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Helping Child Workers: How should multinational corporations accommodate child workers in Southeast Asian countries to which they outsource?

A Capstone Project Submitted in Partial Fulfillment of the Requirements of the Renée Crown University Honors Program at Syracuse University

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May 2013

Honors Capstone Project in Supply Chain Management

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Abstract

Outsourcing is one of the major supply chain strategies adopted by many multinational corporations in order to respond to market demand by lowering the cost. As the emphasis on social responsibility and sustainability has been increasing, there has been a lot of pressure on firms to control many problems caused by different living conditions or cultures. One of the most significant humanitarian issues is ongoing child labor practices. This paper describes how corporations, such as Nike, Reebok, Wal-Mart and the Pentland Group, have been addressing this issue. Many of them have been eliminating child labor among their suppliers; however, that policy is not a true meaning of social responsibility because child workers will search for alternative jobs that might provide worse working conditions. To address the child labor problems in developing countries in order to ultimately eradicate child labor, extensive research was conducted to find the most viable business model solution. The solution is directly focused on two countries in Southeast Asia, which are Bangladesh and Cambodia. Recommendations are made for multinational corporations to cooperate with non-governmental organizations as well as the national governments in depth, in order to acquire critical insights and experience to implement the solution. The core element of the business model is building a private school right next to the factory where child workers could acquire both education and household income. Instead of eliminating all child workers from the factories, by accommodating them, child labor will be eliminated gradually because their household income will rise. At the end, there will be no child workers to even employ for multinational corporations in Cambodia and Bangladesh.

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I. Introduction

First, imagine a laughing child—say, 13 years old—unwrapping a small gift at a family celebration. Maybe it is a small electronic game. The next image is of a child of the same age, thousands of miles distant, [sitting] exhausted at a bench in a vast hall, laboriously silk screen printing the letters above the keys on the same toy.¹



Figure 1: Child laborer making a doll (Source: http://arjay.typepad.com/vallejo_nocturno/images/page/2/)

One child's life can be much different depending on the country and his/her social background. One child could be opening a new gift that has been made by another child across the globe; everything is same between them, such as

gender, age and even the number of siblings, but just because they were born in different countries with a huge difference in living conditions, they live completely different lives.

Outsourcing has been a hot trend for multinational corporations for many reasons, such as cheap production costs. However, when the companies outsource

¹ Steve New, and Roy Westbrook, *Understanding Supply Chains: Concepts, Critiques, and Futures*, (London: Oxford University Press, 2004), <http://library.books24x7.com/libezproxy2.syr.edu/toc.aspx?bookid=12570>, 1.

to developing countries, two completely different cultures usually clash. As globalization connects countries and enables the multinational corporations to outsource, exploitation of child labor has become much easier and more accessible.

II. Child Labor

1. Definition of Child Labor

The International Labor Organization (ILO) defines child labor as “work by children under the age of 12; work by children under the age of 15 that prevents school attendance; and work by children under the age of 18 that is hazardous to the physical or mental health of the child” (BSR, 2003). According to International Conventions on child labor, the framework for the minimum age is as follows:

| | The minimum age at which children can start work | Possible exceptions for developing countries |
|---|---|---|
| Hazardous work | | |
| Any work which is likely to jeopardize children’s health, safety or morals should not be done by anyone under the age of 18 | 18 (16 under strict conditions) | 18 (16 under strict conditions) |

| | | |
|--|-------|-------|
| Basic Minimum Age | | |
| The minimum age for work should not be below the age for finishing compulsory schooling, which is generally 15 | 15 | 14 |
| Light work | | |
| Children between the ages of 13 and 15 years old may do light work, as long as it does not threaten their health and safety, or hinder their education or vocational orientation and training. | 13-15 | 12-14 |

Table 1: Definition of Child Labor (Source: ILO website)

Working children under 14 years of age are generally considered child labor in most developing countries. The United Nations Convention on Rights of the Child also provides a broad concept of what constitutes child labor: “Article 32(1) states that that children have a right to be protected against ‘economic exploitation and from performing any work that is likely to be hazardous or interfere with the child’s education, or to be harmful to the child’s health or physical, mental, spiritual, moral or social development.’”²

However, there seems to be a contradiction in this definition of child labor.

Ravi Shukla, a professor at Whitman School of Management at Syracuse

University, in an interview conducted for this paper, raised a question about how

² Archana Mehendale, “Realities of Child Labour and Contextualizing the Legal Strategy: A Case Study of India,” in *Small Hands in South Asia: Child Labour in Perspective*, ed. G.K. Lieten, Ravi Srivastava and Sukhadeo Thorat, (New Delhi: Lordson Publishers Pvt. Ltd., 2004.), 255.

certain organizations get to establish the definition of child labor, while all the rest of the world ought to abide by international law. The world is getting smaller every day with the effects of globalization and rapidly advancing technology; however, this does not necessarily mean that every country and its living conditions should be evaluated based on equal guidelines. Countries have their own characteristics and environments that cannot be compared to those of other countries, which makes it harder to draw a strict line to distinguish developing countries from developed countries; some countries fall into a grey area. Especially at this time period when the discrepancy between rich countries and poor countries is too wide, it should be noted that defining child labor is not simple or easy. Everyone defines child labor differently based on their background and social concept.

2. Cause of Child Labor

No single factor can explain child labor practices in developing countries, because child labor is such a complex issue with a variety of indirect and direct causes. Poverty is the most common cause of child labor; a great deal of research supports the fact that, with the rise in GDP per capita, the proportion of child workers declines.³ This inverse relationship varies based on the level of per capita income; a negative relationship between income and child laborers becomes less marked in the more affluent developing countries, and this difference can be

³ Peter Fallon and Zafiris Tzannatos, "Child Labor: Issues and Directions for the World Bank," The World Bank, Washington, D.C., 1998, 3.

explained by many reasons such as cultural differences.⁴ This correlation is described in Figure 1. Families whose imminent survival is not promising are

The Relationship between Economic Status and Economic Activity, 2000

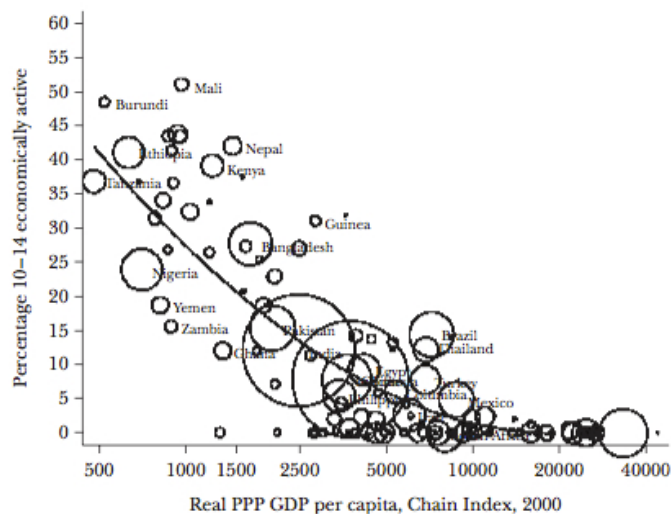


Figure 2: Correlation between GDP per capita and population aged 10-14 (Source: Economic activity for 2000 from LABORSTA at <http://laborsta.ilo.org> and child labor population from UNStat)

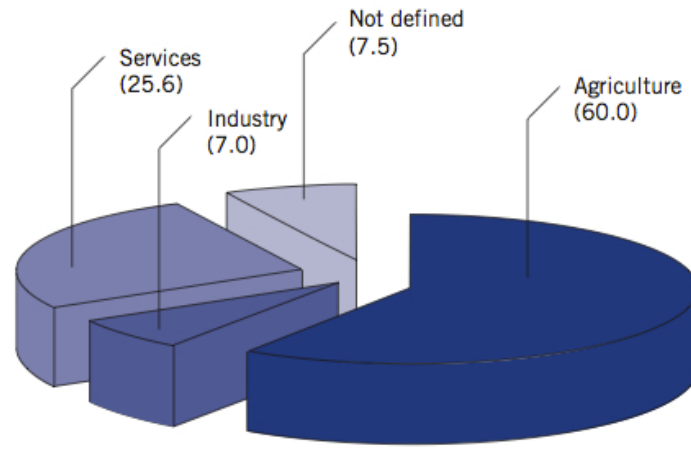
more likely to send their children to work for extra household income: utility maximization. This pattern is well explained by two widely known economists, George J. Stigler and Gary S. Becker, with their economic theory. Poverty drives children to enter the workforce to supplement family income because families have to survive in extreme poverty.

Besides poverty, there are many indirect factors that cause child labor. The main causes discovered by scholarly research are uneducated parents who are more likely to consider education insignificant, social construction of the community that has been accepting child labor, a country's education system and a vicious cycle that passes child labor practices down to younger generations.

3. The Economic Sector and Child Labor

⁴ Fallon and Tzannatos, "Child Labor: Issues and Directions for the World Bank," 3.

The ILO subdivided the economic sectors into four different groups in its report: Agriculture, Services, Industry and Not Defined.⁵ The agricultural sector



employs 60 percent of the entire child labor population, and any activities in agriculture, hunting, forestry, and fishing are included in

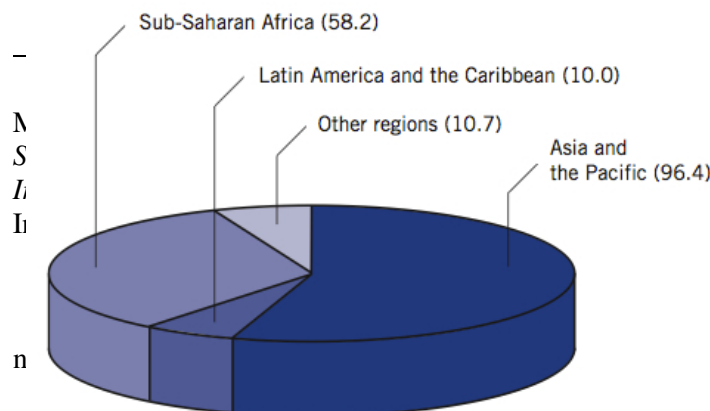
Figure 3: The Economic Sector of Child Labor (Source: ILO report on child labor population)

this largest sector (see Figure 2).⁶ The industrial

sector, which employs 25.6 percent of the child labor population, comprises mining and quarrying, manufacturing, construction and public utilities. The services sector involves a wide range of activities from business services such as the wholesale and retail trades to social personal services.⁷ Many of the worst practices of child labor are found in Asia and the Pacific, and these include child trafficking, sex trafficking, bonded child labor, and hazardous child labor.⁸

4. Geographic Concentration of Child Labor

Child Labor is seen across the world. All the countries could be sub-



onca Gurbuzer, and Farhad ; from 2004 to 2008, *Labour (SIMPOC):* (IPEC), (Geneva:

tional Labour Organization,

Figure 4: Children in employment (5-14 years), by region (million) (Source: ILO's report on child labor statistics)

grouped into four different regions: Sub-Saharan Africa, Latin America and the Caribbean, Asia and the Pacific, and other regions such as North America.⁹ According to International Labour Office's extensive research report, the

| Country | Retrieved Year | Percentage |
|-------------------|----------------|--------------|
| Bangladesh | 2006 | 16.2% |
| Cambodia | 2004 | 48.9% |
| India | 2006 | 15.3% |
| Indonesia | 2009 | 6.6% |
| Kazakhstan | 2006 | 3.6% |
| Mongolia | 2007 | 10.1% |
| Pakistan | 2008 | 15.9% |
| Philippines | 2001 | 13.26% |
| Thailand | 2005 | 15.1% |
| Vietnam | 2006 | 21.3% |

Pacific region contains the greatest proportion of child labor, with 96.4 million children aged from 5 to 14 employed, followed by Africa (see Figure 3).¹⁰ The child labor population in Asia comprises 54.7 percent of the world's total population of underage working children.¹¹

This research will focus on two countries, which are Bangladesh and Cambodia, due to the high child labor percentages.¹² Table 2

Table 2: Proportion of working children who also attend schools out of child population (Source: World Bank)

shows the percentage of child employment, namely, children aged from five to fourteen who are involved in a minimum of one hour of economic activity.¹³ These children could be working without being enrolled in school or working while getting an education.

⁹ Diallo, Hagemann, Etienne, Gurbuzer, and Mehran, Global child labour developments: Measuring trends from 2004 to 2008, 4.

¹⁰ Ibid.

¹¹ Ibid., 5.

¹² "Children in employment, total (% of children ages 7-14)," *World Bank*, accessed December 7, 2012, <http://data.worldbank.org/indicator/SL.TLF.0714.ZS>.

¹³ Ibid.

III. Bangladesh and Cambodia

According to the World Bank's statistics on children in employment, Bangladesh and Cambodia contain the highest percentage of child laborers among the countries in Asia and the Pacific regions.¹⁴ Many problems have attracted consumers' attention to these two countries in recent years.

1. Bangladesh

In Bangladesh, the age of most child workers ranges from 8 to 14. They primarily work in the garment industry, which manufactures shirts, jackets, shorts, and apparel. These products are import to Western countries such as the US and Europe.¹⁵ Although

every source provides different percentages of child laborers in this industry, officials from the U.S. State Department and the Department of Labor



Figure 5: A child worker in a textile factory in Bangladesh (Source: <http://thewe.cc/weplanet/news/children/child-labour-bangladesh.htm>)

estimate that 5 to 20 percent of the workers in the industry consist of children aged under 14.¹⁶ Many garment factories have poor working conditions, including locked production rooms with the guards outside the gate with keys.¹⁷ Children in some factories do not receive time cards and are not aware of their obligatory

¹⁴ Ibid.

¹⁵ "Bangladesh," Department of Labor, accessed February 9, 2013, <http://www.dol.gov/ilab/media/reports/iclp/sweat/bangladesh.htm>.

¹⁶ Ibid.

¹⁷ Ibid.

salary or hours, which often leads them to work overtime.¹⁸ According to the Asian-American Free Labor Institute's study of 143 garment factories located in Bangladesh, children who perform basic unskilled jobs usually earn 300 to 500 taka monthly, which is about USD \$7.69 to USD \$12.82.¹⁹ Bangladesh is one of the poorest countries in the world; its per capita income was US\$641 in 2010 compared to the world average of \$8,985.²⁰

In past years, the government of Bangladesh, international organizations such as UNICEF, the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) and non-governmental organizations have made a lot of efforts to address the child labor problems and to ultimately create solutions for working children in Bangladesh.²¹ Although the BGMEA came up with a variety of solutions, the organizations only implemented one of many proposed programs, which was constructing a small school and a clinic for children in Dhaka.²² Many international organizations have approached the BGMEA with different programs and solutions to assist working children, but none has been implemented effectively, because factories do not cooperate well and the government lacks resources to enforce the programs.²³

a) Country Regulations on Child Labor

Bangladesh has 25 special laws and ordinances to protect children, but these are very confusing. Under the existing laws, the minimum age for

¹⁸ Ibid.

¹⁹ Ibid.

²⁰ "World Economic Outlook Database, October 2010," International Monetary Fund, accessed April 23, 2013.

²¹ Ibid.

²² Ibid.

²³ Ibid.

employment can be interpreted as ranging from 12 to 16.²⁴ In 1993, the government of Bangladesh created a National Labor Law Commission, and the first draft of the recommendations defined a child laborer as “a [working] person who has not completed his fourteenth year of age,” and children are prohibited from working in any occupation or establishment.²⁵ Current laws addressing child labor include the Factories Act of 1965, which does not permit any child under 14 to work in a factory, and children and adolescents are only allowed to work a maximum of five hours a day and only between 7 am and 7pm.²⁶ However, the government lacks the resources to continually monitor and impose the regulations.²⁷

Bangladesh is a party to International Labour Organization Convention No. 59 Concerning Minimum Age for Admission to Employment in Industry and to the U.N. Convention on the Rights of the Child.²⁸

b) Current Issues

After two huge fires, the garment factories in Bangladesh were exposed to the media regarding their inhumane working conditions. On November 24 and 25,



a total of 112 people died from a fire at the Tazreen

Figure 6: Fire at the Tazreen Fashions factory (Source: <http://www.wbur.org/2012/11/25/bangladesh-garment-factory-fire>)

Fashions factory located in Dhaka, Bangladesh.²⁹ Since the employees were locked in the production room without any fire safety equipment when the fire started, they were forced to jump out of windows or burn to death in the room.³⁰ Tommy Hilfiger, the Gap, the suppliers who sold to Wal-Mart and many other brands and retailers outsourced their production to the Tazreen Fashions factory.³¹ Two months later, on January 26, 2013, seven people who were making sweaters and jackets died in a small factory called Smart Garment Export in Bangladesh.³² There as well, no fire safety measures were found when the fire started.³³

2. Cambodia

According to the World Bank's statistics, 48.9% of the entire child population in Cambodia is engaged in economic activities. The majority of child workers are involved in agriculture, and the rest work in hazardous conditions on commercial rubber plantations, in salt production, in fish processing, and as domestic servants in the case of girls.³⁴ Tourists can easily observe many children on the street in Cambodia involved in economic activities such as scavenging, begging and polishing shoes.³⁵ Cambodia has also been known as “a country of origin, transit and destination for trafficking in children for the purposes of

²⁹ Vikas Bajaj, "Fatal Fire in Bangladesh Highlights the Dangers Facing Garment Workers," *New York Times*, Nov. 25, 2012, <http://www.nytimes.com/2012/11/26/world/asia/bangladesh-fire-kills-more-than-100-and-injures-many.html>.

³⁰ Ibid.

³¹ Ibid.

³² Julfikar Ali Manik, and Jim Yardley. "7 die in Fire at Factory in Bangladesh." *New York Times*, Jan. 26, 2013. http://www.nytimes.com/2013/01/27/world/asia/factory-fire-kills-at-least-6-workers-in-bangladesh.html?_r=0.

³³ Ibid.

³⁴ "Cambodia," Department of Labor, accessed April 22, 2013, <http://www.dol.gov/ilab/media/reports/iclp/tda2004/cambodia.htm>.

³⁵ Ibid.

commercial sexual exploitation and various forms of work, including forced labor and begging.”³⁶ Cambodian children are traded to other Southeast Asian countries, such as Thailand and Malaysia, for the purpose of bonded labor or sex trafficking. Sexual exploitation of children and bonded labor are serious and notorious problems in Cambodia.³⁷ Children are usually forced to work due to extreme poverty in their families, and many carry the additional burden of paying off family debts.³⁸

Although schooling up to nine years of age is free to all citizens of Cambodia based on Article 68 of the Constitution, education is not really free.³⁹ There are extra costs, such as uniforms, books, and admission fees, and public school teachers also demand unofficial fees to supplement their low incomes; none of these contributes to affordable education for families.⁴⁰ Because of this expensive “free” education, families tend to send only male children, or no children, to school to save money.⁴¹

a) The country regulations on child labor

The national government’s labor law prohibits the employment of children younger than 16 years old.⁴² However, children aged from 12 to 15 are allowed to perform light work that is not hazardous, as long as it does not affect their school

³⁶ Ibid.

³⁷ Ibid.

³⁸ “Cambodia: Fight against child labor goes \$10 million boost,” World Vision, accessed April 25, 2013, <http://www.worldvision.org/news/cambodia-child-labor-exploitation>.

³⁹ “Cambodia,” Department of Labor.

⁴⁰ Ibid.

⁴¹ Ibid.

⁴² Ibid.

attendance.⁴³ Children under 18 years old are prohibited from participating in labor that damages mental and physical development.⁴⁴ By law, local companies must submit a list of child workers under 18 to the labor inspector, and parents' consent is required for their children to be employed.⁴⁵

The Labor Law also prohibits all kinds of bonded and forced labor as well as the trafficking of human beings;⁴⁶ however, considering how predominant bonded labor and child trafficking are, the government is not imposing these laws effectively and strictly. Although the Ministry of Labor and Vocational Training is in charge of enforcing child labor laws, and local police officers are responsible for imposing these labor laws in local communities, enforcement has not been successful due to corruption of public officials.⁴⁷

b) Current issues

There have not been any landmark labor scandals regarding Cambodia suppliers in the past two years. Nevertheless, child labor exploitation and child trafficking have been documented as problems.

IV. The Paradox of Child Labor

There are a lot of debates going on in the US about the child labor issue. The US government regulates the importation of goods from countries without strict child labor laws, and many developing countries have been changing the laws just to appeal to western corporations without responsibly enforcing them. Western corporations ultimately bring many jobs and more income to the

⁴³ Ibid.

⁴⁴ Ibid.

⁴⁵ Ibid.

⁴⁶ Ibid.

⁴⁷ Ibid.

countries, and the harsher the living conditions are, the more desperate countries become to attract these global firms' attention. Companies argue that bringing jobs to these countries is technically more beneficial than not at all, considering such low incomes of the family.

Although the term *child labor* shocks many consumers in the US, where living conditions are much higher than in developing countries, it is not a simple matter to answer whether it is *right* or *wrong*. Professor Shukla mentioned during his interview that, “growing up, I did not think that child labor is child labor. It seemed perfectly normal to me. I just accepted it and never questioned it until I came to the United States.”⁴⁸ Many developing countries, especially Southeast Asian countries, consider child labor *normal* just like Professor Shukla. Considering these two completely different living conditions and social standards, is it acceptable for the government or global corporations to impose some child labor regulations? Companies publicly announce how diligent they are at preventing the use of child labor by their suppliers in South Asia; this effort is widely known as corporations' social responsibility. However, instead of deeply taking different living conditions into consideration and coming up with solutions to accommodate child labor in order to give back to the countries, just completely getting rid of the issue by the book is not necessarily socially responsible behavior. The core meaning of social responsibility is not reflected nor practiced through corporate policies that completely eliminate child labor from the supply chain. Many companies are actively involved in heavy funding of nonprofit organizations working to eradicate child labor, which is the easiest way of dealing

⁴⁸ Ravi Shukla, personal interview, February 8, 2013.

with the issue. Setting up guidelines and imposing them blindly is not a socially responsible approach to the problem. Truly thinking of children and the conditions that force them to work and developing a business model to help them out of a vicious cycle of poverty and child labor would convey the genuine meaning of corporate social responsibility.

1. Positive Side of Child Labor

a) *Company's perspective*

1) Cheaper Labor Costs

The goal of every business is to make money. Multinational corporations prefer outsourcing because of the lower production labor and material costs. Bangladesh's minimum wage in 2012 was USD \$37 per month.⁴⁹ In May, the Cambodian government will raise the minimum monthly wage in the garment and footwear industry from \$66 to \$80 in order to resolve a strike begun in February by 7,000 factory workers.⁵⁰

According to research conducted by Barge, Anker and Khan, in the glass bangle, diamond and carpet industry in India, the total labor cost is less than half of the production cost, and approximately 20 percent of that labor cost is composed of child labor.⁵¹ Complete elimination of child labor by replacing the

⁴⁹ Timmons, Heather. "Wages in Bangladesh Far Below India." *India Ink Wages in Bangladesh Far Below India Comments*. New York Times, 25 Aug. 2012. Web. 14 Feb. 2013.

⁵⁰ RFA's Khmer Service, "Cambodia Ups Minimum Wages for Workers," Radio Free Asia, last modified March 21, 2013, <http://www.rfa.org/english/news/cambodia/wages-03212013185628.html>.

⁵¹ Richard Anker, Sandhya Barge, and M.E. Khan. "Child Labour: Economic Gain or Social Cost?" in *Small Hands in South Asia: Child Labour in Perspective*, ed. G.K. Lieten, Ravi Srivastava and Sukhadeo Thorat, (New Delhi: Lordson Publishers Pvt. Ltd., 2004), 161.

children workers with adults would raise the production cost by a few percent, because adults get paid more than children. The three authors argue that the few percentage points are not large enough to threaten the industry or the business enterprise: "...[A]bout six percent cost increase for average quality carpets was produced using average estimated percentage child labor. In our opinion, this six percent cost increase estimate is a reasonable mid-range estimate [for consumers]."⁵² However, loom owners and exporters are much more affected by this slight increase in production cost, because retailers and importers mark up the export price by about 65 to 185 percent respectively; therefore, a 6 percent increase is equivalent to almost 60 percent of the loom owners' revenue.⁵³ Because of this different scale of profit margin, loom owners, who would be construed as manufacturing employers in other industries, are very sensitive to costs and have a strong economic interest in continuing child labor practices.⁵⁴

2) The innocence of children

Children are viewed as innocent and naïve. Professor Shukla mentioned during his interview that many families in India hired girls as young as five years old as housekeepers because young girls were less likely to deceive the family due to their innocence. This mechanism applies to employers as well. Children are less likely to deceive their supervisors, in the employers' perspective, and they are not aware of their rights compared to adults,⁵⁵ which indicates that they can be easily taken advantage of: "Children are seen by employers as less troublesome,

⁵² Ibid., 162.

⁵³ Ibid., 163.

⁵⁴ Ibid.

⁵⁵ Anker, Barge, and Khan, "Child Labour: Economic Gain or Social Cost?," 155.

more willing to take orders, and more willing to perform monotonous work activities without complaining.”⁵⁶ They are more likely to endure low status and low paid work without questioning, because children are less likely to join unions to fight for their rights compared to adults.⁵⁷ This ignorance benefits employers and prevents any potential labor-related troubles.

3) Physical Characteristics

Children are in better health than adult workers.⁵⁸ Adult workers’ health in certain industries is usually damaged by hazardous working conditions; for example, in glass factories, extreme heat in the factories ruins the employees’ health.⁵⁹ This circumstance provokes employers to prefer child workers, since their health is not yet damaged.

4) Purpose of Training

Child laborers benefit suppliers in the long term. This mechanism applies to multinational corporations as well. Training new employees always costs resources, and children are more likely to grow up with the employers instead of switching out. The employers’ desire to hire children for the purpose of training is revealed in Professor Shukla’s experience with a five-year-old housekeeping girl growing up while she worked in his house. His father hired her to sweep the floor and clean the house during the day. His primary reason for employing her was that even if he did not hire her at his house, someone else would, and by hiring that young little girl, at least he ensured she was safe and treated well by his

⁵⁶ Ibid.

⁵⁷ Ibid., 156.

⁵⁸ Ibid., 157.

⁵⁹ Ibid.

family. Another reason for hiring a young child instead of an experienced housekeeper was that he could easily build a long-term relationship with her because she would most likely work and stay longer with his family; therefore, once he trained her well, he and his family should never have to spend the time and energy to teach her everything again. The less likely it is for a housekeeper to leave the family, the more comfortable and easy the situation becomes for the family.

b) The children's perspective

As the economic hardship of families increases, the families' vision of their future becomes blurry. When even today is not certain, how can anyone plan or even think about the future? The one and only advantage for children from early employment is very short-sighted; they can supplement their household income to support their families.

Families in developing countries struggle economically, and every day is a battle for survival. Whether the parents send their kids to work or they volunteer to work, children's extra household income is always appreciated by families who cannot worry about tomorrow because their immediate survival is on the line. A single mother of an eleven-year-old girl living in Dhaka, Bangladesh, expressed her frustration about her young daughter working instead of getting an education:

She [my daughter] works, and I [a single mother interviewee] also work. Now, if she loses her job, it'll be very hard for us to live. Because she is working we can barely survive. If she is forced to quit, with my earning we cannot survive ... we couldn't send out children to school. We never could afford it ... I work part-time as a house maid. When she comes

home from work I can't look at her face, she looks so tired and worn out. This is our *fate*.⁶⁰

Poverty provoked the parents to send their children to work instead of to school.

Most children's income is used to pay for rent, food or necessities, which are humans' fundamental needs for survival.⁶¹ Whether the parents bring it or the children bring it, money is money, and it definitely helps the families economically.

During an interview with *Time* magazine, a seventeen-year-old child worker, Noemí Gutiérrez, said, "We'd all like a world where kids don't have to work. But our current economic reality means we work to help our families..."⁶² This young boy speaks the unfortunate but truthful fact that many non-governmental organizations fail to acknowledge. He also raises a question about eradicating poverty prior to the elimination of child labor, because one cannot be gotten rid of while the other is still present.⁶³ Since economic hardship is the main reason why the children are out working instead of attending school, even they claimed that they would simply find another job if non-governmental organizations or the government "saved" them from working.⁶⁴

⁶⁰ Susan Bissell, "Incentives to Education and Child Labour Elimination: A Case Study in Bangladesh," in *Small Hands in South Asia: Child Labour in Perspective*, ed. G.K. Lieten, Ravi Srivastava and Sukhadeo Thorat, (New Delhi: Lordson Publishers Pvt. Ltd., 2004.), 272.

⁶¹ *Ibid.*, 279.

⁶² Friedman-Rudovsky, Jean and El Alto, "In Latin America, Looking at the Positive Side of Child Labor," *Time*, November 16, 2011, <http://www.time.com/time/world/article/0,8599,2099200-1,00.html>

⁶³ *Ibid.*

⁶⁴ *Ibid.*

c) *The countries' perspective: foreign investment*

Contrary to most developed countries with relatively well-established and well-enforced labor laws, most developing countries do not have that luxury. The need for foreign investment is desperate and essential to promoting their economic prosperity, and these countries attract foreign investment by advertising the availability of their vast and cheap labor forces, which developed countries lack. Because of this desperate need for foreign investment, the advanced countries' "exploitation of this competitive advantage [cheap labor force] all too often results in exploitation, often to an extreme, of the workforce itself."⁶⁵ Considering the weak ability of national governments in developing countries to enforce child labor regulations, as well as an even weaker social construction that accepts and further allows child labor, exploitation of child labor is easily possible in those countries.

Professor Shukla, during his interview, mentioned that many developing countries, including India, are desperate for foreign investment. Despite horrifying working conditions and labor abuse, these countries have an attitude that "something is better than nothing." Corporations bring new jobs to these desperate countries, so they do not mind poor working conditions in return.

⁶⁵ Clark, Winstanley, and Leeson, "Approaches to child labour in the supply chain," *Business Ethics: A European Review* 11, no. 3 (2002), 211.

2. The Negative Side of Child Labor

a) *The company perspective*

1) Brand image

Child labor exploitation is one of the significant factors that negatively affects a firm's public relations. Despite Nike's Codes of Conduct, specifically addressing the elimination of child labor in its supply chain, child workers were found in its suppliers abroad. Starting with the discovery of child labor in Cambodia and Pakistan in 1996, there were movements boycotting Nike. For example, the BBC's *Panorama* program "No Sweat" thoroughly uncovered child labor and exploitative labor practices in Cambodian factories.⁶⁶ Provoked by this unacceptable and uncivilized child labor practiced in developing countries, a student campaign against Nike in the United States, "Just Stop It," was formed and attracted a lot of media attention.⁶⁷ The "Saipan Sweatshop Litigation" was also another case that attracted many consumers' attention by revealing the corporations' violations of the laws against involuntary servitude, and other labor abuses.⁶⁸ Any news release related to child labor exploitation can significantly damage a company's public image.

b) *The children's perspective*

1) Physical health at risk

The working conditions that many children in South Asian countries are involved in impact their physical development due their exposure to a hazardous

⁶⁶ Clark, Winstanley, and Leeson, "Approaches to child labour in the supply chain," *Business Ethics: A European Review* 11, no. 3 (2002), 210.

⁶⁷ Ibid.

⁶⁸ Ibid.

working environment or long working hours: "...[C]hildren continue to work for long hours in an extremely harmful environment, are poorly paid or unpaid, and are very often abused by their employers and co-workers."⁶⁹ Long working hours are usually related to fatigue, which eventually causes accidents in factories that require repeated mundane work.⁷⁰ In Bangladesh, garment factories demand an average of 12 to 14 hours of work every day,⁷¹ and other countries exhibit similar conditions. For example, the child garbage pickers in the Philippines are more likely to have diseases and disabilities because of working conditions that include heavy lifting and exposure to mercury and parasites.⁷² Children in agriculture are excessively exposed to heavy chemicals and possible accidents from motorized equipment.⁷³

2) The mental health of children

The most disturbing yet significant effect of child exploitation is on the sociological and psychological health of children.⁷⁴ Because childhood is the most critical stage for developing cognitive and social ability, children who are apart from their families to earn money experience negative effects on their mental

⁶⁹ Archana Mehendale, "Realities of Child Labour and Contextualizing the Legal Strategy: A Case Study of India," 254. Peter Fallon and Zafiris Tzannatos, "Child Labor: Issues and Directions for the World Bank" (The World Bank, Washington, D.C., 1998), 4.

⁷⁰ Peter Fallon and Zafiris Tzannatos, "Child Labor: Issues and Directions for the World Bank" (The World Bank, Washington, D.C., 1998), 4.

⁷¹ Bissell, "Incentives to Education and Child Labour Elimination: A Case Study in Bangladesh," 275.

⁷² Fallon and Tzannatos, "Child Labor: Issues and Directions for the World Bank," 4.

⁷³ Ibid.

⁷⁴ Bissell, "Incentives to Education and Child Labour Elimination: A Case Study in Bangladesh," 277.

health.⁷⁵ Domestic service child workers are the primary example. According to many psychologists, child workers who had or have domestic service occupations undergo serious psychological and social adjustment problems.⁷⁶ The World Health Organization reported that “psychological stress, premature aging, depression, and low self-esteem are common symptoms among young household helpers.”⁷⁷ This is because they are usually isolated from their families, which are the most critical factors during children’s development period.

3) Lack of Education

It has been publicly known that child labor reduces children’s school attendance⁷⁸ and increases the chance of grade repetition.⁷⁹ There is also an inverse relationship found between children’s reading competence and child labor hours.⁸⁰ According to Boozer and Suri’s research conducted in Ghana, “a one hour increase in child labor leads to a 0.38 hour decrease in contemporaneous schooling.”⁸¹ Education becomes a luxury for families who are economically struggling. Many working class parents are forced to choose between two extremely difficult options for their children, either education or extra family income. Families simply cannot afford to have their children unemployed, because sending them to school means high opportunity cost for families. This

⁷⁵ Fallon and Tzannatos, “Child Labor: Issues and Directions for the World Bank,” 4.

⁷⁶ Ibid.

⁷⁷ Ibid., 5.

⁷⁸ Anker, Barge, and Khan, “Child Labour: Economic Gain or Social Cost?,” 168.

⁷⁹ Kathleen Beegle, Rakeev Dehejia, and Roberta Gatti, “WHY SHOULD WE CARE ABOUT CHILD LABOR? THE EDUCATION, LABOR MARKET, AND HEALTH CONSEQUENCES OF CHILD LABOR,” National Bureau of Economic Research Working Paper, no.10980 (2004), 3.

⁸⁰ Ibid.

⁸¹ Ibid.

opportunity cost carries both figurative and literal meanings. If parents want their children to pursue education, they have to not only sacrifice extra income to the family but also school fees caused by corruption by officials, in Cambodia's case. This additional opportunity cost sways the parents even more away from the alternative option of education.

This hindrance lack of education ultimately often affects children's attitude toward education and makes them more likely to send their own children to work, when growing up, and ultimately creating a vicious cycle of poverty, lack of education, and child labor.

d) Country Perspective – Social Cost

A vicious cycle of poverty, child labor, and an uneducated population prevents countries from developing. Child labor practices increase the perceived value of children as resources instead of human beings and ultimately reduce their acquisition of human capital.⁸²

⁸² Anker, Barge, and Khan, "Child Labour: Economic Gain or Social Cost?," 168.

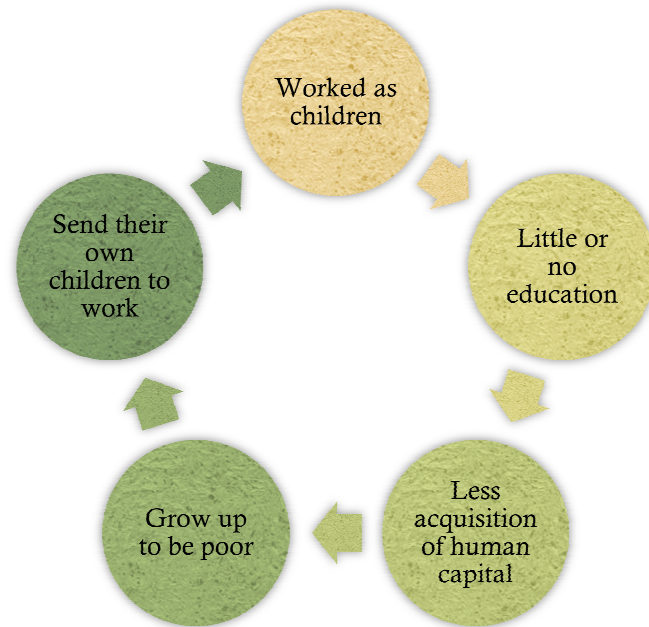


Figure 7: The vicious cycle of poverty, lack of education, and child labor

A country can only develop socially through education, and, as demonstrated, child labor practices hinder children from getting appropriate education, despite a free primary education system that the governments take pride in. Due to this vicious cycle of poverty and less education, child labor practices will be passed down to younger generations, and the country will suffer from less human capital and people who are unable to perform any professional and specialized work.

V. Corporate Approaches to Child Labor

Establishing a code of conduct is the first and fundamental step for a corporation to recognize human rights issues and address potential problems. In 2004, Kolk and Tulder collected corporate codes of ethics from a hundred multinational companies across the US and Europe, and found that only 13 large

companies had a code of conduct with provisions that directly addressed the child labor exploitation problem.⁸³

1. Nike Inc.

⁸³ Kolk and Tulder. "Ethics in international business: multinational approaches to child labor," *Journal of World Business* 39, (2004): 50.

The multi-billion dollar global sportswear corporation, Nike, has been accused of using child labor in its manufacturing facilities in developing countries. One of the worst forms, which upset many consumers in the United



Figure 8: Nike's Use of Child Labor Published in LIFE Magazine in 1996 (Source: <http://www1.american.edu/ted/nike.htm>)

States in 1996, was a manufacturing facility located in Cambodia and Pakistan. After a picture of a 12-year-old boy stitching a soccer ball was published in *Life Magazine* in June of 1996, outrageous consumers

started boycotting Nike products.⁸⁴ Nike outsourced its suppliers to Sialkot, Pakistan, where about 70% of the world's high quality soccer balls were produced.⁸⁵ Sialkot, in turn, utilized its subcontractors and specialist input suppliers, as well as working home families, for production.⁸⁶ Nike protested that it was impossible to monitor every aspect of its entire supply chain, which had an inherent lack of transparency.⁸⁷ After this huge incident, Nike's stock price dropped, and sales plummeted as well, due to the consumer boycott.⁸⁸ In order to manage this crisis, Nike hired a former executive from Microsoft as Vice President of Corporate and

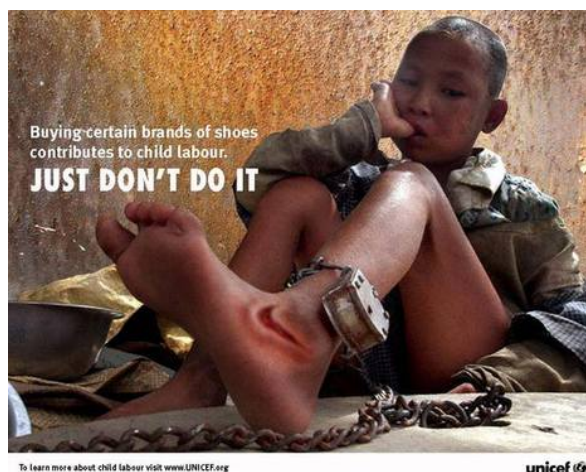


Figure 9: Nike boycott (Source: <http://www.osundefender.org/?p=92222>)

Social Responsibility, and expanded this division to 70

people.⁸⁹ Now, Nike is very sensitive toward the problem of child labor and has attempted to come up with strict guidelines to prevent repeating history and to avoid any kind of potential mistreatment like that revealed in 1996.

⁸⁴ Richard M. Locke *The Promise and Perils of Globalization: The Case of Nike* (Cambridge: Massachusetts Institute of Technology, 2002) 12.

⁸⁵ Locke 11.

⁸⁶ Locke 12.

⁸⁷ Steve Boggan, "We Blew It' Nike Admits to Mistakes Over Child Labor," *The Independent*, last modified in October 20, 2001, <http://www.commondreams.org/headlines01/1020-01.htm>.

⁸⁸ Sharon Beder, "Putting the Boot in," *The Ecologist* 32, no.3, (2002): 27.

⁸⁹ *Ibid.*, 28.

The corporate responsibility report published by Nike in 2009 contained strict guidelines for suppliers to maintain the transparency of its supply chain as well as descriptions of programs to fund developing countries' education systems and alleviate poverty. According to the Nike Social Responsibility Report, Nike's vision statement is as follows:

Our vision of sustainability remains the same as it always has: to bring people, planet and profits into balance. For Nike, this is not about trading one off against the other. It's about recognizing that sustainability is a route to future profitability, and that a sustainable economy or business model must lead to equitable supply chains: if we attend to the needs of the environment or profits, but not supply chains, we will not have succeeded.⁹⁰

Nike has a lot of workers who are fighting poverty within the emerging economies of developing countries such as Bangladesh and Cambodia. The fundamental approach to resolving the problems Nike's suppliers have been experiencing can be summed up in terms of three components: understanding the root cause of the problem; targeting systematic change instead of a quick fix of the incidents; and promoting a business model that builds responsibility across its entire supply chain, which benefits both workers and the corporation's profitability.⁹¹ Nike also embraces the idea that there cannot be a "one size-fits-all approach" with its supply chain, when there are so many countries with different regulations and working environments.⁹² Nike's main approach to regulating issues such as working conditions, product quality, and labor relations in their factories is frequent audits involving Nike's social responsibility principles. Nike

⁹⁰ "NIKE, INC. Corporate Responsibility Report FY 07 08 09," Nike, Inc., accessed February 12, 2013, <http://www.nikebiz.com/crreport/content/pdf/documents/en-US/full-report.pdf>.

⁹¹ Ibid.

⁹² Ibid., 42.

also partly outsources its auditing process to, and receives assistance from, Maplecroft, a global risk and strategic consulting firm.⁹³

According to its report, Nike has a total of 823,026 contracted employees with its suppliers.⁹⁴ It is Nike's responsibility to monitor and manage those workers, ensuring that the suppliers provide safe working environment as well as fair treatment complying with its principles of social responsibility. Every one to three years, depending on a supplier's record, Nike conducts management audits of its factories' performance and how they resolves problems.⁹⁵ Nike also evaluates whether the suppliers comply with Nike's guidelines, and assigns them a letter grade based on the audit results.⁹⁶ If a supplier receives a grade lower than B, Nike works with it to solve the problems, and they come up with a specific action plan together.⁹⁷ In addition to periodic management audits, Nike organizes a deeper type of study called a Management Audit Verification, which covers "the full worker experience," including hours of work, wages and benefits, labor relations and grievance systems.⁹⁸ Following the visit, the suppliers and Nike, together, develop a plan and tools to address noncompliance issues, if there are any, in accordance with local laws as well as Nike's Code Leadership Standards.⁹⁹

As a part of its social responsibility, Nike has been very involved with local communities for the past three years. Nike funds a lot of different nonprofit

⁹³ Ibid.

⁹⁴ Ibid., 51.

⁹⁵ Ibid., 43

⁹⁶ Ibid.

⁹⁷ Ibid.

⁹⁸ Ibid., 45.

⁹⁹ Ibid.

organizations across the world, such as the China Children and Teenager's Fund, the Boys and Girls Club of Indian Country, and ninemillion.org¹⁰⁰:

More than 250,000 children have taken part in sports program in the past three years. Participation has broken down barriers and allowed kids from different social, economic and religious backgrounds and life circumstances to interact through play while learning about health and education. To maintain these gains, we no are focusing on a school-based program to help institutionalize sports programs while generating revenues that will fuel program expansion. A practice is institutionalized to maintain past gains.¹⁰¹

Another part of the report also describes the impact of those funding programs for children in developing countries: "Through the ninemillion campaign, more than 80,000 children and youth from 13 countries have been enrolled in school, graduated from primary education, participated in sports activities and/or received employment opportunities from vocational training."¹⁰² Due to Nike's active involvement to make returns to the society from which the company has gained so much profit, many children have benefited and have been offered new windows of opportunity.

One interesting fact about Nike's Corporate Responsibility Report is that there was no single guideline specifically addressing the prevention of child labor.

Nike is diligently practicing frequent audits of its suppliers to monitor them closely in order to ensure there are no children working for its suppliers. On the other hand, the company also funds a variety of non-profit organizations to eradicate poverty and provide more opportunities for children. Although these practices are created for good purposes, I believe a connection between these two

¹⁰⁰ Ibid., 137.

¹⁰¹ Ibid., 140.

¹⁰² Ibid., 143.

programs is essential in order to really address the problem in a socially responsible manner. Nike removes child workers from its suppliers, and those children probably end up working somewhere else. Being kicked out of Nike factories would not ultimately stop them from working because the fundamental cause that drives children to work, poverty, is still not resolved. Nike should focus on assisting children in local communities where its suppliers are located before developing funding programs for children across the world.

2. Wal-Mart Stores, Inc.

Wal-Mart is known as an “American retailing giant” for the variety and amount of its suppliers, which makes it more difficult to manage and monitor the entire supply chain. Since Wal-Mart is such a huge global retailer, a lot of suppliers wish to put their products on its shelves for extensive exposure to consumers.

Under its Standards for Suppliers, Wal-Mart states, “All labor must be voluntary. Slave, child, underage, forced, bonded, or indentured labor will not be tolerated. Suppliers shall not engage in or support trafficking in human beings,” which indicates that the firm does not officially allow any kind of child labor in its supply chain.¹⁰³ Wal-Mart also has designed a frequent audit system, conducted by third-party audit firms approved by Wal-Mart, to ensure that its suppliers abide by its standards.¹⁰⁴ Suppliers get audited even if they produce only

¹⁰³ “Standards for Suppliers” Wal-Mart Stores, Inc., accessed February 22, 2013, <http://corporate.walmart.com/global-responsibility/ethical-sourcing/standards-for-suppliers>

¹⁰⁴ “Audit Process” Wal-Mart Stores, Inc., accessed February 22, 2013, <http://corporate.walmart.com/global-responsibility/ethical-sourcing/audit-process>

parts or components of Wal-Mart's private label or proprietary brand logo.¹⁰⁵ Wal-Mart just announced in January 2013 that it will adopt stricter guidelines for safe working environments for workers, after recent fires at Bangladesh garment factories in November of 2012 and January of 2013.¹⁰⁶

3. Reebok

Reebok responded to this human rights issue with a "zero tolerance" strategy like Nike's.¹⁰⁷ Children were making up to 20 percent of the labor force in Sialkot, the major football supplier of Reebok, and the company developed a company policy to completely eliminate child labor from its supply chain.¹⁰⁸ It frequently investigated and audited the factory to ensure that the Sialkot factory was completely free of child labor.¹⁰⁹ Also, Reebok contributed \$1 million to support education of the children in Pakistan.¹¹⁰ This corporate approach to child labor significantly increased its production costs by almost 50 percent, but all at the corporation's expense, with nothing on the consumer's side, which positively impacted its brand image.¹¹¹

However, Reebok's approach was severely questioned by non-profit organizations such as FoulBall. That is because even though Sialkot, also known as a stitching center, is free of child labor, Sialkot's suppliers and its suppliers

¹⁰⁵ Ibid.

¹⁰⁶ Anne D'Innocenzio, "Wal-Mart adopts stricter measures on suppliers" *The Associated Press* (2013), accessed February 22, 2013, http://www.denverpost.com/news/ci_22428973

¹⁰⁷ Clark, Winstanley, and Leeson, "Approaches to child labour in the supply chain," 212.

¹⁰⁸ Ibid.

¹⁰⁹ Ibid.

¹¹⁰ Ibid.

¹¹¹ Ibid.

could possibly be exploiting child workers, and adults as well.¹¹² Despite Reebok's zero tolerance policy toward child labor, since the company failed to address the real cause or issue of the child labor problem, FoulBall eventually found a problem in that system, revealing how simply eliminating child workers from the factories will not solve the problem.

4. The Pentland Group

Unlike Reebok, Wal-Mart and Nike, which simply detached themselves from child labor issues, Pentland decided to approach the problem from a different but more in-depth angle: "Seeing the problem as being as much about underlying poverty as about child labour, Pentland began to explore alternative approaches."¹¹³ It aimed to help solve the fundamental cause of child labor in the long term. Instead of establishing a policy that removes children from the workplace, Pentland accommodated female workers so they could supplement their household income, which further prevented children from working for extra income.¹¹⁴

Pentland devised a compromise approach in which a number of women's homes would be nominated as stitching centres: 10 to 15 women would be registered and the women would work together. An agreement was drawn up with local NGOs and with the ILO that monitors would visit the new 'stitching centres', at appropriate notice, to ensure that conditions remained safe and that children were not working at the time of the monitor's visit. Pentland is also sponsoring literacy classes for the women enabling them to gain significant autonomy within the community and to be paid directly.¹¹⁵

¹¹² Ibid., 213.

¹¹³ Ibid., 214.

¹¹⁴ Ibid.

¹¹⁵ Ibid.

Pentland comprehended the real driving force of child labor and strove to provide an alternative option for the family. Because of cultural characteristics, female workers were not allowed to work outside their homes; if Pentland were just to remove the children from the workplace, it would reduce household incomes and encourage the children to search for other jobs in more dangerous and exploitative industries, such as brick-making. However, by providing job opportunities as well as culturally appropriate working environments for females, Pentland enabled the mothers instead of their children to supplement their income. By sincerely addressing the real issue of child labor, Pentland was truly being a socially responsible corporation.

VI. Business Model Solution

The 1998 World Bank report on child labor argues that “reducing poverty through economic development, and promoting other improvements such as changes in basic education, are essential elements of effective strategies to attack child labor.”¹¹⁶ No single factor can completely explain the causes of the child labor practices in developing countries in Southeast Asia. In order to implement solutions, understanding the root causes of the problem is essential. Legislation by governments to prohibit child labor without any social changes will not eradicate child labor.¹¹⁷ Solutions have to go beyond the conventional in order to truly solve such a complicated problem. Complete elimination of child labor practices will

¹¹⁶ Fallon, Peter and Zafiris Tzannatos. “Child Labor: Issues and Directions for the World Bank.” The World Bank, Washington, D.C., 1998.

¹¹⁷ Rekha Wazir, “Pathways from Child Labour to Education: A Selective Review of NGO Approaches,” in *Small Hands in South Asia: Child Labour in Perspective*, ed. G.K. Lieten, Ravi Srivastava and Sukhadeo Thorat, (New Delhi: Lordson Publishers Pvt. Ltd., 2004), 292.

require involvement on economic, social and legislative levels: “Instead of taking a narrow approach focusing on the child labour in the factories alone, these companies may adopt wide and more comprehensive anti-poverty and educational strategies which reach out from the factory to work with the local community and other groups in the area.”¹¹⁸

Many companies, like Reebok, Nike and Wal-Mart, have approached the child labor issue with disengaging strategies, in response to peer group and consumer pressure.¹¹⁹ They focused on withdrawing child laborers from their supply chains, and when this approach failed, they discontinued the relationship with the offending suppliers.¹²⁰ This limited approach ended up having little or no impact on solving the human rights issue of child labor in developing countries.¹²¹ There are consequences of simply pushing the children out of the supply chain, which these companies ignore. No matter how strictly corporate regulations are enforced and how many audits the companies conduct, child laborers will remain in any point of the supply chain without addressing the underlying cause of the problem. I believe this disengaging attitude does not represent the corporate social responsibility that every company is supposed to be striving for.

On the contrary, the alternative engaging strategy, which companies like the Pentland Group have adopted, requires “a broader longer-term approach to addressing child labour in its context, dealing with wide cultural, gender and

¹¹⁸ Clark, Winstanley, and Leeson, “Approaches to child labour in the supply chain,” 212.

¹¹⁹ Clark, Winstanley, and Leeson, “Approaches to child labour in the supply chain,” 213.

¹²⁰ *Ibid.*, 222.

¹²¹ *Ibid.*, 213.

poverty issues, which may mean the toleration of transitional arrangements, as well as the support and building up of local capability for changing practices.”¹²²

In order to successfully eradicate child labor in the developing countries to which they outsource, multinational corporations ought to collaborate with national governments as well as non-governmental organizations (NGO) and international organizations like the ILO for their advice and insights during the process.¹²³ Corporations generate immeasurable profit from taking advantage of developing countries’ cheap labor and material costs. It might be an altruistic view to ask the corporations to contribute their resources with little or no impact on consumers. The primary purpose of outsourcing to developing countries is to save costs and maximize profits through cheap labor and material costs. Corporations are often concerned that outsourcing would be pointless if they invest too much in eradicating child labor. However, supporting research claims that the costs of actively addressing base-line child labor abuses will affect less than 5 percent of the savings, or profits, made by the corporations.¹²⁴

Now is the time for corporations to take action to address this ongoing issue of child labor exploitation and develop strategies that can be implemented over the long term to develop sustainable rather than short-term solutions, which will benefit everyone in the long run.

¹²² Ibid., 222.

¹²³ Clark, Winstanley, and Leeson, “Approaches to child labour in the supply chain,” 222.

¹²⁴ Ibid., 223.

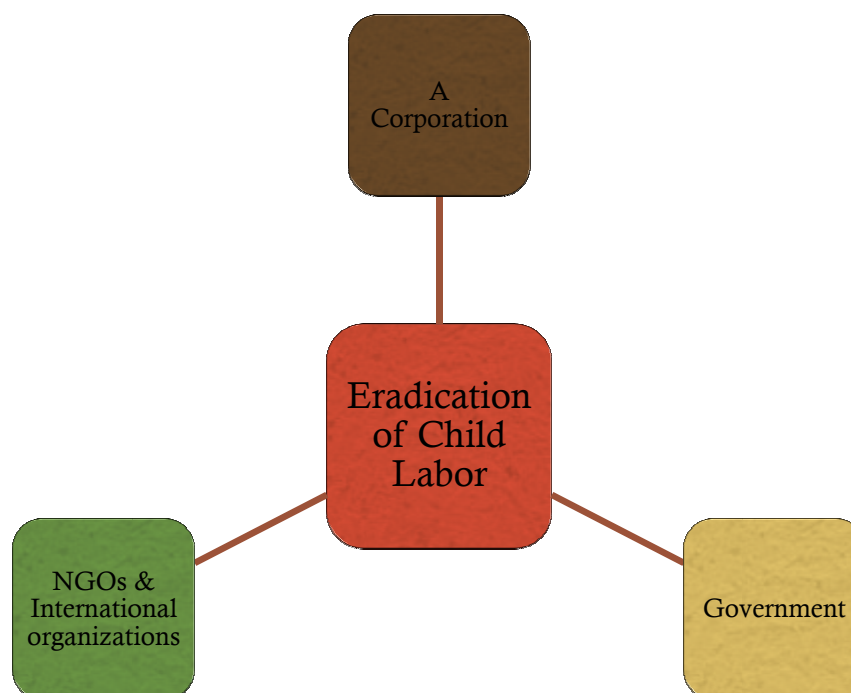


Figure 10: An in-depth collaboration

1. Private School

The core element of the business model solution is a private school. In order to directly provide high quality education to children, multinational corporations should found a private school adjacent to their factories or suppliers. Education is essential for a country to develop economically and bring a higher quality of life to its people. The International Labor Organization supports the idea that “the single most effective way to stem the flow of school-age children into abusive forms of employment is to extend and improve schooling so that it will attract and retain them.”¹²⁵ Only through education, child workers will be able to break out of that vicious cycle—poverty, lack of education, and child labor—that they are trapped in..

¹²⁵ Fallon and Tzannatos, “Child Labor: Issues and Directions for the World Bank,” 8.

With a private school, children will be able to acquire both an education and income. Working children consider education a luxury because they tend to be involved in economic activities due to their families' economic hardship. If corporations were to not only require them to go to a school that offers high quality education, but also provide an opportunity to work and earn money to support the family, children would be able to accomplish two different goals: obtain extra household income and get a high quality education for their future.

In Bangladesh and Cambodia, a public education system often has poor quality and does not ultimately contribute to children's learning. For example, in Bangladesh, financial difficulties usually distract the national government from investing its budget directly in its education system.¹²⁶ Although primary and secondary schooling is required by law for children in Bangladesh, there is no effective and strong law enforcement, which ultimately reduces the school enrollment and attendance rate.¹²⁷ Cambodia, on the other hand, has been struggling to develop and further improve the public education system because of widespread corruption in government and civil services.¹²⁸ Also, public school teachers' low salary level of USD \$44 per month, which is only 1.8 times the nation's poverty level, encourages the teachers to promote private schooling to

¹²⁶ Gazi Manhabubul Alam, "Can governance and regulatory control ensure private higher education as business or public goods in Bangladesh?," *African Journal of Business Management* 3, no.12 (2009), 890, doi: 10.5897/AJBM09.282.

¹²⁷ Alam, "Can governance and regulatory control ensure private higher education as business or public goods in Bangladesh?," 894.

¹²⁸ Waler Dawson, "Private tutoring and mass schooling in East Asia: reflections of inequality in Japan, South Korea, and Cambodia," *Asia Pacific Education Review* 11, no. 1 (2010), 20, doi: 10.1007/s12564-009-9058-4.

students.¹²⁹ According to Professor LaPoint at Syracuse University, who has visited Cambodia in the past few years, private schooling in Cambodia is very prevalent and many children who are involved in economic activities go to school to learn English so that they can freely talk to the tourists to sell products that they have made. They are also sent to trade schools to learn a craft such as painting or pottery, and so forth. These types of education do not necessarily benefit children, because the primary purpose of the education in Cambodia is to attract tourists and make money instead of gaining knowledge. In many other developing countries in Southeast Asia, problems in the education systems lie primarily in the curriculum and the school infrastructures.¹³⁰ Therefore, with a high portion of the budget invested in education systems, nothing much changes every year because of corruption and professional inefficiencies.¹³¹ In Bangladesh and Cambodia, the public education systems are not very reliable. Corporations' direct contributions to the Ministry of Education will never benefit the children, which is the main reason why they should fund the construction of private schools, so no corruption can prevent children from getting an education. Corporations should collaborate with NGOs such as Teach for Bangladesh and Teach Cambodia to select competent teachers as well as to train them. By collaborating with NGOs and separating the school from local public teachers, the private school will be able to

¹²⁹ Dawson, "Private tutoring and mass schooling in East Asia: reflections of inequality in Japan, South Korea, and Cambodia," 20.

¹³⁰ Alam, Hoque, and Oke. "Quest for a better operation system in education: Privatization and teacher educationalization or voucherization glimpsing from consumer and product perspectives," *African Journal of Business Management* 4, no.6 (2010), 1203.

¹³¹ Alam, Hoque, and Oke. "Quest for a better operation system in education," 1203.

provide a proper education to child workers. Corporations involved in the construction of a school should not be involved in the selection and training of teachers, in order to pursue the child workers' best interests. Otherwise, companies tend to prevent workers from getting an education and forming unions.

The minimum age of employment at the factory must be 14 years in order to abide by the two countries' labor laws as well as the ILO's standards. The types and hours of work would be determined by the children's age, and children would attend the school first to ensure they receive appropriate amount of education before working at the factory. Child workers who are 14 or 15 years old would be allowed to engage in light work for a maximum of four hours a day at the factory. The work would consist of light chores including cleaning the windows, sweeping the floors, emptying out the garbage cans, and so forth. These younger child workers would get the basic education that each country requires by law. Child workers who are 16 or 17 years old would be engaged in any work that does not physically or mentally harm them, for a maximum of six hours a day. For older child workers, the school would provide two different types of education: basic or technical. If the children were to develop specialized skills, they would be able to make their own decisions about which path to choose.

| | Age of 14-15 | Age of 16-17 |
|---------------------|---|--|
| Work Hours | 4 hours/day | 6 hours/day |
| Type of Work | Light: sweeping the floor, cleaning the windows, small chores for the workers | Any work that does not physically or mentally harm child workers |

| | | |
|---------------------------|---|--|
| Required Schooling | Basic education required for all child workers under 16 | Two alternative options: basic education for university enrollment, or technical education |
|---------------------------|---|--|

Table3: Hours of work and schooling required based on the age

In order to successfully operate this schooling program, the enforcement of an attendance system is key. Desperate children attempting to make more money might not be satisfied with the wages received from the factory, and could possibly take advantage of the system to work at the factory but to sneak out during school hours to work at another job. In order to prevent this loophole in the system, factory supervisors and teachers should be able to communicate with each other seamlessly to ensure child workers' full-time school attendance.

The Bill & Melinda Gates Foundation is widely known for funding developing countries in a variety of ways, and one of them is donation of computers. The Gates Foundation and other corporations can cooperate and donate computers or laptops to the school as well as the factory. Bangladesh and Cambodia both have well-developed telecommunications systems. Corporations can take advantage of this characteristic and can adopt wireless broadband in order to build a communication channel between teachers and factory supervisors. Instead of investing in providing servers or building new infrastructure, they could focus on wireless broadband, which would allow them to communicate anytime and anywhere. The IT department at the corporation could develop attendance system software so that factory supervisors could log child workers' working hours and teachers could enter the children's school hours. Both would be able to check whether each child receives enough hours of schooling that day

before they are approved to work at the factory. With this attendance system, child workers will have to attend school in order to work.

Instead of forcing children to choose between education and extra household income, this private schooling system would provide them with an opportunity to acquire both. Since corporations will strictly enforce the attendance system in the school as well as the factory, children will have to receive the appropriate amount of education every day. At first, some of child workers will be delighted to have this kind of opportunity, but others will be dissatisfied that the corporations are forcing them to attend school, especially if they are unaware of the benefits of education. Because corporations would provide much safer and comfortable environments, as well as fair treatment, to these child workers, child workers will have a strong motivation to participate.

2. Corporate Culture

Not only suppliers' policies and attitudes, but also corporate culture should change regarding child labor. A sense of responsibility would be the most significant stance that corporations could start adopting. Many companies have been embracing a disengaging strategy toward child labor by eliminating child labor from their suppliers. They have not been thinking about the consequences from the child workers' perspectives, because as long as they are gone, companies can proudly claim that their products are free of child labor. However, reality is not that simple for these working children. If corporations were to remove all the children from factories, they would end up finding alternative jobs that could be

dangerous. This corporate attitude does not show any social responsibility, even if the policy is called a “social responsibility policy.”

In order to be responsible toward these child workers and ensure that the schooling program is successfully operated and monitored, frequent audits directly from the corporations are essential. Supply chain managers as well as Social Responsibility Division employees also should be sent to work in each country and stay there to ensure the program is successful.

Social responsibility does not mean avoiding the topic or ignoring the issue. It means looking out for child workers’ best interests, in this case to make sure they are treated fairly at work, not exploited by the suppliers, and getting the proper education that they deserve. Multinational corporations take advantage of child laborers to generate immeasurable amount of profits every year. Because they have been benefiting so much from their cheap labor, it is now time for them to return the favor by altering the corporate culture to enact the true meaning of social responsibility.

3. Social Change

Often, despite a good strategic solution to a problem, without any social and cultural changes, people will not adopt the solution. In many countries, child labor is not even considered labor, as Professor Shukla mentioned during his interview: “Growing up, I did not even know what child labor was. But, then, when I came to the US, I realized what I saw every day on the street and in my house every day was [a form of] child labor.” Changing people’s conception toward child labor is essential to eradicating the practices.

Social change should begin from a micro perspective by enlightening child workers. Private schools should provide human rights classes two hours a week. These classes will teach children their labor rights as workers and promote gender equality. These classes will improve children's perception of life, which will eventually help them be motivated to escape the vicious cycle that reproduces child labor from generation to generation.

The private schools could also be utilized as places of social education during the weekend for NGOs and International Organizations such as the ILO and UNICEF. Corporations can collaborate with these organizations to provide education to female workers, especially in Bangladesh, where gender inequality is prevalent.

Promoting gender equality can lead to the eradication of child labor in a macro perspective, as the Pentland Group proved with its engaging strategy to address child labor practices. When both mothers and fathers work, there will be much less pressure on children to work and bring in income to support their families. There will be fewer reasons for children to work, if mothers are allowed to work.

4. Weighing Costs and Benefits

Just like other solutions, this business model has both costs and benefits. This program will cost corporations a lot of resources in many respects. They will have to find suppliers who are willing to accept this schooling idea in Bangladesh and Cambodia to start the program. Once a supplier agrees to the terms, corporations would invest their resources to build a school and collaborate with

the national government, NGOs and international organizations for their advice and insights on hiring teachers, as well as on how to structure the school.

Companies might have to bump up the products' prices to afford this program, which might lead to a loss of consumers.

However, the benefits corporations will receive will be immeasurable. By providing education and promoting a higher quality of life to child workers, corporations will be practically investing in their future employees' future. Acquisition of specialized skills and knowledge from education will enable the child workers to make much more significant contributions to the corporations in return.

This program will also improve the relationship between the corporations and the country. Developing countries indeed have a limitless potential to develop, and if corporations make large investments in Bangladesh and Cambodia, these countries will be much more favorable to the corporations, which could benefit them in the future.

Moreover, with this solution that accommodates child workers, the multinational corporations are providing a family-oriented working environment, which will dramatically improve the workers' productivity. Parents will be able to work side by side with their children and be assured that their children are safe and getting an education. This family-oriented environment will improve both adult and child workers' efficiency without a doubt, because the working environment would be very comfortable instead of intimidating and dangerous, as many factories in Bangladesh and Cambodia are.

Most important, the multinational corporations will be able to utilize this program for public relations, in order to improve their brand image. One of the costs listed before was the possibility of a consumer price bump; this might not even be an issue for corporations if they can educate their consumers about the schooling program that they provide to children in order to accommodate child workers instead of irresponsibly ignoring them. Corporations' true social responsibility policies will contribute to their brand image and good relationships with consumers as well as stakeholders.

VII. Conclusion

Social responsibility is a complicated term to define. It has much a deeper meaning than being just a simple procedure, one paragraph of a corporation's code of conduct, or a single policy. Corporations have been adopting a disengaging strategy to address the child labor issue by eliminating child workers from their suppliers' factories. However, they have not considered the consequences of children losing their jobs. Additionally, many companies naively claim that their products are "free of child labor"; however, with the approach they take to address the child labor practices, their products are never truly free of child labor, due to the concatenating structure of the supply chain. It is impossible to completely eliminate child labor from the entire supply chain when outsourcing to developing countries, where child labor is prevalent.

However, corporations can eradicate child labor practices in Bangladesh and Cambodia by accommodating them, instead of removing them without considering their consequences. With accommodations, household incomes will

eventually increase, which will result in children not having to work to support their families. Abiding by the country's labor laws, the ILO's labor standards and consumers' common sense that younger children will only be engaged in light chores, corporations will be truly enacting corporate responsibility to benefit the international labor force. By providing education and safe working environments to child workers, the corporations will be returning the benefits that they have been experiencing with an in-depth approach to the real problems underlying child labor.

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Summary of Capstone Project

Outsourcing has been a hot trend for multinational corporations for a variety of reasons, including cheap labor costs in developing countries. When the companies outsource to these countries, two cultures usually clash due to completely different standards of living. One of the humane aspects of supply chain management issues is child labor. The International Labor Organization (ILO) defines the minimum age of employment as 14, but children age 12 and 13 are allowed to engage in light work. There are a variety of causes of child labor, and the primary cause is extreme poverty. There is a negative correlation between a country's GDP per capita and child labor population. The poorer the country is, the more child laborers can be found. Besides an economic reason to explain child labor practices in developing countries, there are other social causes, such as uneducated parents, poor public education systems, and social constructions that are accepting toward child labor. 60 percent of the entire child labor population is involved in agriculture, with Asia and the Pacific region containing the highest number of child laborers. In that region, Bangladesh, Cambodia, and Vietnam consist of the highest percentage of the child labor population. This paper is focused on two specific countries, Bangladesh and Cambodia, to design the business model solution that addresses the child labor issue.

Garment factories in Bangladesh are widely known as suppliers to many Western apparel companies. Although Bangladesh labor laws do not allow any children under 12 to engage in economic activities, laws have not been effectively enforced due to lack of government resources. These factories attracted a lot of

consumers' attention recently due to two fires and one collapse. In Cambodia, the minimum age of employment is 16 but children from 12-15 are allowed to engage in light work. Cambodia is also known for human trafficking for bonded labor and commercial sexual exploitation.

There are both positive and negative aspects of child labor. Child labor provides cheaper production costs for corporations, and child workers could make money to support their families. Also Bangladesh and Cambodia are in a desperate need of foreign investments in order to promote economic prosperity. On the other hand, child labor can negatively affect the corporations' brand image as well as children's mental and physical health. It also creates the vicious cycle that includes poverty, lack of education and child labor, which eventually inhibits the countries' development.

Multinational corporations have been approaching child labor issues in their supply chains in several ways, and the most popular strategy adopted by Nike, Reebok and Wal-Mart is a complete elimination of child labor. They seek to provide products from factories that do not employ children; however, the Pentland Group approached the issue differently with an engaging strategy. It did remove child workers from its suppliers, but instead of forgetting about the families afterwards, who would now be suffering from poverty, it provided a working environment that accommodated female workers in countries like Bangladesh where females are not otherwise allowed to work. From this accommodation, the families did not lose any income due to their children's

termination from factories, because the females in the family were able to supplement the household income instead.

In order to responsibly address child labor practices, an in-depth collaboration among corporations, non-government organizations, and governments is essential. The business model that the author came up with is a private schooling system. Corporations would fund the construction of private schools next to their factories that would enable children to acquire both education and income. Child workers would be able to work at the factories and make money only if they attended the school during the day. From this program, child workers would be forced to get an education in order to make money. Because public school infrastructure systems are corrupt in Bangladesh and teachers demand fees from students in Cambodia, the corporations would collaborate with NGOs, such as Teach for Bangladesh and Teach Cambodia. The companies would be heavily involved in the construction of the private school, but NGOs would independently select teachers as well as train them for providing a proper education to child workers. The minimum age of employment at the factories would be 14 years to abide by the countries' labor laws as well as the ILO's standards. Child workers aged 14 and 15 would be involved in light chores for a maximum of 4 hours a day, while children who are 16 and 17 would be engaged in regular work that does not physically, or mentally, harm them for a maximum of 6 hours a day. Older children would be able to choose to take classes that teach them technical skills, unlike younger children. In order to successfully operate this program, an attendance system is key. The corporations would

collaborate with the Bill & Melinda Gates Foundation to donate computers and laptops in Bangladesh and Cambodia to be utilized for the attendance system. The IT department of the corporations could develop software for factory supervisors and teachers to log child workers' hours of work and schooling. Since Bangladesh and Cambodia have relatively well-developed telecommunications systems, the corporations could utilize wireless broadband for factory supervisors and teachers to communicate seamlessly without additional servers or infrastructures. This attendance system would ensure that child workers acquire an appropriate amount of schooling as well as work. The private school also could be used for social campaigns to educate women to promote gender equality during the weekends.

Not only suppliers' policies and attitudes, but also corporate culture should be changed toward child labor issues; corporations should embrace the true meaning of social responsibility. Companies should conduct frequent audits to ensure the private schooling program operates successfully and child workers are not exploited at their factories. Moreover, Social Responsibility Division employees should be sent to work at the factories to closely monitor the program.

Although this solution would cost corporations' resources in short term, the benefits would be immeasurable. The companies would practically invest in their child workers' future and the relationships with Bangladesh and Cambodia would be benefited. Most important, a corporation's approach to ultimately eradicate child labor by accommodating the child workers with a strict enforcement could significantly contribute to a positive brand image.