

Globalization and its challenges marketing essay



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Introduction

Globalization is a process of integration and interaction among the people, organizations, and governments of different countries. It is also “ a process driven by international trade and investment and aided by information technology” (Smith & Doyle, 2002). This process has significant impact on political systems, on economic development, on culture, on the environment, and on human rights around the world (Smith & Doyle, 2002).

Globalization is a tool that could help you nurture your business foreign countries (Tapper, 2000). When a company decides to go “ global”, it will often experience an increase in profitability. Nevertheless, not every business will benefit from globalization. Some organizations may experience a healthy growth in global market, but some would have to overcome many challenges before establishing a successful business in a foreign country (Zboch, 2009). Wages, child labor laws and outsourcing’s effect on sale are salient issues for doing business overseas.

Nike is the worldwide global corporation that has its manufacturing factories on contract basis around the world. Although Nike is the global leader in the athletic footwear industry, it has had a great deal of bad publicity due to its labor practice. The scandals involved child labor, slave wages, excessive working hours, forced overtime, and hazardous working conditions. Bad publicity related to Nike’s labor practice had ruined its reputation and brand image. Some criticized that Nike did not enforced its code of conduct with the correct procedures.

After receiving many complaints of its unethical practice, Phil Knight, the CEO of Nike realized the seriousness of the matter. He visited Nike's contract factories and delivered a variety of speeches regarding his upcoming actions to improve the human right situation (Hobbs, 1998). However, many people doubt his sincerity, and fear that he could not deliver on his promises of providing a healthy environment for workers. Even up until now, Nike still struggling to recover from its negative image as a human rights violator. Would Nike be able to solve this problem in future? Has Nike improved the labor conditions in Asia?

The purpose of this paper is provide an understanding of the various difficulties and complexities companies faces in today's global world. This paper will describe the accusations brought against Nike labor practices and all of the corrections that Nike formulated to produce a healthy and safe working environment effectively. This paper will also provide some recommendations for Nike to improve their performance in future.

I. Globalization and Environmental Forces

Globalization is commonly understood as the spread of influence of culture, religion language, communication, technology, trade, media, and transportation. That spread of has involved the intertwining of economic and non-economic activity across the borders (Smith & Doyle, 2002). Today, many companies move their business operations to foreign countries by going global (for instance, Apple, Coca-Cola and Dell) and they have different reasons for doing business internationally. These reasons include: expand to new markets, diversify business, and increase market shares and brand value. Other reactive or defensive reasons for globalization including trade

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barriers, customer demands, globalization of competitors, and regulations and restrictions (Okolo, 2008). Reduction of cost is the major reason for companies going to global. Today, production cost has been increasing tremendously in developed countries. Many companies have outsourced its entire production operation to developing countries or third world, like China, Cambodia, Brazil, India, Vietnam and Indonesia. They believe that production or service offshoring will eventually lower their production, labor and utility costs.

However, doing business overseas has its benefits as well as its challenges. Companies may face legal, ethical, and cultural challenges in global business. Since every country appears to have its own law and regulation, companies must understand the standard pay or minimum wage requirement to avoid all conflict of interest. Ethical issues in globalization are those related to environmental protection, and concerning relation between different countries (e. g. industry espionage and hostile take over). When companies operate internationally, most of them are facing great challenges in cultural differences. Cross-cultural issues may arise when people within companies have different culture, language, religion and belief begin working together are not skilled or adept enough to deal with effectively.

II. The Athletic Footwear Industry

Recent economic crisis has affected the athletic footwear industry. The athletic footwear sales posted a 1. 4 percent decline in 2009, and in 2008, sales were down 3. 2 percent. (See Appendix A). Footwear is considered less cyclical than apparel when consumer spending is under pressure. Analysts

are expecting the footwear market will continue to grow over the next few years (PRlog press release, 2009).

The retailer market of sporting goods is very competitive and highly fragmented. Intense competition will easily drive weak companies out of the market. Thus, many retailers reducing their presence in underperforming markets or restricting store growth in saturated markets.

The costs of production have been rising in the U. S since 1990. The rapid rise in production costs has resulted in many U. S companies move their manufacturing works to Asia. Countries like Vietnam, Indonesia, and China has become a major outsourcing destination for the U. S. apparel and footwear manufacturers (Locke & Siteman, 2001).

Nike and Adidas have dominated the global branded athletic footwear markets. Market leader Nike has a significant lead over Adidas in footwear market for the last few years while other competitors like Reebok and New Balance is still lagging behind in the sales. (Locke & Siteman, 2001)

III. The Globalization of Nike

Nike was founded in 1964 by Phil Knight and Bill Bowerman. The company initially was an importer and distributor for Japanese specialty running shoes. The company's profits grew quickly and it opened its first retail shop in California in 1966. While other footwear companies still manufacturing their own shoes in high-cost countries, Knight decided to outsource its shoe production to lower-cost Japanese producers during the 1970s. By the early 1980s, as costs continued to increase in the U. S, Nike closed all its U. S and Japan factories, and it outsourced its production to Korea and Taiwan. When

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these countries began to develop and the wages increased significantly, Nike urged its suppliers to shift their production to even lower-cost countries like Indonesia, China and Vietnam. The company found that these countries have no protective labor laws and labor union at that time. Moreover, these countries provided huge supplies of cheap labor. By 1992, Nike sourced almost all of its shoe production from Asia. The company has placed its employees at its outsourced factories to help monitor production processes and product quality (Locke & Siteman, 2001).

Today, Nike has successfully established an intensive network of footwear factories throughout China and Southeast Asia. Nike's operations are divided into three product lines: footwear, apparel and equipment. Their products are manufactured by nearly 600 supplier factories, employing over 800, 000 workers in 46 countries around the world (Nike, Inc., 2010). In addition, Nike's sales have grown over 50% since 2005 to and reaching US\$19 billion in 2009. (See Appendix B).

Footwear is Nike's largest product category, 30% of shoes are sourced from China and Vietnam, 22% from Indonesia, and 6% from Thailand. Nike has manufacturing agreements with independent factories in India and Latin America like Brazil, Mexico and Argentina to produce footwear for sale primarily within those countries (Nike, Inc., 2010). Nike contracted 618 factories to manufacture its products in 2009, only 71 out of its suppliers are producing footwear. Most of these suppliers are located in North Asia. (See Appendix C). In contrast, Nike apparel products are made in 391 factories and the majority of these factories are distributed in Southeast Asia. These differences are due to “ both to the rules governing international trade in the <https://assignbuster.com/globalization-and-its-challenges-marketing-essay/>

industries” (Locke & Siteman, 2001, pg7). In the mid-late 1980s, footwear quotas were eliminated whereas trade in garments is still control by the Multi-fiber Agreement (Locke & Siteman, 2001).

Nike has also developed and markets footwear and apparel products under the Converse, Umbro Inc., Hurley International, and Cole Haan brand names. The company sells its products through its own retail in over 180 countries worldwide as well as through internet sites (Nike, Inc., 2010). Today, Nike has become the world leader in the design, distribution and marketing of the athletic footwear (Locke & Siteman, 2001). The “ swoosh” logo has become one of the most recognized in the world.

IV. Nike’s Unethical Labor Practices

Are you willingly to work more than 70 hours every week, or send your young children to work in a factory? Many of us will not do that, but for many “ people who want to eat”, the obvious answer is “ Yes.”. That is a reality Nike faced when it first started outsourcing the production of sports apparel and shoes to external companies in the third world. There are many controversies over its labor practices in Asia. In the 1980s, Nike was accused of exploiting cheap labor and exposing them to destructive working environments. The company had also faced criticism for use of children to make its sport gears in Pakistan factories. As a result, Nike was labeled as forcing “ children to slave away in hazardous conditions for below-subsistence wages” (Hill, 2009, pg2). In what follow, the paper will provide an overview of the various abuses of which Nike and its suppliers had been criticized in the past decade as well as the problems that the company has confronted.

Child Labor in Pakistan

Child labor is spread all over Pakistan. Sialkot, a city in Pakistan, is also a centre for the production of export-oriented goods, particularly sporting goods (Locke & Siteman, 2001). About 70% of the world's soccer balls are made in Sialkot and companies like Nike, Addidas, Reebok and Mitre imports soccer balls from this city. In 1990s, Nike contracted for its soccer ball production with SAGA Sports. Both companies benefited with the access to child labor in Pakistan (Haider, 2007). In 1996, Life magazine published an article about child labor that occurring in Pakistan, which included a photo of a young boy sewing a Nike soccer ball. (See Appendix D). This article drew the public attention to all human rights and fundamental freedom. Various activists groups, trade unions and NGOs called for boycotts Nike soccer balls because of using child labor.

The Atlanta Agreement has signed by The Sialkot chamber of Commerce with the ILO, UNICEF and several leading sports goods associations to implement a program to stop using child labor in Pakistan (Locke & Siteman, 2001). However, the government carries lack of willingness to do anything. Consequently, the same problem still exists in the country and Nike is still importing its soccer balls in million quantities from Pakistan.

Slave Labor in Asia

More than 80% of Nike's supplier factories are located in Asia. The Asian governments prohibited workers from forming independent unions and set the minimum wage at rock bottom. Labor activists criticized that the workers in Nike factories were being paid below the minimum daily wage. For example, Nike's suppliers paid workers in Indonesia less than US\$3 a day

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(Medea, 1998), and the wage did not meet the basic needs of one individual. In 2006, the Worker Rights Consortium calculated that a livable wage in Indonesia is about US\$8 per day (Bose, 2008).

Global Exchange, an international human rights organization published a report on working conditions in four Nike's supplier factories in Southern China. The report found that children aged 12 to 13 years old who worked in one of the supplier factories (owned by a Korean company) earned only 10 cents per hour. These children were forced to work up to 17 hours daily and were not allowed talking during work. Supplier paid Chinese workers US\$1.80 a day that was lower than the Chinese minimum wage of \$1.93 for an eight-hour day. The report stated that Nike labor practices had violated Chinese labor law but Nike denied the accusation and claimed that the report incorrectly stated the wages of workers (Locke & Siteman, 2001).

In Thailand and Vietnam, workers earned even lesser (less than US\$1.5 a day) compared to the workers in Indonesia and China. According to Vietnam Labor Watch, a livable wage in Vietnam is about US\$3 a day whereas the minimum wage in Thailand is US\$4.50 a day (Medea, 1998).

Health and Safety Problems in Vietnam

IN 1994, the Ernst and Young conducted audits on Nike's contract factories in Vietnam. According to its report, Vietnamese workers at the Tae Kwang Vina factory were often exposed to chemical, 77% of them had serious health and safety problems. Workers with breathing or skin problem had not been transferred to departments free of chemicals and most workers who dealt with dangerous chemicals were not provided personal protective

equipment such as masks or gloves (Zboch, 2009). This report revealed that workers were exposed to toluene (a chemical solvent can cause permanent damage to brain, nausea, and skin irritations). Toluene concentration had exceeded 177 times acceptable standards in parts of the factory. This report had tarnished Nike's image since the report came from Ernst and Young, an auditing firms hired by Nike to assess its suppliers' factories. In addition, Nike commissioned former Ambassador to the United Nation Andrew Young to assess working conditions in its contract factories. In Young's report, there is no mention of serious health and safety issues in the Tae Kwang Vina factory. This reports had casts doubt on Nike's honesty and commitment to labor and environment standards (Locke & Siteman, 2001).

Although Indonesia, China, and Vietnam have minimum wage laws on the books, the government of these countries was still allowing Nike to pay wages well below the minimum rate. " Nike further circumvented wage laws by paying new employees an apprentice rate for several months into an employee's tenure" (Turner, 2008). In 1997, more than 10, 000 Indonesian and 1, 300 Vietnamese Nike's contract factories workers went on strike to protest low and unpaid wage. In 2000, 3, 000 Chinese workers from Nike's contract factories protested dangerous working conditions and low wages. " All of these protests took place in spite of the fact that these sorts of worker strikes are illegal in these countries" (Turner, 2008). In addition to labor protests issues, numerous critics of Nike's practices had created a major public relation problem for the company. (See Appendix E traces the number of negative articles about Nike's practices.) The company has become a target for the anti-globalization and anti-sweatshop movements. The Anti-

Nike campaign that organized by consumers and human rights groups has raised the awareness about sweatshop labor in third world countries.

V. Nike's Response

At the beginning, Nike denied all the violations of labor rights and they blamed their suppliers or the host government for its failures of enforcement. The company claimed that workers' rights were respected despite the fact that Nike had failed to pay its workers with fair wages as well as to provide a safe working environment. In addition, Nike reluctantly to take responsibility for the labor, health and environmental problems found in its supplier factories. Nike claimed the company does not own these factories; therefore, it has no responsibility towards the workers (Avery, 1999).

In response to the ongoing criticism, Nike formulated its code of conduct for its suppliers. Every supplier must agree to abide this code in order to get a contract. (See Appendix F for the latest version of this code). " The Code of Conduct in theory condemns and prohibits child labor, requires that workers be paid fair wage, imposes caps on the days and hours that a worker can be forced to work, prohibits mistreatment or discrimination of workers in any form, and states that factories must implement programs that benefit worker's health and safety, and recognizes and respects the workers right to freedom of association" (Avery, 1999). In addition, Nike has trained its internal monitoring team to ensure all suppliers comply with its code of conduct. The company has also hired auditing firms to assess and monitor its suppliers regularly.

Recommendations

The majority challenges Nike has to overcome involved ethical and cultural issues. Even up until now, Nike is still facing allegations and criticism from labor groups and human right about its overseas labor practices. In response to these criticisms, Nike should work closely with its suppliers to improve working conditions and create safe and healthy environments for its workers. Workers should be provided some type of health insurance or protective wear. Nike can offer strong incentive to its suppliers, to ensure they adopt company's code of conduct. Lack of worker awareness of basic code of conduct provisions is a major challenge for the company. Hence, Nike should provide human rights training to workers, to raise their awareness of their rights.

Communication problem arose in Nike's overseas factories due to language barrier and little knowledge on cultural. In Vietnam, all factories are owned by Korean and Taiwanese suppliers, thus they may not understand local language and culture. To overcome communication challenges in workplace, Nike should encourage its suppliers to recruit local manager or people in multiple language ability. Furthermore, training program should be provided regularly to both management and workers in order to improve communication between workers and management.

The recent suicides of Foxconn workers in China are raising concern about ethical issues in supplier factories. (Foxconn is a key supplier to big tech companies.) In June 2010, a dozen of Chinese workers went on strike over wage violation. The Chinese government has increased the minimum wage due to the strike in many provinces (Kang, 2010). In future, China may not

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be the most attractive low-cost countries for foreign companies as more and more Chinese workers urge their employer to increase wages. This in turn, may cause a rise in manufacturing wages in China and that would substantially increase Nike's costs of production as most of its products are made in China. Nike can urge its suppliers to relocate their operations to other low cost countries in Latin America without compromising product quality.

Nike assures the public that its suppliers pay the country's minimum wage; however, in many countries minimum wage does not equate a living wage. The Indonesian government has admitted that the minimum wage only covered 70% of the basic needs of one person (Locke & Siteman, 2001). Some countries like Vietnam and Indonesia arbitrarily set minimum wage low to lure foreign investments. Being an ethical employer, Nike must ensure every worker is being fairly paid. In addition to providing livable wages, the company should take the long-term cost of image damage into account rather than pursuing low cost strategy. After all, brand name is their greatest asset and Nike should take immediate action to clean up its mess instead of blaming the host governments or its suppliers.

The development of a strict monitoring system in its factories overseas is still a challenge for Nike. Nike's factories are controlled by absentee owners, so the company should continue to hire independent firms to do the regular monitoring of the factories.

Conclusion

Today, more and more companies expand their business by going global.

Globalization has brought a culture of “ free labor”. Nike’s linger “ sweatshop” stigma is a case in point. The company’s worldwide image was tarnished after a wave of public criticism for its labor practices. Many human rights groups felt that Nike was using slave labor as a tool to lower their production costs, and the workers were not receiving proper wages.

Moreover, Nike had also been accused of using child labor in its factories and had failed to provide a safe working environment for its workers. In response to these criticisms, Nike formulated its code of conduct that required its suppliers to observe some basic labor and environment standards. The company also expands its internal and external monitoring to keep up with factory base. In summary, most companies may face legal, cultural, and ethical challenges when doing business overseas. These environmental forces are perceived as uncontrollable and could pose challenges for your company if they have not been well handed. The case of Nike demonstrated how difficult it could be for company to survive in global business market because of the different culture, laws and regulations of the host country. Therefore, “ increasing globalization of business is requiring managers to have global perspective and an understanding of the environment forces of the markets in which they operates” (Dr C, 2005).