



Etch-A-Sketch Ethics

The Ohio Art Company is perhaps best known as the producer of one of the top-selling toys of all time, the venerable Etch-A-Sketch. More than 100 million of the familiar red rectangular drawing toys have been sold since 1960 when it was invented. The late 1990s, however, became a troubled time for the toy's maker. Confronted with sluggish toy sales, the Ohio Art Company lost money for two years. In December 2000, it made the strategic decision to outsource production of the Etch-A-Sketch toys to Kin Ki Industrial, a leading Chinese toymaker, laying off 100 U.S. workers in the process.

The closure of the Etch-A-Sketch line was not unexpected among employees. The company had already moved the production of other toy lines to China, and most employees knew it was just a matter of time before Etch-A-Sketch went too. Still, the decision was a tough one for the company, which did most of its manufacturing in its home base, the small Ohio town of Bryan (population 8,000). As William Killgallon, the CEO of the Ohio Art Company, noted, the employees who made the product "were like family. It was a necessary financial decision we saw coming for some time, and we did it gradually, product by product. But that doesn't mean it's emotionally easy."

In a small town such as Bryan, the cumulative effect of outsourcing to China has been significant. The tax base is eroding from a loss of manufacturing and a population decline. The local paper is full of notices of home foreclosures and auctions. According to former employees, the biggest hole in their lives after Etch-A-Sketch moved came from the death of a community. For many workers, the company was their family, and now that family was gone.

The rationale for the outsourcing was simple enough. Pressured to keep the cost of Etch-A-Sketch under \$10 by big retailers such as Walmart and Toys "R" Us, the Ohio Art Company had to get its costs down or lose money. In this case, unionized workers making \$1,500 a month were replaced by Chinese factory workers who made \$75 a month. However, according to Killgallon, the main savings came not from lower wages, but from lower overhead costs for plant, maintenance, electricity, and payroll, and the ability to get out from the soaring costs of providing health benefits to U.S. manufacturing employees.

The choice of Kin Ki as manufacturer for Etch-A-Sketch was easy—the company had been making pocket-sized Etch-A-Sketch toys for nearly a decade and always delivered on cost. To help Kin Ki, the Ohio Art Company shipped some of its best equipment to the company, and it continues to send crucial raw materials, such as aluminum powder, which is hard to get in China.

The story would have ended there had it not been for an exposé in *The New York Times* in December 2003. The *Times* reporter painted a dismal picture of working conditions at the Kin Ki factory that manufactured the Etch-A-Sketch. According to official Kin Ki publications:

Workers at Kin Ki make a decent salary, rarely work nights or weekends, and often "hang out along the streets, playing Ping Pong and watching TV." They all have work contracts, pensions, and medical benefits. The factory canteen offers tasty food. The dormitories are comfortable.

Not so, according to Joseph Kahn, the *Times* reporter. He alleged that real-world Kin Ki employees, mostly teenage migrants from internal Chinese provinces, work long hours for 40 percent less than the company claims. They are paid 24 cents per hour, below the legal minimum wage of 33 cents an hour in Shenzhen province where Kin Ki is located. Most do not have pensions, medical benefits, or employment contracts. Production starts at 7:30 a.m. and continues until 10 p.m., with breaks only for lunch and dinner. Saturdays and Sundays are treated as normal workdays. This translates into a workweek of seven 12-hour days, or 84 hours a week, well above the standard 40-hour week set by authorities in Shenzhen. Local rules also allow for no more than 32 hours of overtime and stipulate that the employees must be paid 1.5 times the standard hourly wage, but Kin Ki's overtime rate is just 1.3 times base pay.

As for the "comfortable dormitories," the workers sleep head to toe in tiny rooms with windows that are covered with chicken wire. To get into and out of the factories, which are surrounded by high walls, workers must enter and leave through a guarded gate. As for the tasty food, it is apparently a mix of boiled vegetables, beans, and rice, with meat or fish served only twice a month.

The workers at Kin Ki have apparently become restless. They went on strike twice in 2003, demanding higher wages and better working conditions. The company responded by raising wages a few cents and allotting an extra dish of food to each worker per day (but still no more meat!) However, Kin Ki simultaneously made "fried squid" of two workers who were ringleaders of the strike ("fried squid" is apparently a popular term for dismissal). Johnson Tao, a senior executive at the company, denies that the two ringleaders were dismissed for organizing the strikes. Rather, he noted they were well-known troublemakers who left the factory of their own accord. Tao acknowledges the low wages at the company, stating, "I know that I need to increase wages to comply with the law. I have the intention of doing this and will raise all wages in 2004."

Meanwhile, in Ohio, William Killgallon, Ohio Art Company's CEO, stated to the *Times* reporter that he considered Kin Ki's executives to be honest and that he had no knowledge of labor problems there. But he said he intended to visit China soon to make sure "they understand what we expect."

Case Discussion Questions

1. Was it ethical of the Ohio Art Company to move production to China? What were the economic and social costs and benefits of this decision? What would have happened if production had not been moved?
2. Assuming that the description of working conditions given in *The New York Times* is correct, is it ethical for the Ohio Art Company to continue using Kin Ki to manufacture Etch-A-Sketch toys?
3. Is it possible, as Killgallon claims, that the Ohio Art Company had no knowledge of labor problems

at Kin Ki? Do you think company executives had any knowledge of the working conditions?

4. What steps can executives at the Ohio Art Company take to make sure they do not find the company profiled in *The New York Times* again as an enterprise that benefits from sweatshop labor?

Sources

1. Joseph Kahn, "Ruse in Toyland: Chinese Workers' Hidden Woe," *The New York Times*, December 7, 2003, pp. A1, A8; Joseph Kahn, "An Ohio Town Is Hard Hit as Leading Industry Moves to China," *The New York Times*, December 7, 2003, p. A8; Carol Hymowitz, "Toy Maker Survives by Moving an Icon from Ohio to China," *The Wall Street Journal*, October 21, 2003, p. B1; and John Seewer, "Etch A Sketch Enters Fourth Decade," *Columbian*, November 22, 2001, p. E3.