoring programs, subpoverty wages and abusive working conditions remain the norm in global apparel supply chains. The basic problem is straightforward: the pricing and sourcing practices of brands and retailers in North America and Europe ensure that their contract-apparel factories operate in an environment of intense price pressure and debilitating economic volatility. Even as the brands and retailers have made a public show of exhorting their suppliers to improve their labor practices, they have refused to accept the increased production costs necessary for genuine reform and have held fast to a business model that employs short-term, buyer-supplier contracts and the constant shifting of production between suppliers to force the latter to accept ever-lower prices.[1] This approach to sourcing is anathema to the goal of achieving and maintaining respect for worker rights. As a result, labor-rights violations remain widespread, despite the proliferation of private codes of conduct and monitoring regimes.

To address this problem, the Worker Rights Consortium helped to design and promote a reform program for the university-apparel sphere, known as the Designated Suppliers Program (DSP).[2] Under this program, brands making university apparel would be required to pay fair prices and make long-term commitments to their suppliers. The program involves a list of compliant suppliers, backed up by a product label intended to indicate to university-apparel consumers that their apparel has been produced under enhanced labor standards including living wage and union rights. Although the program has been endorsed by several major U.S. universities and colleges, it has not yet been implemented and has met with stiff industry resistance. This article explains why the supply-chain reforms embodied in the DSP—most importantly, fair prices for contract factories—are essential if decent working conditions and wages are to be achieved in the global apparel industry.

Unfortunately, while the central role of price pressure in retarding labor-rights progress is well understood by most labor-rights advocates, it is often obscured in professional and academic discourse about corporate social responsibility. The apparel industry is wedded to the existing production model and eager to deflect blame; it cannot acknowledge that its own pricing practices are the primary obstacle to progress.[3] Industry spokespeople instead offer explanations for the persistence of sweatshop conditions that largely or completely ignore price issues and focus instead on managerial weaknesses at the factory level and/or ostensible flaws in the technical design of monitoring programs. An analytical approach that treats the economics of buyer-supplier relationships as incidental to suppliers' labor practices defies logic, but this has not prevented apparel brands from advancing the argument,[4] or some academic analysts from giving it credence (Locke and Romis 2007: 60).

These analyses—whether written by academics, industry-funded nongovernmental organizations, or brands themselves—either ignore price issues entirely or minimize their importance. Locke and Romis, for example, note that suppliers complain of the contradiction between brand requests for improved labor conditions and the brands' simultaneous insistence on lower prices; however, they dismiss this criticism as a misperception, a product of mistrust, and lack of communication between brands and suppliers. The parties, Locke and Romis argue, can escape this 'low-trust trap' through 'more collaborative and transparent relations' geared toward the improvement of 'management systems.' The trouble with this analysis is that the suppliers' perception is entirely accurate: the brands' refusal to relent on their demands for lower prices is a massive obstacle to labor-rights improvements. This problem will not be solved through better communication or trust building; it will be solved when the brands bring prices into line with the cost of producing under humane conditions—a strategy Locke and Romis do not discuss.

The most common argument is that abuses persist because factory managers lack the 'capacity' to manage their businesses in a responsible way and often chafe at efforts by their customers to coerce them into improving their practices. According to this line of reasoning, the core problem is a deficit of managerial competence and skill, and the absence of sufficiently robust 'management systems' at contract factories—under which circumstances, the brands' employment of coercive means to compel improvements leads only to frustration and a breakdown in communications. The solution is for the brands to provide more 'training' and 'capacity building' and to move away from 'policing' and toward 'partnership' with suppliers.

The Fair Labor Association (FLA), a nongovernmental monitoring organization whose members include Nike, Phillips-Van Heusen, H&M and other leading apparel brands, provides an illustrative example of this argument:

> [A]udits are often perceived as policing; factories know they will fail . . . This results in no trust between customers and their suppliers . . . FLA 3.0, the FLA's new sustainable compliance methodology . . . [is] designed to help factories assess their own level of labor compliance and build capacity to implement systems to fill compliance gaps by addressing root causes of labor violations . . . Factories work in collaboration with affiliated companies and the FLA to take increasing responsibility for the progress and sustainability of their labor compliance programs. FLA 3.0 shifts the monitoring emphasis from policing to partnership. In the partnership approach, the 3.0 assessment reveals substantive information about the factory's strengths and weaknesses and provides a roadmap for improve. The results . . . are used to develop a capacity building program.[5]

The FLA is by no means alone in expressing this view. Most of the prominent labor-rights organizations with industry membership and funding emphasize 'capacity building' at the factory level and ignore or downplay prices issues; these include, for example: Social Accountability International, Worldwide Responsible Apparel Production, Global Social Compliance Program, Ethical Trading Initiative and Business for Social Responsibility.

Company representatives offer similar explanations for the weakness of existing industry code-of-conduct programs. Bill Anderson, a senior labor-rights compliance official at adidas Group, is quoted in a publication of the nongovernmental organization Business for Social Responsibility (BSR): 'A policing model is not a sustainable approach. It only addresses the immediate concerns and cannot tackle the root causes of the problem.' BSR explains that 'six years ago adidas adopted a policy of partnering with suppliers, in place of policing, to help them develop the necessary management systems to address social and environmental issues.'[6] It is worth noting that this perspective, while unflattering to factory owners and managers in terms of their professional competence, largely exonerates them in moral terms, as it does the brands.

When knowledgeable people in and around the apparel industry opine about the 'root causes' of substandard working conditions, one might assume the reference is to the underlying economics of a price-driven business. Such is not the case. Missing from the above, and other kindred analyses, is any serious consideration of the relentless price pressure that continues to define industry-sourcing practices, how this pressure constrains supplier action on labor rights, and, of equal importance, what the remarkable continuity in industry-pricing practices tells us about the sincerity of brands' stated commitment to the well-being of the workers who make their clothes.

It is important to consider the ideas embedded in this line of argument. First, to aver that the primary obstacle to progress is the inability of contract suppliers to accommodate the brands' demands that worker rights be respected, it is necessary to assume that the brands have, in fact, made such demands—not just rhetorically, but in the real world of buyer-supplier relationships. It makes little sense to ask why the industry's labor-rights efforts are being stymied unless one assumes that genuine efforts are being made. Moreover, one must consider it plausible that a brand like Nike—with US$21 billion in annual turnover, operating a business that is predicated on precise control of events in the supply chain—lacks the managerial acumen and the financial resources to figure out how to bring its suppliers into compliance with internationally recognized labor standards, despite having had nearly 20 years to get the job done.[7] In other words, the argument the industry and sympathetic observers put forward, that the apparel brands and retailers have tried but failed to achieve their stated labor-rights goals, assumes that the brands are good-faith actors who have made a genuine effort to protect the rights of the workers in their supply chains and are just learning now, after two decades of earnest endeavor, that they have been going about their task the wrong way.

In considering the reasonableness of assuming good faith on the part of major brands and retailers, it is instructive to recall the history of labor rights and codes of conduct in the global apparel industry. By 1990, apparel brands and retailers in the United States were importing US$27 billion worth of apparel into the country; one-third of all apparel sold in the United States was being made overseas, most of it in developing countries (Ross 2002: 115). Yet, despite the labor-rights challenges inherent in a strategy of locating production where labor is cheapest, in countries where the rule of law is weak, as of 1990, not a single major brand or retailer had adopted a code of conduct, or a monitoring program, or any other formal plan for protecting the rights of workers in contract factories.[8] The brands chose to concentrate production in countries where they knew, or should have known, that worker rights' violations were certain to be widespread and then failed to adopt any prophylactic measures.

Moreover, even when publicly challenged over labor-rights violations in its supply chains, the industry was slow to respond. When exposés by human-rights activists began to generate outrage among consumers, the initial response of high-profile apparel brands was not to take action to protect workers; instead, the industry tried to deny responsibility, arguing that since the brands did not directly own the factories, the brands had few obligations to the workers. Only when this argument fell flat with consumers and opinion leaders did major brands finally accepted that they had a responsibility for the working conditions under which their clothing is made.

There was, and is, an economic basis for the industry's reluctance to address labor-rights issues: low wages, lax regulation and the absence of unions in a given locale make it inexpensive to manufacture clothing. *New York Times* columnist Bob Herbert captured this point in a column penned in 1998, with a rhetorical question concerning Nike's practices in Vietnam: 'Does anyone think it was an accident that Nike set up shop in human rights sinkholes, where labor organizing was viewed as a criminal activity and deeply impoverished workers were willing, even eager, to take places on assembly lines and work for next to nothing?' (Herbert 1998). This same question can appropriately be asked about virtually every major U.S. and European apparel brand and retailer.

Conversely, increasing wages, stiffening regulation, and respecting the right to bargain collectively raises production costs. If factories are going to start paying workers properly, protecting their safety in the workplace, providing legally mandated benefits that were previously denied, and allowing unions, factories' labor costs are going to increase. Their overall production costs will still be low because labor is inexpensive in the developing world, but prices are not going to be as low as they could be. Ending sweatshop conditions thus means an end to sweatshop prices. Brands and retailers, though compelled by public pressure to promise efforts to improve working conditions, have a strong economic incentive to ensure that their efforts are ineffective.

Given the economic realities of global apparel production, and the labor-rights track record of major apparel brands and retailers, any effort to explain the lack of progress achieved through industry labor-rights initiatives should begin by asking an obvious question: Have the brands and retailers pursuing these initiatives committed to factoring the cost of improved labor practices into the prices they pay to suppliers? The answer is that brands and retailers have not done so. This is where the system of codes of conduct and monitoring broke down. Even as the apparel corporations made, and continue to make, public pledges to protect the rights of workers, and even as they officially instruct their contract factories to make improvements that carry significant costs, sourcing companies continue to demand price *reductions* and/or greater efficiencies from the factories.

The advent of codes of conduct and monitoring has thus left factories with a Hobson's choice. They are asked to meet two mutually exclusive demands: improve labor practices and cut prices. Factories can either do what it takes to meet the labor standards, which means being unable to meet the price demands, or meet the price demands and continue to violate worker rights (while doing their best to cover up the reality when the monitors came to inspect).

As rational economic actors, most factories have responded to this dilemma in a rational way: by assessing the costs and benefits of each course of action. If factories fail to meet a customer's price demands, the consequences are severe and immediate: the order is lost. Enough lost orders, and the factory is out of business. If, however, factories fail to comply with the labor standards, punishment is less sure and less severe. Due to the superficial way in which brands and retailers generally monitor labor-rights compliance, it is often possible for a factory that is violating worker rights to avoid getting caught. When violations *are* uncovered, the factory is almost always given ample opportunity to correct the problem and can often get away with partial and short-lived improvements, returning to business as usual shortly after the monitors are gone. The choice for most factories has therefore been clear: meet buyers' price demands by continuing to operate as a sweatshop, while seeking to remain 'under the radar' of labor-rights inspectors. In some cases, factory owners employ 'any means necessary' to achieve this goal, including falsifying factory records, coaching workers on what to say to investigators, and other forms of subterfuge. (For an illuminating discussion of this dynamic, see Harney 2008).

Employing an alternative worker-focused approach to monitoring, the Worker Rights Consortium has been able to uncover labor-rights violations that industry monitors miss, and, in the process, has witnessed firsthand the extraordinarily destructive impact the industry's pricing practices have had on working conditions. In pressing factories to fully correct labor-rights violations, the WRC has faced intense resistance. Managers believe that if they actually have to comply with the labor codes, they will be undercut by competitors who can continue to run roughshod over worker rights because they have not had the bad luck to get caught. When improvements are achieved, it requires constant vigilance to prevent the factory from backsliding, and sometimes, even constant vigilance is inadequate, because the price pressure is still there. Moreover, WRC case files include many cases concerning factories that have been successfully persuaded to improve their practices, only to be punished in the marketplace as orders have been shifted to factories that are not constrained in their efforts to hold down labor costs by a policy of actually respecting worker rights.

The BJ&B factory in Villa Altagracia, Dominican Republic for example, which produced caps for Nike and Reebok, was among the first factories where the codes of conduct of WRC-affiliate universities were brought to bear to improve labor conditions. In 2002, BJ&B management recognized the union that a majority of workers had elected to join, and a few months later, signed a collective-bargaining agreement—the first in any free-trade-zone factory in the Dominican Republic to provide for wages above the legal minimum. However, beginning shortly after the agreement was signed, the major brands that previously had sourced from the factory began to reduce orders, while the Korean parent company shifted production to nonunion facilities in Bangladesh and Vietnam. The plant's steady reduction in personnel culminated in its closure. Similarly, at the Sinolink factory in Mombasa, Kenya, factory management responded constructively to the WRC's findings and undertook important improvements in working conditions, including becoming the first factory in the Mombasa export-processing zone to demonstrate respect for workers' associational rights by formally recognizing a union chosen by employees. However, these improvements were eroded due to the factory's inability to secure sufficient business. Despite the WRC's appeals to major licensees and other brands that had been producing in the factory prior to the improvements, none of the companies agreed to return. Finally, the Lian Thai factory in Bangkok, Thailand, made substantial improvements in its labor practices in response to efforts by its employees' union and a WRC investigation in 2003. The company focused significant investment of time and resources toward improving health and safety in the workplace (including significant improvements in the area of ergonomics, something very unusual in the industry) and engaged in constructive negotiations with the union, resulting in one of the only meaningful collective-bargaining agreements in the country's apparel sector. However, the major brands using the factory prior to these improvements—including Puma and Nike—declined to continue doing business at the facility, precipitating its closure.[9]

Any program designed to achieve and sustain good working conditions and wages in global apparel supply chains must require participating brands and retailers to pay prices to suppliers commensurate with the cost of producing in compliance with the applicable labor standards. Any program that does not place the onus on the participating brands and retailers to create financial conditions for suppliers in which compliance is feasible will fail to generate meaningful gains for workers. Fair prices are not a sufficient condition; aggressive independent monitoring is also crucial, although this function can and should be performed primarily by democratic labor unions inside the factory, rather than by monitors outside.

The costs of producing in a responsible manner are not prohibitive. The most costly element of decent labor conditions, by far, is the payment to workers of a living wage. Yet, as illustrated in Table 14.1 and Table 14.2, in developing countries, labor costs typically account for only 1–2 percent of the retail price of a garment. Thus, even assuming all costs are passed on to consumers, doubling labor costs (by doubling wages) would result in retail price increases of roughly 1–2 percent; tripling wages would result in price increases of 2–4 percent. To be sure, these costs are not negligible and increases may be higher as the increase at factory prices is passed through (Miller & Williams 2009); much depends on the pricing decisions of wholesalers and retailers, who may choose to set prices higher in an effort to maintain a certain gross profit margin. However, even assuming higher 'markups,' and a complete pass through of costs to consumers, the price impact of enormous wage increases is still very modest. Moreover, it is well within the means of many multinational apparel brands to absorb these costs without passing them on to consumers

Table 14.1 Consequences of Wage Increases on Apparel Production Costs: Men's Knit Shirt (Manufactured in Philippines)

Apparel Costs	Costs at current wage rate	Impact of 50% wage increase	Impact of doubling wages	Impact of tripling wages
Nonlabor costs of production (incl. fabric & other materials, factory overhead & profit)	$7.31	$7.31	$7.31	$7.31
Labor costs of production (incl. direct & supervisory labor)	$0.69	$1.03	$1.38	$2.06
Freight-on-Board (FOB) price (price to brand at factory door: includes all labor & nonlabor factory production costs)	$8.00	$8.34	$8.69	$9.38
Labor costs as a % of FOB price	8.6%	12.4%	15.8%	22.0%
Landed-Duty-Paid (LDP) price (final cost to brand: includes FOB price plus shipping, duty, delivery, insurance, & customs clearance)	$10.00	$10.34	$10.69	$11.38
Labor costs as a % of LDP price	6.9%	10.0%	12.9%	18.1%
Wholesale price	$20.00	$20.34	$20.69	$21.38
Labor costs as % of wholesale price	3.44%	5.07%	6.65%	9.65%
Retail price	$44.00	$44.34	$44.69	$45.38
Labor costs as % of retail price	1.56%	2.33%	3.08%	4.55%
% change in retail price	0%	0.78%	1.54%	3.03%

Source: Birnbaum 2000: 211, with additional calculations by the WRC.

Table 14.2 Consequences of Wage Increases on Apparel Production Costs: Embroidered Logo Sweatshirt (Manufactured in Dominican Republic)

Apparel Costs	Costs at current wage rate	Impact of 50% increase in wages	Impact of doubling wages	Impact of tripling wages
Nonlabor costs of production (incl. fabric & other materials, factory overhead & profit)	$5.89	$5.89	$5.89	$5.89
Labor costs of production (incl. direct & supervisory labor)	$0.45	$0.68	$0.90	$1.35
Freight-on-Board (FOB) price (price to brand at factory door: includes all labor & nonlabor factory production costs)	$6.34	$6.57	$6.79	$7.24
Labor costs as a % of FOB price	7.1%	10.3%	13.3%	18.6%
Landed-Duty-Paid (LDP) price (final cost to brand: includes FOB price plus shipping, duty, delivery, insurance, & customs clearance)	$7.89	$8.12	$8.34	$8.79
Labor costs as a % of LDP price	5.7%	8.3%	10.8%	15.4%
Wholesale price	$15.78	$16.01	$16.23	$16.68
Labor costs as a % of wholesale price	2.85%	4.22%	5.55%	8.09%
Retail price	$35.00	$35.23	$35.45	$35.90
Labor costs as % of retail price	1.29%	1.92%	2.54%	3.76%
% change in retail price	0.00%	0.64%	1.27%	2.51%

To put this in perspective, consider that the sale of Reebok to Adidas in 2005 generated a US$700 million payday for Reebok CEO Paul Fireman. Had Fireman been willing to make do with a mere US$200 million, the remaining funds would have been sufficient to double the wages of *every worker* assembling Reebok shoes and apparel in the company's global supply chain—for seven years.[10] As it happened, Fireman had other priorities for the money. Notably, he spent $250 million to build a private luxury golf course on the Hudson River, overlooking Manhattan, to 'create a legacy' for himself. Membership in Fireman's Liberty National Golf Course costs US$500,000, plus annual dues (Bertoni 2011).

The potential thus exists for a transformation of wages and working conditions in the apparel industry. The realization of that potential requires political action: although the cost impact would be modest, the most powerful actors in the industry, the brands and retailers, have a vested interested in resisting any change that would increase costs and narrow profit margins. Overcoming that resistance depends, in part, on combatting the industry's efforts to obfuscate the economic dynamics that perpetuate labor-rights abuses.

In an encouraging development, an initiative incorporating fundamental supply-chain reforms, and featuring a living wage for workers that is several multiples of the prevailing apparel wage, is now underway in the Dominican Republic. The initiative involves a new apparel brand, Alta Gracia, that is committed to respect for worker rights and to pursuing a marketing strategy that relies on social labeling. This initiative has already demonstrated that a living wage and respect for union rights can be achieved with minimal impact on the retail price of apparel,[11] although there are practical implications for the stakeholders. These are now discussed in the second part of this chapter.

2 The Alta Gracia Case: A Social-Labelling Challenge for NGOS, Corporations and Consumers

Background

Alta Gracia apparel is cut and sewn at a factory in Villa Altagracia in the Dominican Republic (Kline 2010). Some 130 factory workers are all paid a 'living wage' nearly 350 percent above the legal minimum wage. The workers have organized a recognized union, SITRALPRO, and engaged in a collective-bargaining process. Factory health-and-safety operations conform to standards recommended after inspections by occupational health and safety professionals from a U.S. NGO, the Maquiladora Health and Safety Support Network (MHSSN). The Workers' Rights Consortium (WRC) closely monitors factory compliance with the provisions of an agreement on enhanced labor standards. Alta Gracia apparel is the only product that carries a label from the WRC verifying that the product was produced under these specific high labor standards. Alta Gracia can legitimately claim to be 'the only clothing brand in the developing world known to have achieved these standards.' (Kline and Soule 2011: 3)

One of the most notable victories of the campus anti-sweatshop movement occurred nearly a decade ago in Villa Altagracia's Foreign Trade Zone (FTZ). A Korean-owned factory, BJ&B, employed as many as 3,000 workers to make caps primarily for North American brands. After years of hard-fought efforts by workers, the company finally accepted a union and in 2003 signed the first collective-bargaining agreement in a Dominican Republic FTZ that set wages and working conditions significantly above the legal minimum. This achievement was aided by a decisive push from campus activists organized through United Students Against Sweatshops (USAS) to convince BJ&B's brand clients to take more responsibility for the factory's work conditions, and specifically, the freedom of association standard (Ross 2006). The victory proved short-lived, however, as factory orders dropped, workers were laid off, and BJ&B abruptly closed in 2007 with all-too-typical controversy over severance pay (Adler-Milstein 2008). For Villa Altagracia, the closure meant the loss of the town's only remaining significant employer. Without job options, residents moved away, commuted to housework jobs in Santo Domingo, or simply tried to survive with periodic menial tasks while moving in with, or borrowing from, relatives.

The WRC, which had worked with BJ&B's union, engaged in discussions with Knights Apparel regarding establishing a factory with model labor conditions. Knights Apparel is a leading producer of licensed collegiate apparel but lacked its own brand to compete for university bookstores sales. The company worked with WRC, as well as local NGOs and representatives from the former BJ&B union (and the national union federation with which it was affiliated, known as FEDOTRAZONAS), to reach a framework agreement on enhanced labor standards for a new apparel factory in Villa Altagracia. The location offered the advantage of many skilled but unemployed apparel workers. While the workers' union history would cause many companies to avoid the town, Knights Apparel was not deterred since it had already agreed to respect the right of workers to organize. After a major capital investment to upgrade the old

BJ&B facility and a hiring process overseen by independent NGOs, the Alta Gracia factory began to ramp up operations in April 2010. The Alta Gracia brand was progressively rolled out during the 2010–2011 academic year. The product enjoyed sales success, particularly in stores offering ample display space and on campuses with organized and active student support. However, initial year orders were insufficient to fill the factory's productive capacity, leading Knights Apparel to shift production from some of its contract factories to Alta Gracia to keep the workers employed. In the process, Knights Apparel was losing money on these lower-priced, non-Alta Gracia goods, due to the factory's higher labor-cost structure.

3 The NGO Evaluation Challenge

The anti-sweatshop movement led most universities to adopt licensing codes of conduct designed to assure that apparel carrying the university's logo is not made under sweatshop labor conditions. Although the specific wording of university codes can differ substantially, no effective effort was made to assess the differences or seek common standards among university codes on specific items such as wage rates, hiring practices, safety conditions or how to evaluate whether the right to organize and bargain collectively was being respected. A minimal ethical standard had been established—'not a sweatshop.' As a result, attention shifted from workplace standards to monitoring and enforcement in the belief that effective monitoring would ensure that university-licensed apparel was not produced in sweatshops. Unfortunately, only the most egregious cases, usually involving severe violations of local law, gain significant enforcement attention. As long as blatant factory violations are not vocally protested by workers willing to risk their job, and often their safety, the 'not a sweatshop' standard is assumed, by many universities, to be both sufficient and effective, an assumption disputed by some labor-rights groups.

Alta Gracia challenges this minimal ethical standard by adopting a clearly much higher set of workplace conditions. Most notable is the commitment to a 'living wage,' calculated by the WRC on the basis of a transparent process and yielding a wage rate nearly 350 percent higher than the mandated legal minimum wage (WRC 2010). Any overtime work is paid an additional 35 percent for evenings with weekend or holiday hours drawing a 100 percent premium, consistent with Dominican law. Workers are employed year-round, without layoffs or furloughs, and employees even receive paid leave for work holidays that, under local law, are normally treated as unpaid leave. However, the predictable focus on Alta Gracia's 'living wage' provisions often misses the array of other unusually good workplace conditions. For example, in line with recommendations from MHSSN inspectors, the factory upgraded electrical connections for safety, added signage for emergencies, improved both ventilation and lighting and purchased ergonomic chairs for the workers.

The form and tenor of management-labor relations also plays a crucial role in shaping Alta Gracia's workplace. A modular team-based production system eliminates typical layers of oppressive supervisors, permitting workers to organize and manage their workloads, with a trainer available when needed. Management is both accessible and responsive to worker inquiries and suggestions, either individually or through union representatives. From the beginning, management permitted union representatives access to the factory for information sessions covering worker rights to freedom of association and then recognized the SITRALPRO union once it formed. Alta Gracia management and SITRALPRO have engaged in a collective-bargaining process.

When questioned (Kline and Soule 2011: 12) about the difference between their current jobs compared to other factories where they had been employed, Alta Gracia workers inevitably cited 'salario digno,' as 'living wage' is translated in Spanish. However, the English wording is inadequate to capture the more inclusive concept of 'salary with dignity' that is encompassed in the Spanish translation and embodied in Alta Gracia's workplace conditions. More than just a level of monetary compensation, 'salario digno' requires a standard of treatment and respect for workers that values them as true partners in the production process, recognizing not just their level of output but the quality of their input and the dignity of their person. For virtually all the workers at Alta Gracia, 'salario digno' includes a wage that meets normal family necessities and permits hope for future progress, a safe and healthy workplace, and a management-labor system that respects individual and collective worker rights.

Alta Gracia's workplace conditions offer a new higher standard for an ethical global-apparel factory.

The question for NGOs and universities concerned about workplace practices in global-apparel factories is: how should Alta Gracia be evaluated and treated? The factory is clearly 'not a sweatshop,' so its apparel can be licensed and sold in university bookstores. But, do its higher ethical standards merit differentially better recognition and treatment? The WRC implicitly answers 'yes' in permitting Alta Garcia products to carry a hang tag with WRC's verification that the apparel was produced under conditions respecting worker rights, including a living wage and freedom of association (Kline and Soule 2011: 10).[12] The WRC may be willing to consider a similar verification and social-labeling arrangement for other factories prepared to meet the same enhanced labor standards. But, what should be the practical meaning of the WRC's action?

If Alta Gracia apparel is treated by universities and NGOs the same as other brands that at best meet current 'not a sweatshop' standards with problematic enforcement, there is little incentive for companies to improve workplace conditions further. But if Alta Gracia products embody significantly different and desirable standards with strict verification, they could be endorsed and supported preferentially, with universities embracing a goal to increase Alta Gracia sales. Certainly, such an endorsement is consistent with the self-proclaimed mission of many universities that promote individual rights and dignity and seek to better the human condition. If successful, such differential treatment of collegiate apparel might encourage a 'race to the top' as other brands move from minimal to enhanced ethical-workplace standards. The basic minimal floor of 'not a sweatshop' could even be raised by refining or revising the definition of university codes to reflect the proactive concept of 'salario digno' that provides respect now and hope for the future, rather than settling for current reactive standards designed primarily to limit only the worst forms of labor abuses in traditional sweatshops.

4 The Company Competitiveness Challenge

Alta Gracia's example of higher workplace standards results in increased costs, placing the firm at a competitive disadvantage in a global industry where cost reductions generally come from pressures to lower labor costs, as reflected in poor wages and other working conditions. Critics have denounced footloose brands and retail stores that appear to place constant pressure on foreign suppliers to reduce costs, with the implied and real threat that orders can be shifted to other factories willing to accept a lower price. While the pressure is directed at factory owners, the burden of meeting cost-reduction demands inevitably falls on workers who often already suffer from the lower minimum-wage rates and fewer labor protections required in FTZs (Kline and Soule 2011: 28).[13]

Most economic analyses of the global apparel industry account for its low wages and poor labor conditions by citing the competitive market pressures facing apparel factories, particularly in labor-intensive cut-and-sew operations. Thousands of factories compete to fill overseas apparel orders, with price generally the determining factor if quality and reliability are satisfactory. Many cost factors are relatively fixed by location, such as transport or government taxes. Labor costs are treated as variable, subject to downward pressure where high unemployment exists and unions are banned or discouraged. These circumstances are often portrayed as simply the workings of impartial market forces, perhaps a regrettable but probably necessary stage that countries must go through on the path to greater development.

However, a narrow focus on competing factories misrepresents the industry's structure. If the full business value chain is considered, it becomes clear that the cutthroat competition among thousands of small apparel factories in developing countries is fostered by the relatively small number of large brands and retail firms in developed countries that wield oligopsony bargaining power. As we have seen in Part 1, in the global-apparel industry, the big buyers are price-setters and the small factories are price-takers who then attempt to meet the buyers' lower price demands by further squeezing workers who, in most circumstances, have few job alternatives and can rather easily be replaced. The image of free-market competition dispassionately apportioning economic benefits among elements of the apparel sector paints a false portrait.

By committing to pay a 'living wage' and other enhanced labor conditions at the Alta Gracia factory, Knights Apparel adopted a production cost structure that places the brand at a price disadvantage versus other large apparel buyers. As a result, to make up for the increased cost of higher labor standards, Alta Gracia products must be priced at a substantial premium or other offsetting cost reductions must be found. The company decided not to use social labeling to seek a price premium above comparable products, as in the Fairtrade model. As Knights Apparel's Chief Executive Officer (CEO) Joe Bozich summarized the decision: 'Obviously we'll have a higher cost . . . But we're pricing the product such that we're not asking the retailer or the consumer to sacrifice in order to support it' (Greenhouse 2010: B1). In reality, Alta Gracia apparel is priced toward the high end of the collegiate market for T-shirts and sweatshirts, but generally at or somewhat below the price of brand-name competitors of comparable product quality. Knights Apparel seeks to offset higher labor costs through increased productivity and reduced marketing expense.

Productivity gains come from a workforce truly dedicated to producing high-quality apparel because workers know the product must be successful to sustain their well-paid jobs over the long term. Turnover is also extremely low at the factory, less than 5 percent over the first year compared with factory averages up to six times higher. With normal training periods requiring 90 days before new workers are fully productive, worker retention also contributes to better productivity. Social labeling and social-media promotion by student groups on campuses translate into some cost-savings on marketing for Alta Gracia products. This approach must be effective to establish a new brand of apparel in university bookstores, as well as to help offset the factory's higher labor costs.

Finally, Knights Apparel management has indicated their willingness to accept a somewhat lower profit than competitor firms to maintain the higher labor standards. Having established enhanced labor standards in the factory as a 'fixed cost' minimum for the Alta Gracia brand, other components of the business value chain must be treated as more variable. Whatever labor cost elements cannot be offset by greater productivity and lower marketing costs will effectively reduce Knights Apparel's profits from Alta Gracia products. As CEO Bozich recognized, 'Knights will absorb a lower-than-usual profit margin' (Greenhouse 2010: B1). This business-management decision prioritizes worker welfare over profit maximization, altering the dynamics of the industry's oligopsony bargaining model. However, to be sustainable, the factory still must reach some acceptable level of profitability. This goal understandably was not achieved in the first year of operation, but after its second year, Alta Gracia became commercially competitive. Whether or not losses return, and the factory fails, or orders generate enough demand to sustain or expand productive capacity, depends ultimately on universities, the primary retailers of Alta Gracia products through their campus stores, and on the consumer.

5 The Consumer Choice Challenge

Social labeling depends on the premise that consumers will hear, understand and care enough about a socially based message to influence their purchase decisions in favor of a socially labeled product. Various studies report an openness and interest among a significant minority of the public, especially youth, to consider such factors and, for some lesser segment, even a willingness to pay somewhat more for products aligned with their social values (Hertel et al. 2007, Millennial Cause Study 2006, Smith 2009). In the collegiate-apparel market, social labeling was not employed in marketing because the minimal 'not a sweatshop' standard for licensing already theoretically excluded products that failed to meet this minimum threshold and rival brands chose not to compete on the basis of comparatively better workplace conditions. Occasionally, monitoring of university codes reveals a brand's failure to enforce code requirements on supplier factories, bringing student protests against the firm and its product sales. However, these actions, to be effective, require substantial energy and their impact is necessarily narrow.[14] The limited resources of activists, and of independent enforcement bodies like the WRC, create a 'whack-a-mole effect,' in which efforts are made to beat down violations of minimal labor standards even as new violations continue to emerge under the relentless price pressure imposed on suppliers (Kline 2010: 8). Little additional time and energy is available for initiatives that could further improve the current baseline standard for minimal workplace conditions.

Alta Gracia breaks this pattern, introducing a higher set of workplace standards with a social-labeling market approach that describes these verifiably better conditions. Thus far, the message has been positive, emphasizing Alta Gracia's enhanced labor standards and its positive impacts on workers and families, without making explicit comparisons with other brands. The Alta Gracia products do not have to surmount the hurdle of asking consumers to pay a premium price, but a substantial number of consumers will have to switch their allegiance from established, better-known brands to purchase Alta Gracia apparel. Social labeling provides a marketing mechanism to accomplish this task, but can it inspire enough consumers to buy Alta Gracia products for the firm to be commercially successful, even at a relatively lower profit level?

As a case in progress, the answer to this question is still unknown but prospects are positive as Alta Gracia enters its third year of operation. Many elements will certainly affect the ultimate outcome, including the crafting of the message and the number and enthusiasm of student supporters. However, the unique circumstances of the case present a challenge, and an opportunity, for consumers to reflect on the meaning of their brand affiliations and the potential impact of conscious, informed choice on market mechanisms. The collegiate-apparel market was shaken by anti-sweatshop protests during the late 1990s, driven by concerns over labor conditions in overseas sweatshops. It took several years and some leadership moves by a few brands to establish the 'not a sweatshop' code standards that have since governed product access to collegiate bookstores. Since all apparel on the floor theoretically meet these minimal standards, other considerations naturally dominate a customer's purchasing decision. Many consumers are likely to be predisposed to a certain brand by a carry-over affinity from other products. Now, confronted with a choice through Alta Gracia's social labeling, how will consumers understand and weigh the meaning of their established brand affiliations?

Within a given price and quality segment of the collegiate-apparel market, product design and presentation in floor displays can influence purchasing decisions. Beyond these factors, brand appeal is likely the most important distinguishing factor. Committed social activists will presumably discern the differential merit in the Alta Gracia brand and readily support its purchase. However, many consumers may need first to examine the basis for their existing brand affiliations before determining whether Alta Gracia's social-labeling story is compelling enough to cause a brand switch.

Often, brand affinities are not adopted or understood consciously or rationally. Extensive and expensive marketing campaigns with catchy slogans, effective imagery and celebrity endorsements can create positive attitudes toward a product that may have little to do with the basic nature of the product itself. Social labeling may also draw on subconscious affinities to some extent, but this marketing approach generally depends more on a rationality-based appeal to the consumer's basic values. In Alta Gracia's case, the impacts of enhanced labor conditions on real workers' lives are being weighed against a subconsciously established preference for—what? The challenge for consumers is to perceive and assess this contrast to inform and guide their own decision-making.

6 Social Labeling and Alta Gracia's Future

University retailers and the consumer will ultimately decide the fate of the Alta Gracia factory. Knights Apparel management, the WRC, and especially the workers have committed themselves to a novel initiative that sets down a new marker for higher ethical labor standards in the global-apparel industry. Social labeling provides a mechanism to distinguish Alta Gracia T-shirts and sweatshirts from competing brands in collegiate bookstores, with the WRC verifying the product's substantially better workplace standards. If not enough consumers hear, understand, and care enough about these distinguishing features to choose the Alta Gracia brand over other 'not a sweatshop' apparel, then the effort will fail. The factory will close, and the workers will lose this opportunity to improve the lives of their families and others in the community.

However, if Alta Gracia succeeds commercially, with satisfactory even if not maximal profits for management, then a new challenge can be posed. The justification for accepting minimal ethical workplace standards in the global-apparel industry is that the competitive nature of the sector precludes absorbing any higher labor costs. This claim rests on the assumption that free-market forces, rather than oligopsony power, determine pricing and profit levels as well as the distribution of benefits. If Knights Apparel can start with higher fixed costs from adopting higher workplace standards and yet turn a satisfactory profit, the result will belie the professed dictates of impartial market forces and reveal the latitude of value choices open to large brands and retail buyers.

If enough customers value better labor conditions for apparel workers and express their social concern through purchasing decisions, some brands may even choose to begin a 'race to the top' where they can do good while doing well enough. The entire apparel industry is unlikely to change, but substantial and meaningful progress is possible. It is time to raise the bar, certainly in the collegiate-apparel market, from a minimal and rather ambiguous 'not a sweatshop' standard with uncertain enforcement to the level set by Alta Gracia's embrace of higher ethical workplace standards with strict verification. This case-in-progress presents an exceptional opportunity to meet that challenge.

Notes

1. See, for example, Wilson 2008, for a discussion of the deflation of retail prices for most categories of apparel since the late 1990s, the point at which corporate codes of conduct and monitoring programs, and promises from brands to improve conditions for workers, became the norm in the industry.

2. See: http://www.workersrights.org/dsp/

3. Factory owners and managers have no greater dedication to worker-rights principles than brands and retailers; they will violate worker rights to the extent that this is economically advantageous and can be done with impunity. In focusing on the destructive impact of brand-pricing decisions, I am not absolving factory owners and managers of responsibility. However, it is vital to understand that the financial constraints imposed on most contract factories by brand and retailer-pricing practices virtually ensures sweatshop conditions, *regardless* of the motives of factory owners. A contract factory owner who genuinely wishes to respect the rights of workers, and acts on this impulse, will have to raise prices—and will be punished, not rewarded, by his customers. Reform of industry-pricing and sourcing practices will make compliance by contract factories feasible; effective accountability mechanisms (unions and genuinely independent monitoring), of course, will still be essential to ensure that higher prices translate into better wages and conditions for workers, rather than being pocketed by factory owners. Absent such reforms, the most effective monitoring programs, and the most effective unions, will not be able to achieve living wages and decent

working conditions in most factories.

4. See, for example: 'Our Strategy: Evolving Approach', Nike Fiscal Year 2009 Corporate Responsibility Report (accessed 24 May 2011 at http://www.nikebiz.com/crreport/); 'Helping Factories Move Forward,' Gap, Inc. corporate website (accessed 24 May 2011 at http://www2.gapinc.com/GapIncSubSites/csr/Goals/SupplyChain/SC_Helping_Factories_Move_For 'Sustainable Compliance: An Evolving Methodology', Fair Labour Association 2010 Annual Report (accessed 27 May 2011 at http://www.fairlabour.org/fla/Public/pub/Images_XFile/R452/2010_FLA_APR.pdf).

5. 'FLA 3.0,' Fair Labour Association website (accessed 27 May 2011 at http://fairlabour.org/fla/go.asp?u=/pub/mp&Page=FLA3).

6. 'Briefing: Supply Chains,' Business for Social Responsibility website (accessed 1 June 2011 at http://www.bsr.org/files/Briefing-Supply%20chains_EC.pdf)

7. And one must find this proposition believable, despite the fact that these same brands have had great success compelling these same suppliers to meet their quality and price standards—making very effective use of the powerful economic carrots and sticks at their disposal.

8. The first industry code of conduct was adopted by Levi Straus & Co. in 1991.

9. For more information on these cases, see: http://www.workersrights.org/Freports/index.asp#freports.

10. Fireman's income from the sale was reported by Forbes: http://www.forbes.com/lists/2006/10/E552.html (accessed 12 March 2009). The estimate of the cost of doubling workers' wages is based on WRC calculations and assumes that labor costs at assembly facilities represented 2 percent of Reebok's annual revenue at the time of the sale (US$3.8 billion).

11. Cf. http://www.workersrights.org/verification/index.asp. Last accessed August 2011.

12. For information on WRC's monitoring and verification program, see http://workersrights.org/verification/index.asp (accessed 4 August 2011).

13. For brief pro/con summaries of the debate over sweatshops, see Featherstone and Henwood 2001; Moran 2002, pp. 52–58 and 155–57; Powell and Skarbek 2006; and Varley 1998, pp. 401–27.

14. Examples of such cases can be examined in the WRC's database of factory investigations at http://www.workersrights.org/Freports/index.asp#freports (accessed 4 August 2011).

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