

Case was written by an MBA student. Name removed to protect identity.

The Garment Industry “Sweatshop” and Gap Inc.

The U.S. General Accounting Office has defined a sweatshop as “an employer that violates more than one federal or state labor, industrial homework, occupational safety and health, workers’ compensation, or industry registration law” (Sweatshop Watch). Historically, the word “sweatshop” was first used in the 19th century to describe a system in the garment industry where the middlemen earned substantial profits. The profits would come from the difference between the amount the middlemen received for the contract from the retailers and the amount they paid to the factory workers. The term “sweatshop” was used because the workers received minimal wages for many hours worked under poor conditions in the factories.

Today, the Department of Labor estimates that more than half of the U.S.’s 22,000 sewing shops violate minimum wage and overtime laws and 75% of U.S. garment shops violate safety and health laws (Sweatshop Watch). Workers may also face verbal or physical abuse and intimidation to discourage fighting back. While conditions like this exist in the U.S. where labor laws are in place and designed to protect employees, conditions are much worse in countries where no labor laws exist at all to protect employees.

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Overseas, garment workers often make less than a living wage, and are forced to work under extremely poor and unsafe conditions. Increasing competition for cheaper labor costs and decreasing trade barriers have encouraged companies to contract with manufacturers to produce garments in countries where “workers have little bargaining power and where authoritarian governments squash worker organizing” (Sweatshop Watch). As a result, some U.S. retailers are receiving extremely high profits while the actual workers producing the garments are being paid less than a living wage. Human rights activists argue that retailers control production and they should be held accountable for the conditions of the factories that produce the garments.

Human rights activists claim retailers are able to control production in two ways. The first way retailers control production is through the process of rewarding the lowest bidder with their garment contract. If the manufacturer refuses to produce a low bid, the retailer will go to another contractor who will produce a low bid. For this reason, activists claim retailers can control sweatshop conditions by the amount they pay to the factory for the production of the garments. If they pay the manufacturers a low price, that is passed on to the workers in the form of a low wage. Another way retailers can control production of garments in sweatshops is through mergers and acquisition. When retailers merge, buying power increases and retailers are able to bid for cheaper contracts, causing the manufacturers to drive factory workers harder at little pay to cover the low price they had to bid to receive the contract.

Gap Inc. has been the leader in defense of the retailers in the garment industry. The company is fighting a proposed settlement of \$8.75 million in a lawsuit that was filed in January of 1999 that includes approximately 50 defendants including Gap, the largest

Case was written by an MBA student. Name removed to protect identity. retailer. The lawsuit charges Gap and other retailers, along with factory owners on the island, of sweatshop conditions in the Saipan garment industry by forcing a system of “indentured servitude among mostly poor guest workers, many of them from China” (Strasburg). Saipan, part of the U.S. commonwealth of the Northern Mariana Islands, is an island located in the western Pacific Ocean and is exempt from federal labor laws that apply to the rest of the U.S. Human rights groups like UNITE and Global Exchange are arranging demonstrations in front of Gap stores and calling for a boycott of Gap products.

The lawsuit names mainly women among the plaintiffs in the case and claims many of them were forced to work in unsafe conditions without being fully compensated for their work in many different factories on the island of Saipan. The lawsuit claims the factory workers were forced to work overtime without pay, worked in an unsafe environment, and were subject to rules about marrying and having children.

Gap denies the claims and insists it employs a team of approximately 90 full-time factory monitors in its compliance program, working to ensure that standards of safety and human rights are being respected in the factories producing their garments, including those in Saipan. The monitors are called vendor compliance officers and are responsible for inspecting factories to make sure they comply with Gap’s code of vendor conduct. The code includes regulations concerning wages, child labor, safety issues and workers’ right to unionize. These officers monitor approximately 3600 factories in 50 countries where Gap does business (Malone). Gap and the other retailers claim the suit is an attempt by U.S. labor unions to get back at overseas garment manufacturers for taking jobs away from U.S. workers.

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Gap is determined to oppose the settlement and states that the accusations are false and human rights activists are misrepresenting the factory conditions. Since the lawsuit was filed in 1999, 19 retailers including Nordstrom and J. Crew, have agreed to a settlement without admitting any wrongdoing. Gap refuses to settle and is also accused of blocking the remaining retailers like Levi Strauss and Company from settling. The settlement has been proposed since 1999 and calls for a code of conduct among retailers and manufacturers, payments for its workers, and independent monitoring of dozens of factories on the island. Under the terms of the settlement already accepted by some of the retailers, they will make payments to establish a fund that will finance an independent monitoring program in Saipan, pay partial damages to workers and pay for court costs. The retailers also agreed to require independent monitoring in future contracts with factories on the island. A Gap spokesman claims Gap is fighting the suit because "we believe the allegations against us are false" (Malone).

Questions

1. Do retailers like Gap have an ethical obligation to only do business with foreign factories/countries that maintain a certain wage or level of human rights for the factory workers?
2. What constitutes a fair wage or acceptable working conditions in foreign factories?
3. Is it ethical to move production of garments overseas to recognize cost savings when those jobs could be given to Americans?
4. What would be the potential effects to the foreign workers if Gap and other retailers refused to do business with the factories because of claims that there are violations of workers' human rights?
5. Should the retailers be required to fund the independent monitoring group established by the settlement? If not, who should?

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