GARMENTS WITHOUT GUILT?
AN EXPLORATION OF CORPORATE SOCIAL RESPONSIBILITY WITHIN THE CONTEXT OF THE FASHION SUPPLY CHAIN: CASE STUDY OF SRI LANKA

"CONFIDENTIAL"

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ABSTRACT

The aim of this thesis is to understand how fashion supply chain characteristics affect the implementation of Corporate Social Responsibility (CSR) at factory level for garment manufacturers in lower labour-cost countries that supply Western high street fashion retailers. A dynamic, challenging global industry, the high street fashion industry is one of few sectors under simultaneous pressure for short lead times and low costs. Additionally, increasing global dispersion of garment manufacturing to lower labour-cost countries has led to concerns about worker exploitation and firms are now under pressure to deliver societal goals as well as shareholder profits. CSR represents the business response to minimising the negative societal impact of global business operations; however, the very nature of the fashion supply chain with the pressure on cost and lead time compromises CSR implementation at factory level.

A qualitative case study approach was selected in order to gain greater depth of understanding of CSR in fashion supply chains; specifically, to explore from a managerial perspective the impact of negative and positive forces within the fashion supply chain on CSR implementation, with a view to understanding how CSR implementation can be reconciled with the competitive challenges of the fashion sector. Fieldwork was conducted in Sri Lanka, a key global garment manufacturing location, within 7 case study companies which were selected to represent the range of business sizes and models in the export garment manufacturing sector. Data collection methods included on-site face-to-face semi-structured interviews with key informants and non-participant observation within factory environments. Analysis of interview transcripts was conducted manually, using Eisenhardt's (1989) method of within-case and cross-case analysis, and triangulated with observational data and documentary evidence.

The theoretical contribution is the synthesis and categorisation of factors within the context of fashion supply chains that impact both negatively and positively on CSR implementation at factory level in a lower labour-cost country, followed by an understanding of the interplay of global fashion supply chain characteristics and their impact upon CSR implementation at factory level. It was concluded that the inherent conflict between CSR principles and the characteristics of fashion supply chains may be reconciled by moving away from traditional adversarial supply chain relationships and adopting the Supply Chain Management (SCM) philosophy of long-term orientation and shared goals between trading partners. Furthermore, CSR implementation was influenced by product nature, the level of service provided by the supplier and the long-term partnership approach to buyer-supplier relationship management in the Sri Lankan context. The core basic nature of the product meant that orders were more likely to be long-running, so manufacturers were sheltered from the unpredictability in orders and frequent style changes characteristic of fast fashion. This level of stability enabled suppliers to invest in CSR implementation. Full package suppliers fostered strong relationships with retailers over considerable periods of time (10-20 years) and collaborated on initiatives to increase efficiency and agility, such as cost reduction and vertical integration of pre-production activities. However, contract manufacturers without value-added services were unable to develop strong collaborative relationships with buyers which would enable greater investment in CSR implementation. Although Sri Lanka is classed as a global leader in ethical garment manufacture, much is therefore dependent on the size and provision of services offered by the supplier, which dictates the nature of the buyer-supplier relationship: vertically integrated full package suppliers had closer links with buyers than contract manufacturers and hence greater ability to drive CSR implementation through the business.

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I would like to dedicate this thesis to the memory of my mother, who inspired and encouraged me to achieve the highest goals.

GLOSSARY

CMT	Cut, Make and Trim: a factory that carries out garment manufacture with all materials supplied by the buyer
CSR	Corporate Social Responsibility
LTTE	Liberation Tigers of Tamil Eelam, a violent separatist organisation formerly based in northern Sri Lanka that sought to create a separate Tamil state in the north and east of Sri Lanka
PLC	Product Life Cycle
SCM	Supply Chain Management
SDB	Social Desirability Bias
TCE	Transaction Cost Economics
VMI	Vendor Managed Inventory

LIST OF CANDIDATE'S PUBLICATIONS

Perry, P. and Towers, N. (2009) 'Determining the antecedents for a strategy of corporate social responsibility by small and medium-sized enterprises in the UK fashion apparel industry', Journal of Retailing and Consumer Services, 16, pp. 377-385

Perry, P. and Towers, N. (2012) 'Fashioning a socially responsible garment supply chain: a qualitative exploration of corporate social responsibility in Sri Lankan export garment manufacturers' in Choi, T.M. (Ed.) *Fashion supply chain management: industry and business analysis*, IGI Global, Hershey, PA, pp. 327-362

Fernie, J. and Perry, P. (2011) 'The international fashion retail supply chain' in Morschett, D., Zentes, J. and Swoboda, B. (Eds.) *Case Studies on International Management*, 4th edition, Gabler, Wiesbaden, pp. 271-290

Perry, P. (2012) 'Exploring the influence of national cultural context on CSR implementation', Journal of Fashion Marketing and Management, 16 (2), pp. tbc

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CHAPTER ONE: INTRODUCTION TO THESIS

1.1 Introduction, research objectives, scope and structure of thesis

The aim of this thesis is to develop theory on Corporate Social Responsibility (CSR) in fashion supply chains by formulating new propositions concerning the impact of obstacles to and drivers of CSR implementation in garment manufacturers supplying Western fashion retailers. Alongside a longstanding passion for fashion, the researcher's interest in CSR developed as a result of becoming aware of the anti-capitalism movement going mainstream (Klein, 2000). Having spent time volunteering and working with disadvantaged people, as well as having spent time in developing countries, the researcher became interested in whether and how business and societal goals could be aligned for mutual benefit. The context of the fashion supply chain came from the researcher's longstanding passion for fashion and her increasing awareness of the negative media publicity surrounding working conditions in garment manufacturers in developing countries that supply Western high street retailers with fashion product.

The research objective is to identify and evaluate the impact of factors that inhibit or promote implementation of CSR within the fashion supply chain, in order to develop an integrative framework for successful CSR implementation in garment manufacturing firms in developing countries that supply Western retailers with fashion product. Specific research objectives are:

1) **To identify the factors that inhibit or drive implementation of CSR within the globally dispersed fashion supply chain context**

2) **To examine the consequences of CSR Inhibitors and Drivers on CSR implementation in garment manufacturers in developing countries that supply Western retailers with fashion garments**

3) **To develop an integrative framework that provides an implicit strategy for CSR implementation in a developing country garment manufacturing business supplying high street fashion garments to Western retailers.**

This thesis focuses on the garment manufacturing function as distinct from textile manufacturing and assumes a narrow definition of CSR to include social issues of

worker exploitation only. Environmental issues of pollution, degradation and depletion of natural resources mainly relate to textile production, therefore are considered to be outside the scope of this study and are not addressed. Furthermore, the focus is on fashion garments sold to consumers through high street retailers such as Marks & Spencer, TopShop and Nike, rather than luxury fashion, workwear, uniforms or protective wear. For reasons of consistency, the term 'garment' rather than 'apparel' will be used throughout and refers to clothing such as trousers, tops, skirts and coats, but does not include footwear or accessories. The US term 'apparel' appears on occasion in quotes and references but is taken to have the same meaning as 'garment'.

This chapter presents the contextual background, scope and direction of the research, as well as setting out the structure by summarising each chapter in turn.

Chapter Two examines how the concept of Supply Chain Management (SCM) has evolved to become an important management discipline. It explores how macro factors such as globalisation have increased focus on SCM, as well as examining how fashion industry-specific factors such as product nature influence supply chain design. In order to illustrate the range of criteria to be considered in global garment sourcing, the chapter includes an evaluation of Sri Lanka. This provides the background information on the location of the seven case study companies, in terms of setting out the nature of the industry, its strengths and weaknesses relative to neighbouring Asian garment-producing nations, and the history of CSR within the industry.

Chapter Three seeks to understand CSR as a theoretical construct in terms of the economic argument and the utility argument. The defining character and context of CSR is established by exploring the global business trends and societal issues which have converged to give rise to the current focus on CSR. The business case for CSR is presented, in terms of the strategic benefits. A review of the philosophical antecedents comprises the normative case for CSR, in terms of the deontological and teleological perspectives. CSR is also underpinned by stakeholder theory, which links to the boundary of the firm, and the question of how far along the supply chain responsibility of the firm should extend, especially in the context of global garment supply chains where fashion retailers are foremost marketers and rarely own manufacturing facilities. The chapter then discusses recent innovations and practices in fashion garment supply chains which have brought about current awareness of CSR issues. It concludes by

presenting a conceptual framework of the theoretical constructs of CSR in garment supply chains, deduced from the literature review, to guide empirical data collection.

Chapter Four sets out the justification for the research methodology adopted. As the focus is on understanding rather than measuring the factors that influence CSR implementation, an interpretive research approach was adopted. A qualitative multiple-case study enabled the researcher to understand the managerial perspective of CSR implementation in garment supply chains and allowed cross-case analysis for richer theory building. Analytic generalisation from empirical data and prior theory provided the basis for theory building. The chapter also discusses quality and validity considerations in order to demonstrate the academic rigour of the research approach.

Chapter Five presents the case-by-case analysis of the empirical data according to the theoretical constructs derived from the literature review. These include CSR Inhibitors, which represent the negative factors within the fashion supply chain that inhibit or compromise CSR implementation in garment manufacturers, and CSR Drivers, which represent the positive factors that support and promote CSR implementation. The notion of CSR as a theoretical construct is also examined, in terms of the three CSR Pillars of moral philosophy, competitive advantage and sustainable development.

Chapter Six presents a cross-case analysis of the empirical data which draws out common themes and variations on themes between case study companies, according to the theoretical constructs. This chapter also introduces three additional themes that emerged from the data and were found to support CSR implementation, namely: national culture, governmental support and level of socio-economic development.

Chapter Seven revisits the main themes from the literature review. Empirical data are interpreted according to the prior theory with the aim of producing analytical generalisations to develop a process model capturing the issues and drivers of CSR implementation for garment manufacturers in the high street fashion supply chain. This is followed by the conclusions to the research, including identification of theoretical contribution and managerial implications. Limitations are acknowledged and plans for future research directions outlined.

CHAPTER TWO: SUPPLY CHAIN MANAGEMENT

LITERATURE REVIEW

2.1 The nature of SCM

Since the context of this research is the globally dispersed fashion supply chain, the starting point of the thesis is a synthesis of the literature of SCM and its application to the fashion industry. SCM is a management discipline which concerns "the set of practices aimed at managing and co-ordinating the supply chain from raw material suppliers to the ultimate customer" (Heikkila, 2002, p.749). It is "a way of thinking that is devoted to discovering tools and techniques that provide for increased operational effectiveness and efficiency" in the supply chain (Cox, 1999, p.167), by the reduction of friction and transaction costs at the buyer-supplier interface. SCM achieves improved performance through better use of internal and external capabilities and technology, thus creating a seamlessly coordinated chain between raw material supplier and final consumer (Chen and Paulraj, 2004a; Tan, 2001; Morgan and Monczka, 1996).

Originally emerging from logistics and operations management literature, SCM is a relatively new concept which did not appear in literature until the early 1980s (Oliver and Webber, 1982). The 1990s saw a widespread move by manufacturers towards supplier collaboration and evolution of the purchasing and supply management function from an administrative role to a strategic management function (Tan, 2001). SCM focus has evolved over the past 20 years from integrating logistics and reducing costs to providing better products and customer service, faster and more cheaply (Evans and Danks, 1998), and as such, emphasis has moved from pure cost efficiency to a combination of cost efficiency and customer-focused effectiveness. Contemporary trends such as the increasing integration of global markets and disintegration of the production process, often globally dispersed (Feenstra, 1998), have also increased focus on SCM as a strategic function. SCM has gained much prominence in recent years due to recognition of its potential as a major new area of profit and growth. Hence, it has rapidly become a strategic priority in many firms (Jüttner *et al.*, 2007). Indeed, New (1997, p.15) declared it to be "the most practically and intellectually significant theme within current managerial and economic research", while (Lancioni, 2000, p.1) referred to it as "the new management science of the millennium". Croom *et al.* (2000) recommended that SCM should be taken as the prime unit of competitive analysis.

A supply chain is "a group or network of legally independent companies which have agreed to work together to achieve some common objective in the supply of a given product" (Jones, 2006, p.55). SCM essentially refers to the integration of activities, actors and resources associated with the flow and transformation of goods from raw material to end user (Svensson, 2007) that is achieved through improved supply chain relationships for the shared goal of sustainable competitive advantage. The concept includes the associated information flows. Hong and Jeong (2006, p.292) summarised existing literature to define SCM as "a set of approaches utilised to effectively integrate suppliers, manufacturers, logistics and customers for improving the long-term performance of the individual companies and the supply chain as a whole". The goal of SCM is "to integrate and manage the sourcing, flow and control of materials using a total systems perspective across multiple functions and multiple tiers of suppliers" (Mentzer *et al.*, 2001, p.6). Therefore, although strategic supply chain thinking is about appropriating the maximum possible value share for oneself (Cox, 1999), this should not be done at the expense of other network partners. SCM philosophy comprises shared goals and mutually beneficial outcomes, which is aligned with the scope of CSR and underpins the sustainability of the supply chain. Table 2.1 below lists key SCM activities which form the basis of the discussion in this chapter.

Activity	**Explanation**
Integration	• Behaviour - incorporate customers and suppliers; coordinate effort between suppliers, carriers and manufacturers • Processes - from sourcing to manufacturing and distribution across the supply chain, integration can be accomplished through cross-functional teams, on-site supplier personnel and third-party providers
Mutually sharing information	• For planning and monitoring processes in supply chain • The willingness to make strategic and tactical data available to other members of the supply chain • Sharing information such as inventory levels, forecasts, sales promotions strategies and marketing strategies
Cooperation	• Starts with joint planning and ends with joint control activities to evaluate performance of the supply chain members, as well as the supply chain as whole • The design of quality control and delivery systems should also be a joint action
Same goal and same focus on serving customers	• Companies in the supply chain must have similar policies and significantly similar orientations toward their customers

Table 2.1 Supply chain management activities (Teng and Jamarillo, 2006)

Competition engages whole supply chains, and not merely single firms (Lambert *et al.*, 1998). The general consensus in today's complex markets is that the term 'supply chain' refers to a network structure, since it would be rather unusual for a firm to

participate in a single supply chain only (Lambert and Cooper, 2000). Thorelli (1986, p.37) defined a network as "two or more organisations involved in long-term relationships". Meeting the requirements of the end customer is no longer dependent on the firm by itself, but on the performance of its supply chain (Heikkila, 2002). The aim of each relationship in the supply chain is to service the delivery requirements of the immediate customer and then replicate this process throughout the chain with the ultimate aim of servicing the needs of the end consumer. This process is therefore collective and interdependent with each link in the chain being reliant on all the other links (Towers and Burnes, 2008). According to Towers and Ashford (2003, p.12), "external firm-to-firm boundaries must be overcome to create a service-driven network of companies with supply as a shared goal". In accordance with this new orientation, "companies will not seek to achieve cost reductions or profit improvement at the expense of their supply chain partners, but rather seek to make the supply chain as a whole more competitive" (Croom *et al*., 2000, p.68).

Macro factors such as increasing global cooperation, the trend towards vertical disintegration, and a renewed focus on core activities have led to a greater interest in supply chains as networks of interlinked firms (Chen and Paulraj, 2004b). Tummala *et al*.'s (2006, p.180) definition of SCM as "the securing, coordinating and maintaining of formal links with all parties that perform a vital function" demonstrates the focus on the chain rather than individual parties. Linton *et al.* (2007) observed that during the past two decades, the focus on optimising operations has moved from a single organisation to the entire supply chain. Fukuyama (1995) noted the growing perception that networks will outperform hierarchical corporations as well as market relationships. However, he believed the efficiency of networks "will come about only on the basis of a high level of trust and the existence of shared norms of ethical behaviour between network members" (p.195). Fukuyama's (1995) point relates to the argument for embedding CSR in SCM, which will be discussed further in Chapter Three.

The rest of this chapter will discuss SCM principles and concepts within the context of the fashion industry. Specifically, it will cover the issues, drivers and benefits relating to SCM implementation and the relevance of SCM to CSR in the fashion industry.

2.2 The high street fashion sector: environmental trends

Traditionally, SCM came under the broad domain of operations/logistics management, while the marketing function was concerned with the concept of demand management (Walters and Rainbird, 2004). However, current thinking proposes that a customer focus should not be the sole domain of the marketing function but should be inculcated throughout the organisation (Walters and Rainbird, 2004; Lambert *et al*., 1998). The evolution of SCM has thus been driven by a customer-focused corporate vision (Tan, 2001). Implicit in SCM therefore is the need to focus on the marketplace. Indeed, customers' needs should be the starting point for SCM (Heikkila, 2002). Therefore, a discussion of fashion supply chain management requires awareness of the environmental trends in the marketplace.

The high street fashion market is a challenging, dynamic industry sector, characterised by short PLCs, high product variety, high volatility, low predictability, relatively low margins and high levels of impulse purchasing (Bruce *et al.*, 2004; Masson *et al.*, 2007; Fernie and Sparks, 1998). The garment industry overall, according to Knutsen (2004, p.550), is "a technologically mature industry with low barriers to entry, and a relatively flat and price-sensitive market". Fashion markets face continual downward price pressure (Masson *et al.*, 2007), with long-term deflation experienced in the UK garment market year on year from 1998 to 2008 (Verdict, 2010). Textiles Intelligence (2010) found that import prices for the top nine garment supplier countries to the US (Bangladesh, Cambodia, Honduras, India, Indonesia, Mexico, Pakistan and Vietnam) had fallen from the previous year, with an average price drop of 7.4%. Since supply chain costs can impact severely on product profitability (Jüttner *et al.*, 2007), there is considerable interest in harnessing SCM principles to reduce supply chain costs in global fashion supply networks. With such high levels of competition and rapid change, success or failure in the high street fashion sector is largely dependent on organisational flexibility and responsiveness (Christopher *et al.*, 2004). Masson *et al.* (2007) observed that the high street fashion industry is one of few sectors under simultaneous pressure for short lead times and low costs. SCM innovations therefore have considerable potential to deliver commercial benefits by managing the process from fibre to store as efficiently, in terms of cost, and effectively, in terms of lead time, as possible.

Several marketplace trends have reshaped the competitive landscape, most notably globalisation, changing consumer expectations, advances in technology and the

availability of information (Sridharan *et al.*, 2005; Griffiths *et al.*, 2001). UK consumers are more discerning and demanding with less time but more cash to spare. Socio-cultural changes such as the orientation towards constant progress and change filter through to the fashion apparel market where consumer needs and wants change at a faster pace (Barnes and Lea-Greenwood, 2006). 'Fast fashion', the strategy of rapidly changing collections of high-fashion garments, accounts for an increasing share of the UK apparel market. The aim of fast fashion is "to reduce the processes involved in the buying cycle and lead times for getting new fashion product into stores, in order to satisfy consumer demand at its peak" (Barnes and Lea-Greenwood, 2006, p.259). Some retailers in the 'fast fashion' sector may count as many as twenty planned seasons per year (Christopher *et al*., 2004). PLCs therefore continue to shorten: Masson *et al*. (2007, p.239) described the European mass fashion industry as "fickle, volatile and unpredictable", since PLCs currently average six weeks but may be as short as three weeks for some items. Competing on the basis of cost and quality has now become a qualifying, rather than a winning strategy in many global markets, where flexibility and responsiveness to changing conditions are more advantageous (Soliman and Youssef, 2001). Since the nature of UK high street fashion is characterised by a high level of product variety and short PLCs, the supply chain must therefore prioritise product availability and customer service within the fashion season. Fast fashion has shifted competitive advantage in the UK fashion apparel industry from a price focus to a focus on quick response to consumer demand for the latest fashion trends at an ever-increasing pace (Barnes and Lea-Greenwood, 2006). New (1997) considered the increasing power of the consumer to be closely connected with the emergence of SCM innovations such as time-compression, flexibility and responsiveness. Hence, fashion retailers are increasingly moving their buying budgets from pre-season forward-order to in-season speed sourcing, to minimise the risk of forecasting errors and to satisfy consumer demand for continuous new product introduction in store (Brown, 2010; KSA, 2005). However, because of the dual pressures of cost and lead time faced by the high street fashion sector (Masson *et al.*, 2007), flexibility must still be balanced against sourcing cost to achieve success in the highly competitive mid-market sector (Hines and McGowan, 2005).

Fawcett *et al.*'s (2008) contingency framework of effective SCM in Figure 2.1 below summarises the competitive landscape and shows how value creation in strategic supply chains is contingent upon their ability to overcome resisting internal and external forces.

Applying the framework to the fashion garment sector, the main forces driving the supply chain focus are:

- More demanding customers
- Greater competitive intensity
- Compressed PLCs.

The traditional adversarial nature of supply chain relationships means that the key implementation barriers are:

- Inability or unwillingness to share information
- Lack of trust among supply chain members
- Inflexible organisational systems and processes.

And the benefits of effective SCM are:

- Shorter order cycles (lead times)
- Cost competitiveness
- Flexible customer response (increased efficiency).

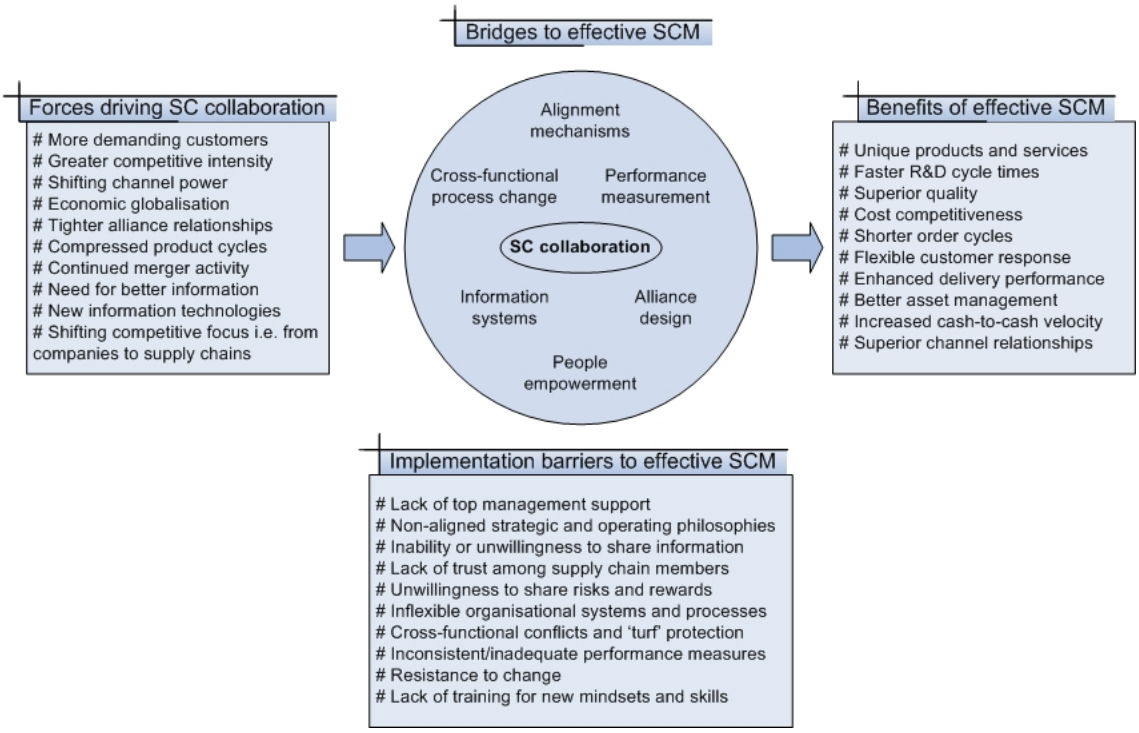


Figure 2.1 Contingency framework to understand effective SCM (Fawcett *et al*., 2008)

According to Castelli and Brun (2010, p.26), "the current competitive scenario requires (fashion retailers) to align the whole set of supply chain processes towards the brand values and the expectations they generate, in order to achieve consumers' preferences and loyalty, and ultimately sustain revenues". As competition in the fashion industry moves from manufacturing to distribution and retail (Castelli and Brun, 2010), firms

focus on core activities and outsource non-core operations, and thus SCM becomes the prime unit of competitive analysis (Croom *et al.*, 2000).

2.3 Supply characteristics in the high street fashion sector

Before understanding how SCM contributes to competitiveness in the fashion industry, an awareness of the supply characteristics of the high street fashion sector is required. This section will discuss the structure of global fashion supply chains and how this affects SCM, followed by a discussion of how the nature of the fashion product influences the SCM approach.

2.3.1 Global fashion garment supply chain structures

The rationale for the SCM view of commercial enterprise is based on the understanding that different firm structures and types of trading relationship (governance) affect firm performance and competitive advantage. The governance of supply chains ranges from fully vertically integrated, where all business functions are retained in-house, to completely independent networks of organisations, where the focal firm essentially acts as a coordinator by outsourcing its business functions to third party suppliers.

Historically, the luxury segment of the market was structured in a vertically integrated manner, in order to retain control over successive processes to command premium prices for exclusive high quality products. French couture houses such as Chanel and Hèrmes successfully pursued a strategy of vertical integration to control and protect the artisan skills that underpin the production of bespoke luxury goods. Vertical integration is based on ownership of successive processes in the chain of supply; however, it is generally recognised that this governance form is now ill-advised in most well-established industries (Langlois, 2003). Even in the luxury fashion sector, companies are moving towards a networked structure. Globalisation, heightened competition, advances in IT and the changing nature of the luxury consumer have resulted in a greater level of complexity and turbulence in the market; hence flexible modular organisations are more effective than vertical integration (Djelic and Ainamo, 1999). According to Fukuyama (1995, p.341), “network organisations can take advantage of scale economies while avoiding the overhead and agency costs of large, centralised organisations”. Vertical integration offers less flexibility, carries greater risk of plant obsolescence and restrains natural competitive forces when present on a large scale in a

mature industry (Langlois, 2003). It also ties up large capital resources and may lead to serious management problems if the firm gets involved in production processes in which it has little knowledge or experience. For these reasons, the same economies achievable by vertical integration can often be obtained more efficiently via partnership agreements such as strategic alliances (Reve, 1990).

Notwithstanding some well-known examples of vertically integrated fashion businesses such as Benetton, Zara and American Apparel, the mid-market sector tends to be structured according to a design, source and distribute business model rather than brand owner-manufacturers. For mid-market firms, there are no artisan skills involved in production therefore there is no advantage in increased levels of control that come with vertical integration. High street brands and retail groups such as Arcadia, Aurora, Next and Marks & Spencer do not own production facilities. They can take advantage of the cost efficiency and flexibility offered by operating as supply chain networks and subcontracting garment manufacture to lower labour cost countries.

In terms of transaction costs, it is less costly to outsource mid-market fashion garment production than to internalise it. This is largely because the garment manufacturing process is labour-intensive and is not disposed to automation (Jones, 2006; Abernathy *et al.*, 2006). Because the process of sewing makes up around 30% of the total garment cost (Jones, 2006), the impact of the labour cost differential between developed and developing countries is significant. With the relatively small amounts of skill and capital investment required and the enduring labour-intensive nature of the manufacturing process, competitive advantage has shifted from economically advanced nations to developing countries with large pools of labour resources. The low barriers to entry mean that apparel manufacturing tends to lead the industrialisation process in developing countries (Jones, 2006; Singleton, 1997). The manufacturing process is not the primary creator of value in the garment supply chain (Jones, 1996): while 61% of value added is created at the retail stage, only 19% is created during garment assembly (Singhal *et al.*, 2004). Due to the labour-intensive nature of the manufacturing process and its relative lack of technical innovation, product sourcing decisions are therefore largely determined by wage rates and therefore developing countries such as China and India hold greater competitive advantage in this function than many developed Western nations (Abernathy *et al.*, 2006; Taplin, 2006). Over the years therefore, garment production by developed country producers has continued to decline, in some cases to

the point of absolute decline, and has shifted to lesser-developed countries, particularly East Asian ones (Dicken, 2007). In the UK, the rise in outsourcing has led to the structural decline of domestic apparel manufacturing industry, which is evident by the UK's high apparel import penetration figure of 92% (Jones, 2006). Import penetration indicates the level of supply of a given product which a country achieves through imports rather than through its domestic production.

Figure 2.2 below distinguishes the vertically integrated and design/source/distribute business models. This distinction represents the 'make or buy' question, which distinguishes between internalisation and outsourcing of business functions. SCM is based on the understanding that different firm structures and types of trading relationship affect firm performance and competitive advantage.

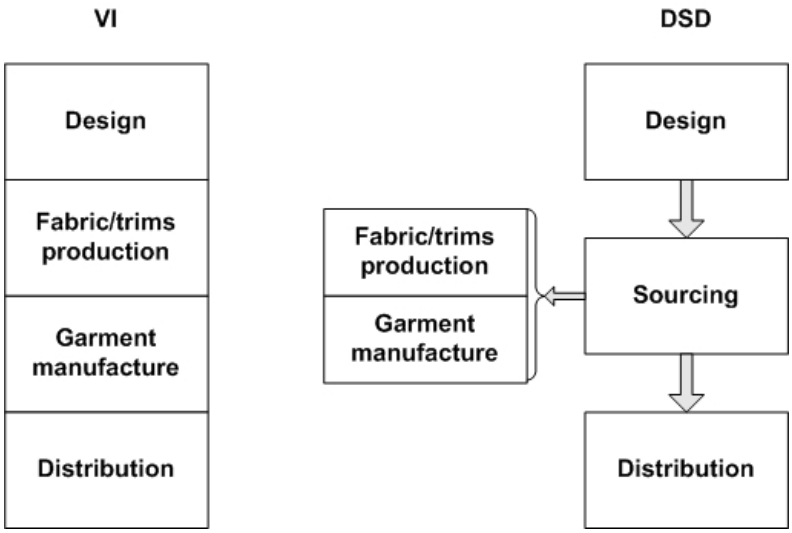


Figure 2.2 Vertical integration vs. design/source/distribute business models

Because of the prevalence of outsourcing garment production in the fashion industry, it is important to consider the theory of the firm, where the boundaries of the firm lie and how this relates to supply chain management success. Burgess *et al.* (2006) identified three theoretical bases for the study of SCM:

- Economic (transaction cost economics (TCE), agency)
- Strategic management (resource-based view of firm, competitive advantage)
- Psychological/sociological (organisational learning, inter-organisational networks).

Within this thesis, the economic (TCE) theoretical base is selected, since Croom *et al.* (2000) recognised that the business case for SCM is underpinned by Coase's (1937)

theory of the firm and Williamson's (1975) seminal work on TCE. These theories advocate that transacting is the key factor which influences the formation of markets, hierarchies and firms. Transaction costs are the cost of exchanging in a trading relationship. Coase (1961, p.15) explained:

> "In order to carry out a market transaction it is necessary to discover who it is that one wishes to deal with, to inform people that one wishes to deal and on what terms, to conduct negotiations leading up to a bargain, to draw up the contract, to undertake the inspection needed to make sure that the terms of the contract are being observed, and so on".

Transaction costs are usually measured on the basis of the economic resources used in locating trading partners and executing transactions (Wang, 2003). TCE is founded on the idea that governance structure (i.e. firm, market or hierarchy) affects a firm's competitive advantage (Williamson, 1975; Williamson, 1990). This leads to the 'make or buy' question: whether it is more favourable to internalise or outsource various business functions (Williamson, 2008). Determining the answer to the 'make or buy' question is of immense strategic importance, enabling the firm to appropriate value for its shareholders and achieve sustainable business success (Cox, 1999). Rational corporations (i.e. those that aim to maximise profits) will seek to reduce transaction costs in business exchanges, therefore the choice to 'make or buy' is ultimately based on an overall cost comparison.

The 'make or buy' decision is also guided by core competences, since the strategic core of the firm must remain integral while non-core operations are often more effectively outsourced to lower labour-cost locations (Cox, 1996). Relational competence analysis recognises that the firm's core competences are its means of sustaining competitive advantage and that these should therefore be retained within the boundary of the firm (Cox, 1996). The efficient boundary of the firm is that which economises on the transaction costs of doing business; however, this may change over time according to prevailing competitive conditions (Reve, 1990; Cox, 1996). Cox (1999, p.170) referred to the notion of strategic supply chain thinking as a knowledge of "where to position the business to own and control particular resources within a specific supply chain in order to appropriate the maximum share of value for oneself" and thereby maximise profits. In the garment industry, this is achieved by outsourcing non-core supply chain activities, such as garment manufacture, which are subject to fierce competition from many rivals and which have low barriers to entry (Cox, 1999). In contrast, ownership

and control of core activities such as design should be retained by the firm (Reve, 1990). Maitland (1997) quoted a Nike vice-president as stating that Nike's principal business is marketing and design activities of sportswear and not manufacturing. Hence, Nike's non-core manufacturing operations are carried out by subcontractors in Asia, while core marketing and design operations remain under Nike's ownership in the US. Applying the reasoning of Reve (1990) and Cox (1996) in transaction cost analysis of firm strategy would lead to the conclusion that Nike's success in the market is not contingent upon its manufacturing capabilities. These would be classed as assets of low specificity and suitable for outsourcing via arms-length contracts. Its design and marketing skills represent the core competences upon which market success is based and would therefore remain internal to the organisation by being placed at the strategic core of the enterprise. Similarly, the core competences of high street fashion brands and retail groups such as Marks & Spencer, Next, Arcadia and Aurora lie in design, product development and marketing functions: that is, the ability to interpret wider trends and tailor them to suit their customer base, at the right price and the right time. Their market success is not contingent upon their manufacturing capabilities and hence they have adopted a design/source/distribute business model and outsourced the production function.

2.3.2 The influence of product nature on supply chain operational design

While the broader supply chain governance decision is based on an analysis of transaction costs and identification of core competences, the operational design of the supply chain and the management approach thereof depends on the nature of the product. Lowson (2003) segmented fashion merchandise into three major segments:

- **basic products** (generally sold all year round with little variation in style, predictable demand profile)
- **seasonal products** (average PLC of 12-25 weeks, greater variation in style and less predictable demand profile)
- **short-season products** (average PLC of 6-10 weeks or less, greater variation in style, unpredictable demand profile).

For high fashion/short-season items with a limited selling window, the supply chain should prioritise lead time over cost, while for core basic products that are less susceptible to the vagaries of fashion trends, the supply chain should prioritise cost reduction over speed to market. Fisher's (1997) typology of physically efficient vs. market-responsive supply chains has been applied to the garment industry. Highly

efficient or lean operations are suited to basic products with long PLCs, while for fashionable trend-led garments with shorter PLCs, responsiveness in terms of short lead times and rapid replenishment systems are essential (Abernathy *et al.*, 2006; Şen, 2008; Castelli and Brun, 2010). Therefore, while supply chains for basic products focus on cost reduction and efficiency, supply chains for fashion products instead focus on matching supply to demand and prioritise flexibility and effectiveness. The latter must be flexible enough "to respond quickly to changes in customer and competitive demands" (Lancioni, 2000, p.4), which could be changes in volume or variety, or pressure from rival firms. These two distinctive approaches to SCM are termed 'lean' and 'agile': leanness refers to a focus on cost efficiency through the elimination of all forms of waste, while agility refers to a focus on flexibility and responsiveness in order to exploit profitable opportunities in a volatile marketplace (Naylor *et al.*, 1999). For example, following the news of Prince William and Kate Middleton's engagement on 16 November 2010, the £349 blue Issa wrap dress she wore for the occasion sold out of upmarket department stores and designer boutiques in the UK within two days. On 18 November, Tesco announced it would launch a £16 high street replica of the dress which would be available in store and on its website on 22 November, less than a week after the engagement announcement (Bearne, 2010). To exploit the high market demand following the engagement announcement, Tesco employed an agile supply strategy to get the product available to sell as quickly as possible while demand was at a peak. In the event, its version of the dress sold out within an hour of appearing on the website (Creevy and Shields, 2010). Since then, other mid-market fashion retailers including Peacocks and web retailer Goddiva have announced the launch of their own versions of the dress, albeit not with the speed that Tesco achieved (Gallagher, 2010). This example shows how an agile supply strategy enables retailers to profit from spikes in demand for fashion garments. Figure 2.3 below shows the demand profiles for functional/basic, seasonal and innovative/fashion/short-season garments.

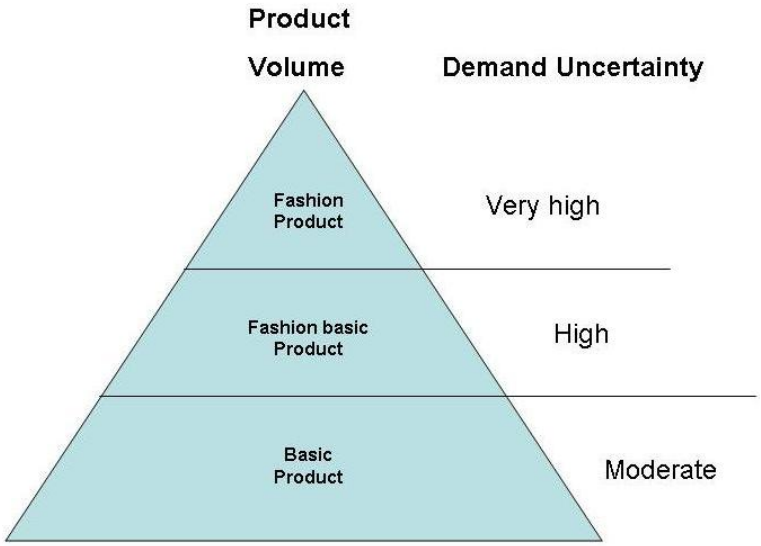


Figure 2.3 Demand pyramid : basic vs. fashion items

Childerhouse and Towill (2000) proposed that lean supply chain principles should be adopted for commodity products with predictable demand while innovative products with unpredictable demand require agility. For functional or generic products, which are typically low-margin and price sensitive with a long PLC and predictable demand, a highly efficient supply chain ensures the physical costs of production and distribution are minimised. For items such as black socks or white T-shirts that tend to be purchased primarily on the basis of price, this supply strategy ensures competitiveness. Where there is stable, predictable demand, a lean manufacturing strategy can improve supply chain efficiency by eliminating waste, including time (Mason-Jones *et al*., 2000; Naylor *et al.*, 1999), resulting in lower labour costs and increased throughput (Frohlich and Westbrook, 2001). This is crucial in maximising productivity and improving operating profit for low-margin items. Since supply chains for basic products are less complex for innovative products, they can be simplified to maximise efficiency and reduce transaction costs (Williams *et al.*, 2002).

To conclude the discussion of functional products and supply chain design, it is important to note that Fisher's (1997) definition of functional products was those with a PLC of two years or more, which would be unlikely to cover any high street fashion garment especially in light of increasing turbulence in fashion markets. Even basic garments possess an element of seasonality and hence any discussion of product nature must include the concept of agility. Increasing turbulence results from three main factors: demand instability, demand for more product differentiation and greater

competition in standardised product categories due to increasing import penetration (Aranguren, 1999; Sengenberger, 1991; Morris and Barnes, 2008). To achieve success, companies must therefore find a good balance between efficiency and effectiveness in their supply chains. Focusing on efficiency to the exclusion of effectiveness, or vice versa, would risk customer satisfaction or ruin efficiency, respectively (de Treville *et al*., 2004; Soliman and Youssef, 2001; Towers, 1999). Naylor *et al.* (1999) disputed that lean supply and agile supply were mutually exclusive and proposed the term 'leagile' to describe a supply chain that combined both principles, with lean supply upstream and agile supply from the decoupling point downstream. Likewise, Bruce *et al.* (2004) proposed that the garment industry would benefit from adopting a combination of lean and agile supply chain principles. Bergvall-Forsberg and Towers (2008) proposed that the implementation of lean, agile or leagile supply strategy depends on the value expected by customers and other stakeholders in each particular case. They proposed that fashion and textile companies should adopt a strategy of 'agile merchandising', that is, combining lean and agile capacities to construct a network of effective and efficient long-term strategic solutions to overcome the simultaneous pressure on cost and lead time within the industry. Increasing turbulence in international markets results from three main factors: demand instability, demand for more product differentiation and greater competition in standardised product categories due to increasing import penetration (Aranguren, 1999; Sengenberger, 1991; Morris and Barnes, 2008). To achieve supply chain success, companies must find a good balance between efficiency and effectiveness. Focusing on efficiency to the exclusion of effectiveness, or vice versa, would risk customer satisfaction or ruin efficiency, respectively (de Treville *et al*., 2004; Soliman and Youssef, 2001; Towers, 1999).

Lee's (2002) supply and demand uncertainty matrix (Figure 2.4 below) is based on Fisher's (1997) functional/innovative product categorisation and shows four types of supply chain which deal with varying degrees of supply and demand uncertainty. Although fashion garments have short selling seasons, high product variety and an unpredictable demand profile, the supply process is very stable, with a large and reliable global supply base and a mature low-tech manufacturing process. Hence, responsive supply chains best meet the needs for fashion garment manufacturing. These aim to be responsive and flexible to the changing and diverse customer needs (Lee, 2002). Lancioni (2000) predicted that supply chain agility would become paramount for business survival in the increasingly uncertain markets of the future and this is

especially true for the fashion industry, characterised by fierce competition and rapid change (Castelli and Brun, 2010).

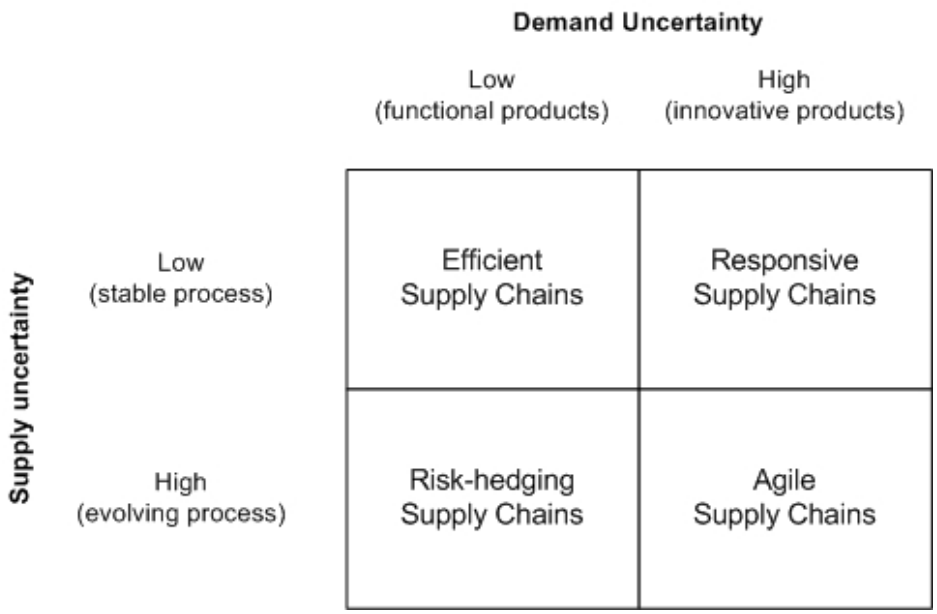


Figure 3.3 Supply and demand uncertainty matrix (Lee, 2002)

Seasonal products such as fashion garments are less price-sensitive, but have a short PLC and unpredictable demand levels; therefore the supply chain must achieve a high level of effectiveness in terms of lead time reduction and manufacturing flexibility (Fisher, 1997). With ever-shorter PLCs, an increasing number of retail seasons, a high degree of design variation per category, unpredictable demand and high margins, the fashion industry is typical of the innovative product. By successfully managing the supply chain network to achieve speed and flexibility, retailers maximise profits from full price sales when market needs of consumer demand and availability are met, while at the same time minimising the stock-out and markdown losses associated with missing the market (Masson *et al.*, 2007). The aim is to concentrate production on key sellers in the range at the start of each season, based on early sales information, in order to avoid lost sales through lack of availability and markdowns of obsolete stock at the end of the season due to an excess of stock at the end of the PLC (Mason-Jones *et al.*, 2000). Because margins for innovative items are higher than for generic items, the potential loss due to stock-out or markdown is significant. Cost is not the prime influencing factor for consumer purchase of innovative items but availability, and therefore speed to market is crucial (Mason-Jones *et al.*, 2000) to ensure the supply of goods matches the demand in the marketplace. This may mean locating production for high fashion lines

close to the marketplace, since the advantage of being able to respond quickly to emerging trends more than offsets the disadvantage of higher labour costs (Fisher, 1997). With fashion apparel products, a high level of effectiveness ensures that the desired variety of goods reaches the customer during the optimal time window when demand is high in order to ensure availability and maximise full-price sales. High fashion seasonal items to be sold in Western Europe are often manufactured in Central or Eastern European countries such as Turkey, Hungary and Poland. The geographical location enables lead times to be reduced as goods can be shipped faster than from the Far East (Taplin, 2006). This factor compensates for the higher cost of labour (Appendix I): for example, in 2003 Turkey supplied over £1 billion of garments to the UK and was the second largest supplier in value terms after Hong Kong (Jones, 2006).

In addition to reducing lead time, uncertainty in demand for seasonal products can be avoided by increasing the responsiveness of the supply chain so that goods can be customised or even produced nearer to the time when final demand materialises, and production can therefore be more accurately forecast (Heikkila, 2002; Lee, 2002). Here, the option to alter production capacity in order to react to volatile demand fluctuations is essential for true manufacturing flexibility (Bruce *et al*., 2004). The process of adjusting production to match actual consumer demand as it materialises is called 'market mediation' (de Treville *et al*., 2004), 'decoupling' (Lee, 1998; Naylor *et al.*, 1999) or 'postponement'. The aim is to reduce uncertainty and cost while satisfying customer demand (Boone *et al.*, 2007). The decoupling point in the supply chain is the point where the supply chain changes from being supply-led to demand-led (Naylor *et al.*, 1999). Postponement can thus be defined as "delaying product differentiation points until customer orders have actually been received" (Boone *et al.*, 2007, p.595). Lancioni (2000) defines market mediation as customisation of a product as close to the final demand point as possible. It occurs to some extent in all supply chains, but has a far greater importance in high fashion product supply chains, where demand for individual category variants is difficult to forecast far in advance (Fisher, 1997). Lee (1998) defined the decoupling point as the point at which the supply chain process switches from supplier push mode to consumer pull mode, or from build-to-forecast to build-to-order. Market mediation implies a resulting trade-off between customer service and efficiency of supply (de Treville *et al*., 2004), as the production process will be less efficient once a strategy of matching supply to demand is implemented, so physical costs will rise. However, leanness can be readily traded for agility with

fashion products, as their higher margins enable the extra costs incurred in agile manufacture to be absorbed. The loss in efficiency is significantly outweighed by the extra sales of high margin items resulting from availability of the product in store at the required time. Likewise, a far larger loss would be realised through producing goods that did not match customer demand than the loss generated by a reduction in production efficiency. As summarised by Fisher (1997, p.107), "market mediation costs arise when the supply of a product either exceeds or falls short of demand". A well-known example of postponement or market mediation is Benetton. Garments are manufactured in greige, and then dyed only when demand for particular colours materialises. Although this is a slightly more expensive process than knitting directly from coloured yarn, the cost is offset by the ability to deliver product faster to the stores and ensure availability, as well as by the economies achieved upstream in their supply chain (Slack *et al*., 2001). The risk of forecasting the best-selling colours of the season is thus reduced by garment-dyeing rather than yarn-dyeing: since the decoupling point occurs after knitting, there are less steps in the supply chain process that occur under forecast, and more steps that occur once actual demand is revealed (Lee, 1998). The trend for retailers to hold back their buying budgets for in-season speed sourcing (Brown, 2010; KSA, 2005) could also be perceived as a form of market mediation, whereby buyers wait until demand emerges before committing budgets, in the same way that brand manufacturers such as Benetton leave product customisation until the latest possible point in the manufacturing process when demand emerges. For fashion garments, with an unpredictable demand profile but stable supply process, a responsive supply chain ensures increased responsiveness to customer demand and reduced levels of inventory and obsolescence costs (Lee, 2002; Boone *et al.*, 2007). Where product demand is unpredictable and the costs of stock-out and markdown are high, a responsive supply chain strategy is more appropriate than a cost-efficient strategy (Lee, 2002) to increase the accuracy of production. Fashion products thus require an agile supply chain to reduce lead time and manage unpredictable demand.

2.5 Global fashion garment sourcing patterns

The dual pressure for low cost and short lead time experienced by the high street fashion sector (Masson *et al.*, 2007) and the trend of fashion brands and retail groups towards vertical disintegration results in complex globally dispersed fashion supply

chains (Gereffi, 1999). Figure 2.5 below depicts a typical global garment supply chain spread over more than one country.

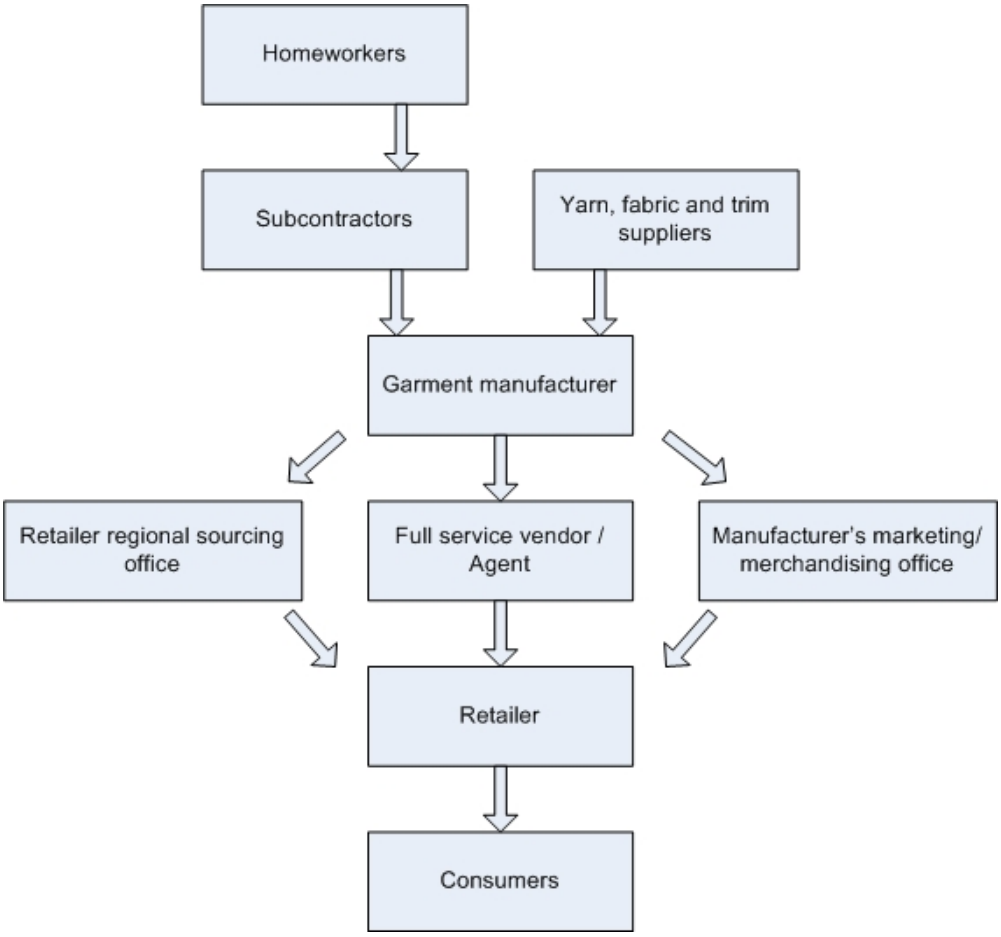


Figure 2.5 The global garment supply chain

Overseas labour rates are a strong influence on UK high street fashion retailers' sourcing decisions and explain the overwhelming trend towards global sourcing, since rates in developing countries are a fraction of those in Western nations (Appendix I; Jones, 2006). Although the benefits of offshore garment manufacturing facilities in developing countries have been capitalised upon by Western companies since the 1960s (Singleton, 1997), intensifying competition in the fashion market has led to extra pressure on profit margins in recent times, resulting in the increased use of offshore manufacturing facilities for UK retailers (Adams, 2002). Mass outsourcing became a commercial reality due to geopolitical reasons (end of quotas), market needs (increased competition) and technological advancements (information technology and transport advancements) (Fernie and Azuma, 2004).

Following international trade liberation in textiles and apparel with the phase out of the Multi-Fibre Agreement (MFA) on 1 January 2005, international sourcing decisions now

hinge upon basic economic principles of factor prices and comparative productivity, exchange rates, transportation costs and tariff rates (Abernathy *et al.*, 2006). For the previous three decades, the MFA regulated much of global trade and production in this sector, ratifying countries' rights to impose quotas on textiles and clothing imports (Kaplinsky and Morris, 2006). However, the expansion of free trade following elimination of the MFA results in a greater number of apparel producers in a wider variety of countries (Abernathy *et al.*, 2004).

Despite the price pressure, modern sourcing strategies of apparel brands and retailers are not only based on cost comparisons between production locations (Abernathy *et al.*, 2006). For example, in 2003, a group of 18 low labour-cost countries[1] supplied two-thirds (66%) of UK apparel imports; however, a further 17% was supplied from the USA, Germany, Italy, France, Netherlands and the Irish Republic, where labour costs are relatively higher (Jones, 2006). Notwithstanding the long-term orientation of fashion brands and retail groups towards lower-cost suppliers, in certain circumstances lead time factors may override the labour cost differential between countries. The time sensitive nature of fast fashion affects sourcing decisions by prioritising lead time over cost. Market demand means that high fashion lines are often produced closer to the selling market: the time sensitive nature of these garments dictates that lead time is crucial to avoid missing the short window of the selling season. For UK retailers, fast fashion is often produced in Turkey or Eastern Europe to avoid the long shipping times from Asia. Similarly, for US retailers, the choice of sourcing from Mexican, Caribbean or coastal Chinese suppliers entails lead times of three, five and eleven weeks respectively (Abernathy *et al.*, 2006). Other factors which would influence sourcing decisions include the quality of the basic fabric (e.g. silk from Southern India), proximity to fabric source (e.g. cotton from China), specialisation in design and production (e.g. tailored suits made in Italy) and particular highly skilled sewing details (e.g. hand embellishment in India). Most of these characteristics arise from historic specialisations that are not easily replicated. Hence, certain countries become manufacturing centres for a particular type of garment. For example, Fernie *et al.* (2009) conducted an exploratory study of the role of international hubs in a UK retailer's sourcing strategy and found that its Italian hub was most proficient in design and innovation, the Turkish hub provided cost and agility advantages while the Hong

[1] Turkey, Hong Kong, Malaysia, Pakistan, India, Bangladesh, China, Indonesia, Israel, Mauritius, Singapore, South Korea, Taiwan, Thailand, Sri Lanka, Morocco, Romania, Portugal.

Kong hub represented the lean supply model of low cost production. Therefore, the Italian hub would source higher value garments such as tailored woollen jackets. The Turkish hub would source time-critical items that had a limited selling window but could command higher price points, such as fashion garments. The Hong Kong hub would source basic items such as plain tops and trousers from China, on the basis that these were less time-critical but commanded lower price points, and hence supply agility was traded for leanness and cost efficiency.

Oke *et al.*'s (2009) study into criteria for sourcing from developing countries concluded that cost (including labour and logistics cost), physical and cultural proximity, political factors, and quality and reliability were the primary considerations for companies sourcing from Asia. Physical proximity and quality and reliability dictated the level of responsiveness from the supplier. Cultural proximity, political factors and quality and reliability were related to the transaction cost in the trading relationship. Cultural proximity and quality and reliability were also related to the supplier's learning curve. Sourcing criteria were based on the three drivers of competitive advantage: low transaction cost, low learning curve and responsiveness. Fernie *et al.*'s (2009) four dimensions in Figure 2.6 illustrate the range of sourcing decisions to be made, from choice of geographical location to choice of supplier.

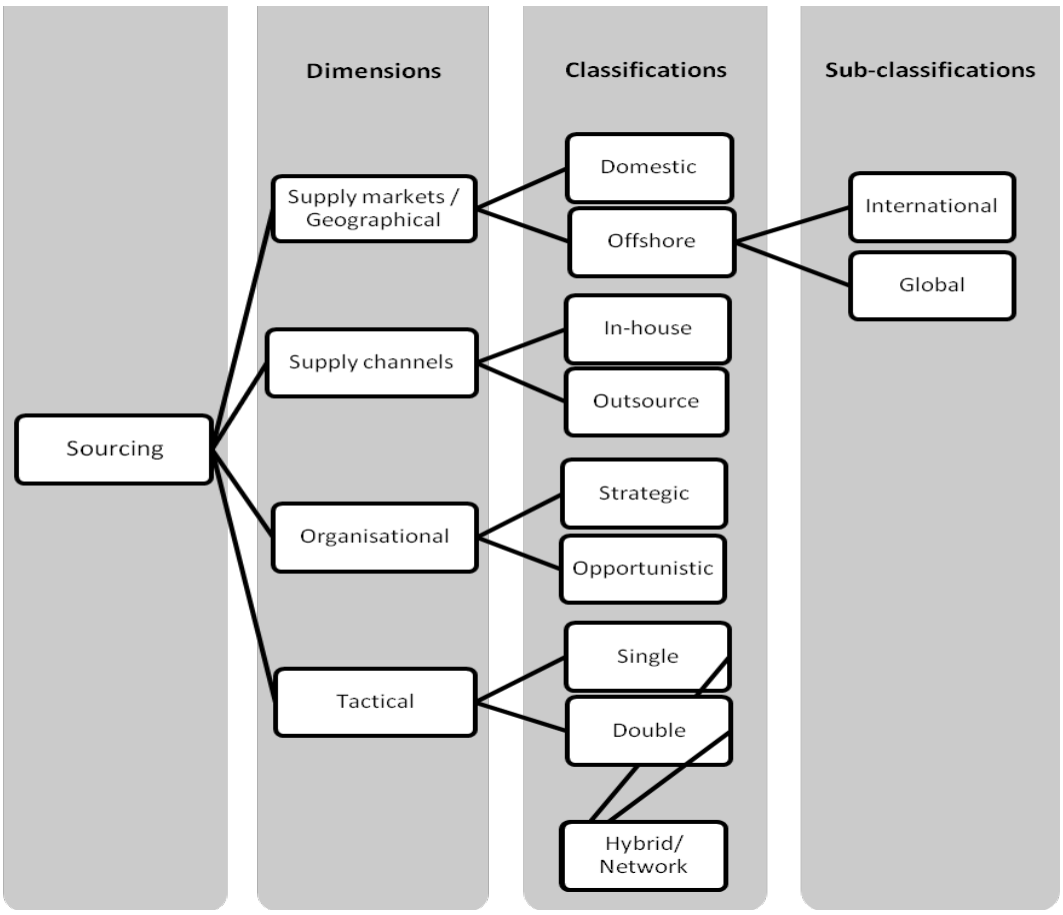


Figure 2.6 The four dimensions of sourcing and their classifications (Fernie *et al.*, 2009)

- *Dimension 1 – geographical supply markets*

Choice of geographical market is dependent upon many factors not only limited to labour cost and lead time. Retailers balance their sourcing decisions upon multiple factors which include hidden costs such as duty and tariff costs or the consequences of delivery delays as well as risk factors such as political stability. According to the particular retailer's preferences, some factors are weighted more than others and trade-offs will invariably need to be made to achieve the best overall sourcing solution. Jones (2006) listed the major factors to be taken into consideration when selecting a global location from which to source:

1. Labour costs
2. Labour supply
3. Raw material costs and availability
4. Training costs
5. Local labour laws

6. Communications
7. Political stability
8. Ownership possibilities
9. Local government aid packages
10. Local tax and profit regulations
11. Market access
12. Cultural compatibility
13. Exchange rate risks

Comparative advantage amongst countries does not rest solely upon labour rates, but also quality, service and lead time. Outside the factory gates, issues such as corruption, availability of raw materials and the risks of doing business in terms of corruption, political and financial stability all contribute to total costs (AccountAbility, 2005). It is also important to take into account productivity differences and overheads as well as average labour costs (Jones, 2006; Appendix I).

Table 2.2 below shows consultancy firm Kurt Salmon Associates' rankings of 17 popular garment manufacturing locations on a range of different non-financial factors (KSA, 1999). The rankings are out of a possible total of ten and higher figures indicate better performance. The final column gives a comparison between shipping time and air freight time although in practice air freight would be avoided for mass market fashion garments due to its high cost. When combined with the country labour cost data in Appendix I, it becomes apparent that arriving at an acceptable balance between labour cost, lead time and business risk is a complex task. For example, while Bangladesh and Cambodia have low labour costs, non-financial factors that increase risk such as political stability, cultural barriers and communication compare unfavourably with higher labour cost countries such as Hungary and Turkey. Additionally, lead times to the UK from Hungary and Turkey are far shorter. Hence, to be successful in the highly competitive mid-market sector, flexibility must be balanced against sourcing cost (Hines and McGowan, 2005).

Country	Political stability	Cultural barriers	Transport	Communication	Raw material	Ship / air time (days)
Bangladesh	5	5	2	2	4	18 / 2
Cambodia	4	2	1	1	4	24 / 2
China	7	5	3	6	5	24 / 2
Czech Rep.	8	8	7	6	5	3-4 (road)
Egypt	5	4	3	4	2	16 / 2
Hong Kong	7	9	10	9	9	24 / 1
Hungary	8	8	7	8	5	3-4 (road)
India	7	7	3	4	6	18 / 1
Indonesia	4	6	4	5	6	25 / 2
Mauritius	9	8	8	9	6	20 / 2
Morocco	6	4	4	7	5	14 (3 road)
Pakistan	5	6	3	7	6	18 / 2
Poland	8	8	6	8	5	3-5 (road)
Sri Lanka	6	7	3	4	5	18 / 2
Taiwan	7	7	8	9	8	22 / 1
Tunisia	6	4	4	5	6	14 (3 road)
Turkey	7	7	5	7	8	4-6 (road)

Table 2.2 Country ratings (KSA, 1999)

- *Dimension 2 – supply channels*

Assuming the manufacturing function is outsourced, retailers may choose between sourcing in-house, either directly from headquarters or via in-country sourcing hubs, or outsourcing the function to a third-party specialist such as import intermediaries, export intermediaries or multinational trade intermediaries (Fernie *et al.*, 2009). As apparel sourcing becomes more strategic rather than quota-based following the demise of the MFA, retailers look for their suppliers to take on more of the pre-production processes and inventory holding associated with full package supply (Lezama *et al.*, 2004). Dealing directly with suppliers is made easier nowadays due to the rise in global sourcing hubs in supplier countries and an increase in the number of suppliers that have become global supply chain solutions specialists, offering design and product development services as well as fabric sourcing. There are three types of garment suppliers that a fashion brand or retailer may source from (Neidik and Gerrefi, 2006):

1. Original brand manufacturers are firms that design, market and export their own-branded garments
2. Contract manufacturers cut, assemble and ship finished garments from imported inputs under the buyer's brand name. They may also be referred to as CMT or subcontractors.
3. Full-package suppliers coordinate the entire production process from fibre to store on behalf of the buyer, from procurement of raw materials through to manufacture and shipping.

In terms of value-added, full-package supply generates more value and commands greater revenues than the simpler role of contract manufacturing. Newly industrialising countries usually build their apparel industries upon the contract manufacturing route. However, as their industry develops and reinvestment enables greater levels of vertical integration and technological progress, they may upgrade to full package supply. In this way, the process of industrial upgrading is facilitated – whereby domestic firms gradually shift to increasingly complex, higher value-added forms of exporting by acquiring new capabilities through their experience of supplying foreign buyers (Neidik and Gereffi, 2006). Palpacuer *et al.* (2005) identified four types of industrial upgrading for garment suppliers:

- service-based upgrading: providing a wider range of services beyond simple assembly, including product design and development, fabric sourcing, inventory management, and management of production sourcing
- volume-based upgrading: the ability to reduce unit production costs via scale economies
- process-based upgrading: reducing inventories and waste through the adoption of lean, JIT production systems
- product-based upgrading: the ability to manufacture higher quality products for higher priced market segments.

Figure 2.6 below shows the retail buyer's critical path involved in producing a range of garments for retail. The first three tasks of design, range planning and sourcing are the retail buyer's responsibility. Typically, the supplier is involved in sampling and production; then responsibility for logistics and in-store merchandising reverts back to the retail buyer. However, a supplier that has undertaken service-based upgrading to full package supply may take on more of the front end product design and development responsibility as well as back end responsibility for logistics and in-store delivery.

Figure 2.6 The fashion garment retail buying process: critical path

Commoditisation of the core low-tech activities of garment manufacture means that labour-intensive CMT (cut, make and trim) operations can be located anywhere in the world where there is a readily available labour source, and can be moved from one low

cost country to another in a seamless manner according to business requirements (Sethi, 2003). However, given that is more difficult to sustain competitive advantage on the basis of cheap labour than on the basis of more sophisticated factors such as technology and skill, competitive advantage moves successively to the next newly industrialising country where labour costs are even cheaper (Singleton, 1997). For example, Hong Kong, South Korea and Taiwan were popular sources of low-cost manufacturing labour but by the beginning of the 1990s rising domestic labour costs meant they were no longer competitive on a cost basis. The influx of business from Western countries seeking lower labour costs enabled their economies to develop and their workers to become better trained. This is known as industrial upgrading (Totakli, 2007; Neidik and Gereffi, 2006): firms move into niche markets, invest in more advanced technology or engage in subcontracting arrangements to lower labour cost countries themselves (Singleton, 1997). The effect is that Hong Kong, South Korea and Taiwan have now moved away from labour intensive garment manufacture into capital intensive textile industries or production of higher value-added items which require skilled operators at a subsequently higher labour rate. Basic garment production has therefore migrated to lower-cost labour countries such as Vietnam, China and Indonesia (Appendix I; Sethi, 2003; Maitland, 1997; Elbehri, 2004). Turkey, the world's second-largest clothing exporter after China, originated as a contract manufacturer for ready-to-wear garments but successive industrial upgrading enabled it to move into full package supply including design of its buyers' fast fashion collections (Totakli and Kizilgun, 2009). As such, it has built a sustainable competitive advantage in fast-turnaround fashion orders for high-end EU markets which enable it to successfully compete against lower cost producers in Asia and Eastern Europe. Previous theory suggested that brands and retailers outsource the non-core production function of their business in order to focus on design, branding and marketing activities that represent the strategic core of the enterprise (Reve, 1990). However, evidence from the phenomenon of industrial upgrading suggests that some full package manufacturers have responsibility not only for procurement of fabric and trims but also for design and product development (Totakli and Kizilgun, 2009), functions which would have previously been classified as core operations that should be retained within the boundaries of the firm (Reve, 1990; Cox 1996). This evidence supports the idea that the boundary of the firm may change over time according to prevailing competitive conditions (Reve, 1990; Cox, 1996), for example as the benefits of outsourcing move from simple cost management to facilitating innovation and developing business value.

For retailers that choose to outsource the sourcing function, intermediaries become the agent between retailers and manufacturers in globally dispersed value chains. Import intermediaries are located in the retailer's home market, while export intermediaries are to be found in the country of the suppliers. Multinational trade intermediaries such as Hong Kong-based Li and Fung, on the other hand, have offices worldwide in both retailer and supplier markets and offer total supply chain management solutions for their customers, using a network of 7500 suppliers in 26 countries (Magretta, 1998). As the world's leading consumer goods sourcing company to global brands and retailers, Li and Fung covers the entire spectrum of sourcing operations from initial establishment of consumer needs and product development, through vendor and material sourcing, to customs clearance and logistics operations which ultimately lead back to the end consumer.

- *Dimension 3 – organisational*

This dimension is based on Samli *et al.*'s (1998) typology of organisational commitment to sourcing. Strategic sourcing represents a top level commitment from senior management and recognition that sourcing represents an integral part of the business due to its contribution to the firm's overall competitive advantage. Opportunistic sourcing is carried out by middle managers for short-term gains only.

- *Dimension 4 – tactical*

Fernie *et al.*'s (2009) tactical dimension of sourcing is based on Zeng's (2000) synthesis of sourcing categories: multiple sourcing, single sourcing, network sourcing and global sourcing. These categories follow Cox's (1996) typology of internal and external contractual forms. Multiple sourcing is defined by Zeng (2000) as traditional adversarial sourcing where decisions are based on short-term rather than long-term cost. This would be indicated by having multiple arms-length relationships with suppliers in competitive markets. Single sourcing follows the concept of supply base rationalisation where closer relationships are established with a fewer number of suppliers. Network sourcing is defined as a hybrid model that minimises the disadvantages of multiple and single sourcing. A hierarchical pyramid of suppliers forms a virtual company based on the concept of virtual integration. The most technologically advanced suppliers form the peak of the pyramid and build a series of partnerships with a network of subcontractors.

It is clear that global fashion garment sourcing is a complex business with a wide range of factors to be considered in choosing a sourcing location. This is best illustrated through an evaluation of a particular country. The following section provides a detailed analysis of Sri Lanka in order to illustrate the range of factors that contribute to its success as a global fashion garment sourcing location, not only its lower labour costs.

2.6 Sri Lanka: selection criteria for a garment sourcing location

Sri Lanka is a key global garment sourcing centre and one of Asia's 'Big Six', a group of six Asian countries that account for 80% of Asia's garment exports (Flanagan, 2009). A multi-ethnic, multi-religious South Asian country with a population of approximately 20 million and an area of 65,610 square kilometres, English is the language of business and commerce as well as being widely spoken and understood in urban areas. The garment industry expanded rapidly following Sri Lanka's economic liberalisation in 1977 and by 1992 overtook the tea industry to become the country's largest foreign exchange earner (Kelagama, 2005). There were 891 garment factories in operation in 1999, out of which 18% were categorised as large, 50% medium and 32% small (TVEC, 1999, cited in Kelagama, 2005). By 2007, following industry consolidation after the removal of the MFA, there were 830 garment factories, with a similar size split: 18% large, 52% medium and 28% small (Saheed, 2007). In 2007, textiles and apparel accounted for 43% of Sri Lanka's total exports, 56% of its industrial exports and 75% of all employment (Tait, 2008). Sri Lanka's garment industry has been included in buyer-driven networks since the 1980s (Knutsen, 2004) and today produces for many well-known Western brands and retail groups, including Victoria's Secret, Liz Claiborne, Abercrombie and Fitch, Tommy Hilfiger, Polo Ralph Lauren, Nike, Eddie Bauer, Pierre Cardin, Next, Gap, Marks & Spencer, C&A, BHS, Calvin Klein, Gymboree, Adams and Tesco (BOI, 2009). The key market is the US, which accounts for 51% of Sri Lanka's apparel exports but this is closely followed by the EU, which accounts for 44% of which 22% is destined for the UK (Barrie, 2008; JAAF, 2009). Retailers and brands with buying offices in Sri Lanka include Liz Claiborne, Tommy Hilfiger, Columbia Sportswear, Next, Marks & Spencer and Gap, as well as UK-based manufacturer SR Gent (BOI, 2009a).

Table 2.3 below gives a SWOT analysis of Sri Lanka's export garment industry based on several data sources. A SWOT analysis is commonly used to identify internal

strengths and weaknesses, external opportunities and threats to companies and enable informed strategic planning. In this case, the SWOT analysis of Sri Lanka's garment manufacturing industry presents a summary of the country context.

STRENGTHS	OPPORTUNITIES
• Sophisticated industry which offers total supply chain solutions • Investments in backward integration • World class production facilities • Reputation for quality and reliability • High level of social and environmental accountability – small country size also facilitates control over subcontractors • Emphasis on innovation – 3 world-class green garment manufacturing factories • Long-standing trading relationships with key global brands and retailers • Literate and competent workforce • Open liberal economy • Political stability • Strategic location offers shorter shipping times to EU than China • Good infrastructure – world class port • GSP+ offers duty free access to EU	• 'Garments Without Guilt' initiative offers a sustainable competitive advantage based on ethical manufacturing • End of civil war in 2009 offers greater stability for investors and opportunity to expand garment industry further in the North-East • Capitalise on strong long-standing trading relationships to become supplier of choice to more retail buyers • Career path may encourage women to return to work after getting married and having children
WEAKNESSES	**THREATS**
• Lower productivity than some other newly-industrialising countries (NICs) • Limited local production of export-quality fabric - lack of woven textile industry, knitted textile industry lacks capacity • Labour laws can be restrictive to business • Unable to compete on basis of low cost labour • High number of public holidays (25 p.a.) • High cost of utilities • Weaknesses in infrastructure e.g. roads • Loss of skilled labour as females tend to stop work once they are married	• Other NICs whose garment industries are developing and who are also able to offer ethical guarantees e.g. Vietnam, Cambodia's Better Factories programme • Other NICs with fabric production capabilities • Trend towards fast fashion with more frequent style changes and smaller orders • Global recession and consequent downturn in orders • Loss of GSP+ status allowing duty-free access to EU

Table 2.3 SWOT analysis of Sri Lanka's garment manufacturing industry

The industry is fairly well dispersed geographically, with 60% clustered around Colombo and Gampaha on the south eastern side, and the remainder located in more remote rural areas. However, since urban rents and other living costs are higher, workers from rural communities experience difficulties in obtaining low-cost accommodation near their workplace. Predominantly female, as shown in Table 2.4 below, those employed in factories located in urban Export Processing Zones (EPZs) faced a choice of long commutes or costly accommodation in hostels (Abeywardene *et*

al., 1994). The 200 Garment Factories Programme, a rural industrialisation initiative launched by the President in 1992, aimed to both generate employment in remote areas and also protect women's morality by enabling them to find work in their villages and remain with their families rather than moving to urban garment factories or EPZs where they would be forced to reside in hostels or boarding houses. This initiative aimed to prevent the breakdown of traditional cultural values and family life at the core of Sinhala Buddhist heritage (Lynch, 1998; Lynch, 2004).

Export Processing Zone/Park Industrial Park	**Employment (number of people)**		
	Male	**Female**	**Total**
Biyagama EPZ	9338	10,649	19,987
Horana EPZ	560	138	698
Kandy IP	324	216	540
Katunayake EPZ	16,406	34,069	50,475
Koggala EPZ	1810	8254	10,064
Mirigama EPZ	669	1454	2123
Mawathagama EPZ	911	2228	3139
Mirijjawala IP	168	1207	1375
Malwatte EPP	616	2001	2617
Polgahawela EPZ	590	1304	1894
Seethawaka IP	5839	9515	15,354
Wathupitiwala EPZ	1308	4443	5751
Total	**38,539**	**75,478**	**114,017**

Table 2.4 Employment in Sri Lanka's Export Processing Zones and Industrial Parks, 2007 (Source: Board of Investment Sri Lanka, 2007 (cited in Hancock *et al.*, 2009))

Sri Lanka's garment industry has gained a reputation among buyers for high quality, on-time deliveries and good customer service (Tait, 2008) in key product categories of leisurewear, casualwear and sportswear but not tailored items such as formal structured suits (Tait, 2001). Its product range now includes babywear, childrenswear, shirts, blouses and lingerie. For Western retail buyers, Sri Lanka's competitive advantage is based on low-cost labour, a literate labour force, high labour standards, investment-friendly government policies and strategic shipping lanes (Kelagama, 2005).

The adult literacy level of 89% is one of the highest in the world and consequently the country possesses a large pool of high quality semi-skilled and unskilled labour (Apparel Exporters Association, 2009). The government provides free healthcare and free education up to university level for all, including free school uniforms and books. Sri Lanka is classified by the UNDP as a medium developed country rather than a lesser developed country due to the higher level of education, greater average life expectancy

and higher standard of living compared with other developing countries. Within the total group of medium developing countries, Sri Lanka had a higher than average overall HDI value in 2007, a measure which indicated the level of socio-economic development. Its life expectancy (74 years) and adult literacy (90.8%) rates rival those of the UK (79.3 years and 100% respectively).

The UNDP developed its HDI (Human Development Index) to provide a more holistic picture of a country's development than that provided by single measures such as GDP alone. Human development provides a measure of a society's standard of living not only according to average income levels but also according to people's ability to live the lives they value: commodities are not valued intrinsically but rather seen as a means of enhancing capabilities such as health, knowledge, self-respect and the ability to participate in society (Dresner, 2002). Sen (1999) argued that human development ought to be perceived in terms of expanding human freedoms such as facilities for education and health care, as well as civil and political rights, rather than a narrow view of GDP or individual income growth. By using human freedoms as an indicator of development, focus is on the ends, rather than the means that play a part in the process.

The HDI is based on a range of statistical indicators including those in Table 2.5 overleaf and spans a range from a minimum of zero to a maximum of one. The table shows that Sri Lanka's HDI value of 0.759 is higher than the average (0.674) for medium developing countries. The UNDP's Human Development Report 2009 (based on 2007 data) ranked Sri Lanka 102nd out of 182 countries on human development. Table 2.5 shows the 2007 HDI values and country rankings, including underlying indicators of life expectancy, adult literacy, education and GDP per capita (UNDP, 2009). Sri Lanka's values are compared with two other countries from each of the human development sub-groups of very high (Japan and UK), high (Turkey and Mexico), medium (Thailand and Bangladesh) and low (Malawi and Afghanistan).

Sri Lanka is one of a few countries that despite modest incomes has higher life expectancy than countries such as Brazil, South Africa or Namibia, where GNP per capita levels are higher (Sen, 1999). Sen's (1999) argument was that human freedom is a better indicator of development than narrow measures of GNP or individual income growth. Factors such as education and community relations could affect the level of development, in terms of quality of life, in a country to a greater extent than GNP

growth. Hence, poverty is not only a descriptor for low income, but also for deprivation of capabilities, such as illiteracy, malnourishment and morbidity. Taking this argument further, it could be concluded that Sri Lanka, although a lower labour cost lesser-developed country, has a lower overall level of poverty than some of its garment-producing neighbours such as Bangladesh, India, Pakistan and Cambodia.

HDI value (0-1) (Human Development Index)	**Life expectancy at birth (years)**	**Adult literacy rate (% aged 15 and above)**	**Combined primary, secondary & tertiary gross enrolment ratio (%)**	**GDP per capita (purchasing power parity US$)**
Japan 0.960 (10th)	Japan 82.7	Japan 99.0	Japan 86.6	Japan 33,632
UK 0.947 (21st)	UK 79.3	UK 99.0	UK 89.2	UK 35,130
Mexico 0.854 (53rd)	Mexico 76.0	Mexico 92.8	Mexico 80.2	Mexico 14,104
Turkey 0.806 (79th)	Turkey 71.7	Turkey 88.7	Turkey 71.1	Turkey 12,955
Thailand 0.783 (87th)	Thailand 68.7	Thailand 94.1	Thailand 78.0	Thailand 8,135
Sri Lanka 0.759 (102nd)	**Sri Lanka 74**	**Sri Lanka 90.8**	**Sri Lanka 68.7**	**Sri Lanka 4,243**
Bangladesh 0.543 (146th)	Bangladesh 65.7	Bangladesh 53.5	Bangladesh 52.1	Bangladesh 1,241
Malawi 0.493 (160th)	Malawi 52.4	Malawi 71.8	Malawi 61.9	Malawi 761
Afghanistan 0.352 (181st)	Afghanistan 43.6	Afghanistan 28.0	Afghanistan 50.1	Afghanistan 1,054

Table 2.5 Highlights of UNDP Human Development Index 2007 including data for Sri Lanka

Comparing Sri Lankan with other garment manufacturing countries, it can be seen that although sourcing cost is higher than Bangladesh, India, Pakistan and Cambodia, this can be explained by Sri Lanka's higher level of human development. Literacy and education levels are also higher, which helps to explain Sri Lanka's success in transforming from low-cost garment assembly to higher value-added full package supply. The higher life expectancy indicates that higher standards of living are present in Sri Lanka than Bangladesh, India, Pakistan and Cambodia. Additionally, lead time from Sri Lanka is about a week shorter than shipping from China. With its colonial history and the widespread use of English as a business language, cultural barriers are not regarded as a hindrance to doing business in Sri Lanka, which enabled it to score higher on this aspect than Bangladesh and Cambodia for example. The following four

sections provide a discussion of the factors that have enabled Sri Lanka to become a global garment manufacturing centre.

3.6.1 Vertical integration and added-value services

Traditionally, the garment industry in Sri Lanka was based on contract manufacturing whereby the buyer would provide all inputs such as fabric and accessories to obviate the need for the manufacturer to pay for and import such goods. Many garment producers preferred such orders due to the reduced risk and necessity for capital outlay. The domestic textile industry was, and still is comparatively small and lacks capacity to supply the quality and quantity of fabric inputs required by the garment industry (Kelagama, 2005), especially since its competency lies in knitted fabric production only. The lack of textile production means that manufacturers must import from other neighbouring countries, at a cost of around 40-50% added duty (Davies, 2009). However, if fabric is procured from a SAARC member country, then fabric duty is reduced. SAARC is the South Asian Association for Regional Co-operation, a platform for intra-regional economic cooperation and development. The member nations are India, Nepal, Bhutan, Bangladesh, Sri Lanka, Maldives and Pakistan. Nevertheless, for garment manufacture based on imported inputs, the value-added is low and any competitive advantage derived is relatively easy to imitate by other newly industrialising countries. With this in mind, the government made a concerted effort in the early 1990s to promote backward integration in the garment industry and increase Sri Lanka's competitiveness through industrial upgrading. Continuous reinvestment over the years has resulted in the development of a sophisticated apparel industry that has moved from contract manufacturing to higher value-added total supply chain solutions (Knutsen, 2004). MAS Holdings, Brandix and Hirdaramani are examples of garment manufacturers that transformed into global apparel supply chain solutions specialists. With fully integrated supply chains and offices in their retail customers' home countries, they coordinate the entire production process from fibre to store, including product design and development, fabric production, accessory manufacture, garment manufacture and inventory management. Their industrial upgrading thus included all four of Palpacuer *et al.*'s (2005) dimensions. Indeed, upmarket US lingerie brand Victoria's Secret set up a joint venture manufacturing company with MAS called Bodyline. In 2006, the President and CEO of Victoria's Secret explained why the company had increased sourcing volumes from Sri Lanka over the past 19 years: greater vertical integration within the Sri Lankan industry supported innovation, which was

crucial in the design process for a brand positioned on originality rather than price (lankabusinessonline.com, 2006).

Figure 2.7 below shows the continued rise in apparel exports from US$2.2 billion in 2002 to US$3.2 billion in 2007.

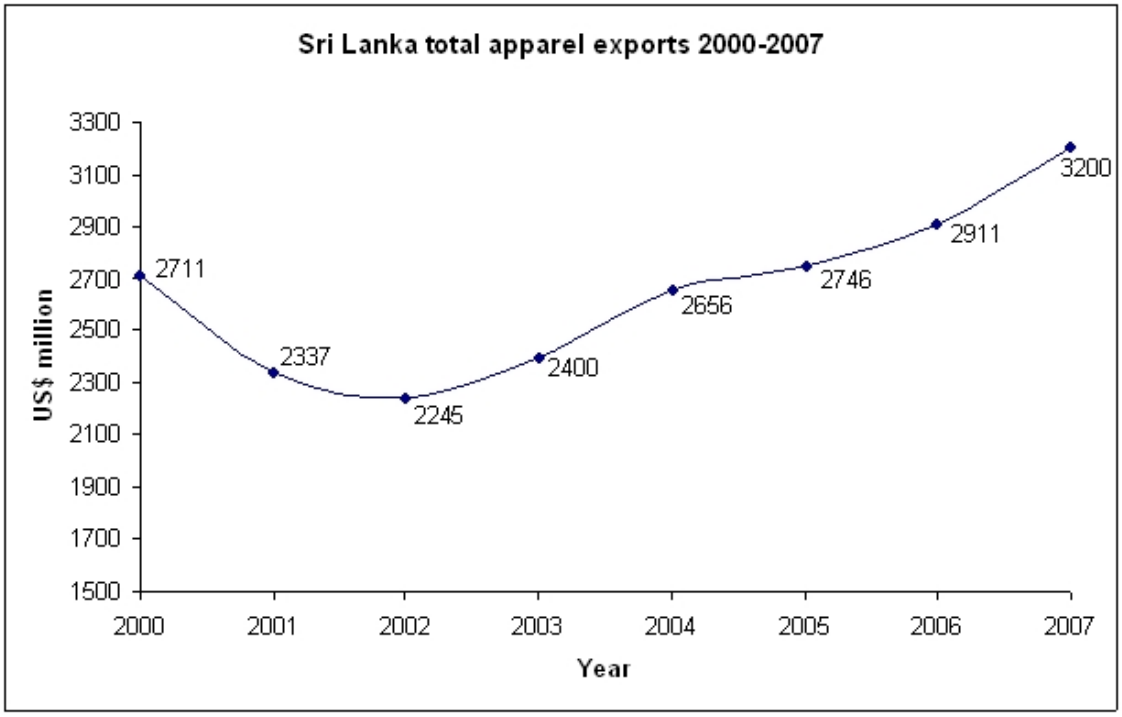


Figure 2.7 Sri Lanka total apparel exports 2000-2007 in US$ millions, JAAF (2009)

Since the phase-out of the MFA in 2005, Sri Lanka has remained competitive in the face of increased competition from its Asian neighbours and apparel exports have continued to rise. This can be attributed in part to the quota-free access to the EU that Sri Lanka has enjoyed since 2001 (Lezama *et al.*, 2004). The GSP+ (Generalised System of Preferences) system of preferential trading was extended until the end of 2011. Through this system, the EU grants duty-free access to its markets for imports from developing countries that have ratified the major multilateral environmental agreements and key human rights and governance agreements. Although normally extended to more vulnerable developing countries such as Bolivia, Ecuador and Moldova, Sri Lanka was accommodated as a special case under the GSP+ system to enable recovery of economic development following the Indian Ocean tsunami in 2004 (National Chamber of Exporters of Sri Lanka, 2009). However, because of the recent civil war from 1983 to May 2009, the EC initiated an investigation in 2008 which concluded in its report on 19 October 2009 that international conventions on human rights were not being implemented effectively (EC, 2009). In December 2009, the EU

decided to temporarily suspend Sri Lanka's preferential trade benefits under the GSP+ system due to its poor human rights record (Samaraweera, 2009b), although this would not come into force for six months. In July 2010, the EU announced that Sri Lanka would temporarily lose the concession from August 15, as it had not addressed the conditions specified by the EU (Reddy, 2010). However, in November, Ayling (2010c) reported that MAS and Brandix, two of Sri Lanka's most prominent export garment manufacturers, refuted the impact of the GSP+ loss on business: their competence in added-value services such as design, innovation and research as well as the long-standing nature of their trading relationships meant that buyers were flexible in their reaction to the loss. For those buyers who required the GSP+ concession, production was outsourced to Bangladesh, a lower labour cost country, to avoid the increased duty of 9.6% on EU exports. Since Sri Lanka does not compete on price with neighbouring Bangladesh and Cambodia, Ayling (2010c) concluded that the GSP+ loss may not result in a loss of orders, as buyers choose to source from Sri Lanka based on its strengths in sustainability and ethical/eco-friendly garment manufacturing rather than on price.

Vertical integration usually involves consolidation of an industry. The Sri Lankan garment industry underwent some consolidation following the phase-out of the MFA in 2005. Lezama *et al.* (2004) estimated there were between 830 and 890 registered apparel companies in Sri Lanka, but predicted that this number would fall as a result of consolidation in the post-quota industry. Similarly, a consultancy report produced in conjunction with The World Bank in 2005 predicted that industry consolidation and the demise of non-competitive quota-dependent factories following quota removal would result in fewer, larger factories within affected countries in the lesser-developed world (AccountAbility *et al.*, 2005). Recent research confirms that the Sri Lankan industry has been consolidating since the demise of the MFA in 2005 with around 75 factories having shut down since then (Samaraweera, 2009a). The industry today is segmented into smaller companies of around 250 employees or fewer that supply the domestic market or carry out subcontracting on behalf of larger companies, and larger businesses of at least 300-400 employees that directly supply the export market. There are several very large businesses that employ 15-25,000 workers in the country as a whole, split across several factory plants employing up to approximately 1000 workers in each. It is no longer viable to supply the export market with fewer than 300 employees as smaller businesses are unable to achieve economies of scale needed to supply the volumes and low prices required by large multinational retailers. As such, it has been estimated that

around 12% of companies account for 72% of all exports (Lezama *et al.*, 2004). Reduced order volumes from large US buyers as a result of the economic downturn have also recently forced some garment manufacturing factories to close (Saheed, 2009). Additionally, in terms of human resources, it is becoming more difficult to recruit sufficient numbers of good quality sewing machine operators because of the increasing competition from the newly established call centre and banking industries, which were considered to be better paid, more respectable and more appealing prospects for younger people starting their working life (Lynch, 2007).

The Chairman of MAS Holdings, a major Sri Lankan-based vendor which is now South Asia's biggest supplier of intimate apparel, highlighted the importance of speed, responsiveness and flexibility in the aftermath of quota removal in Sri Lanka (Barrie, 2007). This explains the tendency for vertical integration in Sri Lanka's larger garment manufacturing companies. As orders are placed closer to the season, suppliers face greater pressure to coordinate upstream functions of fabric and accessory production. Meeting customer demands of speed and flexibility has therefore prompted investments in textile and component manufacturing to ensure all the raw materials needed for production are close at hand. Lezama *et al.* (2004) also noted the increasing preference of retailers for full package supply as opposed to CMT. Full package supply requires pre-production capability in design and product development as well as responsibility for sourcing fabric, including financing the procurement upfront. In turn, this has led to a shift towards vertical integration on the part of suppliers. By ensuring key capabilities such as fabric production are in-house, lead times can be reduced and extra duties payable on imported fabrics can be avoided. However, Sri Lanka lacks woven fabric capacity and has only six knitted textile mills to supply the entire industry (Samaraweera, 2010). This means that fabric must be imported from other neighbouring countries; however, given the capital-intensive nature of fabric production and Sri Lanka's relatively high energy and utility costs, it is questionable whether building fabric mills within the country would be a good idea (Samaraweera, 2010). Therefore certain large suppliers are investing in building textile capacity in other lower labour cost countries. In 2010, Brandix opened a 1000 acre fabric park in India to take advantage of lower costs and proximity to fabric sources. Situated near the port city of Vishakhapatnam in Andhra Pradesh, it will eventually house 20 garment factories, three fabric mills, eight accessories manufacturers and a finishing plant, and generate approximately 60,000 jobs (Just-style, 2010a).

Notwithstanding an expected 10-15% downturn in the global market due to the recent recession, Sri Lanka's apparel industry is aggressively pursuing a growth target of US$5 billion which will be achieved by further consolidation in order to achieve economies of scale, targeting emerging markets such as India, China, Japan and Russia through government bilateral agreements, and expansion into Eastern and Northern Provinces following the end of the civil war in May 2009 (Samaraweera, 2009d; 2011). Tait (2001) summarised: "Sri Lanka's core garment manufacturing strength lies in its ability to produce high quality goods at competitive prices, combined with an industry structure that is flexible and uniquely capable of servicing leading international brands". Furthermore, it would appear that Sri Lanka's strengths in added-value and ethical/sustainable garment manufacturing enabled it to recover from 2009's 5.6% decrease in garment exports following the recent Western recession and the consequent slump in demand.

3.6.2 Strategic location

Sri Lanka's strategic location within major South and West Asian shipping routes supported the development of several large ports. Colombo's deep water port on the west coast has one of the world's most globally advanced freight management systems and provides frequent shipping connections to all major ports around the world. From Colombo, goods can be shipped direct to the EU within two weeks, the USA within three weeks and Australia within four weeks. Notwithstanding the civil war in the North-East region that began in 1983, Sri Lanka maintained strong economic growth during the 1990s (Batten and Hettihewa, 1999) and as such remained a stable supply base for its retail buyers. Although the civil war did not significantly impact upon the sector, the end of the war in May 2009 offered an opportunity for the garment industry to further expand by opening new factories in the North-East region. Depending on the size of the investment and the amount of jobs generated, garment companies investing in the three war-recovering eastern districts of Ampara, Batticaloa and Trincomalee are eligible for special BOI concessions such as government land grants and tax holidays. (The BOI is a government agency responsible for promoting industrial investment.)

3.6.3 Investment-friendly government policies

Sri Lanka is one of Asia's most liberalised economies with total foreign ownership welcomed in almost all economic areas and strong protection provided for foreign investment. There are three key organisations that support the apparel manufacturing

industry: the Board of Investment (BOI), the Export Development Board and the Sri Lanka Institute of Textiles and Apparel. The BOI was formed in 1978 as the garment industry expanded to provide support to certain export-oriented industries. As a governing body, it is responsible for promoting, approving and assisting industrial foreign investment in the country for export oriented projects, and thus acts as an engine of growth for the country's economy. It is empowered to grant a wide range of incentives and concessions to projects in selected sectors as long as they are export oriented and thus BOI investors are provided with preferential tax rates, constitutional guarantees on investment agreements and 100% repatriation of profits (BOI, 2009). Approved ventures are located in free trade zones: Appendix VI shows the locations of export processing zones (EPZs) and industrial parks (IPs) governed by the BOI export regulations in Sri Lanka. Benefits include simplified customs and import-export procedures as well as preferential access to credit, for example foreign currency loans (Lezama *et al.*, 2004). Other incentives include import duty exemptions and tax holidays for qualifying businesses (three years for garment manufacturers and five years for garment services such as textile printing and garment washing and finishing). Foreign investment has had a significant impact on Sri Lanka's economic growth: in 2008 BOI companies employed over 400,000 workers, accounting for nearly 70% of Sri Lankan exports and 80% of the country's industrial exports (BOI, 2009).

As well as facilitating foreign investment, the BOI supports CSR by stipulating strict criteria on labour standards and employment relations which companies must adhere to in their business operations. Non-adherence of standards results in termination of the agreement with the BOI and loss of any incentive package. The BOI supports the United Nations Global Compact which incorporates the core labour standards of the ILO (International Labour Organisation) (BOI, 2004). The Global Compact is a United Nations initiative made up of ten principles which aims to encourage businesses worldwide to adopt sustainable and socially responsible policies. BOI enterprises are expected to adhere to principles and practices laid out in BOI's Labour Standards and Employment Relations Manual (BOI, 2004). This 24-page manual set out the terms and conditions that governed labour standards and employment relations for BOI enterprises, covering many areas commonly found in retail buyers' codes of conduct such as wages and overtime rates, working hours, leave entitlements, contracts of employment, industrial safety, collective bargaining, disciplinary procedures and benefits. These stipulations appear to be motivated by enlightened self-interest, on the

basis that a healthy and harmonious industrial relations climate is conducive to higher efficiency and productivity (BOI, 2004). For example, Sri Lanka's largest garment manufacturer MAS Holdings discovered that a 1% increase in production efficiency or decrease in absenteeism added US$200,000 to the bottom line (Mitra and Purkayastha, 2010). BOI requirements include, *inter alia*, payment of a monthly wage, the provision of a sufficient number of sanitary conveniences with accessible water taps for male and female workers separately on the ratio of one for every 25 workers, the elimination of child or forced labour, and the provision of nursing intervals in addition to normal rest breaks for female employees who are nursing a child under a year old. In common with Sri Lankan labour laws, employers are forbidden from employing women workers after 10pm unless written permission from the Department of Labour has been granted for the employee in addition to the receipt of written consent from the employee.

The BOI sets minimum wage rates in certain export-oriented industries. In 2009, the minimum wage rate for a sewing machine operator after one year's service was 6940 rupees (approx £36) per month. For new learners and apprentices it was 5200 rupees (approx £27). In their 2009 report on living wages in the global garment industry, Labour Behind the Label calculated a floor wage of 16,706 rupees (approx £87.50) in Sri Lanka would be sufficient to provide daily meals of 3,000 calories for each adult and 1,500 for each child, as well as non-food costs, for a standard family of two adults and two children (McMullen and Maher, 2009; ActionAid, 2010). However, the European Health Information Council has recommended a daily calorific intake of not more than 2000 calories for an adult female and not more than around 2500-2800 for adult males (EUFIC, 2009). Labour Behind the Label's recommendation also appeared to assume a single wage earner household. Since the garment industry is dominated by female workers, their wage would be supplemented by their husband's wage if they were married, and their father's or brother's wages if they still lived at home. In practice, adult males would also earn a wage in city-dwelling families while rural-dwelling households would benefit from reduced household costs and extra income from smallholdings where fruit and vegetables were grown for personal consumption as well as for sale. Within the majority Sinhala Buddhist national culture, divorce, single-parent households and unmarried mothers are virtually unheard of and so it would be extremely rare for a garment industry worker to support her children by herself. Prior to marriage, young people live with their families rather than renting or buying a home. Therefore it would be unusual for a female garment worker to support a standard family

of two adults and two children as calculated by McMullen and Laher (2006). Workers suffering extreme hardship may receive assistance from their employer as well as their family, for example in the case of bereavement. Abeywardene *et al.*'s (1994) study of EPZs in Sri Lanka also found that larger multinational companies tended to pay much higher wages than those stipulated either by national legislation or BOI regulations. However, the figures quoted related to 1992 levels and so were much lower than current rates. Proportionally, firms within EPZs, which were subject to BOI stipulations on wages and working conditions, paid on average one-third more per month than enterprises located outside EPZs that were not subject to BOI regulations.

3.6.4 Reputation for high labour standards

Sri Lanka has a reputation for high levels of social responsibility and compliance with norms of ethical sourcing (Ayling, 2010b; Saheed, 2007; Fibre2fashion, 2009; Tait, 2001). It is home to the world's first eco-manufacturing apparel plant and the only Asian outsourced apparel manufacturing country that has signed up to thirty of the International Labour Organisation (ILO) Conventions prohibiting child and forced labour (Apparel Exporters Association, 2009). Strict labour laws have been in place for a long time (Tait, 2001). Additionally the majority (70%) of the population are Buddhists, a philosophy which is known for its pursuit of ethical conduct in speech and actions and its belief in the moral law of karma. Even Colombo's prison boasts an entrance plaque reminding passers-by that prisoners are also people and therefore deserve humane treatment.

International Alert, an independent non-governmental organisation committed to peace building and conflict prevention in the developing world, found that Sri Lanka had a long history of corporate philanthropy and that CSR was identified by many business leaders as a historical practice that had been modernised to suit local needs (International Alert, 2005). While local companies did not tend to have formal documented CSR policies, they were nevertheless found to practise CSR on an organised basis. In multinational companies, CSR was more institutionalised due to guidance from formalised parent company policies.

Its reputation for high labour standards and ethical garment manufacture is linked to its level of socio-economic development, especially when compared to other South Asian garment producing nations. Bangladesh and India, although similarly classed as

medium developing countries by the UNDP, had lower overall HDI values and this contributed to the problem of child labour in the garment manufacturing industry. Both countries' education indexes were lower than Sri Lanka's in 2007 and Bangladesh's Minister of State for Labour and Employment confirmed in 2009 that the country's poor socio-economic status contributed to forcing children to work in hazardous jobs rather than attend school (Dhaka Mirror, 2009). Bangladesh ratified ILO Convention 182 on the worst forms of child labour in 2001 but has yet to ratify Convention 138 which seeks to fix minimum age of employment as 18 years. Similarly, India has yet to ratify these two conventions. The prevalence of child labour in Bangladesh emanates from the socio-economic status of the country: its deep and widespread poverty, the poor state of the education system and the lack of day-care options, which is related both to the absence of social services and to changes in the social and geographical foundations of kinship resulting from migration flows (Nielsen, 2005). India's Minister of State for Labour and Employment said that children are forced to seek employment to supplement their family income under the existing socio-economic conditions in the country and that increasing the mininum working age from 14 to 18 years would push poorer families into greater poverty (The Hindu, 2010). The prevalence of child labour indicates not only worker exploitation but also a variety of complex socio-economic issues including poor education and high levels of poverty (Smestad, 2010). Thus higher education levels in Sri Lanka help to explain its commitment to ethical garment manufacture and the success with which the industry and the workers have embraced the concept, compared to other countries. Since education is provided free of charge to all up to university level, including the cost of books and uniforms, there are fewer barriers to education for poor families.

The Joint Apparel Association Forum (JAAF), an industry body representing Sri Lanka's textile and garment industries, launched the 'Garments Without Guilt' campaign in 2006. This initiative aimed to promote the country's ethical credentials by assuring buyers that garments produced in Sri Lanka were made under ethical conditions. The campaign's mission, stated on the website, was as follows:

> "We make garments with conscience and care. By protecting worker's rights, creating opportunities for education and personal growth, and helping to alleviate poverty in our communities, Sri Lanka Apparel does business with integrity and helps create a more equitable society. We call it 'Garments Without Guilt'"
> (Sri Lanka Apparel, 2009).

The five guiding principles of the scheme are:

- Ethical working conditions
- Free of child labour
- Free of forced labour
- Free of discrimination on any grounds
- Free of sweatshop practices, in terms of working hours and overtime, pay and benefits, freedom of association, health and safety.

Under the scheme, factories are independently certified and monitored by independent global auditing agency SGS to confirm they do not use child or forced labour and provide good working conditions for employees, including freedom from discrimination. As of November 2010, 135 of Sri Lanka's 200 export garment factories are certified under the 'Garments Without Guilt' scheme (Ayling, 2010b). SGS is the world's leading company in inspection, verification, testing and certification services and employs over 56,000 people in 1000 offices and laboratories worldwide. It helps its customers to run their operations in a more sustainable manner by improving quality and productivity, reducing risk, verifying compliance and increasing speed to market (SGS, 2009). Accredited with a number of global CSR standards including SA8000, ETI (Ethical Trading Initiative), WRAP (Worldwide Responsible Apparel Production) and FLA (Fair Labor Association), SGS provides added credibility to the 'Garments Without Guilt' scheme. As an internationally recognised benchmark of quality and self-acknowledged leader in social auditing (SGS, 2009), SGS enables EU and US retailers to feel secure in the integrity of the scheme.

Since labour costs are significantly higher than in Bangladesh or China, Sri Lanka is unable to compete on a cost basis with some of its newly industrialising South Asian neighbours such as Bangladesh, Cambodia and Vietnam. However, it is able to compete as a niche player by capitalising on its reputation as a low-risk sourcing destination (Hindle, 2007). A spokesman from JAAF acknowledged:

> "It's almost impossible for Sri Lanka to compete with low cost but we can offer competitive cost with environmental and social sustainability" (Barrie, 2008).

It is hoped that the 'Garments Without Guilt' initiative will provide a sustainable competitive advantage against other global manufacturing locations and as such Sri Lanka promotes itself as the global number one ethical manufacturing location for garments. MAS Holdings, Sri Lanka's largest lingerie and swimwear supplier, lobbied the government to promote the country as a source of ethically produced apparel (Hindle, 2007). Up to now, these initiatives seem to have been successful. This is

demonstrated by the fact that Sri Lanka was the only South Asian country to be chosen as partner by Marks & Spencer in developing green manufacturing plans. Green, or eco-factories, are specifically designed to reduce environmental contamination and the generation of waste materials by production activities in the plant. MAS Holdings, Brandix and Hirdaramani, three of Sri Lanka's largest garment suppliers, established green manufacturing plants in 2007-2008 and are set to expand the model to other plants within their businesses. Brandix's green manufacturing plant for Marks & Spencer achieved a reduction of carbon emissions by 80%, an energy saving of 46%, a reduction of water consumption of 58% and zero solid waste to landfill within its first year of operation.

Figure 2.8 below shows the 'Garments Without Guilt' campaign logo and a selection of illustrated core principles on eliminating child labour, protecting the environment to promote sustainable growth and empowering women in the industry. Since launching the campaign, JAAF rebranded to become Sri Lanka Apparel, a more easily identifiable name in the global marketplace.

Figure 2.8 Sri Lanka Apparel's 'Garments Without Guilt' campaign logo and marketing communications images featuring the campaign's core principles

In 2007, a delegation from Sri Lanka Apparel was invited to Capitol Hill in Washington DC to present the business case for 'Garments Without Guilt', a first for any industry trade body at the time. In 2009, the 'Garments Without Guilt' campaign won a bronze Effie Award, a prestigious global awards body for the advertising and marketing industries which was founded in 1968 to recognise effectiveness in marketing communications. However, despite the garment industry being recognised internationally for adhering to international best practices in labour standards (Ayling, 2010b; Saheed, 2007; Fibre2fashion, 2009; Tait, 2001), there is anecdotal evidence of child labour within other domestic industries in Sri Lanka. For example, Ariyadasa (2009) reported the death of a 15 year old who had apparently fallen from a tree while cutting branches on behalf of subcontractors working for the Ceylon Electricity Board.

2.7 Trading relationships in global fashion supply chains

The discussion of fashion SCM in the chapter so far shows the complex and globally dispersed nature of supply chains, the need for fashion supply chains to be efficient in terms of cost (lean) and effective in terms of lead time and flexibility (agile), and the wide range of factors that should be considered when making a decision on garment sourcing location. This section will consider the management of the buyer-supplier trading relationship: since the notion of the supply chain is an interlinked network of firms (Lambert and Cooper, 2000) with each link being reliant and interdependent on the others (Towers and Burnes, 2008), a key part of SCM is relationship management.

With the rise of strategic network competition, firms no longer compete as individuals but as part of a supply chain networks (Hunt *et al.*, 2006; Lambert *et al.*, 1998; Morgan and Hunt, 1994). Firms which work closely together with their network of suppliers can therefore create a strong source of competitive advantage (Bensaou, 1999; Corbett *et al*., 1999). Relationships between parties are possibly the most important factor in the success of any supply chain network (Croom *et al.*, 2000) as successful management of the flow of goods and information requires a strong foundation of effective supply chain organisational relationships. The changing nature of the competitive environment (Morgan and Hunt, 1994) and a realisation that strategic buyer-supplier relationships can create a sustainable competitive advantage (Johnson, 1999; Lewin and Johnston, 1997; Ganesan, 1994) has brought about the evolution of relationship marketing. This represents a shift in focus from products to people (Webster, 1992) and supports SCM

tenets by emphasising long-term collaboration between parties to achieve mutual value creation (Gummesson, 1999). Since suppliers have a profound and direct impact on cost, quality and responsiveness for the buying firm, SCM increasingly focuses on the management of business and relationships with other members of the supply chain (Chen and Paulraj, 2004b). Indeed, successful supply chain relationship management has been shown to speed up the product development process within complex and rapidly changing environments (Wheelright and Clark, 1992). The consequent shift from short-term adversarial trading relationships to long-term partnership relationships focuses attention onto trust and commitment, which underpin the concept of relationship marketing. Building supplier partnerships is an important influencing condition of successful fashion supply chain management (Hines and McGowan, 2005).

2.7.1 Power balance in fashion supply chains

However, any consideration of trading relationships must acknowledge the influence of the power regime within the supply chain, since this dictates how value is apportioned by different supply chain members (Cox, 1999; Cox, 2004a). Fashion supply chains are characterised by a strong power imbalance in favour of the retailers (Hines and McGowan, 2005). UK fashion retail is highly concentrated within a small group of large retailers, with 28% of consumer expenditure on apparel accounted for by fashion multiples (TNS, 2008, cited in Jackson and Shaw, 2009). In 2007, the top five retailers accounted for 35% of UK clothing sales (Morris and Barnes, 2008). While there is more emphasis on independent fashion retailers selling branded merchandise in European countries, the UK high street fashion sector is dominated by multiples selling own-label product. Hence there is a significant disparity between the size of UK retailers and UK-based manufacturers (Hines and McGowan, 2005).

In the fashion industry, globally dispersed production networks are organised by powerful retail buyers and represent functional integration of their globally dispersed economic activities (Gereffi *et al*., 2005; Knutsen, 2004). Buyer-driven supply chains "are characterised by highly competitive, locally owned, and globally dispersed production systems" and their success depends on "their ability to shape mass consumption via strong brand names and their reliance on global sourcing strategies" (Gereffi, 1999, p.43). Large retailers fuel further globalisation of the industry by globalising their sourcing activities (Gereffi *et al.*, 2005; Totakli *et al.*, 2008). The

bargaining power of garment suppliers in general is limited due to the global abundance of garment manufacturing capacity; however, large-scale suppliers that produce for volume retail buyers such as Gap and Nike may acquire a greater proportion of supply chain power, since alternative suppliers that are able to produce such volumes are scarcer (Hergeth, 2007). In general however, the exceptionally high degree of buyer concentration, a very low degree of seller concentration and the industry's historical tendency towards adversarial trading relationships, means that garment manufacturers possess a very low degree of market power compared to retailers (Jones, 2006). In a case study of Marks & Spencer, Crewe and Davenport (1992) found that there was no renegotiation of power between the retailer and its suppliers, despite the increasing collaboration and shift of responsibilities and risks from the retailer to its suppliers. Totakli *et al.* (2008) later concluded that there was no significant change to the power asymmetry in the fashion supply chain, despite the recent increase supplier manufacturing competencies with regard to vitality, flexibility, punctuality, productivity and quality. Indeed, Cox (1996) questioned whether SCM could ever result in a 'win-win' situation for all parties involved, contending that any internal or external contractual relationship involves a power struggle over limited resources. He contended that the tendency to deny the existence of power in relationships and instead focus on equality, trust and transparency in SCM is misguided: economic rationality suggests that conflicts of interest must be present in the supply chain as parties seek to appropriate value for themselves. The power structure in a supply chain relationship must therefore be determined before deciding on the most appropriate relationship management strategy (Cox, 1999).

2.7.2 The shift from adversarial to partnership relationships

Traditionally, the fashion industry was built on adversarial trading relationships that were short-term and characterised by multiple sourcing, price orientation and competitive bidding (Jones, 2006; Barnes and Lea-Greenwood, 2006). Within the adversarial procurement model, the buying firm seeks to achieve the lowest cost by encouraging a number of suppliers to compete against each other (Lewin and Johnston, 1997). In the UK fashion industry, this was made possible by the high degree of buyer concentration and the low degree of seller concentration (Jones, 2006). Firms tended to operate on their own, negotiated at arms length, and above all sought to maximise their own profits with scant regard for the customer or cooperation with their counterparts in

the chain (Lancioni, 2000). Buyer-supplier relationships thus tended to be 'win-lose' adversarial interactions (Al-Mudimigh *et al*., 2004). However, the changing nature of the competitive landscape in the fashion industry requires the formation of new relationships between buyers and suppliers, which has resulted in a move away from traditional adversarial relationships towards long-term mutually beneficial partnerships between buyers and suppliers, as well as a focus on cooperative and collaborative ways of working. Cooperation can be defined as "coordinated actions taken by partners to achieve mutual outcomes" (Lewin and Johnston, 1997, p.29), in contrast with engaging in directly competitive behaviour in pursuit of self-interest. Solomon (1992, p.26) believed that the essential character of business life is cooperative and "it is only with the bounds of mutually shared concerns that competition is possible".

In the UK fashion industry, the move towards close collaborative working relationships was evidenced through the development of QR (Quick Response) techniques which enabled domestic manufacturers to compete with the off-shore sourcing of garments from lower labour cost countries (Christopher *et al.*, 1998; Emberson and Storey, 2006). QR performance relied upon a network of close alliances with supply chain partners, since such collaborative relationships are a precursor to responsiveness (Sheridan *et al.*, 2006). In the event, QR was unable to prevent the large scale global shift of production to lower labour cost countries (Totakli *et al.*, 2008) but laid the foundations for companies to adopt a 'fast fashion' strategy, whereby retailers such as Zara, Primark and ASOS replicate catwalk trends at high speeds and provide budget versions for their customers. Shorter PLCs and rapidly changing consumer demand require a focus on agility to reduce lead times and satisfy customer demand at its peak and this explains the shift towards the development of long-term supplier capabilities (Tan, 2001). To achieve competitive advantage by agility and responsiveness, supply chain initiatives based on collaboration, such as integrated systems and supplier development may be employed (Griffiths *et al*., 2001). Hence, a partnership approach to supply chain relationships is a more beneficial and effective method of organising activities than the previous adversarial approach (Tummala *et al*., 2006; Burnes and New, 1996). A cooperative approach to buyer-supplier interaction reduces friction and results in smoother transactions. Compared with adversarial behaviour, cooperation reduces transaction costs at the commercial interface (Burnes and New, 1996) and is therefore consistent with TCE theory. Figure 2.9 distinguishes the relationship characteristics between historical and current practice:

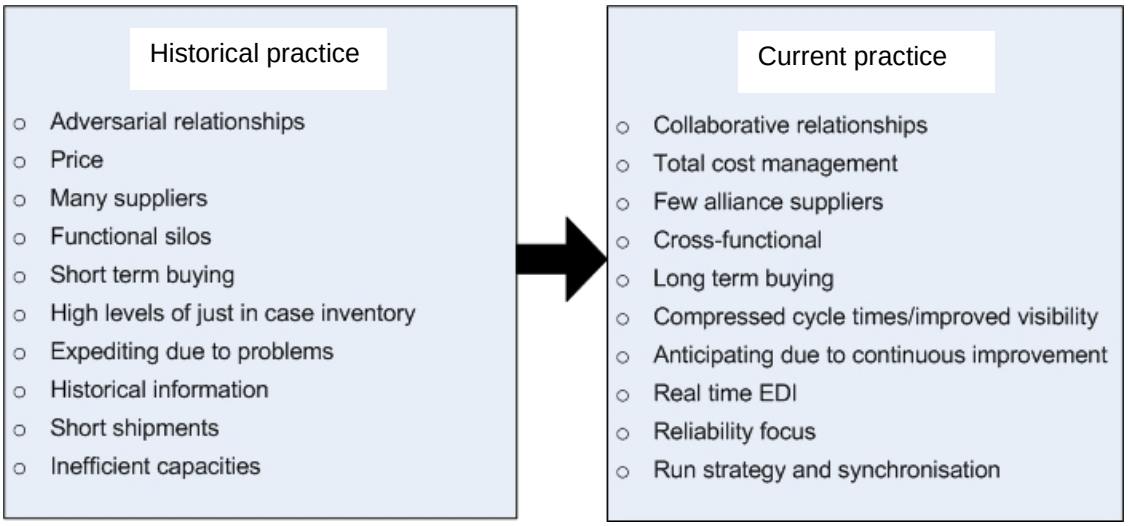


Figure 2.9 Relationship characteristics (Coopers and Lybrand, 1996, cited in Fernie, 1998)

Hines and McGowan's (2005) typology of supply chain relationships in the fashion industry in Figure 2.10 below shows the trajectory from adversarial supply chain relationships characterised by coercion, control and a strong price focus to strategic partnership based on commitment, trust and continuous improvement (Bixenden and Abratt, 2007). Relationship management in terms of forging closer ties with suppliers can support business strategy and operational goals and improve supply chain efficiency by reducing prices and transaction costs (Jespersen and Skøtt-Larsen, 2005). A long-term focus on total cost achieves better supply chain performance than a short-term focus on price (Ford, 2001). While short-term oriented firms rely on the market to maximise their profits in each transaction, long-term oriented firms rely on a series of relational exchanges to maximise their profits over a series of transactions by achieving synergy between parties and sharing risk (Ganesan, 1994). Therefore, by replacing adversarial practices with long-term cooperative relationships, buying firms seek to reduce cost in total operations, rather than achieve mere price reductions. A reduction in total operations cost may be achieved by improved inventory management, sharing of risk and elimination of unnecessary tasks and procedures (Wilson, 1995; Lewin and Johnston, 1997). Examples in the fashion industry include VMI, where the supplier takes responsibility for managing the buyer's inventory, as well as the provision of added-value services by full package suppliers, such as design and product development. Total cost management can be related to the concept of TCE, which considers the total cost of transacting including search, negotiating and monitoring costs (Coase, 1961) rather than merely the cost per garment. The reduction in costs and increased revenues achieved through development of close trading relationships in the

supply chain are more beneficial to firms than spot trading on the open market (Ford, 2001). Collaboration between supply chain partners can lead to significant business performance improvements (Vereecke and Muyller, 2006): it can create a seamless, synchronised chain resulting in better responsiveness and reduced inventory costs (Holweg *et al*., 2005), as well as improved use of technology and lowered investment in resources (Morgan and Monczka, 1996).

Characteristics	Weak KSA Opportunistic	Semi-strong KSA Operational	Strong KSA Strategic
	Price very important	Price still important	Price less important
	Commodity supplier	Buffer / insurance	Open Book Accounting
	Adversarial	Adversarial	Partnership approach to solving problems
	Short term maybe to fill a gap	Short or long term	Long term
	Less reliable?	Reliability and responsiveness variable	Flexibility – QR
	Slower response		Reliable

Adversarial — Coercion — Control — Co-operative — Partnership — Integration

DISTANT — CLOSE

Figure 2.10 Typology of supply chain relationships (Hines and McGowan, 2005)

The advantage of enduring relationships characterised by strong obligational ties between trading partners is that focus is shifted from "the narrow economically rational goal of winning immediate gain and exploiting dependency to cultivating long-term cooperative ties" (Uzzi, 1997, p.37). Furthermore, close trading relationships creates "economic opportunities that are difficult to replicate via markets, contracts or vertical integration" (Uzzi, 1997, p.37). It is difficult for competitors to replicate the offering of other suppliers who have created seamless manufacturing processes based on close, beneficial trading relationships with their customers (Towers and Burnes, 2008). Frohlich and Westbrook (2001) noted that companies with higher degrees of integration with suppliers and customers had better levels of performance improvement than those with lower levels of supply chain integration. Hence, seamless and complete supply chain integration is the ideal which companies should aim for if they want to improve their cumulative performance and maintain competitive advantage. Christopher and

Peck (1997) argued for greater integration between fashion supply chain partners to overcome the challenging competitive context of short PLCs, high demand volatility and the impulsive nature of fashion purchases. Towers and Ashford (2003) advocated that collaboration between partnership-oriented supply chain companies leads to strategic integration, which is essential for the long-term enhanced performance of the whole chain. In a partnership, there is a push towards continuous improvement of the relationship for the mutual benefit of both partners (Valsamakis and Groves, 1998). Frenkel and Scott's (2002) empirical study of Asian athletic shoe manufacturers found that collaborative trading relationships were dynamic and promoted joint learning and innovation, whereas in compliance-type relationships the setting of functional targets merely resulted in their achievement and maintenance, rather than a push for further improvement. Johnson (1999) found gains and cost savings resulting from dependent inter-firm relationships; for example, streamlined and efficient transactions, technological and process innovation, shortened lead times and increased consistency and quality between supply chain partners. However, these factors pose both threats and opportunities for garment manufacturers, as low price alone is no longer a major determinant of competitive advantage in today's turbulent, demanding markets. It remains a qualifying strategy but is no longer a winning strategy (Mason-Jones *et al*., 2000), as flexibility and responsiveness are more important for success where high levels of uncertainty exist (Soliman and Youssef, 2001).

The benefits of collaboration are also championed by the European Foundation of Quality Management (EFQM). The EFQM Excellence Model, depicted in Figure 2.11 below, recognises that success in the current business environment requires a change of approach, away from the arm's-length adversarial relationship model and towards a collaborative customer-focused one. The model is an integrated performance measurement system designed to enable firms to achieve sustainable excellence in their operations and is underpinned by eight fundamental concepts of excellence including partnership development and customer focus. It shows that successful relationship management underpins organisational excellence.

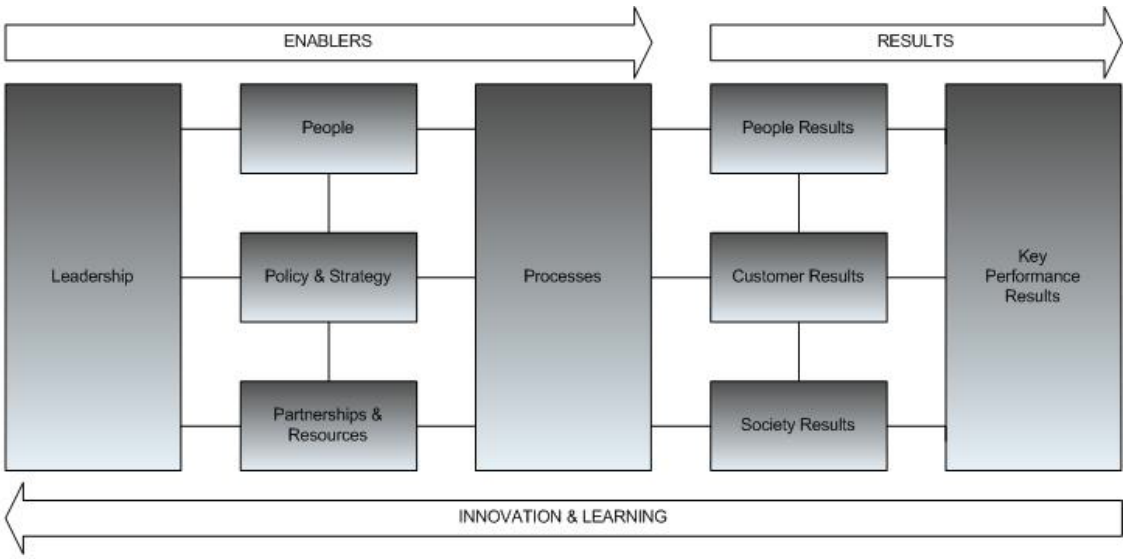


Figure 2.11 European Foundation of Quality Management model (EFQM, 1998)

For fashion products in particular, closer trading relationships are necessary to maximise supply chain effectiveness and efficiency in terms of reducing lead time and maximising stock availability. Innovative products with unpredictable demand profiles require a higher level of harmonisation between buyer and supplier than functional products with predictable demand profiles (van Donk and van der Vaart, 2005). Khan *et al.* (2008) asserted that effective and close social interaction between buyers and suppliers was especially important at the design and product development stage in the apparel supply chain. Where a significant portion of product success lies in the "subtle and hard to define attributes of the look and feel of a garment" (Khan *et al.*, 2008, p.417) and where product modifications may need to be made rapidly in response to consumer reaction, close social interaction was held to be critical success factor. Without the social capital generated through such close social interaction between the buyer's design team and the supplier's production team, there was a risk of misinterpretation of design requirements or late deliveries that could result in lost sales. The high levels of uncertainty in fashion supply chains are thus overcome by better cooperation, coordination and collaboration between supply chain partners (Frohlich and Westbrook, 2001; van Donk and van der Vaart, 2005). The argument for close inter-firm relationships as an uncertainty absorption mechanism is also consistent with TCE theory (Johnson, 1999).

Cox's (2004a) typology in Figure 2.12 below shows the different stages in trading relationships between buyers and suppliers, from spot trading on the open market

(supplier selection) through to the long-term commitment of trading partnerships (supply chain management. SCM describes "proactive long-term collaborative relationships … directed towards constant innovation on functionality and cost" (Cox, 2004a, p.350); however, this is the most resource-intensive option for sourcing, since it requires internal resources and capabilities as well as a long-term commitment, which may not be an option for all firms. Commitment is defined as "an implicit or explicit pledge of relational continuity between exchange partners" (Dwyer *et al*., 1987).

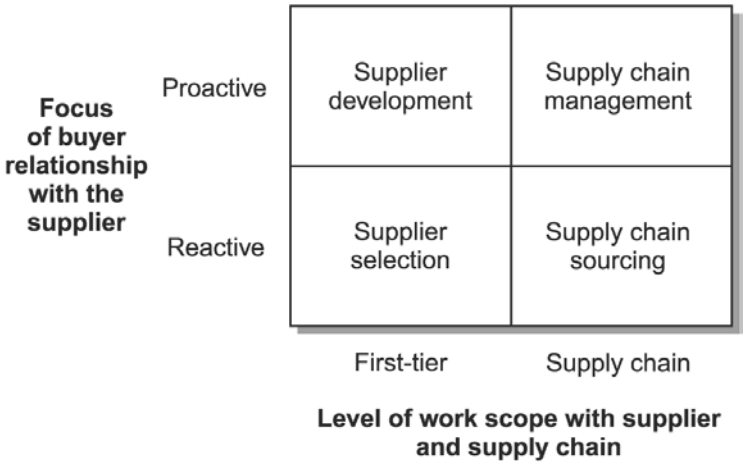


Figure 2.12 The four sourcing options for buyers (Cox, 2004)

The development of closer trading relationships assumes a focus on a fewer number of suppliers (Christopher and Jüttner, 2000). Many larger firms are moving towards rationalisation of their global supply chains, in order to reduce costs and develop closer partnership relationships with a fewer number of suppliers (Welford and Frost, 2006). As well as the drive for cost reduction and continuous quality improvement and innovation, this move can also be explained by the realisation that there is a limit to the extent to which multiple supplier relationships can be effectively managed (Christopher and Jüttner, 2000). Lezama *et al.* (2004) found evidence to suggest that a significant shrinkage of the supplier base would result following quota removal in the aftermath of the MFA's demise. The common tendency therefore is for fashion retailers to reduce the supplier base and build strategic supply chain partnerships by working more closely with those suppliers where strong relationships have been established (Osborne, 2009).

The buyer-supplier relationship should be underpinned by trust (Towers and Ashford, 2003), since it is deemed central to successful collaboration between firms and to the development of inter-firm relationships (Canning and Hanmer-Lloyd, 2008). Trust can

be defined as the belief that the other party will behave in our best interests (Bidault and Jarillo, 1997). It is based on past performance and reputation, as well as personal friendship and social bonds derived from day-to-day interaction (Thorelli, 1986). It may be interpreted as "the willingness to be vulnerable under conditions of risk and interdependence", where vulnerability is based on "positive expectations of the intentions or behaviour of another" (Rousseau *et al*., 1998, p.395). It is composed of two core elements: credibility and benevolence (Ganesan, 1994; Wang, 2007). The former refers to "the belief that the exchanging partner will perform the job effectively and reliably" while the latter is "a belief in partners' honesty and good intentions based on human nature" (Wang, 2007, p.83). Bidault and Jarillo (1997) referred to these two elements as technical trust and ethical trust, respectively.

The academic notion of trust encompasses a wide spectrum of concepts from control or deterrence mechanisms to benevolence and goodwill (Nooteboom, 2004; Das and Teng, 1998). Noorderhaven (1992) referred more specifically to a willingness to enter into a transaction without adequate contractual safeguards, a practical definition which articulates the power of trust in commercial environments. Fukuyama (1995) defined trust as the expectation arising within a community of regular, honest and cooperative behaviour from each other, based on commonly shared norms or moral values. According to Thorelli (1986), trust is based on past performance and reputation, as well as personal friendship and social bonds derived from day-to-day interaction. It thus plays a role in the social bonding process between trading partners which enables transactions to run smoothly (Perks and Halliday, 2003).

With reference to TCE theory, trust economises on transaction costs by reducing the likelihood of opportunistic behaviour and increasing the probability of a long-term orientation towards the trading relationship (Ganesan, 1994; Bidault and Jarillo, 1997). Jones (1995, p.422) stated that "ethical solutions to commitment problems are more efficient than mechanisms designed to curb opportunism". In a high-trust environment where it can be assumed that all trading partners operate according to a common set of ethical norms, transaction costs are lower than in a low-trust environment which is governed by formal laws and regulations (Fukuyama, 1995). Monitoring and insurance costs are reduced as trust develops (Sako, 1992; Kumar, 1996), because trust makes it possible to simplify contracts and even eliminate the need for contractual means of curbing opportunistic behaviour (Bidault and Jarillo, 1997; Williamson, 1993). This is

essential in the dynamic, uncertain environment of the fashion supply chain, where competitive advantage today rests on flexibility and agility to respond to changing circumstances. While detailed formal contracts may be time-consuming and expensive to alter, trust generates flexibility and facilitates accommodation of changes (Nooteboom *et al*., 1997). Trust is vital for determining the long-term orientation of trading relationships because it moves the focus onto future circumstances, which lessens the probability of opportunistic behaviour by the other party due to the belief that unanticipated contingencies will be dealt with in an equitable manner (Ganesan, 1994; Wang, 2007). The presence of trust thus effectuates implicit contracting (Blomqvist, 1997). Within the fashion supply chain, Uzzi (1997, p.37) cited Italy's knitwear industry as a successful example of how network relationships characterised by "trust and personal ties, rather than explicit contracts … make expectations more predictable and reduce monitoring costs". Greater levels of trust between firms thus allow management to move away from monitoring supply chain partners and move towards value-adding collaborative activities instead (Vachon and Klassen, 2006). In fashion supply chains, the development of trust can also lead to a reduction or even elimination of quality control inspections, thus saving time and cost (Jespersen and Skøtt-Larsen, 2005). Trust can also be perceived as an antecedent to effective SCM in globally dispersed supply networks, encouraging trading partners to act for the improvement of the whole supply chain, rather than acting for individual gain at the expense of other supply chain members. As well as discouraging opportunistic actions, trust thus renders the buyer-supplier relationship more capable of adaptability and of surviving stress (Williamson, 1979) and minor conflicts (Pick, 1999).

Ford (2001) considered the nature of buyer-supplier relationships as a process formed over time. It is affected by both parties' relevant product and process technologies as well as the structure of the market, in particular the presence of alternative buyers and suppliers. Five variables were found to have significant effect on the potential success of the relationship's development: experience, uncertainty, distance, commitment and adaptations. The distance variable concerns buyer and supplier perceptions of social, cultural, technological, time and geographical variance. These distances signify uncertainty and therefore inhibit the establishment of trust between buyers and suppliers. However, the process of successfully developing the relationship results in the reduction of these distances.

Within South East Asian business networks, relationships are based on complex foundations of personal networks known as *guanxi* (Theingi *et al.*, 2008), which have the effect of facilitating and smoothing business transactions (Arias, 1998). *Guanxi* is comprised of relational harmony and *xinyong*, a form of personal trust that encompasses reliability, integrity and competence (Theingi *et al.*, 2008; Leung *et al.*, 2005). Business transactions are commonly preceded by the formation of social ties and this highlights the long-term orientation towards business relationships taken within South East Asian business networks (Theingi *et al.*, 2008; Arias, 1998; Björkman and Kock, 1995) which supports the concept of SCM. Integrating social and business relationships leads to the creation of social capital which permits the smooth flow of business transactions without necessary resorting to contractual means (Theingi *et al.*, 2008). Thorelli (1986) observed that Oriental cultures in particular perceive trust to be a crucial supplement, if not a replacement to contractual arrangements. However, he also conceded that the establishment of trust requires significant investments of time and patience which may be incompatible with typical Western business principles. The notions of *guanxi* that regulate traditional Chinese business and social networks, where the exchange and fulfillment of promises and the development of trust within a long-term relationship are of central importance (Arias, 1998), are also consistent with the concept of relationship marketing, which focuses on the fulfilment of promises and trust (Grönroos, 1994).

Despite the clear advantages and benefits from a move away from adversarial trading relationships to supply chain partnerships, the negative effects of social relations on economic behaviour must also be considered (Uzzi, 1997). Williamson (1979) also stated that it is possible for close trading relationships to incur additional transaction costs, at least in the early stages of the relationship. These include costs of modifying the product to the customer's requirements and the ongoing opportunity costs of servicing a particular relationship. Jespersen and Skøtt-Larsen (2005) used the term 'relation costs' to describe costs connected with activities deemed necessary for the development and maintenance of relationships, such as those connected with establishing and developing the supplier and those connected with supplier evaluation and analysis of alternative suppliers. Furthermore, although there is wide acceptance that trust is beneficial to trading relationships, it may be detrimental in the short term due to the high set up costs incurred in terms of time and effort involved. Current transaction costs are reduced not due to current investments in trust, but due to past investments made to establish trading norms and institutions (Sako, 1992). For this

reason, a long-term vision is required for trust to develop successfully. Essentially, trust is a fragile corporate asset, due to the time-consuming nature of its development and the great ease with which it can be destroyed once a breach has occurred. However, by rationalising the supply base and building closer relationships with fewer suppliers, Jespersen and Skøtt-Larsen (2005) envisaged that relation costs would be reduced and hence value creation would increase. Thus, the long-term benefits of close trading relationships outweigh the initial set-up costs.

Ford *et al*. (1998, p.149) claimed that close buyer-supplier relationships may sometimes become "very tangible liabilities" and pointed to the possible risks and disadvantages of rising switching costs, costs of maintenance and even possible loss of confidential business information. However, the latter risk would appear to assume lack of trust where one party acts opportunistically to the detriment of the other, and this contradicts the very character of a close buyer-supplier relationship where divulging sensitive information by one trading party should generate a reciprocal promise of its safeguard by the other. Ford (2001) declared that opportunity costs could arise from continuing a trading relationship instead of dealing with alternative market partners. Bensaou (1999) also acknowledged that although strategic partnerships may result in the creation of new value, such relationships are costly to develop, nurture and maintain. Holweg *et al*.'s (2005) study found that although the benefits of a seamless, synchronised supply chain were widely acknowledged, implementation of collaboration strategies within industries was far less widespread than expected, and there was evidence of supplier dissatisfaction with the way supply chain collaboration had turned out in practice. Emberson and Storey's (2006) case study of a UK multiple clothing retailer revealed that collaborative buyer-supplier planning initiatives were vulnerable to ongoing job moves by buyers, thus demonstrating the influence of human behavioural dynamics on successful buyer-supplier relationship management. Groves and Valsamakis (1998) asserted that although single-sourcing partnership relationships facilitate continuous improvement, they require much dependence and trust to flourish. Hence, close long-term trading relationships are not necessarily advisable in all circumstances, and ultimately the cost of investment should be weighed alongside the benefits of resource integration and partnership (Ford *et al*., 1998; Cox, 1999; Cox, 1996). Therefore, although the long-term, collaborative 'win-win' approach has been successful in certain supply chains, most notably the Japanese automotive industry, it is not a SCM panacea, and its appropriateness must be considered alongside other sourcing choices and

relationship management strategies (Cox, 2004a; Cox, 2004b; Groves and Valsamakis, 1998). It may be acceptable in certain situations for trading relationships to be based on supplier selection, that is, short-term and built with a succession of different partners. Furthermore, buyer-supplier relationships may be deemed to be successfully aligned in spite of being characterised by short-term sustainability, conflict and disproportionate allocation of benefit from the transaction (Cox, 2004b). So, although economic argument suggests that SCM seeks to minimise transaction costs, in reality some anomalies may exist. Successful SCM thus depends on the implementation of strategies which are most appropriate for the circumstances.

Trust and cooperation between supply chain partners create strong collaborative networks which leverage the capabilities of the whole supply chain and lead to competitive advantage, by facilitating information sharing required to maximise agility in volatile markets. It enables buyers and suppliers to share confidential information, invest in understanding each others business and customise their products and processes. This helps them to realise the full potential of the relationship and achieve success in turbulent markets (Kumar, 1996). High trust levels are also conducive to organisational innovation (Fukuyama, 1995). Trust is antecedent to supply chain agility, as it enables buyers and suppliers to adapt quickly to marketplace changes and develop more creative solutions to meet consumers' needs (Doney and Cannon, 1997; Kumar, 1996). Furthermore, the need for highly structured control mechanisms and monitoring decreases as trust develops and the resulting trading environment fosters flexibility and agility unhampered by excess bureaucracy.

2.7.3 Information sharing

In an agile supply chain, the key requirement is timely and accurate demand information in order to maximise the flexibility needed to respond to consumer reactions. Sharing information reduces uncertainty and creates a more visible and predictable demand pattern throughout the supply chain (Holweg *et al*., 2005). However, information disclosure may be perceived by some firms as a loss of power (Croom *et al*., 2000). Therefore sharing information with a buyer or supplier also requires trust in the supply chain partner's competence (Tummala *et al*., 2006) to avoid either party perceiving it as a loss of power (Croom *et al*., 2000). Sharing timely and meaningful information can therefore be viewed as a major antecedent of trust and commitment in a buyer-supplier

relationship; however there is also a reciprocal flow whereby the establishment of trust leads to greater information exchange (Lewin and Johnston, 1997). The development of trust is necessary to enable supply chain partners to fully realise the potential of collaborative relationships, in terms of both flexibility and creativity of response to competitive pressures (Doney and Cannon, 1997).

Supply chains based on mutual exchange of confidential information and risks shared by committing resources in anticipation of future business create benefits for all trading partners (Towers and Burnes, 2008). The value demanded by end-consumers consists not only of the actual product, but also its price and the timeliness of its availability, factors which are all dependent on successful SCM. As well as encompassing the downstream physical flow of product from suppliers to consumers, SCM also includes the flow of information from the marketplace upstream to the supply chain, as well as the downstream physical flow of goods from suppliers to consumers (Gunasekaran, 1999; Sridharan *et al*., 2005). Therefore, competitive advantage may be achieved through integration of the demand function into the supply chain, which entails sharing knowledge among supply chain partners. According to TCE theory, information transfer between trading partners serves as a way of effecting secure and credible commitments to the relationship, reducing the threat of opportunism (Williamson, 1991)

Changes in market characteristics, such as shortening PLCs and increasing market complexity and volatility, have resulted in a focus on leveraging knowledge across the supply chain in order to maintain competitive advantage (Danskin *et al*., 2005). This represents a shift in focus from physical assets to intellectual capital. Speed and agility in time to market as well as responsiveness in relation to new product development necessitate effective and efficient transfer of information. Effective knowledge management enables the alignment and optimisation of supply chain relationships, attuning the entire chain to better understand customer needs and ultimately enhancing the performance of the whole chain and resulting in sustainable competitive advantage (Danskin *et al*., 2005). For example, combining information captured in the supply chain with customer demand analysis can increase the accuracy of production planning and demand forecasting (Selen and Soliman, 2002), thereby contributing to overall cost management. Accurate and timely information sharing amongst supply chain partners reduces the bullwhip effect, the phenomenon whereby information distortion results in

order and inventory variances, which increase the further a firm is from final consumer demand in a supply chain (Lee *et al.*, 1997; Yao *et al.*, 2007).

In order to maximise competitive advantage by strategic dissemination of information across the supply chain, effective and efficient channels of communication are required. Supply chain technologies based on information exchange between retailers and suppliers such as EDI and VMI facilitate collaboration and the achievement of increased operational effectiveness and superior financial performance (Richey *et al.*, 2008). EDI enables buyers to share sales and inventory information with their suppliers on a real-time basis (Yao *et al.*, 2007). VMI is a collaborative initiative whereby suppliers are authorised to manage the retailer's inventory of SKUs, which is made possible by sharing demand and inventory status information with the supplier (Yao *et al.*, 2007). The supplier takes full responsibility for making replenishment decisions and maintaining an agreed inventory of the product (Waller *et al.*, 1999). The retailer benefits from reduced inventory costs, improved service and higher levels of product availability (Yao *et al.*, 2007; Sari, 2007; Kaipia and Holmström, 2007). The benefit to the supplier is increased production efficiency via the ability to plan replenishment better, as well as increased capacity utilisation and reduction in bullwhip effect (Waller *et al.*, 1999; Sari, 2007; Lee *et al.*, 1997). VMI improves coordination of product and information flow in the supply chain and hence Disney and Towill (2003) found that it improved supply chain responsiveness to demand volatility better than a traditional supply chain. VMI is often supported by open-book accounting in order to facilitate cost management across organisational boundaries within the supply chain network (Christopher, 2000; Jeacle, 2007), the idea being that "additional opportunities for cost reduction arise through collaborative efforts of network members" (Kajüter and Kulmala, 2005, p.179). As one of the most confidential and sensitive pieces of corporate information, the disclosure of cost data is used as a tool for developing trust in buyer-supplier relationships as well as for improving the cost efficiency of supply chains (Kajüter and Kulmala, 2005). However, Free's (2008) study of the UK supermarket sector found that open-book accounting was misused by retail buyers for inducing competitive bids from rival suppliers. It is questionable therefore whether VMI results in an equal distribution of benefit to both buyers and suppliers: some evidence has suggested that derived benefits are not always distributed equally between buyer and supplier (Sari, 2007) and benefits to the supplier may take longer to materialise than those to the retailer (Dong and Xu, 2002). Furthermore, the extra

burden of demand forecasting and inventory holding may not always be compensated by the VMI purchase price, but the supplier may feel pressured to accept the arrangement in order to maintain the trading relationship in light of increased global competition (Dong and Xu, 2002). As suppliers take on a wider range of functions over and above production, buyers face increased transaction costs in switching business to new suppliers (Fearne and Hughes, 1999), so this represents a way of ensuring relational continuity in a dynamic, uncertain trading environment. It may also redistribute some of the power in the supply chain to the supplier.

2.8 Ethical concerns in global fashion supply chains

A further SCM challenge in recent times has been the consumer demand for low cost fashionable clothing sourced through ethical supply chains (Shaw *et al.*, 2007; Shaw *et al.*, 2006; Gilbert, 2006; Adams, 2002; Frenkel and Scott, 2002). According to Mintel (2008a; 2008b), ethical trading is a strong emotive issue in the UK fashion market with growing concern about ethical issues from womenswear consumers in particular. The increasing use of complex globally dispersed fashion supply chains in order to meet the challenges of the new competitive environment has increased focus on issues of human resource exploitation in the garment manufacturing function (New, 1997), especially when sourcing from distant lower labour cost countries. Although human resource exploitation may be found within a range of different industries, the fashion industry has become a focal point for the debate on concepts of sweatshops, child labour and worker exploitation and several major global retailers such as Wal-Mart, Gap, Nike and Hanes have faced scandalous allegations of supply chain misconduct in recent times (Smestad, 2010; Frost and Burnett, 2007). This has pressured retailers to become more transparent about their sourcing policies. It is the function of CSR to safeguard the notion of ethics in the competitive fashion supply chain, co-existing alongside cost efficiency and effectiveness.

However, it is questionable whether ethical concern translates into ethical purchasing in the UK high street fashion market. Research on ethical consumption in other consumer product categories suggests that intention and actions do not necessarily correspond and it does not necessarily follow that ethically minded consumers buy ethically (Carrigan and Attalla, 2001; Belk *et al.*, 2005; Szmigin *et al.*, 2009). McDonald *et al.* (2006) referred to the conflicting priorities and paradoxical outcomes that are found when

researching ethical consumerism. Joergens' (2006) study into consumer fashion purchasing behaviour in the UK and Germany found that young people's concern and knowledge about ethical clothing issues did not necessarily translate into ethical purchasing behaviour, suggesting that style and price demands must be satisfied before ethical considerations. This was confirmed in Shaw et al.'s (2006, 2007) studies of ethical clothing consumption in the UK. Vogel (2005) stated that ethical products must meet minimum consumer selection criteria as ethical credentials alone would not provide consumers with sufficient motivation to purchase.

Ethical consumerism can be conceptualised as a continuum (McDonald *et al.*, 2006). At one end lie ethical crusaders who are willing to limit or forgo their fashion consumption for the sake of ethical values, while at the other end lie consumers who are either indifferent, unaware or opposed to ethical values. In between there may be consumers who have ethical concerns but do not restrict their fashion consumption accordingly. After segmenting its 21 million customer base according to level of commitment to ethical purchasing and green initiatives, Marks & Spencer found that 38% actively pursued an ethical and environmentally friendly approach to shopping. Only 11% were classified as 'green crusaders', or consumers committed to, passionate and well-informed about sustainability issues (Marks & Spencer, 2008). The majority (62%) were less interested in participating in sustainability initiatives. Table 2.6 overleaf shows ethical concern over fashion garments varies according to age in UK females: while 43% of UK women worry that cheap clothes were made in sweatshops, this figure rises for older age groups but is lower for younger women (Mintel, 2008a). Furthermore, over a fifth of all UK women do not care where or how clothes are made and just under a fifth would buy clothing they liked regardless. These attitudes are more prevalent in younger age groups than older ones. Ethical concern is also more prevalent in higher socio-economic groups than in lower ones. For example, over half of women in socio-economic groups AB worry that cheap clothes are made in sweatshops while less than a third of those in DE agreed with this statement. Similarly, twice as many AB women are interested to know how and where their clothes were made compared to women in socio-economic group E. It also appears that consumers of certain brands are more concerned than others: while only 29% of Mintel's (2008a) all female sample wanted to know more about how and where clothes were made, British retailer Marks & Spencer found that 78% of its customers wanted to know more about where and how clothes are made as well as the conditions in the factories,

according to a YouGov poll conducted in 2006. This insight led to Marks & Spencer's 'Look Behind The Label' campaign, launched in 2006, which aimed to communicate the ethics of its brand and inform consumers about sourcing and production of goods.

Furthermore, the recent Western recession raises the question of whether or not shoppers abandon their ethical principles during economic uncertainty (Carrigan and de Pelsmacker, 2009). It is reasonable to suggest therefore that consumer demand for ethically sourced fashionable clothing may tail off as shoppers prioritise price factors and value for money. In November 2010, it was reported that low-cost fast fashion retailer Primark recorded its best ever one-day sales figure of £820,000 at the Oxford Street flagship store, which contributed to a weekly total of almost £4 million. Furthermore, in the 53 weeks to September 18, Primark saw profits rise 35% to £341 million on total sales up 18% to £2.7 billion (Shields, 2010). The alternative view is that ethical concern is a morally and socially constructed value, and is therefore resistant to the pressures of economic uncertainty. The argument for meeting minimum customer selection criteria becomes relevant: for shoppers to purchase ethically sourced fashion during recession periods, the garment must not cost any more than the 'ordinary' version, require no special effort to purchase or to wear, and be at least as good as the alternative garment (Vogel, 2005; Belk *et al.*, 2005; Carrigan and Attalla, 2001). Despite evidence of consumer demand for low cost fashionable clothing sourced through ethical supply chains (Shaw *et al.*, 2007; Shaw *et al.*, 2006; Gilbert, 2006; Adams, 2002; Frenkel and Scott, 2002), inconsistencies between consumers' claimed concerns and actual purchasing habits (Carrigan and Attalla, 2001; Belk *et al.*, 2005; Szmigin *et al.*, 2009) do result in some ambiguity over the extent of consumer concern for ethical sourcing of high street fashion garments.

Women's attitudes towards clothing, by age and socio-economic group, May 2008

	I worry that cheap clothes were made in sweatshops	I would like to know where / how clothes are made	I would like to see more organic fabric / Fairtrade clothes	I never think about where / how clothes are made	If I like something I don't care where/how it was made
	%	%	%	%	%
All	43	29	28	22	19
Age:					
15-24	19	29	18	41	25
25-34	35	23	27	28	19
35-44	44	30	32	19	21
45-54	53	37	35	17	17
55-64	54	29	33	15	15
65+	48	29	24	14	18
Socio-economic group:					
AB	55	40	43	13	11
C1	46	32	30	19	18
C2	36	23	23	27	21
D	32	21	16	30	27
E	31	20	17	28	25

Base: 1,602 women aged 15+
Source: BMRB/Mintel

Table 2.6 Women's Attitudes towards Clothing: Mintel Womenswear Retailing Report - UK - July 2008

2.9 Summary of SCM

The literature review in this chapter has presented the underpinning TCE theory upon which the concept of SCM is built. Understanding how the governance of supply chains affects competitive advantage explains the shift away from vertical integration to flexible global networks of independent organisations which now pervade the high street fashion industry. In recent years SCM has been become a strategic priority in many firms due to recognition of its potential as a major new area of profit and growth (New, 1997; Croom *et al.*, 2000; Jüttner *et al.*, 2007; Lancioni, 2000). Within the fashion sector in particular, which faces unique pressure for lower costs as well as shorter lead times (Masson *et al.*, 2007) as a result of rapidly changing customer demands and intensifying competition in the marketplace, SCM offers retailers the opportunity to maximise effectiveness and efficiency, thus increasing competitive advantage. In a sector characterised by downward price pressure, high levels of product variety and shortening PLCs, supply chain effectiveness enables retailers to reduce cost while supply chain efficiency focuses on reduction of lead times and maximising flexibility of response. SCM moves the focus away from short-term adversarial trading relationships towards a long-term orientation, shared goals and mutually beneficial outcomes. The development of trust between supply chain partners and a move towards cooperative and collaborative ways of working, including supply base rationalisation and technology-enabled virtual integration, has been shown to reduce total supply chain costs as well as cut time to market. These findings are aligned with the theory of TCE, whereby appropriate management of trading relationships in terms of building trust reduces transaction costs at the buyer-supplier interface (Jespersen and Skøtt-Larsen, 2005; Uzzi, 1997, Burnes and New, 1996; Sako, 1992).

The global shift of the garment manufacturing function to lower labour cost countries allows Western fashion retailers to cut supply chain costs; however this has also focused debate on the socio-economic impact of global business operations on developing countries (New, 1997; Maitland, 1997). With a power balance weighted heavily in favour of retailers and high labour intensity in the manufacturing process, the fashion industry has become a focal point for the debate on sweatshops, child labour and worker exploitation (Smestadt, 2010). However, there is evidence of an emerging consumer desire for ‘guilt-free fashion’, or fashionable clothing which has been sourced through ethical supply chains, which presents a further dimension to fashion SCM.

In order to contextualise the issues surrounding SCM within the fashion industry, desk research was carried out on Sri Lanka, a lower labour cost country which specialises in export garment manufacture and features prominently in several Western fashion retailers' global supply chains. A SWOT analysis clarified the advantages and disadvantages of sourcing fashion garments from Sri Lanka for Western consumer markets. This secondary data review of Sri Lanka's garment industry also provides the context for the multiple case study in the research which is explained in Chapter Four.

Building on an understanding of the dynamics of fashion supply chains, the following chapter will explain the concept of CSR by presenting the philosophical argument and the business case for CSR implementation. By synthesising the literature on fashion SCM and CSR, the aim of these two literature review chapters is to develop an integrative framework for CSR implementation in fashion supply chains, which will guide the multiple case study. Specifically, fashion supply chain characteristics that support CSR implementation (termed CSR Drivers) will be identified in addition to those factors that impact negatively on CSR implementation (termed CSR Inhibitors). Finally, a theoretical understanding of the constructs of CSR will progress understanding of CSR within fashion supply chains.

CHAPTER THREE: CORPORATE SOCIAL RESPONSIBILITY

LITERATURE REVIEW

3.1 The nature of CSR

Corporate Social Responsibility (CSR) has gained much prominence in recent times, with an exponential increase in attention from a wide variety of sources including scholars, business practitioners, the media and the public (Perrini, 2006a; Waldman *et al.*, 2006; Tencati *et al.*, 2008). A commonly quoted definition of CSR (Jamali and Mirshak, 2007; Perrini, 2006a) is that of the World Business Council for Sustainable Development (WBCSD, 1999, p.3):

> "the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large".

Several writers have perceived academic literature on the nature and scope of CSR to be inherently vague, both historically and currently (Carter and Jennings, 2002; Smith, 2003; Castka *et al*., 2004; Godfrey and Hatch, 2007) and a definitive agreement on a conceptual definition of CSR does not yet appear to exist (Matten and Moon, 2008; Godfrey and Hatch, 2007; Galbreath, 2006). While there is consensus that "CSR refers to the obligations of the firm to society" (Smith, 2003, p.53), there is little consensus regarding the nature or scope of these obligations (Berger *et al.*, 2007). For example, Welford and Frost's (2006) paper on CSR in Asian supply chains gives a vague definition of CSR as a "set of issues and practices both internal to the firm and external" with no subsequent elaboration on the exact form that these internal and external issues and practices may take. Many articles on CSR do not include an explicit definition of CSR (for example, Garriga and Melé, 2004; Tencati *et al.*, 2008). Perrini *et al.* (2006) observed that the lack of consensus on what constitutes CSR may stem from the subjective nature of the term 'responsible behaviour'. Matten and Moon (2008) proposed a conceptual framework for CSR but explicitly refrained from defining CSR in detail due to the existence of significant cross-national variances in CSR practices, issues and underlying meanings of the concept. Furthermore, they pointed out that the scope and nature of CSR is contestable as the term is also used as both an umbrella term and a synonym for other concepts of business-society issues, although they did not provide specific examples. Blowfield and Frynas (2005) argued that the use of the term

CSR has become so broad that it is interpreted and adopted for many different purposes, for example being used to refer to a research agenda or discipline as well as a corporate practice. They advised therefore CSR may be more useful as an umbrella term for a variety of theories and practices that recognise the following concepts:

- companies have a responsibility for their impact on society and the natural environment, which may go beyond legal compliance and the liability of individuals
- companies have a responsibility for the behaviour of other trading partners in their supply chain network
- business needs to manage its relationship with wider society, whether for reasons of commercial advantage or societal development.

Table 3.1 below presents some academic definitions of CSR and demonstrates the wide-ranging scope and nature of the subject area.

Author	**Definition of CSR**
McWilliams and Siegel (2001) p.117	"actions that appear to further some social good, beyond the interests of the firm and that which is required by law"
Barnett (2007) p.795	"any discretionary corporate activity intended to further social welfare"
Basu and Palazzo (2008) p.124	"the process by which managers within an organisation think about and discuss relationships with stakeholders as well as their roles in relation to the common good, along with their behavioral disposition with respect to the fulfillment and achievement of these roles and relationships"
Berger *et al.* (2007) p.133, citing Industry Canada's (2006) definition	"the way firms integrate social, environmental, and economic concerns into their values, culture, decision making, strategy, and operations in a transparent and accountable manner and thereby establish better practices within the firm, create wealth, and improve society"
European Commission (2006) p.2	"a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis"
Doane (2005) p.215	"a voluntary form of self-regulation that aims to tackle everything from human rights and labour standards to limiting carbon dioxide emissions that lead to climate change"

Table 3.1 CSR definitions

To summarise, CSR conveys the idea that business should assume social responsibilities beyond the economic, technical and legal responsibilities which constitute its existence, with the objective of reconciling economic, social and environmental objectives (Davis, 1973; European Commission, 2006). Actions must go beyond the immediate interest of the firm and beyond merely obeying the law or other regulations (McWilliams and Siegel, 2001; Davis, 1973). Hemingway and Maclagan (2004, p.33) used a Confederation of British Industry definition of CSR, which advocated the public accountability of firms for their social and environmental record as well as their

financial performance; they believed CSR "should promote human rights, democracy, community improvement and sustainable development objectives throughout the world". This demonstrates the role of CSR in achieving wider societal objectives beyond corporate profit maximisation.

3.2 The philosophical antecedents of CSR

The philosophical underpinnings of the CSR are grounded in ethical theory. Firms operating in a global environment must apply moral and ethical standards to resolve cultural differences that impact on CSR, for example when deciding whether CSR strategy should follow the culture and standards of the home country or the overseas host country (Galbreath, 2006; Robertson and Fadil, 1999). It is important therefore to understand the foundations of CSR in order to make qualified judgements on the ethical value of various actions and behaviour.

There are two main antecedents of CSR. Firstly, it derives from the purely altruistic desire to do good, which is rooted in moral philosophy and is commonly known as the 'normative case'. The second main determinant of CSR is enlightened self-interest, which follows the economic argument of profit maximisation and is known as the 'business case' (Smith, 2003). According to the business case, firms engage in CSR in the belief that a source of competitive advantage will result (Vogel, 2005). The normative case refers to the utility argument for CSR, while the business case relates to the economic profit-maximisation argument. In reality, a blend of both antecedents often constitutes the basis for a firm's justification of implementing CSR.

The normative case for CSR can be further divided into two distinct theories of moral philosophy: deontological and teleological (Hunt and Vitell, 1986). While "deontological theory is concerned with process", "teleological ethical theory is concerned with outcomes" Sethi and Sama (1998, p.88).

3.2.1 The deontological perspective

Deontological theories focus on whether the action itself is morally right, regardless of its outcome (Akaah, 1997; Beauchamp and Bowie, 2001). They prescribe that the rights of others as well as one's own duties and obligations should be considered prior to making a decision. Since this school of ethics considers the means to be of greater

importance than the end, an action can be judged as morally wrong even if it achieves the best possible outcome since *how* it was accomplished is of greater significance than *what* it accomplished. In contrast to teleology, a deontological view of ethics and CSR focuses on means to the exclusion of ends and assumes a comparatively over-socialised notion of human action, whereby social or kinship relations take precedence over calculated rational choice (Granovetter, 1985).

The main philosophical base upon which the deontological context is founded is the Kantian notion of categorical imperative. Emmanuel Kant was a major contributor to the deontological ethical perspective. With his belief in inviolable human rights and justice, he set out to construct an absolute and unconditional principle on which all other ethical judgements could be grounded. This golden rule is known as the categorical imperative. It should be adhered to for its own sake due to its universal and rational nature, and the purity of motive should transcend enlightened self-interest or any regard for the consequences of the act. This focus on means over ends corresponds with one moral argument for CSR, which alludes in particular to Kant's second formulation of the categorical imperative – that is, to treat the humanity in a person as an end in itself and not merely as a means to an end, without exception (Reynolds and Bowie, 2004). The humanitarian aspect of deontological theories considers that all people possess intrinsic rather than merely instrumental value, and are equally worthy of protection. Kant's emphasis on the purity of motive means that an act performed under enlightened self-interest, such as a strategic CSR initiative, would possess less moral weight than an act performed under duty (Jones *et al*., 2007). According to Kant's third formulation of the categorical imperative, an action which is morally right should be universally acceptable by all rational beings, which thus alleviates the economic problem of free-riding (Reynolds and Bowie, 2004). This principle of universalisability creates moral absolutes that do not waver according to fashion, and are not dependent upon unforeseeable outcomes.

The main two criticisms of deontological theories in practice are that they tend to produce an infinite number of rule exceptions and are unable to offer complete guidance in circumstances where rights or duties conflict (Hunt and Vitell, 1986). Their inflexibility and denial of potentially benevolent consequences can be perceived as arrogant, reckless and dogmatic, and can lead to the naturalistic fallacy. This occurs when an attempt is made to derive an 'ought' from an 'is' (Donaldson and Dunfee,

1994), in other words, inferring an ethical or normative conclusion from an empirical or factual premise.

Reynolds and Bowie (2004) took a Kantian approach in their normative exploration into the nature of corporate ethics programs, concluding that the inherent value of morally correct behaviour is greater than any legalistic or symbolic benefits achieved via such programs. Following a Kantian perspective, firms wishing to achieve the best possible consequences of CSR should ensure purity of intention in implementing CSR, since focusing on profit maximisation will not achieve the best possible consequences. Their systematic analysis of Kant's moral theory proposed three principles for enabling the establishment of a morally legitimate CSR program:

> **Principle 1: CSR for its own sake**
> CSR should be instituted within a firm primarily as a moral imperative whereby it is believed to be the correct thing to do, as opposed to being beneficial for profit maximisation, corporate reputation or other ancillary reasons.
>
> **Principle 2: Non-coercive**
> A CSR program should respect the free will of those who abide by it and avoid cooperation by coercion or by stressing the punitive effects of non-compliance.
>
> **Principle 3: Equitable and just**
> CSR should be adopted in a manner that is fair and just to all.

In practice however, operationalisation of CSR typically focuses on measurable outcomes such as legal transgressions, governmental fines and negative publicity at the expense of the value of behaviour which is morally right. Welford and Frost's (2006) empirical study found that CSR in Asian supply chains is often perceived as a compliance issue. This finding challenges the very spirit of CSR. CSR is not about doing the absolute minimum to achieve compliance with regulations, but rather going beyond minimum legal or regulatory requirements (McWilliams and Siegel, 2001). In line with McWilliams' and Siegel's (2001) reasoning, Reynolds and Bowie (2004) advised that a code of conduct should be used as the basis of an ethics program first and foremost to promote positive ethical behaviour by employees, rather than as a checklist of compliance to avoid negative outcomes. In a practical sense this means encouraging workers to do what is 'right', according to Kant's distinction between what is 'right' and what is 'good'. Such a code must also concur with Kant's categorical imperatives

by respecting the free will of individual employees as well as being constructed as if it were agreed upon by all.

3.2.2 The teleological perspective

A teleological view of reality presumes the existence of an inherent final cause or purpose in all beings, whereby evaluation of any entity or concept involves the consideration of the end towards which that entity or concept is directed (Barry, 1998; Akaah, 1997). As an ethical doctrine, teleology (also known as consequentialism) maintains that the moral worth of an action should be judged by the goodness or badness of its consequences rather than by its intrinsic properties. Teleological moral philosophy consists of opposing theories of ethical egoism and ethical universalism, which is also known as utilitarianism (Hunt and Vitell, 1986). Ethical egoism classifies ethical acts as those which promote the most favourable consequences for the individual (Hunt and Vitell, 1986). Utilitarianism advocates that ethical actions are those which achieve the greatest good for the greatest number of people (Sethi and Sama, 1998) or a greater balance of favourable consequences over unfavourable consequences for all people than any other alternative (Hunt and Vitell, 1986). The greatest good for the greatest number is taken as the standard of morality.

Utilitarian ethics and the concept of the greatest good for the greatest number can be viewed as a form of cost/benefit analysis which seeks to achieve the overall well-being of society (Solomon, 1992). According to utilitarianism, everyone's interests should be treated equally prior to making a decision and an action is considered morally correct if it results in the greatest utility for the greatest number of people. Under this school of thought, utility maximisation is considered to be paramount and an action's moral worth is determined solely by its contribution to overall utility (Akaah, 1997; Beauchamp and Bowie, 2001). Utility normally refers to the collective well-being of society. The usual economic interpretation of this well-being relates to pleasure or money, but an alternative viewpoint broadens the definition to include 'psychic pleasure', which encompasses such concepts as doing good or vicarious pleasure which results from others' satisfaction (Fukuyama, 1995). However, this broader definition of utility is debatable since it does not correspond with traditional economic theory, which subscribes to the thoughts of philosophical economist Adam Smith and adopts an atomised or under-socialised notion of human action (Granovetter, 1985). This would

deny the notion of psychic pleasure and admit the rational pursuit of self-interest only. The utilitarian approach takes a long-term view and believes that promoting utility will result in overall just circumstances (Beauchamp and Bowie, 2001).

According to Adam Smith's (1776) *magnum opus* The Wealth of Nations, the 'invisible hand' of the free market guides individuals' pursuit of self-interest to bring about public good. In other words, the pursuit of individual self-interest ultimately leads to a utilitarian outcome (Beauchamp and Bowie, 2001). Nevertheless, this does not necessarily contradict the importance of ethics in business transactions. Marion (1997) pointed out that Adam Smith wrote his Theory of Moral Sentiments before writing The Wealth of Nations. He recognised that a capitalist system must be underpinned by honesty and integrity rather than pure selfishness and exploitation, and that the pursuit of self-interest should within an environment regulated by a system of ethics and social norms (Lo and Sheu, 2007; Grace and Cohen, 1995). Hence, the establishment of a market is necessarily preceded by the existence of a social bond (Marion, 1997). Sen (1993) pointed out that Adam Smith's (1776) theory of the pursuit of self-interest concerns motivation to participate in economic *exchange* relationships only. Sen (1993) then made a distinction between commodity exchange relationships which may result in mutual gain by reliance on the mechanisms of the market, and other economic relationships, such as production and distribution, which may instead benefit from the inclusion of business ethics. Solomon (1992) observed that Adam Smith's defence of pursuit of profits was embedded within an established state of society and its norms. His argument for individual self-interest was based on achieving prosperity for the entire nation rather than personal greed. Furthermore, the context of his market-driven consumer-based 'invisible hand' model was put forth as an alternative to the dominant mercantilist system at the time, which was based on autarky and maximising the power of the nation state. Under mercantilism, centralised authoritarian economic structures prevailed, markets were monopolistic and production was subsidised by consumers (Bassiry and Jones, 1993).

In CSR terms, applying the utilitarian philosophical perspective means that a firm should consider the concerns of *all* its stakeholders and act in a manner which results in the greatest long-term benefit for the greatest number. This encourages a democratic approach to decision-making. In practical terms, utilitarianism is demonstrated by multinational corporations (MNCs) who defend their use of exploitative low-cost labour

facilities in developing countries as the inevitable price of economic progress which will eventually result in better conditions for all (Sethi, 2003; Adams, 2002). Their argument is developed with the claim that improving conditions in sweatshops will increase costs and discourage foreign investment, eventually leading to higher levels of unemployment and lack of economic growth. Therefore, trading-off workers' rights for a greater overall number of jobs can also be ascribed to a utilitarian approach, with its aim of creating utility for more people in the long-term rather than increasing the utility for a certain few in the short-term (Maitland, 1997). However, presumably this would only hold true if maintaining gross profit is the primary objective.

The main criticism of this school of thought is its lack of inviolable human rights and disregard of the intrinsic value of human life, due to the prioritisation of end results over the means required to achieve them. Accurate prediction of end results can be problematic. By focusing on end results, utilitarianism is conditional and ignores virtuous motivation or attitudes. Furthermore, utility functions differ amongst people, and utilitarianism does not provide a hierarchy of prioritisation when maximising utility. There may be circumstances in which the minority opinion should be accommodated as well as the majority. Nor does it provide guidance on how total utility should be distributed in a just manner (Hunt and Vitell, 1986).

3.2.3 Adoption of a philosophical perspective towards CSR

Teleological, and specifically utilitarian ethical theory corresponds with both classical and neoclassical economic theory which assume that people are rational and tend to pursue self-interest more than they pursue common good or utility (Fukuyama, 1995). According to the World Bank (1995), the globalisation of trade and the consequent competition from low-cost producers can raise overall welfare by encouraging labour in developed countries to shift from low-productivity to high-productivity activities. Globalisation can thus be perceived as a utilitarian phenomenon, whereby short-term sacrifice such as the loss of low-skill jobs in developed countries is justified by the achievement of long-term improved welfare for all. However, the World Bank (1995) acknowledged that policy measures may need to be taken to ease the plight of the countries left struggling during the progression towards open trade. This moderation of the utilitarian perspective suggests that the adoption of a mixed approach to CSR combining elements from teleology and deontology may be more appropriate than a singular approach. Hunt and Vitell (1986) recommended the adoption of a mixed

system of ethics including elements from both doctrines in order to minimise the criticisms of either teleology or deontology. Grace and Cohen (1995) advocated that both teleological and deontological ethical theories are relevant to business. If business is to meet society's expectations and operate as more than a ruthless struggle for wealth, then teleology's utilitarian considerations for the greater good must be tempered by deontological principles of respect for persons and intrinsic human rights.

3.3 The business case for CSR

The business case for CSR refers to the concept of enlightened self-interest, which follows the economic argument of profit maximisation (Smith, 2003). This section will begin by distinguishing the shareholder and stakeholder theory of the firm, the latter of which forms the theoretical basis for the business case and leads to the concept of enlightened self-interest. The theory of the firm relates to CSR by determining where the boundary of the firm lies in order to establish the scope of its social responsibilities.

3.3.1 Shareholder vs. stakeholder theory of the firm

Although "concerns about the proper role of business institutions in society have been an ever-present issue across all ages and cultures" (Sethi and Sama, 1998, p.86), evolution of the modern concept of CSR began in the 1950s when academics first considered that businessmen should have responsibility for the consequences of their actions over and above their economic and legal responsibilities for maximising profits within the bounds of the law (Carroll, 1999). Understanding the function and scope of CSR in a firm requires an understanding of the theory of the firm including its role and purpose in relation to the society in which it exists. Stakeholder theory is compared with traditional shareholder theory to show the different possible boundaries of the firm which determine the extent of its social responsibilities.

Traditional economic theory suggested that profit maximisation should be the only goal of a commercial organisation, since deviation into other non-profit-generating interests would conflict with the concept of a free market and perfect competition, and would effectively represent a tax on consumers (Friedman, 1970). As an uncompromising advocate of laissez-faire capitalism, Friedman argued vehemently against the assumption of social responsibility by business due to its inherent conflict with profit maximisation. Corporations were seen as ill-equipped to deal with social issues due to

the nature of their structure and their control systems (Mintzberg, 1983), while businessmen were regarded as unqualified in the promotion of social objectives compared to governments or other special organisations designed specifically for that task (Melrose-Woodman and Kverndal, 1976). There was a perception of an "antithesis between efficiency and morality" (Demeulenaere, 2005, p.422): the cost of CSR would weaken a firm's competitive position and was therefore not in the long-term interests of the business community (Melrose-Woodman and Kverndal, 1976; Altman, 2005).

However, despite Friedman's traditional conceptualisation of the firm and its responsibilities, there was also a growing belief that a firm should be recognised as having functions, duties and moral obligations that went beyond profit maximisation and adhering to specific legislative requirements (Melrose-Woodman and Kverndal, 1976). The idea of balancing economic and social objectives gained popularity and it has gradually been recognised that profit maximisation and the pursuit of competitive advantage are not necessarily inconsistent with a firm's assumption of social and environmental responsibilities (Davis, 1973; Husted, 2003; Altman, 2005). Solomon (1992) believed that firms should be perceived as communities with common values rather than legal fictions or soulless bureaucracies. He disagreed with Friedman's (1970) one-dimensional model of corporate responsibility and its sole focus on profit-seeking, asserting that the efficiency of a firm is not dependent on its mechanical operations but on the collective will of its employees and the coordination of its working interrelationships. Enderle and Tavis (1998) also refuted the mechanistic, value-free concept of the firm. They recognised that ethical values and norms do exist within a firm and therefore depict the firm as a morally responsible actor in its own right, capable of making moral decisions from a choice of alternatives. This is in direct contradiction of the arguments that corporations are incapable of making a moral consideration of the impact of their actions upon others. The significance of this distinction, according to Solomon (1992, p.133), is that "so long as the corporation is viewed merely as a legal fiction created exclusively for the protection of its owners and their pursuit of profits … the notion of 'responsibility' will be limited to certain legal and contractual, merely fiduciary obligations". Solomon concluded CSR was incompatible with the shareholder model of the firm. Similarly, Ghoshal (2005) noted that the ideology of profit maximisation, by training and rewarding managers for protection of the bottom line at all costs, had created an amoral managerial cadre that had no incentives to follow ethical principles.

Donaldson (1989) strongly disputed the separation of economic and social goals in business referring to Friedman's (1970) sole focus on profit maximisation as "corporate Neanderthalism". More recently, Vachon and Klassen (2006) believed that profit maximisation should not necessarily take precedence over all other social concerns. Furthermore, they proposed that firms must oversee social issues throughout their supplier tiers as well as internally within the firm. This suggests that the boundary of the firm in terms of CSR extends past its core internal legal boundary, implying that the firm's responsibilities may extend into the outer reaches of its supply chain. Indeed, global corporations are increasingly being held to account not only for their own social performance, but for that of their suppliers in distant developing countries and ultimately the social performance of the whole supply chain (Andersen and Skøtt-Larsen, 2009). In 2010 for example, Nike agreed to pay $1.5 million into a fund for displaced workers in Honduras following pressure from trade unions and universities over the closure of two independent subcontractor factories which employed 1800 workers (Parry, 2010). Although it was allegedly the subcontractor's decision not to pay laid-off workers the severance pay they were entitled to under Honduran law (Foley, 2010), external parties nevertheless called on Nike to take responsibility for correcting the violations of its subcontractors by supporting the former employees (Just-style.com, 2010c). The boundary of the firm in this case extended to Nike as a customer of the two subcontractors, regardless of the fact that Nike had no ownership interests and the supplier factories operated completely independently of Nike.

Illustrated in Figure 3.1 below, Friedman's (1970) traditional shareholder model of the firm is a simplistic linear formation featuring shareholders, directors and managers. There is no corporate responsibility besides the profit maximisation demanded by the shareholders. In contrast, Coase's (1937) stakeholder model features diverse groups to whom the firm is accountable, such as workers, customers and the community. It demonstrates that "corporate responsibility cannot be reduced to the interests of a *single* group of stakeholders" (i.e. the firm's shareholders) (Donaldson, 1989, p.45, italics in original). Stakeholders were defined by Freeman (1984, p.49) as "those groups who can affect or are affected by the achievement of an organisation's purpose".

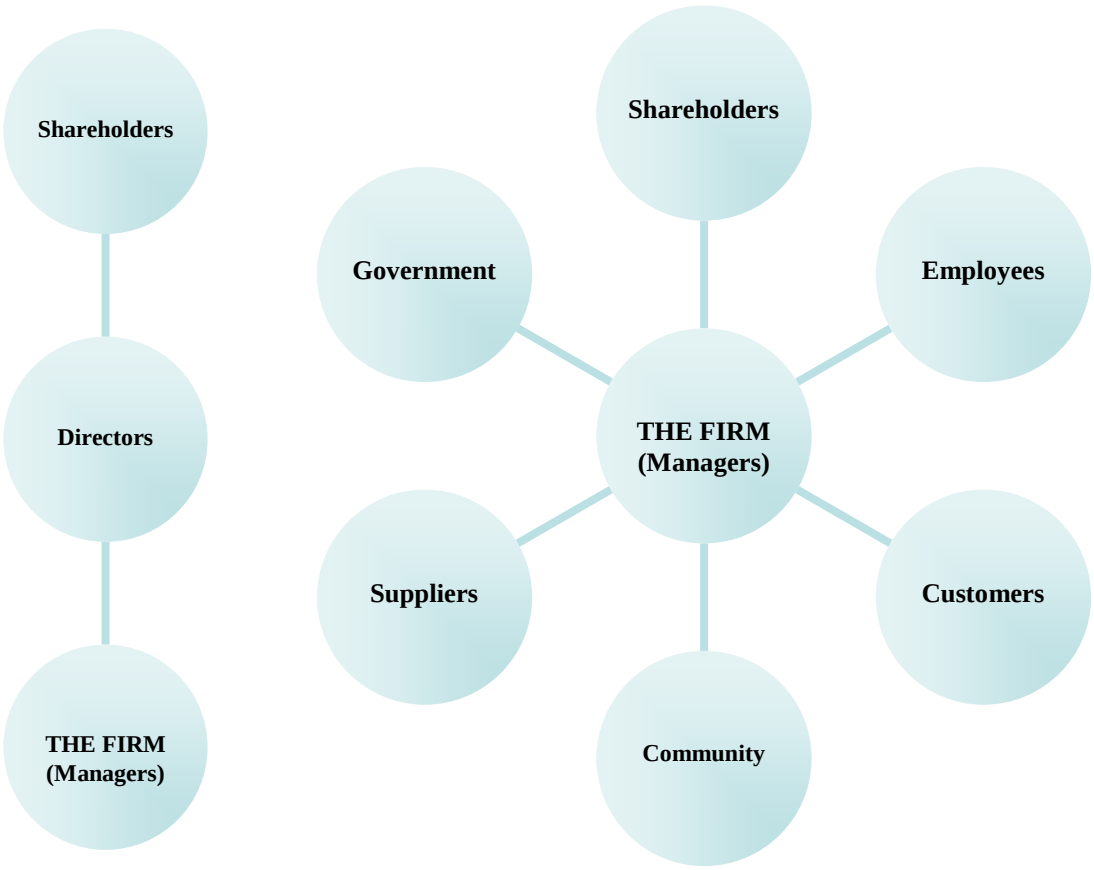


Figure 3.1 Shareholder vs. stakeholder models of the firm

The choice of shareholder or stakeholder model influences the firm's ethical stance towards CSR and its implementation of CSR (Enderle and Tavis, 1998). Conceptualising the firm as a profit-maximising and value-free economic mechanism (Friedman, 1970) is incompatible with CSR. The stakeholder theory of the firm has become the dominant paradigm in the field of CSR (McWilliams and Siegel, 2001), since CSR concerns the recognition that public companies need to heed not only shareholders but all the multiple stakeholders impacted by their behaviour (Fraser, 2005). The stakeholder model illustrates the bigger picture in terms of other purposes apart from profit-maximisation which business is designed to serve. This leads to the definition of a firm as "a culture with shared values and larger social concerns" (Solomon, 1992, p.133). In the words of Jones *et al*. (2007, p.143), "stakeholder culture is grounded in ethics and is based on a continuum of concern for others that runs from self-regarding to other-regarding". Figure 3.2 below illustrates the range of corporate stakeholder groups which a typical firm must consider.

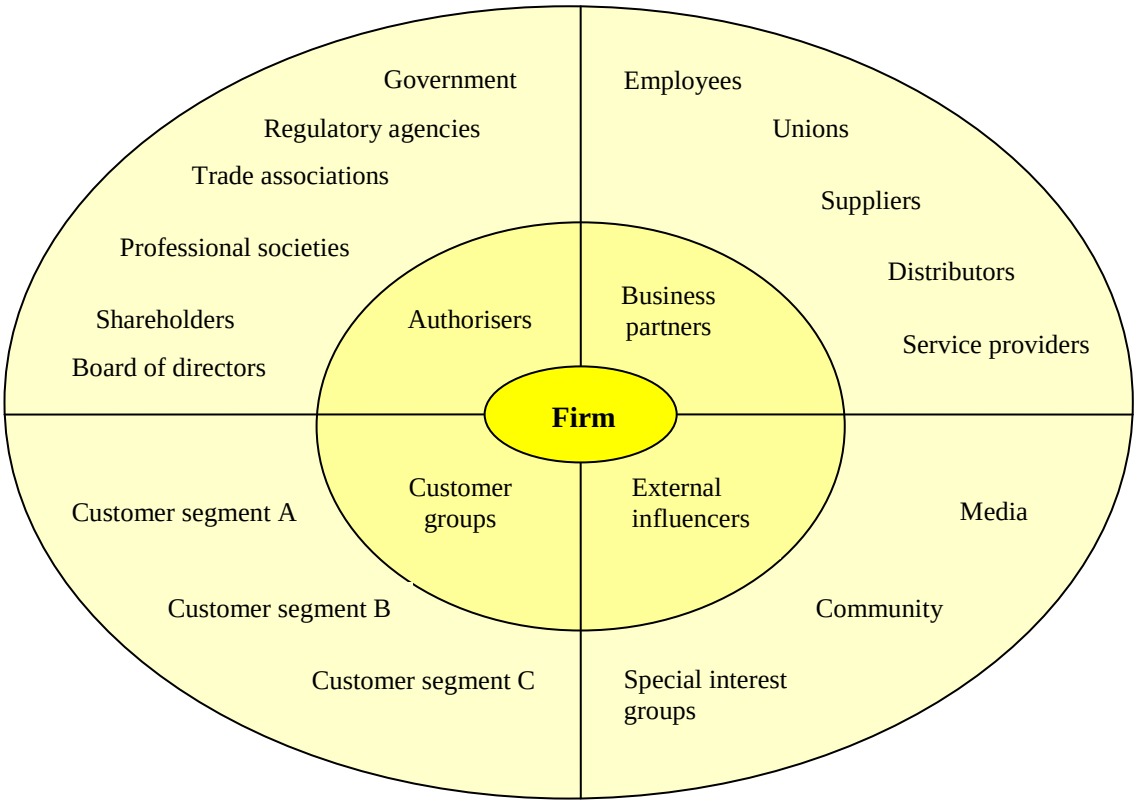
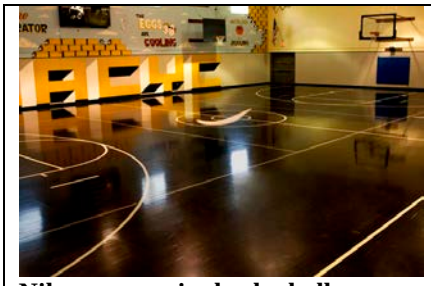


Figure 3.2 Corporate stakeholder groups (based on Dowling, 2001)

Authorisers represent the groups which authorise the firm's existence in the sense of endowing it with a license to operate. As a legal construct, the firm requires regulatory authorisation in order to exist. Business partners consist of the upstream components of the firm's supply chain as well as its employees and the unions which represent them. These are collectively known as business partners since the firm requires their input in order to carry out its business activities. External influencers are not part of the firm or its supply chain but which the firm must consider in its decisions nevertheless. These groups effectively confer legitimacy upon the firm and depending on whether the firm generates negative or positive attention from these groups in its business activities, they can have a significant effect upon the firm's ability to continue carrying out its business operations. For example, negative PR published in the mainstream media can lower a firm's share price as well as its sales figures (Aguilera *et al.*, 2006; Werther and Chandler, 2005) while local strikes or protests can hamper productivity (Connor and Dent, 2006). Finally, customer groups comprise the downstream element of the firm's supply chain upon which the firm is economically dependent and without which it would cease to exist. According to Adams (2002, p.148), these multiple stakeholders exert an increasing amount of pressure on buyers "to police their suppliers and to broaden the social contract to include new human rights demands throughout the supply

chain". A socially responsible firm should balance the needs of all stakeholders with its need to make a profit and reward shareholders adequately. The implementation of CSR practices in the supply chain enables fashion retailers to satisfy stakeholder demands.

Carroll's (1999) multi-dimensional view of the firm comprised shareholder, stakeholder and discretionary responsibilities to make up the firm's raison d'être. Basic economic and legal responsibilities form the inner core, surrounded by a secondary layer which comprises awareness of responsibility towards stakeholders who may be affected by the firm's execution of its basic responsibilities, such as employment relations. The outer tertiary layer encompasses a much broader awareness of responsibility towards active improvement of the community environment, through discretionary social programs (Carroll, 1999). Examples of discretionary responsibilities in the fashion industry, shown in Figure 3.3 below, include Nike's investment in branded playgrounds and running tracks for youngsters in disadvantaged urban areas and Marks & Spencer's 'Marks & Start' initiative, a work experience programme for disadvantaged groups such as the homeless, disabled, lone parents and young unemployed. In 2010, Levi's established its first Workshops combining community involvement with retail. The multi-use spaces feature a functional workshop, community event space and retail storefront. They are used to host educational and creative events in order to promote civic engagement, collaboration and creativity.



Nike community basketball court with Nike Grind Foam flooring, made from recycled trainers

'Marks & Start' logo

Levi's Workshop, San Francisco

Figure 3.3 Examples of fashion industry discretionary social responsibility initiatives

The stakeholder theory of the firm also underpins the concept of 'Triple Bottom Line' accounting which emerged in the 1990s, which advocates that the ultimate success of a firm should be measured by its social, ethical and environmental performance as well as by its traditional financial bottom line (Elkington, 1997).

Having discussed the theoretical foundation of the business case for CSR, the following section will present the benefits of CSR and its contribution towards competitive advantage. Strategic CSR, which confers benefits to the firm as well as society, is aligned with the principle of enlightened self-interest.

3.3.2 The business benefits of CSR

There is a distinction between strategic CSR and CSR as a mere business process, since strategic CSR *must* deliver clear benefit to the firm and its shareholders as well as to stakeholders and society, by supporting core business activities (Burke and Logsdon, 1996; Porter and Kramer, 2006; Godfrey and Hatch, 2007). It should go over and above good corporate citizenship and mitigating detrimental impacts in the supply chain to confer competitive advantage to the firm (Porter and Kramer, 2006). CSR may be "a source of opportunity, innovation, and competitive advantage" and activities should be therefore be guided by their ability to create shared value to society and to the firm (Porter and Kramer, 2006, p.80). This contrasts sharply with Donaldson's (1989) idea of economic philanthropy, where the donating firm expects no dividends in return for its efforts. Economic philanthropy which does not produce any return dividends for the donating firm (Donaldson, 1989) or indiscriminate investments in CSR programs which are far removed from the core business of the firm will confer no competitive advantage on the firm and will result in less benefit to both firm and society than investments which are tightly linked to the firm's value proposition (Porter and Kramer, 2006).

Current understanding has progressed beyond Donaldson's (1989) idea of economic philanthropy towards an integrative model where CSR undertakings may have strategic motivations. Indeed, research has demonstrated that participation in CSR activities is usually motivated by reasons of self-interest, rather than altruism (Navarro, 1988). According to Brammer and Millington's (2005) research, even charitable giving by firms tends to be strategically motivated and aligned with the assumption of profit maximisation rather than managerial utility. CSR can thus be aligned with the concept of rational self-interest in traditional economic theory, as long as it assumed that the motivation driving such activities is to increase the competitive advantage of the firm, rather than altruism *per se*. In these circumstances, it is possible for shareholder and societal interests to converge and produce gains for both (Perrini, 2006a). Examples of CSR benefits which serve the firm's strategic commercial interest include "image and

reputation management, the manipulation of stakeholders and the integration of the organisation into its host community" (Hemingway and Maclagan, 2004, p.41), as well as building "long-term loyalty, legitimacy, trust or brand equity that reinforce the corporation's other strategic objectives" (Godfrey and Hatch, 2007, p.88). Gray and Milne (2004) believed that CSR could only take a strategic form within the current capitalist economic system, determined by its adherence to the following stipulations:

- where it is introduced into the business within small discretionary zones that would not affect the bottom line
- where it does not present a conflict with financial goals
- where it results in a 'win-win' situation by generating positive financial benefits.

Taking a strategic approach, CSR projects should therefore be as accountable in terms of cost-effectiveness as any other business activity and should ideally "create the greatest social good at the least possible cost" (Husted, 2003, p.482). This utilitarian view is consistent with Garriga and Melé's (2004) instrumental theory of CSR, where activities are ultimately undertaken for profit maximising reasons to increase competitive advantage. Similarly, McWilliams and Siegel (2001) argued that the initiative of implementing CSR is a business investment which should be analysed in detail. If implemented appropriately, CSR may be the most cost-effective way of improving competitive context for a firm (Porter and Kramer, 2002). Sethi (2003) declared that corrective action to eradicate human rights violations against workers in low-wage countries would further the progress of globalisation as well as making supply chains more efficient and cost-effective. However, he gave no clarification of what form this corrective action would take.

Hemingway and Maclagan (2004) identified several strategic motivations for implementing a CSR policy. These generally demonstrate a utilitarian stance towards CSR by using its adoption as an expedient means to an end. For example, engaging in CSR may help to ensure survival of the firm by manipulation of key stakeholders or improve its competitive position by generating positive PR and hence maintain a good corporate image. However, a concern for corporate reputation and its effect on enhancing firm performance may lack genuine ethical concern. A possible weakness in the concept of strategic philanthropy is the difficulty in measuring 'strategic', which results in the potential for abuse of the agency relationship between shareholders and managers of the firm (Godfrey and Hatch, 2007). Burke and Logsdon's (1996) five

measures of strategic CSR in Table 3.2 below help to determine the likelihood of CSR activity resulting in value creation for the firm. In certain circumstances therefore, it is entirely plausible that social benefits can be achieved in conjunction with competitive goals (Porter and Kramer, 2002; Martin, 2002; Burke and Logsdon, 1996).

Measure	Meaning
Centrality	Closeness of fit to firm's mission and objectives
Specificity	Firm's ability to internalise private benefits of CSR
Pro-activity	Degree of planning in anticipation of emerging social trends and in absence of crisis conditions
Voluntarism	Scope for discretionary decision-making and lack of externally imposed compliance requirements
Visibility	Observable or recognisable credit by firm's stakeholders

Table 3.2 Burke and Logsdon's (1996) five dimensions of strategic CSR

The concepts of CSR and profit maximisation in business strategy are becoming increasingly inseparable and corporations will be called upon to achieve economic goals in tandem with social ones (Werther and Chandler, 2005; Husted, 2003). This indicates that Friedman's (1970) traditional shareholder model of the firm and the separation of social and economic goals thus no longer apply. CSR can be aligned with the concept of long-term self-interest, since accomplishing social goals in tandem with economic ones will lead to an improved competitive context for the firm (Davis, 1973; Porter and Kramer, 2002). Mamic (2005) concluded that investment in addressing CSR issues may represent long-term investment in improved quality management systems. The European Foundation for Quality Management's (EFQM) Excellence Model also recognises the significant business benefits of CSR, by including CSR as one of the eight fundamental concepts underpinning organisational excellence. There are many intangible strategic benefits supporting the business case for CSR, which will now be covered in turn.

- *Employee recruitment, motivation and retention*

  It has long been recognised that good CSR can help establish good industrial relations which leads to higher productivity levels (Melrose-Woodman and

Kverndal, 1976) and higher employee morale (Jenkins, 2006), which in turn leads to less absenteeism and turnover as well as attracting better quality labour and lowering recruitment costs (Davis, 1973; Jenkins, 2006). A resentful or fearful employee is less efficient and loyal than one who feels recognised and fairly treated in a firm (Solomon, 1992). Panapanaan *et al.* (2003) found that young professionals entering the Finnish employment market were becoming more concerned about the ethical performance of a potential employer. Poor CSR performance may therefore become a deterrent to attracting and retaining talented employees.

- *Reputation management*

  According to Jones (1995), a firm's reputation is directly dependent upon the policies it adopts and the decisions it makes. It has been accepted for some time that CSR can bring about long-term business benefits, such as the avoidance of damaging negative publicity as well as the positive enhancement of the firm's reputation which may lead to an increase in customers (Welford and Frost, 2006; Melrose-Woodman and Kverndal, 1976; Davis, 1973). Firms are increasingly being held accountable for the policies and practices of their whole supply chain (Wong and Taylor, 2000; Andersen and Skøtt-Larsen, 2009). Avoiding negative publicity in overseas operations reduces the risk of consumer boycott and protests in a firm's home market (Sethi, 2003). According to Werther and Chandler (2005), poor CSR practices can "destroy the brand franchise upon which market value is built". This is more of a risk in consumer markets, which have higher public profiles than industrial markets (Jones, 1999). Addressing CSR issues is crucial for successfully maintaining the firm's public image in the eyes of consumers as well as financial markets, and CSR performance should be considered as seriously as economic performance (Aguilera *et al*., 2006; Adams, 2002). Wright *et al*. (2008, p.64) emphasised the importance of CSR in their assertion that "outsourcing, sourcing location and supplier selection (can) adversely impact value creation and perceptions of the organisation", ultimately risking long-term survival of the business. As a high profile business-to-consumer industry, the fashion sector faces greater risk of media scandal and public outrage than lower profile business-to-business sectors (Jones, 1999).

  Anticipating and addressing public and stakeholder concerns also helps to engender trust through the effect of reputation (Sethi, 2003; Martin, 2002). However, this

statement only holds true if customers agree with the stance of the firm on CSR issues. It is entirely possible that the public could choose to boycott or protest against a firm in spite of its commitment to good CSR practices due to the public's subjective beliefs about the firm's boundary of responsibility. Werther and Chandler (2005) summarised Martin's (2002) illustration of this point with the example of Nike's use of Southeast Asian footwear production plants. Despite the fact that Nike's corporate behaviour in terms of wages and working conditions may be exemplary by host country standards, problems arise if consumers *perceive* Nike's behaviour to be exploitative by home country standards. Similarly, Porter and Kramer (2006, p.80) gave the example of how Nestlé, as the world's largest vendor of bottled water, "has become a major target in the global debate about access to fresh water, despite the fact that Nestlé's bottled water sales consume just 0.0008% of the world's fresh water supply". Martin (2002) explained why firms which practice socially responsible behaviour may nevertheless incur public criticism. Compliance with local laws or adherence with local customs is seen as little more than duty in the eyes of the public, and furthermore in a lesser-developed host country this effectively results in the lowering of a firm's home country standards. This is because the developed home country will tend to have a better civil foundation in terms of customs, norms, laws and regulations than the lesser-developed host country. A decrease in levels of corporate virtue results from the adoption of host country standards by a firm based in a developed country where standards are higher. In such circumstances, the public may take exception with a firm which merely complies with the lower local standards in its overseas operations. This reasoning supports McWilliams and Siegel's (2001) assertion that true CSR must go beyond regulatory compliance and instead should constitute a voluntary assumption of responsibility by a firm. Reputation management is also an important element of a firm's risk management strategy.

- *Risk management*

  Risk management is a structured approach to managing uncertainty. Supply chain risk refers to any unforeseen event which disrupts the flow of product from raw material supplier to final consumer (Waters, 2007). Supply chain risk can be categorised as internal, which includes late deliveries, excess stock, IT system failure and poor forecasting; or external, which includes events such as industrial action, raw material shortage, war, earthquakes and problems with supplier

relations. The linking of members in the supply chain means that the effects of risk to one partner are rapidly transmitted to other members (Waters, 2007). For example, during the 1990s, news of industrial action due to poor working conditions at Nike's subcontractor facilities in South-East Asia led to considerable negative publicity from public protests and boycotts in Nike's Western markets and ultimately contributed to an 8% fall in Nike's sales by 2000 (Wazir, 2005). The aim of risk management in the supply chain therefore is to ensure "smooth and uninterrupted flows of materials from initial suppliers through to final customers" (Waters, 2007, p.86).

Welford and Frost (2006) found that risk reduction was a key driver for CSR implementation in garment firms. Good CSR practices can improve and maintain a firm's reputation and reduce the level of strategic risk to which the firm is exposed (Aguilera *et al*., 2006; Jenkins, 2006), especially for external risks such as industrial action or supplier relationship problems. Ensuring compliance with employee health and safety regulations and sexual harassment statutes safeguards the firm's reputation and protects it from the threat of legal sanctions (Martin, 2002). Godfrey (2005) used a risk management model to explain the shareholder benefits generated via corporate philanthropic activity, providing insurance-like protection for relational wealth by mitigating negative stakeholder assessments and the severity of punishments or sanctions when bad acts occur. Relational wealth refers to relationship-based intangible assets such as employee commitment, legitimacy, trust and brand value.

- *Investor relations and access to capital*

  Martin (2002, p.69) used the term 'instrumental CSR' to describe those practices which "explicitly serve the purpose of enhancing shareholder value". This can be perceived as an extreme form of enlightened self-interest. Instrumental CSR affects publicly owned corporations. Jones (1995) explained how such firms become hostage to the performance demands of hegemonic financial markets, which favour economic returns over CSR *unless* CSR tangibly improves the firm's competitive position. In the context of publicly owned corporations, CSR must be mutually beneficial to the firm and society in order to succeed.

Disclosure of CSR issues in investment strategies is now a legal requirement of institutional investors in the UK (Aguilera *et al*., 2006). Effective risk management can result in a more favourable risk profile which can enhance a firm's relations with investors and financial markets as well as lowering the cost of insurance premiums and enabling it to obtain capital at a lower rate than its less CSR-conscious rivals (Tilley *et al*., 2003; Vogel, 2005; Perrini *et al.*, 2006). Zadek (2004) pointed out Nike's high level of profitability over the last three decades, despite several high profile media scandals relating to labour standards in its supply chain and widespread anti-Nike protests in its core market of North American university students. He concluded that "institutional investors have shown a startling interest in Nike's handling of its labor standards" (p.130), as Nike has progressed from being the poster child for social irresponsibility to becoming a global leader in progressive CSR practices. It is now one of the very few fashion retailers to publicise its global supplier list, a copy of which is available on its website at the following URL:
http://nikebiz.com/responsibility/documents/FactoryDisclosureList6.1.09.pdf

- *Competitiveness and market positioning*

  As a commercial justification for instituting CSR practices, investment in social issues helps to transform potential threats into opportunities (Perrini *et al.*, 2006) and establish a robust, stable and more opportune environment in which to do business (WBCSD, 1999). In practical terms, this improvement may be manifested in less crime with a consequent reduction in cost of insurance and policing (Davis, 1973). Jenkins (2006) asserted that one of the benefits of CSR is an improvement in the firm's market position; however, she did not elaborate how this would occur. Jones (1995) maintained that ethical firms will be desirable, sought-after trading partners in relationships which are at risk from opportunism, since ethical behaviour will reduce the transaction costs involved in curbing opportunism in such relationships. CSR can also become the basis for product differentiation which distinguishes a firm from its less responsible rivals (Jones, 1999; Tilley *et al*., 2003). If implemented appropriately, CSR may be the most cost-effective way of improving competitive context for the firm (Porter and Kramer, 2002). This corresponds with Garriga and Melé's (2004) instrumental theory of CSR, where initiatives are undertaken for profit maximising reasons to improve competitiveness.

- *Operational efficiency*

  Being proactive and accepting voluntary responsibility can pre-empt the inflexibility of further governmental regulation in the form of legislation, which is more costly and less efficient due to the political considerations involved and the necessity for every possible contingency to be covered (Melrose-Woodman and Kverndal, 1976; Sethi, 2003; Martin, 2002). Davis (1973, p.313) asserted that "truly low-cost production in the long run depends on the accomplishment of … social goods". Although these social goods mainly relate to the benefits of addressing environmental issues, Sethi (2003) later declared that corrective action to eradicate human rights violations against workers in low-wage countries would further the progress of globalisation as well as making supply chains more efficient and cost-effective. However, he did not specify what form this corrective action would take.

- *Licence to operate*

  CSR initiatives generate licence to operate for businesses in society. This can be linked with the concept of business being embedded in society and a firm's reciprocal duties to society in return for permission to exist. This approach has been recognised by the World Economic Forum (Smith, 2003). The embeddedness of business within society is a key assumption of Donaldson and Dunfee's (1994) integrative social contract theory, an approach to business ethics that recognises the implicit contracts or ties between companies and the moral communities that make up society. Ultimately, a firm pursuing its ends at the expense of the society in which it operates will fail to achieve long-term success, whereas the adoption of good CSR practices can help the firm reduce its internal costs, improve productivity and foster innovation (Porter and Kramer, 2006). Sama (2006) gave the example of the consequences for accounting firm Arthur Andersen in the wake of Enron's collapse in 2001. Based on the principle of reciprocity, firms require society's continuing permission to exist. However, in the case of Arthur Andersen, evidence of irregular auditing practices led to an overwhelming social consensus that deemed the firm to have abused its privileges. Society thus withdrew its permission for the firm to operate as an ongoing concern and Arthur Andersen was dismantled. Sethi (2003) introduced the concept of a 'legitimacy gap' as the disparity between business performance and societal expectations. This arises as a result of evolving business practices which are deemed unacceptable in an ever-changing socio-political environment. If this legitimacy gap widens too much as with the example

of Arthur Andersen, business' survival is threatened, and therefore business must strive to maintain its legitimacy by narrowing the gap between its activities and societal expectations. Legitimacy can be achieved and maintained by firms who consider a diverse range of stakeholders in their effects of their procedures and activities (Sethi, 2003; Vachon and Klassen, 2006).

Following an investigation of CSR in Sri Lanka, independent non-governmental organisation International Alert (2005) concluded that a commitment to the principles and practice of CSR can help the business community gain the trust of wider society. For developing nations experiencing violent conflict in particular, evidence suggested that application of the principles and practices of CSR by companies working in zones of conflict can contribute to better relations between conflicting parties, decrease tensions with stakeholders, address underlying conflict causes and therefore contribute to peace. As such, CSR can help the business community build the trust necessary to engage with wider society and in turn supports peace building and societal development. In a case study of MAS Holdings, Sri Lanka's largest lingerie and swimwear supplier, Hindle (2007) concluded that the company's contribution to socio-economic development generated a licence to operate. As a new enterprise in a developing country, it was initially mistrusted by society over concerns that it would exploit workers. However, investment in rural communities and support of local institutions such as schools and hospitals enabled the company gain the trust of society.

These benefits form the basis of the business case for CSR as they can be justified in terms of long-term self-interest and profit-maximisation for the firm. In the case of reputation management, for example, the adoption of good CSR practices supports the firm's profit-maximising goal by helping to improve employee morale and productivity levels as well as avoiding consumer boycotts and negative publicity. Although such benefits may not directly result in greater profitability, they reflect a strategy to increase shareholder value and thus conform to the business case for CSR of enlightened self-interest. Such programs can be reconciled with Friedman's (1970) theory of profit maximisation, as their benefit to shareholders is commensurate with their societal benefit, as opposed to being beneficial to society but at a cost to shareholders.

3.3.3 The effect of CSR on firm profitability

In addition to the intangible business benefits discussed above, increased profitability is often put forth as the prime business case justification for implementing CSR practices in an organisation. According to the WBCSD (1999, p.11), "a clear CSR strategy could improve profitability because it will reduce costs by helping to enhance positive social effects and avoid the negative". Some academic research has suggested that CSR does result in financial benefit to the firm (Griffin and Mahon, 1997; Margolis and Walsh, 2001; Orlitzky *et al.*, 2003; Markley and Davis, 2007). However, McGuire *et al.* (1988) argued that previous research had yielded mixed results on the relationship between corporate social responsibility and measures of firm performance. This may be caused in part, however, by the use of different research methodologies and measures of firm performance (Ullman, 1985), for example accounting performance vs. stock market performance. Nevertheless, Burke and Logsdon (1996) found a lack of strong empirical support for a positive relationship between good CSR practices and financial performance, while more recently Vogel (2005) expressed some doubt as to whether good CSR practices directly result in increased profitability. Marom (2006) thus concluded that studies investigating the relationship between CSR and financial performance have up to now yielded contradictory results.

The direction of the causality between good CSR practices and increased profitability is unclear (Vogel, 2005; Marom, 2006), and a causal link between CSR and improved financial performance has not yet been proven (Jenkins, 2006). Previous positive financial performance may encourage a firm to invest in CSR initiatives (Ullman, 1985), whereas a lack of excess resources may inhibit a firm's ability to absorb the initial set-up costs of CSR initiatives (McGuire *et al.*, 1988).

The direction of causality may be considered in terms of the philosophical perspective taken. According to the teleological view, form follows function and a successful or profitable firm which operates with enlightened self-interest will thereby ensure the maximisation of utility for all. Utility is commonly understood to refer to the greatest possible consumer welfare (Fukuyama, 1995). This individualistic view is concerned with outcomes over processes and belongs to the consequentialist school of moral theory, where consequences take precedence over the means of their achievement. In contrast, the naturalistic/mechanistic presumption is that function follows form and therefore maintains that if the means of achievement are morally acceptable to all then

corporate benefits in the form of success and profitability will ensue. This latter view subscribes to the tenets of a Kantian or catholic moral stance, which places value on means over ends, and what is right over what is good. While firms which are more profitable may therefore pledge greater resources to CSR, but it is equally likely that firms which adopted better CSR strategies have thus become more profitable. At the very least, firms that pay attention to CSR are less likely to incur losses or costs which result from socially irresponsible behaviour (McGuire *et al.*, 1988). Estes (1996) estimated the annual cost to US businesses from socially irresponsible behaviour to be $2.5 trillion dollars. Creyer and Ross (1997) identified the cost of poor ethics: consumers would still buy products from unethical firms, but only at a lower price.

Although measuring direct financial returns in the form of bottom line contributions is difficult and contentious, CSR programmes are nevertheless able to generate broad long-term strategic benefits for the firm, such as an increase in reputational leverage which is arguably of greater long-term value than enhanced current period profits (Burke and Logsdon, 1996).

3.4 The effect of social and cultural influences on CSR

Discussion so far has shown that the potential of realising strategic financial benefits, that is, enlightened self-interest, may motivate a firm to implement CSR. However, other factors such as socio-cultural influences or religious persuasion may also drive CSR implementation. Socio-cultural values can be highly resistant to change (Leung *et al*., 2005) and therefore represent a significant influence on CSR implementation. Waldman *et al.* (2006) argued that some cultural influences may foster CSR values in managers. For example, where social influences prevail over rational economic choice within a community, there is greater likelihood that CSR will be supported. Moral teachings are found in many major religions, and the concept of philanthropy for example, is a major element of Christianity, Buddhism and Islam (Smart, 1998). Accordingly, religious beliefs in individuals or communities may motivate philanthropic actions and CSR (Hemingway and Maclagan, 2004).

Culture consists of explicit and implicit patterns of behaviour and attached values within a given community of people (Kroeber and Kluckhohn, 1952). Shared knowledge, experience and values combine to form a culture which underpins cooperative enterprises (Solomon, 1992) and the influence of national and within-nation

cultures upon corporate behaviour and managerial decision-making practices has long since been recognised (Hofstede, 1983; Usunier and Lee, 2005). Hofstede's (1980) multi-cultural study of workers resulted in the identification of four cultural value dimensions related to basic anthropological, societal and organisational issues, namely individualism/collectivism, power distance, masculinity/femininity, and uncertainty avoidance. The individualism/collectivism dimension refers to the level of integration between individuals in a community. It follows that in collective communities in which the sense of duty to others is a strong uniting factor, firms may be more likely to practice CSR in their business transactions than individualist communities with little sense of duty to each other. Waldman *et al.* (2006) undertook a multi-country study of top management teams to find out how social responsibility values could be predicted from the cultural dimensions of individualism/collectivism and power distance. Their results indicated that managerial CSR values were present to a greater extent in national cultures with high levels of institutional collectivism and low levels of power distance. This led them to conclude that cultural factors are key determinants of the CSR values of managers.

With regard to the effect of religious beliefs on CSR implementation, Brammer *et al.*'s (2007) study explored the influence of religious denomination on individuals' attitudes to CSR. Their review of empirical research to date found that "more religiously inclined individuals tend to exhibit better decision-making in ethical contexts and a greater orientation to CSR" (p.230). They hypothesised that religious individuals are more likely to hold a broader concept of CSR which is more akin to the stakeholder model of CSR than the narrower shareholder model of firm responsibility. While the shareholder model follows Friedman's (1970) assertion that the firm's sole accountability is to shareholders, the stakeholder model shows accountability to a diverse array of parties with an interest in the firm, such as employees and the local community. Although their results did not support the hypothesis that those individuals with a religious denomination will show preference for a broader model of CSR than those with no religious denomination, Brammer *et al*. (2007) concluded that religious denomination may have a significant influence on individual perceptions of CSR. Worthington *et al.*'s (2003) empirical study of CSR in South Asian UK-based SMEs found some evidence that Muslim values of duty to one's community represented a key internal driver of CSR. Religious beliefs were found to have a formative influence on individuals' attitudes and actions. Vyakarnam *et al.*'s (1997) empirical study of SME

owners found that religious texts such as the Christian bible were occasionally used as "an external source of authority for the resolution of ethical dilemmas" (p.1633).

By providing distinct guidelines which communities feel honour bound to adhere to, the effect of socio-cultural values follows the deontological philosophical perspective and Kant's categorical imperative, which was discussed in section 3.2.1.

3.5 CSR in the context of the global fashion supply chain

The preceding discussion of the philosophical justification and the business case presents the key drivers for CSR implementation. Building on the SCM literature review in Chapter Two, the following sections will situate CSR within the fashion supply chain context and will discuss the reasons for and barriers against CSR implementation within fashion supply chains.

Within the context of the fashion supply chain, CSR can be conceptualised as the business response to the continuing debate over the social impact of globalisation (Cotrill, 1996; Hemingway and Maclagan, 2004). This is manifested by the large-scale shift of garment manufacturing activities to lower labour-cost countries (Jones, 2006; Dicken, 2007), which has given rise to problem of ethical issues in fashion supply chains. The global shift of apparel production from Western nations to low-wage countries in the quest for profit maximisation has resulted in human rights abuses (Sethi, 2003; New, 1997). Fashion retailers have been accused of chasing cheap labour across the globe as well as "failing to pay their workers a living wage, using child labour, turning a blind eye to abuses of human rights, being complicit with repressive regimes in denying workers the right to join unions and failing to enforce minimum labour standards in the workplace" (Maitland, 1997, p.593). In the fashion supply chain, the social issues of CSR can be broken down into three main areas of wages, working hours and working conditions (Sethi, 2003). Growing concern among consumers, investors and international organisations means that firms must now address CSR issues in their supply chains and ensure compliance with international conventions on basic human and environmental duties (Kapstein, 2001), regardless of whether or not they own the production facilities within which the garments are made.

In recent years, there has been a widespread backlash against globalisation and large corporations in general, as global insecurity increases and the gulf between developed and less-developed nations becomes more evident (Smith, 2003). Stiglitz (2002, p.20) observed that "in many cases commercial interests and values have superseded concern for the environment, democracy, human rights and social justice". As Western-based firms continue to outsource production to lower wage-rate countries to reduce cost and improve profit margins (Adams, 2002), the disparity between developed and lesser-developed countries on issues of worker welfare becomes more evident. It is becoming increasingly unacceptable by society that the relentless drive for wealth creation in capitalist economies results in unfair distribution of prosperity amongst global workers (Sethi, 2003; Lobel, 2006). The result of this backlash has been increased pressure on business to deliver societal goals as well as shareholder profits (Smith, 2003; Kapstein, 2001; Cotrill, 1996). Sethi (2003, p.x) succinctly embraced this sentiment by declaring that an "equitable and fair distribution of the gains from globalisation is as important as the aggregate increase in wealth created by globalisation". Since multinational corporations become dominant global institutions, they face increasing demands to address the social issues resulting from their business activities (Lobel, 2006; Andersen and Skøtt-Larsen, 2009). CSR centres on balancing the acceptance that developing nations need low-tech industries (e.g. garment manufacturing) which employ large numbers of workers and that low wages are necessary to create more jobs and fuel income growth with the promotion of human dignity, individual choice and democracy (Sethi, 2003). Globalisation must be heedful of the poor as well as the powerful and reflect a basic sense of decency and social justice (Stiglitz, 2002).

Solomon *et al.* (2004) identified three main reasons for the increase in attention to CSR within British society in particular: a general increase in concern about ethics, increased awareness of risk and risk management and the growth in media exposure of CSR issues. In the US, Werther and Chandler (2005) put forward the following three major trends to explain the rise in strategic importance of CSR: shifts in societal expectations, growing affluence and globalisation.

- Societal expectations on issues such as unionisation, equal pay and discrimination now shift from being discretionary issues through ethical to legal and culminate in being mandatory at a faster pace than ever before. This phenomenon is aided by electronic media such as the internet which facilitate the rapid global dissemination of awareness. The counterculture activist movement of the 1990s (Klein, 2000) has now given way to

mainstream awareness and concern of the social implications of global corporate activity (Martin, 2002), which has fuelled the current revival of interest in CSR.

- As societies become more affluent, consumer purchase decisions are no longer based on simple necessity but rather on complex emotional desires and value-laden perceptions (Werther and Chandler, 2005). Engaging in perceived negative corporate behaviour such as the exploitation of local communities in overseas manufacturing facilities may tarnish the values and associations that consumers buy into and hence risk consumer rejection of the brand.
- The global expansion of Western brands in the quest for growth and economies of scale has set the scene for many of the ethical transgressions which have led to the development of CSR. For example, the global shift of production to lower labour cost countries presents the situation where Western brands may apply lower third world country standards on issues such as health and safety and working regulations to their overseas operations in order to increase profits in the home country. Advanced global communications technologies which facilitate rapid dissemination of information have effectively shrunk the world in terms of media accessibility, and hence CSR issues can very quickly attract high levels of international publicity (Tencati *et al.*, 2008; Howard-Hassmann, 2005; Lobel, 2006; Sethi, 2003). This means that the behaviour of Western corporations in remote parts of the world can become a home country scandal and a significant risk to brand equity within hours.

However, despite growing awareness of ethical issues in fashion supply chains, CSR implementation is in fact challenged by the context of global fashion supply chain management, in terms of its commercial pressures as well as the poor working conditions, weak regulatory compliance and corruption often encountered in the production context in lesser-developed countries (Schwartz and Tilling, 2009).

3.5.1 The influence of retail buying practices on CSR in fashion supply chains

The trend away from vertical integration towards flexible supply networks adds complexity to global supply chains. Outsourcing production to lower labour-cost countries also brings moral issues centred on the exploitation of human resources. However, as consumers demand a greater variety of fashion at lower prices, fashion retailers are placed under increasing pressure to achieve lower costs and shorter lead times (Masson *et al.*, 2007). To meet these competitive challenges, buyers seek new sources of supply and sourcing strategies that minimise risk and maximise success. However, these commercial pressures have led to the development of buying practices that may jeopardise labour standards at factory level and undermine CSR efforts,

especially with the low-cost, fast fashion business model (Hearson, 2009; Barrientos, 2006; Albert, 2010; Galland and Jurewicz, 2010). Hence, international risk consultancy Acona (2004, p.35) concluded that:

> "There are profound and complex connections between the normal commercial buying practice of a company and its suppliers' ability to meet required ethical standards".

For example, Hearson (2006) asserted that British low-cost fast fashion retailer Primark was able to achieve its preferred terms by constantly jumping between suppliers, pitting them in competition with each other and moving onto another supplier once a cheaper or faster one was found. A Primark shareholder reported in 2005:

> "Key to Primark's business model is the sourcing of products from the cheapest possible supplier. Primark has used hundreds of suppliers located across the world. Relationships with suppliers can be short and variable, sometimes even changing mid-season" (Newton Responsible Investment, 2005, p.21)

Modern retailers place greater risk, arising from added variability of product demand, further up the supply chain, forcing suppliers to balance the direct costs of sourcing against the indirect consequences of being left 'holding the bag' of inventory. There is a relationship between the buying practices of powerful Western retailers that demand more frequent shipments of cheaper garments and the labour conditions in globally dispersed supply chains which result in the exploitation of poorer manufacturers in developing countries (Laudal, 2010; Faisal *et al.*, 2003; New, 1997). The shift from vertical integration to supply chain networks means that retailers are able to maintain economic control over their global supply chains without being legally liable for the social impact thereof (Sobczak, 2006).

Although CSR progress requires retail buyers to incentivise suppliers to implement CSR and ensure that it is economically beneficial for them to do so (Lim and Phillips, 2008), industry evidence suggests that retail buyers are unwilling increase prices paid to suppliers to reflect the increased cost of ethical production (Daniel, 2009). Following a case study of a Reebok athletic footwear supplier in China, Yu (2008) concluded that the purchasing practices of the retail buyer failed to provide any financial support or incentive for suppliers to implement CSR. In a study of the ready-made garment industry in Bangladesh, FIDH (2008) concluded that social auditing efforts were largely undermined by downward price pressure and demand for shorter lead times. Factory

heads and union representatives interviewed in the study felt that buyers were contradictory in their requests for compliance with social responsibility standards alongside demands for lower cost per garment. In their study of social responsibility reporting in Bangladesh, Islam and Deegan (2008) found that downward price pressure from retail buyers contradicted their demands for CSR requirements, quoting a senior executive from the Bangladesh Garment Manufacturers and Exporters Association:

> "Buyers need to also consider the fact that all these come at a cost and we are helping the buyers to protect their brand image. But buyers are not contributing anything" (Islam and Deegan, 2008, p.860).

More recently in 2010, following violent protests in the Bangladesh garment sector over the minimum wage, the President of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) pointed out that Western retailers who backed the minimum wage rise had yet to negotiate an appropriate increase in garment cost with their suppliers:

> "After an 80% revision of wages with an associated 10-20% increase in production costs, we are waiting for increased prices from the buyers who petitioned the Prime Minister to force us to double the wages" (Ahmed, 2010).

Focusing on supermarket fashion retailers such as Tesco, Wal-Mart, Carrefour, Lidl and Aldi, Hearson (2009) argued that the competing demands of the fashion business model – low prices, quick turnarounds and greater uncertainty – were in fact incompatible with demands for good labour standards in the supply chain. In particular, certain aspects of retailer buying terms were incompatible with upholding the required ethical standards in the supply chain: late sample approval, late order placement or last-minute order changes due to poor forecasting compromise social compliance at factory level. Similarly, Pan and Holland (2006) found that export garment manufacturers in Hong Kong, Taiwan and South Eastern China were pressured to reduce production time (including partial distribution i.e. shipping to retailers' warehouse or distributing centre) from 20-22 weeks to 16-18 weeks. Since shipping time was fixed and took around three weeks, this translated into pressure to reduce manufacturing time.

Acona (2004) found that three areas of SCM appeared to have a negative effect on the ability of the supplier to uphold ethical requirements: lead time, flexibility and cost. As buyers seek to reduce their risk of under- or over-buying by placing orders as close to the season as possible, short lead times and unrealistic delivery schedules increased the

likelihood that suppliers would have to work overtime to complete orders on time. Lack of advance commitment to orders and requirement for supplier flexibility affects the supplier's ability to plan the business and recruit permanent employees, while encouraging the use of temporary workers who may also belong to vulnerable social groups such as economic migrants. Pressure to reduce garment cost could force the supplier to lower wages, not pay overtime and use vulnerable workers such as economic migrants. Furthermore, payment terms vary widely in the industry, from 30 to 160 days (Ayling, 2010a), which puts pressure on CMT suppliers that need to pay wages on time as well as on full package suppliers that must pay for fabric and trims in advance. In August 2010, Marks & Spencer announced plans to lengthen supplier payment terms from 30 to 60 days for CMT suppliers and from a 4-week to a 5-week cycle for full package VMI suppliers (Ayling, 2010a). This could be perceived as a curious move by a company that aims to become Britain's most sustainable retailer by 2015 via a 100-point plan that addresses (amongst other themes) being a 'Fair Partner' in its supply chains. A similar move by Tesco in 2008, where it requested an increase from 30 to 60 days for its larger non-food suppliers (Just-style, 2008), was met with criticism from analysts and concern that smaller suppliers reliant on cash flow could eventually find themselves forced out of business.

In 2006, a joint project run by four European Fair Trade organisations confirmed the findings of Acona (2004) that three retail buying practices in particular contributed to poor labour standards in the supply chain:

- Demand for shorter lead times
- Demand for flexibility in meeting customer demand (peak seasonal orders as well as changing, increasing, decreasing or cancelling orders at short notice)
- Continual search for lower prices and better terms of business (Responsible Purchasing Initiative, 2006).

Labour conditions represent the social issues of CSR and may be broken down into three main areas of wages, working hours and working conditions (Sethi, 2003). As well as jeopardising labour standards in the supply chain, such buying practices potentially jeopardise the supplier's whole business. However, Ancona (2004) acknowledged that the competence and quality of local management could counteract the negative effect of retail buying practices. Pan and Holland (2006) found export garment manufacturers took a different approach to meet the challenge of retail buyers' demand for shorter lead times: by moving the design development services down the

supply chain and taking the function in-house, thus feeding directly into order specifications and production, they were able to compress and control the time factor. This finding is related to the concept of industrial upgrading in supplier countries discussed in Section 2.5. With greater experience in CMT operations, a country is able to gradually invest in backward integration and undertake full package supply, thus offering buyers greater value added (Neidik and Gereffi, 2006; Palpacuer *et al.*, 2005). The focus on relationship management and collaborative working, which is at the heart of full package supply, helps to compress the time factor in garment sourcing. Faisal *et al.* (2003) suggested that CSR, trust and collaboration could help to mitigate the increased supply chain risk from outsourcing production to lower labour cost countries.

3.5.2 Responsible retail buying practices in fashion supply chains

Responsible purchasing practices uphold ethical standards within individual supplier businesses as well as supporting the sustainability of globally dispersed whole fashion supply chains. Examples of responsible buying practices that support CSR include:

- Sustainable pricing and timely payment to suppliers
- Realistic delivery schedules
- Building long-term relationships in the supply chain (CIPS, 2008; Acona, 2004; Responsible Purchasing Initiative, 2006; Hearson, 2009)

SCM initiatives such as supply chain integration and supply base rationalisation support the implementation of CSR and the maintenance of ethical standards in the garment manufacturing process. These initiatives promote sustainability in supply chains and help to maintain ethical standards. Supply chain rationalisation, or removing extra tiers of suppliers as part of a strategic manoeuvre towards a smaller supplier base, increases visibility and facilitates CSR management through the chain (Welford and Frost, 2006; AccountAbility, 20065). Supply chain integration and the requisite development of closer trading relationships reduce the need for excessive monitoring of activities and can thus reduce the cost of CSR implementation (Vachon and Klassen, 2006). Industry consolidation into fewer larger and better-run factories within a supply chain has the potential to facilitate greater transparency and compliance with labour standards (Welford and Frost, 2006; AccountAbility, 2005). By nurturing the complex linkages between firms, mutual understanding of each other's capabilities and priorities increases and operational uncertainty is reduced. In turn, this leads to fewer goal discrepancies and promotes well-aligned objectives among supply chain partners (Vachon and Klassen, 2006). This conclusion is supported by both normative theory and empirical

findings in the field of SCM, where it is widely acknowledged that integration between supply chain partners leads to improved levels of performance, in terms of both effectiveness and efficiency (Frohlich and Westbrook, 2001; Holweg *et al.*, 2005). With its long-term focus on maintaining successful relational exchanges, relationship management is an antecedent of CSR implementation within the fashion supply chain (Welford and Frost, 2006).

Developing long-term trusting relationships between buyers and suppliers is an important driver of rationalisation of the supply chain, particularly since traditional monitoring methods such as codes of conduct and inspections fail to deliver good CSR results (Welford and Frost, 2006). While audits and inspections tend to be associated with low trust levels, the development of higher levels of trust in the trading environment enables firms to reduce the costs of compliance in the form of inspections and monitoring. Trust, due to its effect of mitigating opportunistic behaviour (Reve, 1990), is an antecedent to CSR. Indeed, the creation of trust is dependent on the avoidance of malevolent exploitation of trading partners (Morgan and Hunt, 1994). Similarly, the goal of CSR is to promote sustainable economic development and avoid exploitation of human resources in global supply chain activities. Trust and CSR can be perceived as having a continuous looping effect, whereby ethical behaviour or CSR engenders trust (Vyakarnam *et al.*, 1997) as much as trust is a precursor to CSR.

Andersen and Skøtt-Larsen's (2009) framework for analysing CSR practices in global supply chains, shown in Figure 3.4 below, consists of four broad mechanisms which support the implementation and embedding of CSR within an organisation. These 'contingency factors' are knowledge-enhancing mechanisms, knowledge-controlling mechanisms, firm specific assets, and corporate history.

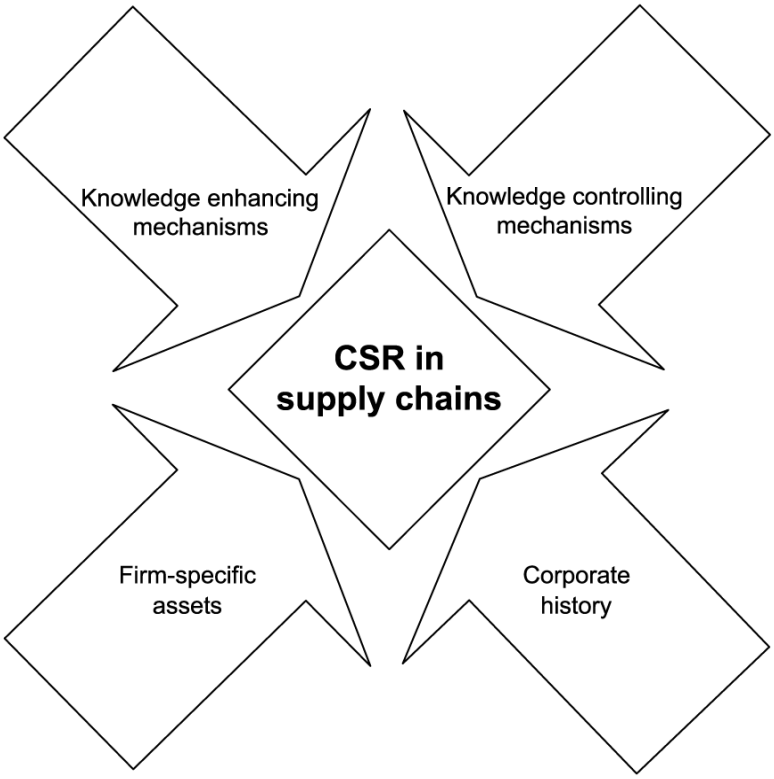


Figure 3.4 Andersen and Skøtt-Larsen's (2009) model of the contingency factors influencing CSR in global supply chains

Knowledge-enhancing mechanisms refer to the creation of a common frame of reference internally between organisational members as well as externally to the organisation within its supply chain. This may be achieved via employee training and awareness of company codes of conduct, as well as through ongoing supplier dialogue and supplier development schemes, thereby increasing the abilities and skills of the individuals involved in working with CSR in supply chains. Examples of knowledge-controlling mechanisms include the incorporation of the code of conduct into the firm's performance measurement system or the presence of 'change agents' within the organisation who are tasked with monitoring adherence to the code of conduct. Firm specific assets refer to the resources within the company that support implementation of CSR, as well as the nature of the company in terms of the impetus for its suppliers to conform to corporate codes of conduct. Corporate history refers to the tradition within the company of involvement with social issues which is likely to facilitate implementation of CSR.

Implementing efficiency-boosting measures may also support CSR in the supply chain. UK fashion retailers such as New Look, Marks & Spencer and George at Asda have pioneered boosting factory productivity to increase wages (Martowicz, 2009; Just-style,

2010b). For example, New Look set up a project with a Bangladeshi supplier in 2007 to raise workers' wages whilst reducing working hours. By 2009, factory efficiency gains resulted in 46% less overtime and a 24% increase in wage levels for the lowest paid workers. Benefits for the supplier included lower absenteeism and labour turnover, while New Look benefitted from a greater security of supply and improved product quality (ETI, 2009; Martowicz, 2009). Therefore, although CSR issues derive from SCM innovations (New, 1997) and the large-scale move to global sourcing which now characterises a large part of the industry (Jones, 2006; Dicken, 2007), appropriate management of the supply chain in terms of design and operation can provide solutions to problems of human resource exploitation in supplier countries.

Codes of conduct can be defined as "documents stipulating general principles about the way a specific company should behave in potentially ethical situations" (Brytting, 1997, p.664) and have an important role to play as a link between established legal regulations and evolving societal expectations (Sethi, 2003). They may be adopted in response to or in anticipation of pressure from various stakeholder groups (Sobczak, 2006). However, they may also be perceived as nothing more than symbolic gestures for stakeholders (Reynolds and Bowie, 2004), overly concerned with compliance with the letter rather than the general intent or spirit contained within them. They are also associated with low trust levels in the trading environment and do not necessarily deliver good CSR results (Welford and Frost, 2006), as demonstrated by the ethical scandals reported in the supply chains of Gap and Nike in recent years despite the existence of comprehensive codes of conduct.

Furthermore, the difficulty of establishing codes of conduct is that most nations do not share common laws or regulations and therefore imposing certain values upon another group that does not share those values may lead to conflict (Kapstein, 2001). For example, China until recently repressed freedom of association and collective bargaining for workers (Adams, 2002; Chan, 1998), while Myanmar's military rulers engaged in widespread and systematic use of forced labour (Bollé, 1998). The institutionalised and widespread use of forced and child labour in Uzbekistan's cotton industry is well documented (EJF, 2005; Reuters, 2008). Laudal (2010, pp. 63-64) described the fashion industry as "one of the most global industries in the world, with closely coordinated production and distribution lines spread out in regions with great variations in government regulation, employment and environmental protection, and

wage levels", which results in fashion retailers balancing a multitude of commercial, legal and moral standards. This results in part from the discord between prevailing local laws and regulations in host countries compared with those in the source country: Robertson and Fadil (1999, p.385) refer to the "differences in morality across borders" with respect to human rights issues. While developed countries tend to have stringent procedures in place for the protection of workers' rights, these are often inadequate or even non-existent in lesser-developed nations (Howard-Hassmann, 2005). For example, Chan (1998) attributed the high incidence of industrial accidents in China to its inadequate labour laws concerning occupational health and safety, although he did not acknowledge the possibility that the level of accidents may be caused in part by Chinese workers' lower regard for health and safety measures and failure to adhere to rules. The direction of causality is therefore not clear cut; laying the blame with global corporations presents a simplistic version of the truth. Donaldson (1989, p.98) defined rights as "entitlements that impose minimum demands on the behaviour of others" but conceded that fundamental moral values may not be absolute but rather subject to certain factors such as a nation's level of economic development. According to Stabile (2000), global brands such as Nike were able to pursue low-cost labour sources in developing countries because "friendly" governments were prepared to guarantee cheap labour, and hence entice foreign investment, by setting the official mimimum wage below the poverty line. In Brazil, rapid industrial development was facilitated by lax pollution enforcement standards, which enabled greater productivity levels at lower costs (Donaldson, 1989; Nagle, 1998; Quiroga *et al.*, 2007).

Hence, globalisation has led to a situation whereby multinational corporations based in developed countries are able to apply local standards to their operations in lesser-developed nations in order to maximise profits (Werther and Chandler, 2005). As the global media "evaluate overseas operations through the lens of home country standards" (Werther and Chandler, 2005, p.320), the disparity between standards in Western countries and those in lesser-developed nations gives rise to concern and calls for the implementation of socially responsible practices on a global scale. Donaldson (1989) recognised the moral conflict involved when host country standards on issues such as pollution, discrimination and wages appear inferior to accepted home country standards. Although it could be argued that corporate responsibility does not extend to dictating just wages in foreign markets, such issues nevertheless attract mainstream media criticism (Stabile, 2000). Therefore, the assumption of social concerns over and above

the firm's minimum legal requirements is becoming ever more important as a stakeholder and shareholder value, especially in the high profile fashion industry.

3.6 The role of CSR in supporting sustainable development

In addition to the moral argument and the business case, CSR represents a means of addressing the negative issues of human resource exploitation in order to ensure that business practices are sustainable over the long term. It has been proposed as a universal good that can contribute to international development and poverty alleviation in a way that benefits developing as well as developed countries, by simultaneously advancing universal human rights, equity and economic growth (Blowfield and Frynas, 2005). Traditionally, sustainable development has been defined by the World Commission on Environment and Development as:

> "Development which meets the needs of the present without compromising the ability of future generations to meet their own needs" (WCED, 1987).

This definition has been commonly adopted in the literature (Gray, 2006; Perrini, 2006a; Bansal, 2005; Gray and Bebbington, 2000; Angell and Klassen, 1999) and was considered by Bansal (2005) as the dominant definition of sustainable development. Although the concept of sustainable development is usually associated with environmental issues, Lamming *et al.*'s (1999) framework of responsibilities for achieving sustainable development emphasised the spectrum of social matters in promoting social justice. The authors justified this standpoint by reference to the WCED's (1987) Brundtland Report, which focused on the importance of equity for the world's poor in defining sustainable development. Gray and Bebbington (2000) also proposed that the concept of sustainable development must include an element of eco-justice, which refers to the idea of equity between peoples and generations and the equal rights of all to environmental resources. Social goals may thus be considered equally as important as environmental goals in achieving sustainable development. Sustainability concerns the stewardship of environmental and community resources for future generations, and can be linked to enlightened self-interest and adhering to the idea of triple bottom line performance (economic, social and environmental). This concurs with the stakeholder model of the firm and the business case for CSR, which is summarised by Porter and Kramer (2006, p.83) as "successful corporations need a healthy society". Therefore CSR implementation also contributes to the wider societal goal of sustainable development (Panapanaan *et al.*, 2003).

3.7 Organisational implementation of CSR

Although historically it was thought that CSR was purely altruistic and therefore should only be undertaken once profit objectives had been met (Johnson, 1971), the current conceptualisation of strategic CSR means that CSR does not remain peripheral to core economic goals but is embedded in the economic mission of the firm. There are a number of typologies and models which have been developed to explain how organisations go about implementing CSR and to determine the organisational learning path from denial to acceptance of social responsibility. These provide a means of assessing the extent of CSR implementation in order to benchmark amongst firms.

Sethi's (2003) typology of the dimensions of CSR in Table 3.3 below illustrated the progression of the concept in corporate behaviour, from no social obligation, through social obligation and social responsibility, to social responsiveness. He believed current issues fall into the third category of social responsibility, although corporate behaviour may not be consistent across all global markets in which a firm operates. He illustrated this with the scenario where a multinational corporation (MNC) may subscribe to social responsibility in its home market but only admit to social obligation in lesser-developed countries in which it operates. Nevertheless, he hinted at an imminent shift towards the final category of social responsiveness and the proactive approach towards CSR which would be expected of firms (Sethi, 2003, p.69):

> "There is now increasing societal pressure all over the world for companies to minimise the second-order effects of their activities and to take a more active role as they assume greater responsibility for correcting the social ills that occur."

Sethi's (2003) model shows how the firm moves from a defensive stage characterised by denial and avoidance of social responsibility, through compliance and later stages of strategic embedment of CSR and finally to proactively progressing the CSR agenda. Although the denial of responsibility as per the first stage avoids short-term costs of addressing CSR, by moving through the stages it can be seen that there are potentially greater long-term costs to be saved by anticipating future developments and avoiding legislative measures as well as potential protests against the industry.

Dimension of CSR	Characteristics of corporate behaviour	Risks and benefits of assuming this dimension
No social obligation	Firm refuses to recognise problem or to assume responsibility for negative externalities. Used as a form of self-protection to avoid short-term costs of ameliorating the situation	Loss of consumer confidence and market share combined with higher long-term costs of ameliorating the situation and possible regulatory scrutiny
Social obligation	Response is minimal and essentially unwilling. Firm only meets changing societal expectations when they have been codified into externally imposed legal requirements	A defensive position requires constant effort to maintain status quo in a changing business environment. Mere satisfaction of externally imposed criteria may not be sufficient for future survival
Social responsibility	Firm performance is congruent with prevailing social norms, values and expectations. It remains ahead of legal requirements by adapting to social change as it occurs	Firm is more flexible in its response to changing societal expectations, while gaining legitimacy at a lower social and institutional cost
Social responsiveness	Firm anticipates changes or problems that may arise, initiating policies or programs to ameliorate the situation before issues reach crisis level	Acting in anticipation of emerging problems may avoid a future wave of protest against business or industry

Table 3.3 Dimensions of CSR (Sethi, 2003)

Zadek (2004) proposed a similar framework to Sethi's (2003) which identifies a company's position on the CSR organisational learning curve. Again, the model in Figure 3.4 below shows a spectrum from denial of social responsibility, to a reactive compliance approach, to a more proactive recognition of the strategic business benefits conferred by CSR implementation. The final stage is the recognition of the benefits of collective action on an industry-wide scale, whereby the firm promotes broad industry participation. The business case for CSR is addressed in both Sethi's (2003) and Zadek's (2004) models, which highlights once again the strategic nature of CSR in current thinking. CSR is no longer purely altruistic and for firms to move along the spectrum from denial to acceptance to responsiveness, they must comprehend the competitive benefits to be gained from CSR implementation.

Stage	Corporate behaviour	Reasons for behaviour
Defensive	Deny practices, outcomes or responsibilities	To defend against attacks to their reputation that in the short term could affect sales, recruitment, productivity and the brand
Compliance	Adopt a policy-based compliance approach as a cost of doing business	To mitigate the erosion of economic value in the medium term because of ongoing reputation and litigation risks
Managerial	Embed the societal issue in their core management processes	To mitigate the erosion of economic value in the medium term and to achieve longer-term gains by integrating responsible business practices into their daily operations
Strategic	Integrate the societal issue into their core business strategies	To enhance economic value in the long term and to gain first-mover advantage by aligning strategy and process innovations with the societal issue
Civil	Promote broad industry participation in corporate responsibility	To enhance long-term economic value by overcoming any first-mover disadvantages and to realise gains through collective action

Table 3.4 Stages of CSR organisational learning (Zadek, 2004)

More recently, Maon *et al.* (2010) mapped the organisational stages and cultural phases of CSR progress in companies in order to integrate the moral, cultural and strategic aspects of CSR with organisational implications. Their complex model demonstrates an understanding that CSR is a multi-dimensional construct and its implementation is affected by cultural aspects of corporate management, therefore successful implementation is dependent upon attitudinal dimensions as well as strategic and operational support. The influence of cultural aspects included in their model can be linked back to Section 3.4 which discussed the positive effect of socio-cultural factors on CSR implementation in firms.

3.8 Measuring CSR performance in firms

Reporting or measuring compliance with CSR entails problems of consistency and compatibility in audit methodology, and this can lead to possible accusations of firms merely paying lip service to CSR, or even greenwashing. Evaluation methodology may differ widely, even within one industry, and there is no universally accepted form of measurement. Chatterji and Levine (2006) noted the proliferation of CSR certification metrics in the apparel industry and warned that “metrics that are not reliable, valid, or comparable can lead to outcomes that harm corporate social performance and overall

welfare" (p.31). Furthermore, social costs and benefits such as reputation risk and brand value are intangibles and remain difficult to capture or convert into financial values (Richardson, 2004).

Wong and Taylor (2000) felt there was a lack of an internationally accepted standard to provide a way of auditing or measuring CSR and hence argued for the development of a standardised and recognised CSR evaluation method. However, a number of internationally recognised CSR accreditations now exist which provide a way for garment manufacturers to certify their businesses as ethically sound. Appendix II provides a summary of several current standards including WRAP, SA8000 and CSC900T. ISO26000 was published in 2010 and represents further institutionalisation of CSR. However, it is currently a voluntary rather than a management system or certification standard like ISO9000 or ISO14000, designed to promote a common understanding of CSR.

Norman and McDonald (2004, p.254) asserted that the concept of triple bottom line (TBL) accounting was "inherently misleading", and firmly disputed that CSR could be measured in any way which is analogous to the numerical data used to calculate a firm's net income in the traditional bottom line. Their reasoning was based on the distinct lack of a common unit of measure in CSR reporting and a lack of accepted principles on how values should be measured, as well as the difficulty in making quantitative, rather than qualitative judgments on how well something was achieved. Gray and Milne (2004) highlighted the subtle tension at the very centre of the TBL: the conflict of interest between moral and financial criteria in an economic system which places precedence on achieving financial over ethical goals.

3.9 Summary of CSR

CSR addresses the negative social consequences in supplier countries of global business operations. The literature showed that CSR consists of three theoretical components:

- the moral philosophical argument, also known as the normative case
- the business case for competitive advantage
- the concept of sustainable development.

Philosophically, CSR is founded upon deontology, which judges actions to be more important than the ends achieved and believes in inviolable human rights. The deontological viewpoint champions the inviolability of human rights, due to its belief that humans possess intrinsic and not instrumental value and therefore should not be used as a means to an end. The modern concept of CSR requires a firm to address the concerns of all its stakeholders and not just shareholders' demands for increased profits. It centres on the idea that a firm has certain moral obligations beyond adherence to the minimum legal requirements which govern its existence, and these moral obligations require the firm to contribute to the economic development of society at large as well as to minimise the negative externalities of its supply chain activities.

The current view is that CSR is not purely altruistic. If undertaken in a strategic manner, it can confer significant benefits upon the firm in terms of reputation management, employee recruitment and motivation, operational efficiency, investor relations and risk management, as well as delivering benefits to society at large. Hence CSR is not inconsistent with profit maximisation and the pursuit of competitive advantage (Altman, 2005; Porter and Kramer, 2002; Martin, 2002; Burke and Logsdon, 1996). There is a clear business argument for implementing CSR in fashion supply chains: as a high profile consumer industry, poor CSR practices in subcontractor facilities can result in bad publicity, consumer boycotts and loss of retail brand value in the home market, while industrial action at subcontractor facilities and supplier relationship problems disrupt the smooth flow of product through the supply network and increase supply chain risk. Since the stakeholder theory of the firm has become the dominant paradigm in the field of CSR (McWilliams and Siegel, 2001), multinational corporations are not only responsible for social practices within their own premises, but increasingly also for the social performance of their suppliers, and ultimately for the entire supply chain (Andersen and Skøtt-Larsen, 2009, Wong and Taylor, 2000).

3.10 Summary of literature review

By synthesising the literature on fashion SCM and CSR, an integrative framework was created which pulls together the constructs of CSR in fashion supply chains (Figure 3.4 overleaf). The researcher identified particular factors within of fashion supply chains which are connected to CSR implementation and which influence it in either a positive or a negative way. For example, the downward price pressure which characterises the high street fashion industry prevents firms from investing large resources into CSR.

The negative factors which compromise CSR within fashion supply chains were termed CSR Inhibitors while the positive factors which supported CSR implementation were termed CSR Drivers. For example, rising consumer demand for ethically produced fashion may encourage suppliers to improve working conditions in garment factories. The underpinning elements which theoretically constitute CSR within the context of fashion supply chains were termed CSR Pillars.

Western-based fashion retailers have turned to global sourcing of apparel in recent years to help achieve these goals of supply chain efficiency and effectiveness in an increasingly challenging marketplace. However, the rise of complex global subcontracting relationships and retailer buying practices designed to minimise buying risk, reduce cost and increase frequency of shipments has led to growing concern for ethical issues in the supply chain. The shift from vertical integration to globally dispersed supply chain networks, with production functions commonly located in lower labour cost countries, has brought with it issues of worker exploitation in the outer reaches of the supply chain. The literature review identified a number of issues relating to the implementation of CSR in fashion garment supply chains. Characterised by downward price pressure, short product life cycles, fragmentation and globalisation of production, consumer-led demand and buyer-driven supply chains, the high street fashion industry is one of the few sectors under pressure for lower costs as well as shorter lead times. Several consultancy and NGO reports have identified fashion supply chain characteristics to jeopardise CSR implementation in lower labour cost countries; however there is a lack of academic research on CSR in the fashion supply chain context. As the fashion industry has long been characterised by adversarial trading relationships as well as complex, inflexible and uncooperative supply chains, the very nature of the fashion supply chain may not be conducive to CSR implementation.

However, with a similar focus on long-term business sustainability and acting for the benefit of, rather than at the expense of, all trading partners, the principles of SCM are aligned with those of CSR. Many larger firms are moving towards rationalisation of their global supply chains by developing closer partnership relationships with a fewer number of suppliers. This helps to reduce transaction costs and increase visibility within complex global supply chains and acts as a precursor to the implementation of CSR policies in the supply chain (Welford and Frost, 2006; AccountAbility, 2005). The establishment of higher levels of trust and relationship development within the supply

chain underpins the approach to effective CSR implementation in fashion supply chains (Welford and Frost, 2006). Since CSR also includes notions of integration and relationship-building which pervade SCM, it would appear that SCM principles may achieve simultaneous objectives of increasing supply chain efficiency and effectiveness, as well as supporting social goals of improving labour standards in developing country supplier firms. As noted by Cox (1999) and Croom *et al.* (2000), business success is achievable by firms who are able to enhance the total performance of the supply chain for the benefit of all trading partners, rather than seeking to achieve success at the expense of other supply chain members. As the goal of SCM is to achieve the greatest good for the benefit of all supply chain partners, it is incompatible with the use of exploitative business practices. However, it may be possible that the nature of the fashion supply chain, with its buyer-driven, complex global networks and simultaneous pressure for low cost and short lead time, inhibits the successful implementation of SCM philosophy.

Given the link between SCM and CSR in global fashion supply chains, there is a need for academic research to explore how SCM principles may help to counterbalance the negative consequences of competitive forces in the fashion industry and reduce human resource exploitation in the outer reaches of the supply chain. Although anecdotal evidence exists from research conducted by NGOs (non-governmental organisations), consultancies and advocacy groups, academic research on the impact of retail buying practices on CSR in fashion supply chains is lacking. There is currently a lack of theoretical understanding of CSR implementation at factory level and how it is affected by fashion supply chain characteristics, in a positive way as well as negatively.

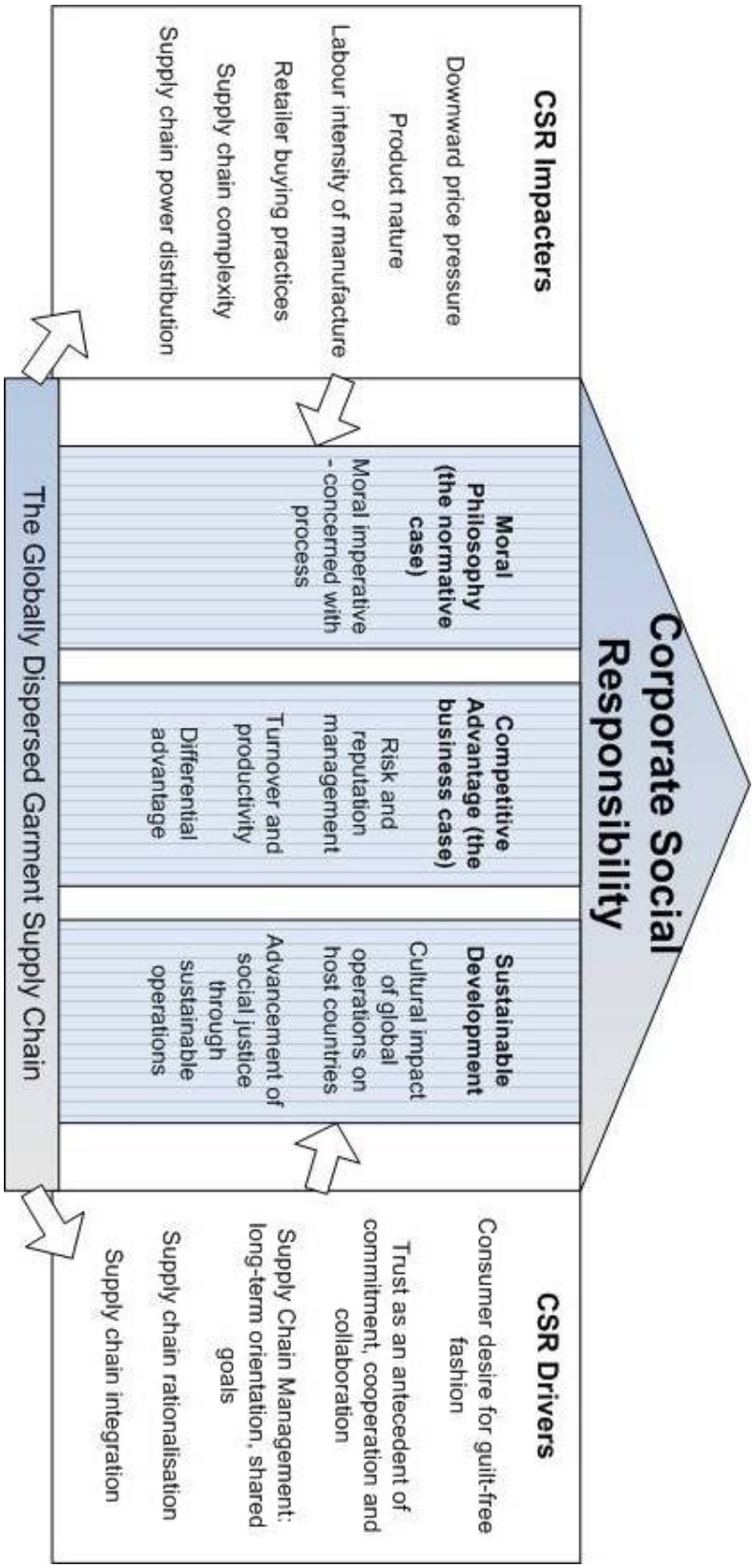


Figure 3.4 Conceptual framework of theoretical constructs of CSR in garment supply chains

CHAPTER FOUR: RESEARCH METHODOLOGY

LITERATURE REVIEW

4.1 Introduction

As summarised in the preceding section, the research is concerned with the phenomenon of CSR in the context of fashion supply chains, and specifically aims to gain an understanding of the influence of fashion supply chain characteristics on CSR implementation at factory level in lower labour cost countries. There is a lack of academic literature on CSR in the context of fashion supply chains, and specifically on how the nature of the fashion supply chain impacts upon CSR implementation. Anecdotal research conducted by NGOs, consultancies and advocacy groups provides insight into practice but is not underpinned by theory. Therefore, there is a need for rigorous academic research to progress theory on CSR fashion supply chains.

Furthermore, since supply chain evolution and development is built upon socio-economic contexts (New, 1997), there is justification for taking an alternative approach to SCM research: although often approached from the position of achievement of corporate objectives by large global firms, alternative perspectives such as the global power imbalance and exploitation of resources are gaining ground as pertinent approaches to study (New, 1997). This chapter provides details of the researcher's philosophical paradigm, justifies the research methodology adopted and explains the process of data analysis with reference to how the findings contribute to theoretical development on CSR in fashion supply chains.

4.2 Research paradigms

Research paradigms constitute the researcher's approach to knowledge creation in terms of three elements which confer the researcher's ontological, epistemological and methodological premises about being and truth, or the nature of the world and how knowledge is attained. Ontology refers to reality, epistemology refers to the relationship between the researcher and reality, and methodology refers to the techniques used by the researcher to discover reality (Sobh and Perry, 2006). The choice of paradigm thus depends on the researcher's personal conceptualisation of the

world and how it should be understood and studied, as well as the ultimate purpose of research (Guba, 1990; Higgs and McAllister, 2001). Research paradigms are not static but alter as society evolves and hence the beliefs that guide action in one era may not be appropriate in another (Hollinger, 1994).

Research paradigms can be split into the two domains of positivist and phenomenological paradigms. The dominant paradigm in the natural sciences (Deshpande, 1983; Sandberg, 2005), positivism is based on an ontological assumption that reality is external and objective, and an epistemological assumption that knowledge is significant only if based on observations of this objective reality (Easterby-Smith *et al.*, 2002). It asserts that the only authentic knowledge is objective scientific knowledge, and that such knowledge can only be derived from positive affirmation of theories through strict scientific observation (von Wright, 1993). Rational and objective research methods aim to predict, control and establish universal laws. Positivism upholds the value-free nature of inquiry by way of objective methodologies which aim to dissociate subjective elements from the situation (Lincoln and Guba, 1985).

While natural sciences seek to make generalisations about reproducible and predictable phenomena, social sciences tend to favour a deep understanding of the individuality and unique features of the subject (von Wright, 1993). Phenomenological paradigms are based on understanding of social and behavioural phenomena and seek to discover meaning. These fundamental differences can be described by the terms 'nomothetic' which applies to sciences which search for laws, and 'idiographic' which is used for the descriptive study of individuality (von Wright, 1993). Working within interpretive paradigms enables the researcher to consider the influence of socially established structures of meaning such as institutional frameworks and long-standing cultural patterns (Holstein and Gubrium, 1994). Aronowitz and Ausch's (2000) categorisation of the differences between natural and social science phenomena summarised in Table 4.1 below supports the argument for a different approach to research in social sciences than the strict scientific method traditionally used in natural sciences. Positivism is not always the most appropriate paradigm for researching subjects such as social and behavioural phenomena which are less concerned with measurement and the prediction of universal laws than with the understanding of meanings found in individual cases.

Natural science phenomena	Social science phenomena
• Independent of particular contexts	• Context-dependent
• Historically invariant	• Historically variant
• Quantifiable	• Resistant to mathematical symbolisation
• Causally related to one another	• Related to one another in complex ways

Table 4.1 Characteristics of natural and social science phenomena (Aronowitz and Ausch, 2000)

Table 4.2 below highlights the key differences between positivist and phenomenological paradigms on philosophical research aspects.

	POSITIVIST	PHENOMENOLOGICAL
Ontology	Nature of reality is singular, tangible, fragmentable	Nature of reality is multiple, constructed, holistic
Epistemology	Relationship of knower to known is independent, dualism exists	Relationship of knower to known is interactive, inseparable
Generalisation	Nomothetic – time- and context-free truth statements	Idiographic – individual time- and context-bound working hypotheses
Causality	Assumes linear causality – cause can be distinguished from effect	Mutual simultaneous shaping of entities – cause cannot be distinguished from effect
Values	Value-free objective methodology	Value-laden subjective methodology

Table 4.2 Contrasts between positivist and phenomenological paradigms (Lincoln and Guba, 1985)

Guba (1990) advocated that the study of social phenomena should be founded on a relativist ontology, since this accommodates the premise that social realities are constructed in people's minds and become reality through established social processes which enable sharing amongst society. The phenomenological paradigms of constructivism and social constructivism are founded upon a relativist ontology. Similarly, Hill and McGowan (1999) proposed a constructivist approach when engaging in small firm research, which "embraces the notion of multiple realities" whereby "each individual constructs their own reality as they interpret and perceive their world" (p.9). The implication is that the researcher must reconstruct the world as perceived by others.

4.1.1 Phenomenological paradigms

Phenomenological paradigms emphasise the lived experience and the inextricable bond between individual and environment as the basis of human behaviour and actions (Sandberg, 2005). According to Habermas (1996 (1971)), the understanding of meaning is achieved when the interpreter relocates himself within the world from which a fact derives its meaning. This stresses the connection between the knower and the known and the subjective nature of understanding the meaning of phenomena.

Due to rapid social change and the resulting diversification of human lived experience in recent times, interpretive research is seen as a way of understanding the confusion of new social contexts and perspectives (Flick, 2002). It takes a social rather than an economic view of organisations and considers all human subjects, as well as the researcher, to be "active sense makers" who actively constitute and reconstitute culturally derived meanings in order to interpret their experiences and make choices (Alvesson and Deetz, p.33; Johnson *et al.*, 2006). The nature of socio-behavioural phenomena requires the researcher to understand the historical dimension of human behaviour as well as the subjective aspects of human experience (Frankfort-Nachmias and Nachmias, 1996). There is an increasing trend in SCM research to work within non-positivist paradigms in order to provide greater depth of understanding and contribute to theory development by considering human and social aspects of SCM and not just mechanistic modelling and simulation (Grant *et al.*, 2010; Näslund, 2002; Mangan *et al.*, 2004; Ellram, 1996). Indeed, supply chain evolution and development is built upon socio-economic contexts (New, 1997). Within the fashion industry, New (1997) considered supply chain evolution and development to result from the interplay of factors such as the structure of the industry, consumers' changing expectations and desires, social implications of manufacturing systems, as well as factors concerning ownership and control of distribution. Therefore an interpretive, non-positivist approach that takes a social rather than an economic view of firms would be appropriate for a study of CSR in fashion supply chains.

4.1.2 Social constructivism/constructionism

This paradigm upholds interpretive methods in its belief that reality is not objective and external, but socially constructed and determined by people (Easterby-Smith *et al.*, 2002). As a relativist paradigm, it assumes the existence of several possible

constructions of reality (Guba, 1990), which include that of the researcher, that of the individuals being studied and that of the reader or audience interpreting the research (Creswell, 1994). Each individual's constructed reality is such a strong influence on their behaviour that any external reality is relatively unimportant (Sobh and Perry, 2006). Knowledge therefore defines, or constructs, how objects in the world are represented (Pidgeon and Henwood, 1997).

With its belief in multiple realities, social constructivism/constructionism aims to understand and explain people's experiences, rather than looking for external causes and fundamental laws to explain human behaviour. This involves an appreciation of the various constructions and meanings of human behaviour, as distinct from a fact-finding mission to measure criteria such as frequency of behavioural patterns. According to the constructivist paradigm, "knowledge is socially constructed, value bound and indeterminate" (Greene, 1990, p.236), so that "only time- and context-bound working hypotheses (idiographic statements) are possible" (Lincoln and Guba, 1985, p.37). From the constructivist epistemological position, the construction of knowledge about the world involves the (subjective) interpretation of meaning (Pidgeon and Henwood, 1997). Stakeholder perspectives should therefore be incorporated in research to reflect social constructivism's belief in multiple constructed realities which are dependent on individuals' values and culture (Easterby-Smith *et al.*, 2002).

4.1.3 Selection of a research paradigm

The emergence of phenomenological paradigms in recent SCM research presents a challenge to the historical dominance of positivism and quantitative methodologies in SCM research (Grant *et al.*, 2010). There is ample justification for adopting a phenomenological perspective when conducting research that seeks to generate meaning and contribute to theoretical understanding of SCM. Since supply chain evolution and development is built upon socio-economic contexts (New, 1997), it cannot be reduced to purely mechanistic research methods that seek to establish linear causality. Hjorth and Bagheri's (2006) paper on sustainable development contended that "linear and mechanistic thinking is becoming increasingly ineffective to address modern problems … because, today, most important issues are interrelated in ways that defy linear causation" (p.79, citing Kofman and Senge, 1993). Eisenhardt (2000, p.703) asserted

that the conceptions of plurality and change in management research "are more consistent with non-linear notions like chaos and complexity" than a scientific view.

With regard to the fashion industry context of this thesis, the adoption of a phenomenological paradigm is also justified: Jones (2006) noted that it is often necessary to move away from traditional positivist or logical empiricist research in order to understand fashion garment market trends. Similarly, in an analysis of fashion life cycles, Sproles (1981, p.123) observed the "fashion is not susceptible to science" or scientific analysis. There is an interplay of factors such as the evolution and structure of the industry, consumers' changing expectations and desires, social implications of manufacturing systems as well as ownership and control of distribution (New, 1997). Since the fashion garment industry has a social context and dimension, sociological research approaches such as phenomenology or ethnography provide a more holistic understanding of issues and trends in the sector (Jones, 2006).

Therefore, although SCM research is often approached from the position of achievement of corporate objectives by large global firms, alternative perspectives such as the global power imbalance and exploitation of resources are gaining ground as pertinent approaches to study (New, 1997). SCM research that takes a socio-economic approach is thus able to reflect the changing ideological contexts of society, such as the emerging ethical dimension in garment sourcing, and provide an understanding of the wider impact of competitive strategies, such as lean and agile supply, on society as a whole. The shift towards qualitative methods in supply chain research is underpinned by the recognition that understanding the meaning and the societal consequences is as important as measuring performance and results (New, 1997).

Within a phenomenological paradigm, the social constructivist approach was selected as most appropriate for this study in terms of the research objectives and the researcher's view of reality. The aim of this thesis is to increase understanding of the phenomenon of CSR in the globally dispersed fashion supply chain. In terms of the researcher's ontological beliefs, multiple realities exist which are constructed by individuals and dependent on cultural factors. An interpretive case study therefore enables rich data to be gathered from the perspective of the senior managers in garment manufacturing firms to increase understanding of the phenomenon.

4.2 Theory development

The two main knowledge-generating approaches to data analysis in Western research are deductive theory testing and inductive theory building (Perry, 1998; Spens and Kovacs, 2006). Deductive reasoning is associated with the positivist paradigm, while inductive reasoning represents phenomenological frameworks (Perry, 1998; Easterby-Smith *et al.*, 1991). Induction is the preferred method of data analysis within interpretivist paradigms as this is more likely to reveal the multiple realities which exist in the data (Lincoln and Guba, 1985). Golicic *et al*. (2005, p.23) summarised:

> "An inductive approach is often needed to begin to understand and generate substantive theory about new and/or complex phenomena while a deductive approach is better for developing and then testing formal theory".

The aim of this thesis is to generate a substantive understanding of CSR in fashion supply chains rather than test a hypothesis derived from previous research:

> "The objective of theory-building research is to contribute to the development of theory by formulating new propositions based on the evidence drawn from observation of instances of the object of study" (Dul and Hak, 2008, p. 175).

Inductive principles are preferable for the goal of theory development, where conclusions are reached by moving from specific observations to general statements (Arlbjørn and Halldorsson, 2002). Theory building begins with observations of specific instances and seeks to establish generalisations about the phenomenon in question (Hyde, 2000). However, although inductive theories are built upon empirical data, their underlying concepts may be influenced by prior theoretical knowledge (Flick, 2002), which in this case consists of the literature review in Chapters Two and Three. Using inductive principles, conclusions are reached on a balance of probability rather than complete certainty (Frankfort-Nachmias and Nachmias, 1996), since there is a possibility that further information may falsify the current hypothesis, or render them applicable under certain circumstances only. Any conclusion is only one of perhaps several others that may fit the observations adequately and may be revised if new evidence arises in the future, so the process of theory development is essentially open (Lincoln and Guba, 1985). As CSR research is still in its infancy period, it is expected that future research will refine and develop the theory generated within this thesis, and therefore an inductive approach to empirical data analysis accommodates this assumption. Following Voss *et al.* (2002), the theory building process will consist of describing key variables, determining relationships between variables and identifying why those relationships exist. Development of a rich theoretical framework should state

the conditions under which a particular phenomenon is likely to be found (literal replication) as well as the conditions when it is not likely to be found (theoretical replication). The theoretical framework can be later used for generalising to new cases (Yin, 2003).

The positivist focus on prediction and measurement leads to the generation of analytic knowledge, which is objective and value-free and provides certainty but not information about the world. In contrast, knowledge produced within phenomenological paradigms such as constructivism or social constructivism is synthetic and thus provides context-specific information and meanings about the world. This research aims to generate synthetic knowledge which is grounded in reality.

4.3 Qualitative research

Determining an approach to theory development leads to the choice of quantitative *vs.* qualitative research methods. Quantitative research seeks to isolate cause and effect, operationalise theoretical relations and quantify phenomena in terms of frequencies and amounts, and hence is designed to allow for the generalisation of findings to wider populations and the formulation of universal laws (Flick, 2002). Qualitative research findings in contrast are embedded in the world-in-action and seek to understand the underlying meanings of phenomena within their context (Denzin and Lincoln, 2005; Näslund, 2002). The basis for generalisation in qualitative research is analytical generalisation, which aims to expand theoretical generalisation, rather than statistical generalisation employed in quantitative research, which aims to extrapolate findings to populations (Yin, 2003). A qualitative study typically produces a wealth of detailed data which enables in-depth analysis of issues and the formation of conclusions that account for the particulars of each case (Hyde, 2000).

Qualitative methods support the “the socially constructed nature of reality” (Denzin and Lincoln, 2005, p.10), or the view that social phenomena are influenced by their physical, economic, ethical and aesthetic contexts (Stake, 1998). Qualitative research by nature is value-laden (Denzin and Lincoln, 2005) and is characterised by a naturalistic, interpretive approach, which describes the study of social phenomena in their natural settings, rather than in an artificial laboratory, and the interpretation of data in terms of meanings brought to phenomena by people rather than the disregard of

subjective values (Denzin and Lincoln, 2005; Guba, 1990). The characteristics of qualitative research necessarily mean that interpretive methodologies tend to contradict the tenets of the positivist paradigm. Lincoln and Guba (1985) specified five basic assumptions to which qualitative research subscribes, which are summarised below:

- Multiple constructed realities exist rather than a single independent one. These realities are dependent on individuals' perspectives. Individuals attribute meaning to events as they occur and this meaning becomes part of the event, not separate from it.
- Researcher and subject are interdependent and both are involved in the production of knowledge from research.
- Knowledge is time and context-dependent. Focus is on a deep understanding of the particular rather than generalising universal truths.
- Goal is to describe and interpret, not control or establish cause and effect.
- Research is value-laden: it is impossible to separate values from inquiry since values are revealed in the way questions are asked and in the interpretation of results.

Arguing for greater use of qualitative research methods in logistics research, Näslund (2002, p.328-329) believed this would lead to "an increased likelihood of developing empirically supported new ideas and theories". He presented the validity of qualitative research as an absolute argument, not only as a comparative argument in response to the flaws perceived in positivistic methods. Similarly, Golicic *et al*. (2005) advocated that methodological diversity in research would promote understanding of the critical issues in supply chain management. A qualitative approach was taken by Carter and Jennings (2002) to explore logistics social responsibility from the perspective of manufacturing firms within the supply chain, as well as by Jenkins (2006) and Castka *et al.* (2004) to progress theoretical understanding on CSR in SMEs. In the field of SCM, qualitative research is accepted to be suitable for phenomena that are new, dynamic or complex, where relevant variables are not readily identified and where there is a lack of extant theories to explain the phenomena (Cresswell, 1998), as well as for exploring well-known concepts in new contexts (Golicic *et al*., 2005). There is ample justification for a qualitative approach to CSR in global fashion supply chains.

Qualitative methods seek to achieve an in-depth understanding of phenomena and are well-suited to the dynamic, complex nature of fashion supply chains. They provide a way of researching certain organisational issues which are unstructured and difficult to define, hence enabling practitioners to solve real-world problems. As the aim of the

research is to explore, rather than measure CSR in garment supply chains, a qualitative approach is justified in achieving the research objectives. The adoption of qualitative methods that enable the researcher to "'get close' to participants, penetrate their internal logic and interpret their subjective understanding of reality" (Shaw, 1999, p.60) corresponds with constructivist epistemology and encourages the development of theoretical understanding as well as the generation of new and alternative theories. As CSR research is still in its infancy period, a positivist research approach that advocates the use of quantitative methods of scientific inquiry would be less beneficial. From a positivistic standpoint, the presence of ambiguity in meanings would invalidate research findings, whereas for qualitative research conducted from an interpretive perspective, ambiguities in meaning form essential components of the research findings (Easterby-Smith *et al*., 2002). The selection of a qualitative approach was guided by the exploratory nature of the subject matter combined with a desire to develop rich explanations of the phenomenon of CSR in fashion supply chains.

4.4 Case studies in qualitative research

As an in-depth study of a particular instance or small number of instances of the phenomenon in question, case studies provide an opportunity of conducting real-world research and thereby achieving extreme relevance and a deep and detailed understanding of complex social phenomena. Stake (1998) stated that a case study is "a choice of object to be studied" (p.86) rather than a methodological choice and its purpose "is not to represent the world, but to represent the case" (p.104). An in-depth examination of a single unit, which could be a person, a company or a group of companies for example (Bennett, 1991), the aim of case study research is to develop and construct theory (Riege, 2003). This is achieved via hypothesis generating, in the case of exploratory studies, or via a hypothesis testing study (Bennett, 1991). The theoretical value of case study research derives from its ability to reveal the multiple causal processes which link inputs and outputs within a social phenomenon in a specific context (Hammersley *et al*., 2000). Furthermore, case studies are particularly appropriate where ambiguity exists in the definition of theoretical constructs (Mukherjee *et al.*, 2000), which in this research could be exemplified by the ambiguity of whether or not consumer demand for ethically sourced garments is a driver of CSR in fashion supply chains.

Case studies may also be quantitative or based on a mix of quantitative and qualitative methods (Yin, 2003, Stake, 1998). However, within social sciences, case studies usually feature the following:

- complex, holistic descriptions that involve an abundance of interconnected variables
- data gathered by personal observation
- informal or narrative writing style which may include verbatim quotation, illustration, allusion or metaphor (Stake, 1998).

Case studies are appropriate for conducting "an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident" (Yin, 2003, p.13). The case study method is justified when the researcher believes that the contextual conditions may have a significant bearing on the phenomenon to be studied, and hence that abstracting the phenomenon from its contextual surroundings would be detrimental to its understanding. In this research, it is the influence of the fashion supply chain context on CSR that is being explored, and hence the contextual conditions are crucial to developing meaning and theoretical understanding. Situated within a constructivist paradigm, this research takes an exploratory approach seeking to understand 'what is' about CSR in global fashion supply chains and discover the relationships between certain variables, thus laying the foundations for future research aimed at testing hypotheses. The case study method is particularly strong for the development of valid theory, since the close interaction with empirical evidence characteristic of this method "often produces theory which closely mirrors reality" (Eisenhardt, 1989, p.547). For example, Yu's (2008) case study of a Chinese athletic footwear supplier to Reebok "illuminate(d) key determinants inhibiting the effectiveness of labour-related CSR policies or codes in upholding labour standards" (p.513) in the supply chain, therefore successfully developing theory on a real-world issue.

Woodside and Wilson (2003) argued for the use of case study research for theory building in industrial marketing, due to its relevance for progressing understanding on the decisions and behaviours of individuals and groups within and between organisations. Voss *et al.* (2002) similarly argued that case study research is appropriate for theory development in operations management, a subject spanning both physical and human organisational elements. In the same field, Meredith (1998, p.453) justified the use of case study research for new theory development, on the basis that

"the explanation of quantitative findings and the construction of theory based on those findings will ultimately have to be based on qualitative understanding". Ellram (1996) advocated the strength of the case study in logistics research for exploratory and explanatory purposes, when depth rather than breadth of understanding is sought. The application of case study research to SCM has recently been argued by Golicic *et al.* (2005), Koulikoff-Souviron and Harrison (2005), Seuring (2005), who presented three case studies exploring sustainable SCM in the textile and garment sector, and Seuring *et al*. (2005), whose literature review of 92 papers on sustainability in supply chains found that the most common methodology was the case study. Simatupang *et al.* (2004) selected the case study method to examine the phenomenon (coordination) in its actual operating environment (fashion supply chain) and then compared findings with theoretical propositions. Dubois and Araujo (2007) justified the use of case research for studying phenomena in purchasing and supply management: within a complex field lacking consensus on the main theoretical assumptions, case research is suitable for constructing the context and boundaries of the phenomenon. Andersen and Skøtt-Larsen's (2010) analysis of CSR practices in global supply chains was based on a case study of IKEA, conducting semi-structured key informant interviews with key informants within the company's South East Asian trading area to develop a conceptual framework and contribute to theoretical understanding of the factors that influence CSR in global supply chains. As such, there is ample previous SCM and industrial marketing research which has employed a case study approach to theory development. In this research, the contemporary nature and focus of CSR within the fashion apparel supply chain lends itself to the adoption of a qualitative case study methodology (Williams *et al.*, 2002), in order to develop propositions and contribute to theory development.

4.4.1 Types of case study

Yin (2003) categorised case studies into three different types: exploratory, explanatory and descriptive. Exploratory case studies aim to use data to generate hypotheses and propositions for further inquiry. There is evidence of *a priori* theory or constructs to guide the data collection. The combination of theory and empirical data aims to advance understanding of the phenomenon within its context by using observations to further develop constructs and propositions. Examples of this approach include Jüttner *et al.*'s (2007) study. Their research combined an initial literature review with empirical data from focus groups and a co-development workshop to propose a conceptual

foundation for demand chain management, achieved through a greater understanding of the role of marketing in demand chains. Swafford *et al.*'s (2006) exploratory study of value chain agility and its relationship with business performance aimed to generate hypotheses and develop propositions for further enquiry. From a literature review, they proposed a framework for value chain agility followed by a postal survey, the results of which provided initial insights into the constructs of the framework.

In contrast, explanatory case studies are normally used for hypothesis testing, while descriptive case studies normally begin without any *a priori* theory or constructs to guide the data collection process. It is therefore proposed that an exploratory case study would be most appropriate for this research, since CSR is a relatively new phenomenon and hypotheses need to be generated ahead of being tested. Furthermore data collection will be guided by *a priori* theory.

4.4.2 Quality considerations and validity in qualitative case studies

Notwithstanding its relevance to the social sciences, case study research has traditionally suffered from a denigrating stereotype due to its "insufficient precision (i.e. quantification), objectivity, or rigor" (Yin, 2003, p.xiii). Smith (1991, p.145) observed that case studies were a "vital yet misunderstood research method for management". However, criticisms of case study research are often misdirected (Mitchell, 1983; Yin, 2003). For example, the concern over the lack of rigor may be due to the comparative lack of methodological texts on the subject specifying standard procedures for achieving systematic unbiased evidence and conclusions (Perry, 1998). Although the lack of rigorous control in case study research may compromise the validity of the research, it is also advantageous in terms of enabling a greater level of realism to be achieved (Bennett, 1991). Similarly, New and Payne (1995) acknowledged that although positivist and quantitative approaches may achieve greater rigour and validity, they are in fact less useful for problem solving in real-world contexts:

> "It is possible to have academic research which scores high on 'rigour' and 'cleverness' but low on connection to 'real' problems" (p.61).

Despite its advantages in terms of gaining rich and detailed data to inform theory development, doubts remain over the validity and reliability of qualitative case study research. However, it is important to remember that whereas quantitative surveys aim

at statistical generalisation as a way of achieving external validity, qualitative case studies rely on analytical generalisation to generalise particular findings to some broader theory (Riege, 2003). Mitchell (1983) stated that case studies are a reliable and respectable method of social analysis, noting that criticism of their reliability and validity has often been predicated upon a misconception of how case analysis may be justifiably extrapolated from an individual case study to the social process in general. Case study analysis, like experiments, is concerned with analytic generalisation and generalisation thus applies to theoretical propositions. The goal of quantitative surveys, in contrast, is statistical generalisation to populations or universes (Yin, 2003). The case study does not represent a sampling unit but a unit of analysis and therefore is more akin to the topic of a new experiment. There is an epistemological distinction between statistical inference, used in the extrapolation of quantitative analysis, and logical inference which is used in case studies (Mitchell, 1983). Statistical inference refers to the confidence that the relationships observed in a sample will likewise occur in the population. In contrast, logical inference relates to the confidence that the theoretical or logical connection among the features observed in a sample also apply to the population. In case studies, "the validity of the extrapolation depends not on the typicality or representativeness of the case but on the cogency of theoretical reasoning" (Mitchell, 1983, p.207). Validity is therefore based on the logic of the analysis rather than the representative nature of the case (Worsley, 1970). Perry (1998, p.799) concluded that "case study methodology is a rigorous, coherent one based on justified philosophical positions" which is appropriate for researching "the complex processes of contemporary marketing management".

The concept of triangulation addresses rigour and validity issues in qualitative case study research and refers to procedures used to reduce the likelihood of misinterpretation in findings (Stake, 1998). The concept was originally introduced by Denzin (1978) who defined it as "the combination of methodologies in the study of the same phenomenon" (p.291). Triangulation is especially important when working within constructivist paradigms which champion plurality and tolerate ambiguity (Stake, 1998). It ensures that the variance reflected in research findings is that of the variable or case rather than associated with the measures used (Huberman and Miles, 1998). To establish quality in terms of validity and reliability, Yin (2003) asserted that qualitative research design must satisfy the following four conditions explained below:

- *Construct validity:* establish correct operational measures for the concepts being studied
- *Internal validity:* for explanatory research which aims to make causal claims, establish concrete causal relationships rather than merely spurious relationships
- *External validity:* establish the domain to which the study's findings can be generalised
- *Reliability:* demonstrate that the research operations can be repeated, with the same results

Table 4.4 below presents the various means of achieving these four conditions.

Logical tests	**Case study tactic**	**Phase of research**
Construct validity	• Use multiple sources of evidence • Establish chain of evidence • Have key informants review draft case study report	Data collection Data collection Composition
Internal validity	• Do pattern-matching • Do explanation-building • Address rival explanations • Use logic models	Data analysis Data analysis Data analysis Data analysis
External validity	• Use theory in single-case studies • Use replication in multiple-case studies	Research design Research design
Reliability	• Use case study protocol • Develop case study database	Data collection Data collection

Table 4.4 Establishing validity in case study research (Yin, 2003)

Construct validity refers to the correspondence between a construct which is at an unobservable, conceptual level and a purported measure of it which is at an operational level (Peter, 1981). It is addressed via data triangulation, as multiple sources of evidence provide multiple measures of the phenomenon under study (Yin, 2003). A chain of evidence increases the reliability of the case study by enabling an external observer to follow the derivation of any evidence, from initial research questions to ultimate case study conclusions. Prior theory, in the form of deductive reasoning, can also serve as a useful form of additional evidence in the triangulation of data necessary for external validity of case study research (Perry, 1998). Following Stake (1998), Yin (2003) supported the inclusion of rival hypotheses as well as rival explanations for a particular outcome, since addressing and rejecting rivals increases the confidence which can subsequently be placed in research findings. Silverman (2001) suggested including deviant-case analysis in the data analysis stage in order to avoid potential problems of anecdotalism (i.e. searching out and investigating examples of data which do not fit the

original suppositions, to avoid the tendency of the researcher to choose data at the write-up stage to fit preconceptions and/or select dramatic data to the exclusion of less conspicuous but possibly still indicative data), which weakens case study validity. Internal validity can also be established by triangulating data sources, while external validity can be established via cross-case analysis and by documenting the specific procedures that were employed for coding and analysis (Riege, 2003).

The validity of qualitative research can be increased by a number of ways:

- Including the voice of the narrator in the write-up
- Feeding conclusions back to subjects for verification
- Specifying the nature of the relationships between researcher and subject and the settings in which observations and interviews took place
- Prioritise honesty and values in the research agenda, especially regarding the limitations of the research
- Specify the standpoint of the researcher, declare and explain any biases e.g. reference frames from past experiences (Easterby-Smith *et al*., 2002).

External validity is also addressed through the use of multiple sources of evidence to support case study findings (Yin, 2003). Using more than one form of data collection technique for the same hypothesis reduces the degree of 'method specificity' in each form, that is, the bias derived from the inherent advantages and limitations in each technique (Frankfort-Nachmias and Nachmias, 1996). Using multiple sources of evidence enables the development of converging lines of inquiry, which helps corroborate research findings to increase validity and reliability (Yin, 2003). By taking into account multiple aspects of the subject in terms of research perspectives and methods, triangulation is an effective response to the question of validity and reliability in qualitative research (Flick, 1992). Denzin's (1978) typology (cited by Flick, 1992) consisted of four types of triangulation:

- **Data triangulation** refers to the combination of different sources of evidence to support research findings.
- **Investigator triangulation** involves the use of different researchers to control for the subjective individual bias.
- **Theory triangulation** refers to approaching data from more than one theoretical perspective and assessing various hypotheses in terms of utility. The aim of methodological triangulation is to control for the inherent strengths and weaknesses in each methodology which may lead to bias.

- **Methodological triangulation** can occur either within a certain method, such as using different subscales in a questionnaire or between methods, such as using a semi-structured interview as well as a questionnaire in the study.

However, there is a body of literature that is critical of triangulation and attempts to establish validity and reliability in qualitative research. Schofield (2000) argued that the fundamental aspects of qualitative research are incompatible with classical conceptions of external validity. She contended that the aim of qualitative research "is not to produce a standardised set of results that any other careful researcher in the same situation or studying the same issue would have produced" but "to produce a coherent and illuminating description of and perspective on a situation" (p.71). Hence, she disagreed with making replication a criterion of generalisability in qualitative research. Dubois and Araujo (2007) also noted the common misconception of conducting research on a qualitative tradition whilst relying on validation criteria more appropriate for quantitative methodologies. Hill and McGowan (1999) asserted that since the triangulation criteria (as specified by Yin (2003) above) derive from the positivist paradigm, they are inappropriate for the evaluation of research which has been generated through qualitative paradigms. Instead, they followed the proposals of Hirschmann (1986) and Lincoln and Guba (1985) and suggested the alternative criteria of credibility, transferability, dependability and confirmability to be better for authenticating qualitative research findings. Sobh and Perry (2006) pointed out that the concept of triangulation is irrelevant within the paradigms of constructivism and critical theory and only applies within the realism paradigm which assumes a singular reality. Triangulation of the multiple incommensurable subjective realities which are assumed to exist within constructivist and critical theory paradigms would not be logically valid, unless the aim was to overcome the personal biases of the researcher (Denzin, 1989). Finally, it is important to remember that although triangulation is commonly used in qualitative research to clarify meaning and verify the replication of an observation or interpretation, it is questionable whether any observations or interpretations are in fact perfectly repeatable (Stake, 1998; Flick, 1992). Therefore, a lack of replication may not necessarily imply that the research is invalid, and indeed, Shimp *et al.* (1991) observed that even laboratory experiments can be difficult to replicate.

Bearing in mind the above limitations of trying to achieve validity and reliability in qualitative research, the methods used to address quality issues within this research will

now be specified. Triangulation of findings was achieved by combining observations and documentary evidence (such as company reports and publications or publicly available information) with interview data, following Simatupang *et al*. (2004), Perks and Halliday (2003) and Perry (1998). Documentary evidence such as annual reports, magazine articles and website information were collected within a case study database, following Yin's (2003) suggestion. Triangulation is also achieved by conducting interviews within the "context" of the cases such as consultants, government advisers and industry associations (Perry, 1998). Hence, an interview was conducted with a Senior Manager charged with investment appraisal for the garment industry at the BOI (a Sri Lankan governmental body), as well as with the Head of Sustainable Business at Marks & Spencer, on the basis that this was a common customer for most of the case study companies. Interview sources are discussed further in section 4.5.7, which includes a detailed account of the time spent with each company.

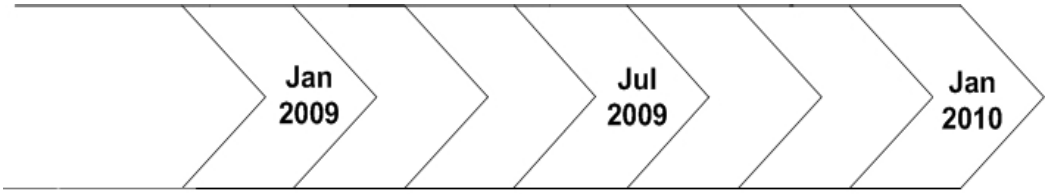
Besides triangulation, the quality of the research was also established by adopting some of Easterby-Smith *et al.*'s (2002) methods and Yin's (2003) case study tactics referred to above. The voice of the narrator was included throughout the write-up due to the phenomenological nature of the research and the researcher's assumption of multiple realities. The write-up presents the researcher's perspective on the findings, although these are triangulated where possible to address validity and reliability issues. Due to the researcher's belief in multiple realities, it was not deemed appropriate to feed the findings back to the interviewees for verification or have them review the draft case study analysis. However, potential researcher bias was addressed through triangulation of data sources. The adoption of a multiple-case research design, use of multiple sources of evidence, establishing a chain of evidence, using case study protocol and developing a case study database helped to establish quality. Pattern matching and explanation building formed part of the data analysis and addressed issues of internal validity. The nature of the relationship between researcher and subject was purely professional and the settings in which the observations and interviews were conducted were specified. The standpoint of the researcher is such that potential biases are low to non-existent: she had no prior connection to Sri Lanka nor had she been involved in any NGO, activist or other campaigning activity for improved labour standards in global supply chains. Finally, the limitations of the research are clarified in Chapter Seven.

Table 4.5 below summarises the triangulation of data sources for each case study company as well as for the ancillary organisations.

Co.	Data sources
A	• 5 face-to-face interviews with Senior Operations Manager, Compliance Manager, Green Project Manager and CEO of College of Clothing Technology • 9 hours observation across 5 sites • Company website • Organisational chart • Company CSR brochures • Annual corporate reviews 2006 and 2007 • Social compliance policy • Management Today article (Gwyther, 2008) • Superbrands 2007-2009 company profile
B	• 5 face-to-face interviews with Chairman, Deputy Chairman and 3 Factory Managers • 8 hours observation across 2 sites • Company website • Organisational chart • Social compliance policy • Company brochures
C	• 2 face-to-face interviews with Group Compliance Manager and HR Manager • 2 hours observation at one site • Company website • Organisational chart • Company newsletter
D	• 3 face-to-face interviews with Director and General Manager • 3 hours observation across 2 sites • Parent company website • Social compliance policy • Sunday Times Magazine article (Knight, 2006) • Published case study (Pelleg-Gillai, 2007)
E	• 2 face-to-face interviews with Director of Sri Lankan Operations and HR Manager • An hour's observation at 1 site • Organisational chart • Published interviews with CEO of parent organisation
F	• 1 face-to-face and 1 subsequent phone interview with Managing Director • An hour's observation at one site • Organisational chart
G	• 1 face-to-face and 1 subsequent phone interview with Managing Director • An hour's observation at 1 site
BOI	• 1 face-to-face interview with Senior Investment Appraisal Manager for the garment industry • Organisation website • Labour standards and employment relations manual • Official correspondence • Superbrands 2007-2009 company profile
M&S	• 1 telephone interview with Head of Sustainable Business • Podcast with Head of Sustainable Business, 2010 • Company website and CSR reports • News articles on M&S from a variety of websites

Table 4.5 Data sources for case study companies

The timelines in Figures 4.2 and 4.3 below clarify the journey of data collection.



Co.	Data Source							
A	Interviews	x			x			x
	Observation	x			x			
	Documents	x	x	x	x			
	Web material	x	x	x	x	x	x	x
B	Interviews				x			x
	Observation				x			
	Documents				x			
	Web material			x	x	x		
C	Interviews				x			x
	Observation				x			
	Documents				x			
	Web material		x	x	x	x	x	x
D	Interviews	x			x			
	Observation	x			x			
	Documents							
	Web material							x
E	Interviews				x			
	Observation				x			
	Documents				x			
	Web material			x	x	x	x	x
F	Interviews	x			x			
	Observation	x						
	Documents							
	Web material	x			x			
G	Interviews	x			x			
	Observation	x						
	Documents							
	Web material				x			

Figure 4.2 Timeline of data collection: by company

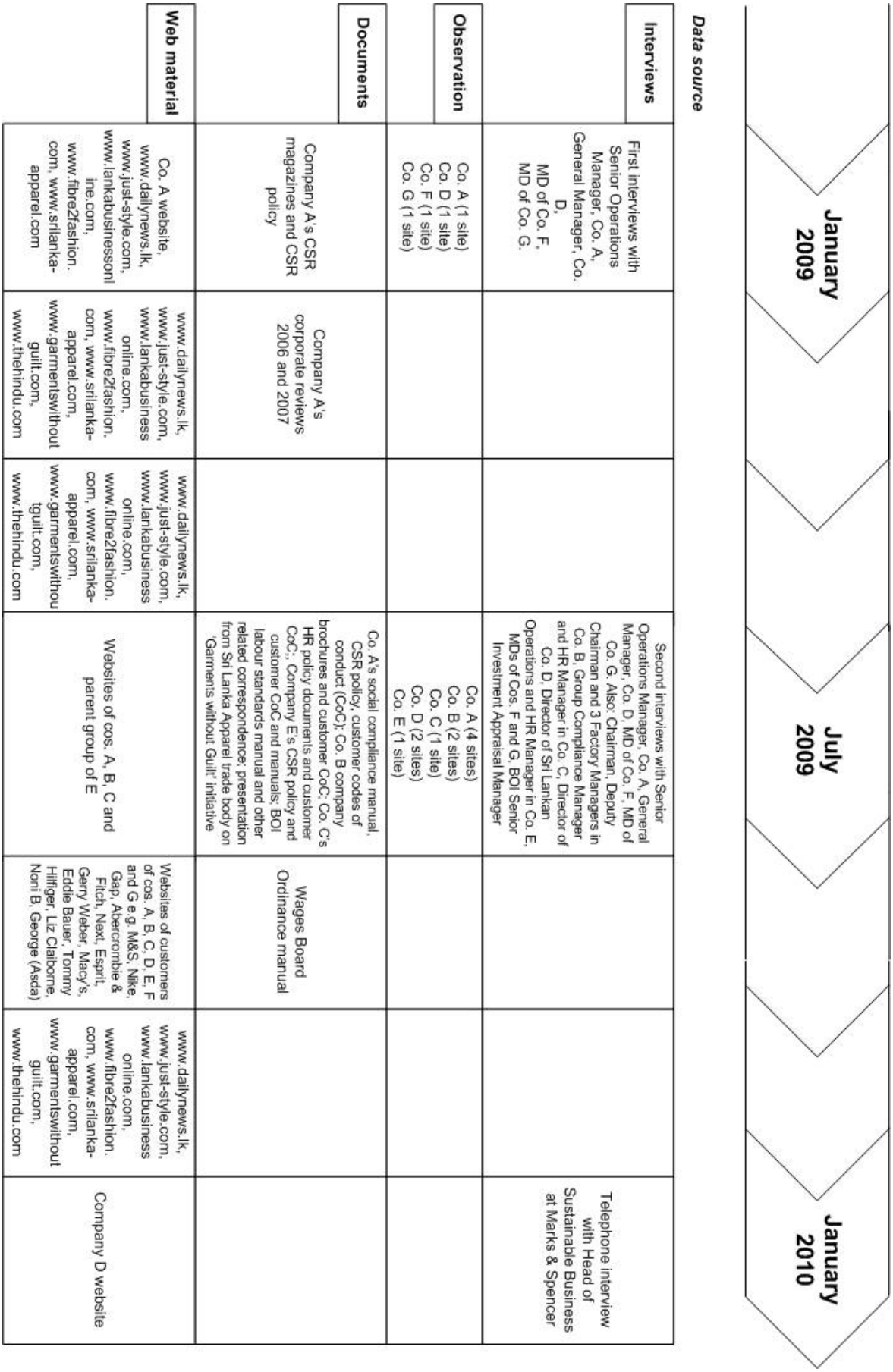


Figure 4.3 Timeline of data collection: by data type

It should be noted that at the time of the first visit to Sri Lanka, the focus was on SME garment manufacturers rather than large companies. The original integrative framework for CSR in SME garment manufacturers in global fashion supply chains is shown in Appendix IX. However, as Ramachandran (1991) noted, it is difficult to access small-scale enterprises in developing countries, in terms of the attendant language, cultural and transport barriers as well as the lack of formal data management systems which would hold details on SMEs. Therefore it was decided to remove the SME context from the research as it proved to be too difficult to investigate. It was also decided to narrow the focus of the integrative framework, since broad factors such as TCE and globalisation could be taken as given. This iterative process resulted in a narrower framework with greater depth.

4.4.3 Generalisation in qualitative case studies

Generalisation in case study research can be defined as "a matter of the 'fit' between the situation studied and others to which one might be interested in applying the concepts and conclusions of that study" (Schofield, 2000, p.92-93). Stake (1978) distinguished between scientific generalisation and 'naturalistic generalisation', the latter achieved by "a full and thorough knowledge of the particular" (p.6) enabling the reader to recognise similarities in issues in new contexts and to sense natural co-variations of occurrences. Lincoln and Guba (1985) used the term 'transferability' to define the potential relevance of working hypotheses from the source study for understanding other target cases. They pointed out that "generalisations are assertions of enduring value that are context-free" (p.110), thus nomothetic or law-like by nature. Since qualitative research is by definition context-bound (Easterby-Smith *et al*., 2002), generalisations are therefore incompatible with social sciences and interpretive research methods which seek to develop the idiographic body of knowledge based on particulars and individuals. Generalisation in case study research is analytic (Yin, 2003), which is not generalisation to a defined population that has been sampled, but to a theory of the phenomenon being studied (in this case CSR), on the basis that the theory may have much wider applicability than the particular case which was studied (in this case Sri Lanka).

4.4.4 The case study process

The qualitative case researcher's main conceptual responsibilities are: bounding the case, determining research questions, seeking patterns of data, triangulating key observations and bases for interpretation, seeking alternative interpretations to pursue and finally developing assertions or generalisations about the case (Stake, 1998). Having clarified the research purpose and how theory will be developed, this section will now discuss the case selection, data sources, analysis of data and quality issues.

Figure 4.4 below shows the proposed case study design based on Yin's (2003) framework, split into three phases of scoping the research, collecting data and analysing findings to draw conclusions. A similar model was drawn up by Williams *et al.* (2002) in their study to develop theory on demand chain management within the context of global aerospace webs.

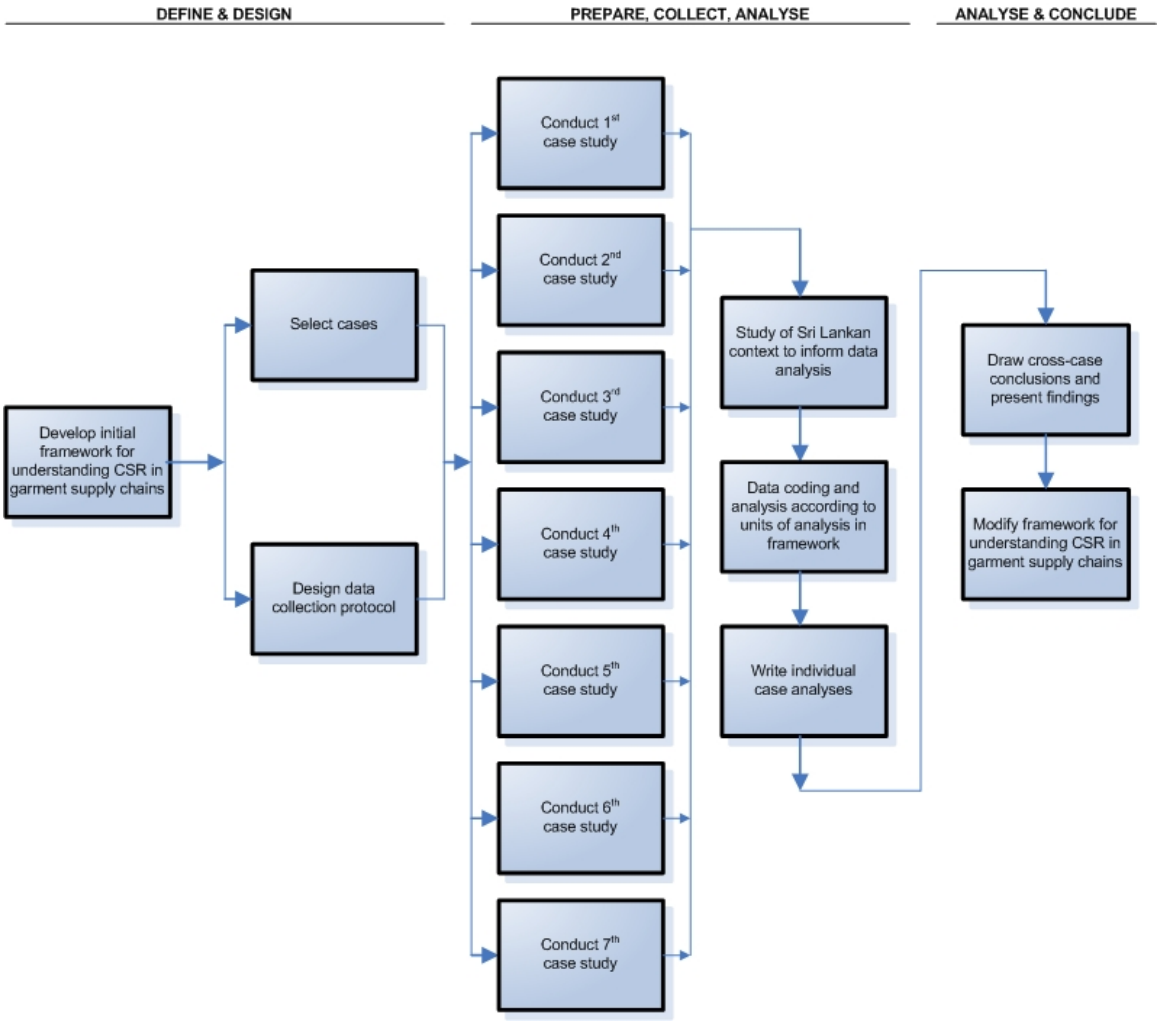


Figure 4.4 Proposed multiple case study design (based on Yin, 2003)

4.4.5 Selection of cases

There is a preference for the use of multiple rather than single-case research designs (Yin, 2003; Eisenhardt, 1989), since findings from multiple-case designs tend to be considered more robust and compelling than from single-case designs (Yin, 2003). However, Easton (2000) disagreed with the notion that greater numbers of cases, by and of themselves, would increase the explanatory power of the case study. As a realist, he argued that "one case is enough to generalise: not generalising to any population but to a real world that has been uncovered" (p.214). Similarly, Yu (2008) used a single case study method to research the impact of codes of conduct on labour standards in footwear supply chains. He concluded that the findings successfully illuminated the key determinants inhibiting the effectiveness of CSR policies in upholding labour standards, despite being based on a single case of a Reebok athletic footwear supplier in China.

However, Perry (1998, p.792) advised the use of several case studies in postgraduate research "because they allow cross-case analysis to be used for richer theory building". Cross-case searching for patterns helps researchers to avoid reaching premature or false conclusions which may be based on initial impressions from limited data or information-processing biases (Eisenhardt, 1989). Cross-case analysis also increases the probability of capturing novel findings which may exist in the data (Heikkila, 2002). For Ellram (1996, p.102), multiple cases "represent replication that allow for development of a rich theoretical framework". In the field of purchasing and supply management, Dubois and Araujo (2007) observed that in recent times, case-based journal papers in the field had shifted from single in-depth studies to comparative multiple case designs. Acknowledging that multiple-case designs by nature require greater time and resources and that postgraduate research is constrained by limited time and funding, Perry (1998) proposed a guideline for postgraduate case study research of at least 2-4 cases but no more than 10-15 cases. This was based on his literature review of case study design. Although there is no set guidance for the ideal number of sampling units within each case, prior research has recommended that homogenous samples require 6-8 sampling units, while heterogeneous samples often require 12-20 sampling units (Lincoln and Guba, 1985; Eisenhardt, 1989). Eisenhardt (1989) suggested seven cases for theory-building purposes, on the basis that this number is sufficient for generalisability without posing too much of a burden in terms of transcribing and analysing data for researchers. When using purposive sampling, the number of participating cases is not determined in advance of the researcher's entry to

the field (Maykut and Morehouse, 1994). Instead, as the research progresses and inductive analysis of data identifies common themes and patterns with the potential for understanding the research problem, the number of participating cases is determined by the extent to which the collection of data from an additional case will contribute to that understanding. When the themes and issues in which the researcher is interested become "saturated", meaning that no new data are being found from the participation of additional case-firms, no further cases should be approached and the process of data collection should come to an end (Glaser and Strauss, 1967).

While quantitative studies usually involve probability sampling to determine the frequency of a particular phenomenon among the population, qualitative research is based on purposeful sampling to permit deep understanding of the phenomenon (Sandelowski, 1995). Thompson (1999, p.816) explained:

> "In qualitative research, sampling is guided not by the need to generalise about people but rather by the need to select subjects and data likely to generate robust, rich, and deep levels of understanding. It is systematic but non-probabilistic."

Case study research therefore does not begin with samples drawn from pre-constituted populations (Ragin, 2000). Cases should be selected on the basis that they are rich in information (Patton, 1990) and provide opportunity for literal replication (predict similar results) or theoretical replication (predict contrasting results but for predictable reasons). Glaser and Strauss (1967, p.62) succinctly explained the distinction between theoretical and statistical sampling:

> "Theoretical sampling is done in order to discover categories and their properties, and to suggest the interrelationship into a theory. Statistical sampling is done to obtain accurate evidence on distributions of people among categories to be used in descriptions or verifications".

Following Eisenhardt's (1989) recommendation that qualitative research should employ purposeful sampling based on theoretical underpinnings, theoretical sampling was used to select the cases in this research. The aim was to extend current theory on the existence of CSR in the fashion supply chain and explore the impact of the unique issues, drivers and obstacles faced by garment manufacturers in the implementation of CSR; therefore cases were selected on the basis that they possessed characteristics to enable exploration of the phenomenon under study and "to fully elaborate and validate

theoretically derived variations discerned in the data" (Sandelowski, 1995). This approach has also been justified by Voss *et al.* (2002) in the field of operations management. Building on Handfield and Melnyk's (1998) work, they advocated the selection of a few focused case studies or best-in-class case studies as best suited for the development of theory. Similarly, Shaw (1999) employed purposive rather than random sampling to select case companies which would be rich in data relevant to the research problem in her doctoral research into small firm networks. In this research, case study companies included a variety of firm sizes and business models, including a best-in-class company with a global reputation for ethical garment manufacturing.

The potential for insight is a superior criterion for case selection than representativeness. Cases were therefore not selected to be a representative sample of Sri Lanka's export garment manufacturing companies, but because they were deemed to be "particularly suitable for illuminating and extending relationships and logic among constructs" (Eisenhardt and Graebner, 2007, p. 27) within the integrative framework for understanding CSR in fashion supply chains. Stake (1998, p.102) asserted that cases should be selected on the basis of "opportunity to learn" which he believed to be of greater importance than balance and variety. Mitchell (1983) also advised selecting cases in terms of their explanatory power. An atypical case often provides more opportunity to learn than a very typical one, where the case under study is similar in relevant characteristics to other cases of the same type (Mitchell, 1983; Stake, 1998). In practice, however, selection must often be opportunistic since case studies often emerge from the researcher's existing industry contacts (Yin, 2003; Seuring, 2005). Schofield (2000), however, warned against choosing a case according to convenience or ease of access to avoid reducing the potential generalisability of the research. Instead, she advocated selecting cases on the basis of typicality in order to increase the potential generalisability and including thick description to enable the reader to ascertain the degree of fit between the case studied and the case to which the reader wishes to generalise. However, it is accepted that the validity of analytic generalisation is dependent on the quality of theoretical reasoning, or "the plausibility of the logic of the analysis" (Worsley, 1970, p.112), not the typicality or representativeness of the case (Mitchell, 1983). It would appear therefore, that opportunistic case selection may not necessarily undermine the validity of the research as long as the theoretical reasoning is thorough and logical.

Determination of the number of case companies was on the basis of saturation, following Shaw (1999), who reached the point of data saturation after five companies had been studied. Combined with Eisenhardt's (1989) suggestion of seven cases for theory-building purposes, on the basis that this number is sufficient for generalisability, it was considered sufficient to explore seven case companies within the export garment manufacturing industry in Sri Lanka, especially as the sample was homogenous, consisting of firms within the same industry. After data had been collected from seven companies, no new findings emerged and it was concluded that the point of data saturation had been reached. Cases were selected according to the following criteria:

- The company would be willing to participate in the research and allow open access as far as possible to the researcher
- The company had been trading for at least ten years to ensure continuity
- The company was located in a lower labour cost country and was part of a UK, US or Australian fashion apparel retailer's global supply chain.

Sampling was also opportunistic to a certain extent as the case study companies had to be willing to participate in the research and for this reason access to all but one of the companies was initially set up via a garment industry contact in Sri Lanka.

Sri Lanka was selected as a base due to the country's central role in the global garment manufacturing industry, as discussed in Chapter Two. In 2007, textile and apparel manufacturing accounted for 43% of Sri Lanka's total exports, 56% of its industrial exports and 75% of all employment (Tait, 2008). Sri Lanka is a key supply base for many global brands and retailers such as Victoria's Secrets, Gap, Marks and Spencer, and Next. Gap and Next both have local buying offices in Sri Lanka's capital city Colombo. As a relatively small country where garment manufacturing is the primary export industry and English is widely spoken, it was felt that research would be both theoretically justifiable and practically achievable by a female native English-speaker with no relevant language skills, without the need for translators or interpreters. A range of different types of garment manufacturers were studied: a cross-section of organisational sizes as well as different business models. Two out of the top three Sri Lankan export garment suppliers were studied. Five companies were full package suppliers (FPS) and two were contract manufacturers (CM), as shown in the breakdown below.

Co.	Employees in Sri Lanka	Factories in Sri Lanka	Business model	Date set up	Customers
A	25,000	24	FPS	1969	Gap, Old Navy, M&S, Next, Lands' End, Abercrombie & Fitch
B	10,000	12	CM	1979	George (Asda), M&S, Gap, Tesco, Intimissimi, Warner Bros.
C	15,000	21	FPS	1946	Eddie Bauer, Liz Claiborne, Levis, Tesco, M&S, BHS, Matalan, Asda
D	5,200	7	FPS	1991	Gerry Weber, Esprit, Chaps Ralph Lauren, Betty Barclay
E	5,000	4	FPS	1978	Tommy Hilfiger, Nike, Polo Ralph Lauren, Liz Claiborne
F	300	1	CM	2000	Noni B
G	300	1	CM	1995	Reborn, Macy's

Table 4.6 Case study companies

4.4.6 Case boundaries

Case studies may be holistic or embedded. A holistic design involves a single unit of analysis, for example the global nature of an organisation or phenomenon, while an embedded design involves more than one unit of analysis, such as several departments or projects within the organisation. In holistic designs there is no distinction between the case and the unit of analysis, whereas this is possible to achieve in embedded designs. Holistic designs may become problematic if the entire case study is conducted at an abstract level and lacks any clear measures or data. Embedded designs, in contrast, may become problematic if case study focuses only on the subunit of analysis and fails to return to the larger unit of analysis (Yin, 2003). Yin's (2003) categorisation of holistic and embedded case studies is summarised in Table 4.7 below.

Description	Rationale
Holistic, single unit of analysis	Case is critical, unique, typical, revelatory or longitudinal.
Holistic, multiple units of analysis	To facilitate extensive and more focused analysis.
Embedded, single unit of analysis	To deliver more robust findings, allow replication (literal/theoretical) and achieve external validity.
Embedded, multiple units of analysis	To deliver more robust findings, allow replication (literal/theoretical) and achieve external validity. To facilitate extensive and more focused analysis.

Table 4.7 Yin's (2003) typology of case study designs

Yin's (2003) categorisation was represented graphically by Grünbaum (2007):

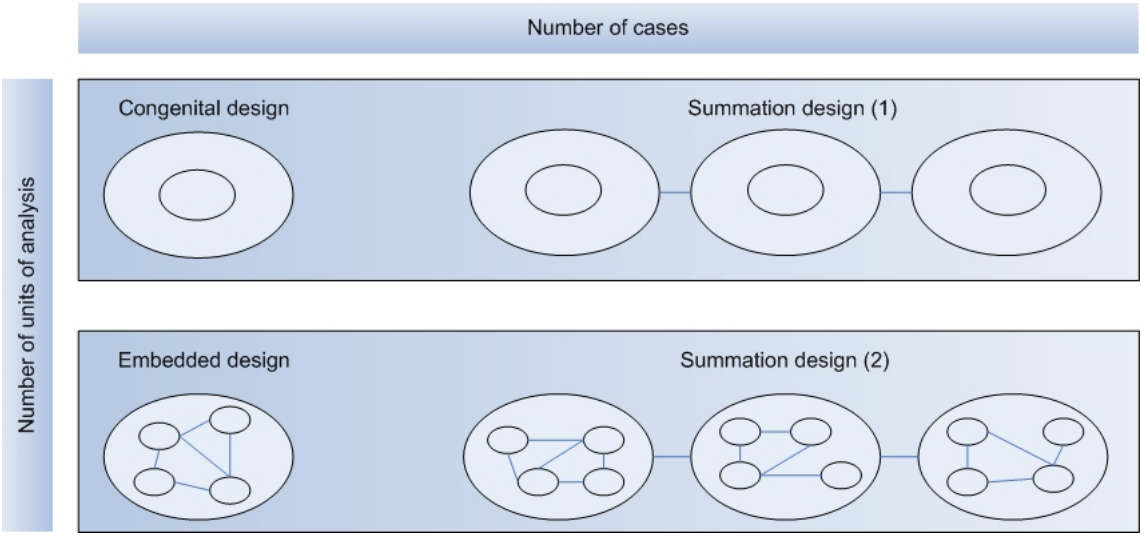


Figure 4.5 Grünbaum's taxonomy of case study designs (2007)

Within this research, it was proposed to use a holistic multiple case design with a single unit of analysis to deliver more robust findings, allow literal/theoretical replication and achieve external validity (Yin, 2003). This focused on each company as a whole, rather than studying a number of departments or projects within the company, and corresponds with Grünbaum's (2007) summation design (1) in Figure 4.5.

4.4.7 Data sources

Qualitative techniques used to generate deep meaning, and develop theory, include observation, analysis of text and documents, interviews, and recording and transcribing (Silverman, 1993). The chosen data collection methods include recorded semi-structured interviews with key informants and non-participant observation during site visits (primary data) and analysis of company documents (secondary data).

Interviewing is an appropriate method of data collection for complex phenomena where it is likely that responses may need further exploration or clarification (Easterby-Smith *et al*., 2002). Interviewing provides "the opportunity for the researcher to probe deeply to uncover new clues, open up new dimensions of a problem and to secure vivid, accurate inclusive accounts that are based on personal experience" (Burgess, 1991, p.107). Hence, Mamic (2005) used qualitative interviewing for a study of 22

multinational companies and 74 of their suppliers to develop rich explanations of the day-to-day operational processes, systems and challenges involved in the implementation of codes of conduct in the global footwear, apparel and retail sectors.

The use of semi-structured as opposed to structured interviewing moves some of the control from the investigator to the participant. Being guided rather than dictated by the interview schedule gives the interviewer freer reign to probe interesting areas that arise, while the participant has greater opportunity to tell his/her own story and become more active in shaping the interview process (Smith and Eatough, 2007). Within a social constructionist epistemology, there is a wish to try and enter the social world of the participant, which is made possible through semi-structured interviewing. Following Larson's (1992) interview protocol, questions were used as a guide to generate discussion and gather factual information. Initial questions about general company information, including its history, products sold and customers, enabled the interviewer to create a rapport with the respondent and for the respondent to feel comfortable. The second set of questions elicited detailed information on the theoretical constructs of CSR in fashion supply chains.

With regard to the number of interviews achieved in qualitative research, Perry (1998) suggested a PhD thesis should contain 35-50 interviews, although acknowledged this was merely a rule of thumb since it may be difficult to secure more than one interview in small or Asian businesses. On the other hand, in Carter and Jennings' (2002) case study of logistics social responsibility, the authors achieved a total of 26 interviews by continuing to interview informants until they reached a point of saturation in each of the logistics functional areas addressed, rather than by deciding on a set number of interviews before embarking on the research. In this research, all of the case study companies were Asian owned and managed, and two of them were small businesses. These factors were acknowledged by Perry (1998) to place limitations on the number of interviews that could reasonably be expected in a PhD thesis otherwise. In this research, 17 semi-structured key informant interviews were conducted with managerial-level contacts in 7 export garment manufacturing companies in Sri Lanka. Interviewees were selected to ensure that information and perspectives would be gathered from an operational level as well as a HR or compliance level within each company. However, in the two small businesses, it was only possible to speak with the Managing Director. In addition to these 17 interviews, interviews were also conducted with a Senior

Investment Appraisal Manager from the BOI and the Head of Sustainable Business at Marks & Spencer (on the basis that several case study companies supplied Marks & Spencer and that Marks & Spencer is the largest British retail buyer of Sri Lankan garments). In total, 19 key informant interviews were conducted. The number of case study companies used was based on the concept of data saturation, following Carter and Jennings (2002) and Glaser and Strauss (1967). Furthermore, Eisenhardt (1989) proposed seven case studies to be sufficient for theory-building purposes. However, it is important to acknowledge that the rigour and validity of qualitative case study research is not determined by the number of case study companies and interviews within each of them *per se*, since there is a growing body of academic thought that criticises the use of positivist criteria to evaluate phenomenological research (Dubois and Araujo, 2007; Schofield, 2000; Hill and McGowan, 1999; Sobh and Perry, 2006).

Primary data was collected in two visits to Sri Lanka made six months apart in January and July 2009. Ramachandran (1991) observed that in developing countries, personal or informal networking can be a faster and more useful means of making contacts than the formal networking commonly encountered in developed countries. In this research, it was found that the main purpose of the first visit was to establish initial contact with companies. Some data was collected but during the second visit, greater access to companies was given and multiple contact points were established. Ramachandran (1991) also advised that due to the unique constraints and challenges present in developing countries, such as cultural heterogeneity and language barriers, a pilot study must be conducted to confirm the reliability and validity of the questionnaire and identify any problems. Thus, the first visit enabled the researcher to check understanding of the questionnaire with Sri Lankan interviewees and make changes.

Although interviews are an appropriate method of collecting qualitative data, they may suffer from social desirability bias (SDB), a form of response bias which arises due to respondents wishing to present an image which does not correspond to their actual attitudes and behaviour, which may therefore result in data inaccuracies (Brace, 2004). SDB is especially likely to arise in areas relating to being a good citizen and fulfilling moral and social responsibilities, where respondents may over-report their behaviour in order to appear more socially responsible. For contranormative issues which are illegal or socially undesirable, behaviour may be under-reported. Brace (2004) also reported that SDB has become more problematic in recent times due to the rise in association

between businesses and the impact they have on the natural and social environments in which they operate. Woodside and Wilson (2003, p.498) noted the 'presentational' nature of data elicited through organisational interviews, which tended to represent a "manufactured image of idealised doing" that did not correspond with the "the routinised practical activities actually engaged in by members of the studied organisations" that were made apparent through observed activity and documentary sources. In developing countries, the problem of 'courtesy bias' may be encountered (Stone and Campbell, 1984), where respondents give inaccurate answers from a desire to please or not offend their visitor. Another form of SDB in developing countries, particularly Asia, stems from the respondent's desire to 'save face' or to enhance their status in front of the visiting researcher by presenting an image in keeping with what locals perceive as socially desirable (Usunier, 1998). This indicates the need for multiple data sources and triangulation between interviews, documentary evidence and observation. In this research, multiple interviews were conducted in each case study company apart from the two smallest companies. Non-participant observation was carried out in each company and primary data was triangulated with documentary evidence such as codes of conduct and social compliance policies, company reports and brochures, company websites, news articles and published articles and case studies.

Due to the subject nature and the element of international data collection, this case study research was particularly at risk of social desirability response bias. However, by choosing in-depth interviewing for data collection, certain measures were employed to reduce the possibility of SDB, for example, establishing rapport with interviewees to build trust and stressing the confidential nature of the research to encourage them to give open, honest and accurate responses. The respondents were promised that company names would not be revealed in the thesis, which enabled them to feel more comfortable about being honest in interviews. Triangulation between multiple contacts in companies and the use of multiple data sources overcame the response bias.

In addition to interviews, data gathered through personal observation are a common feature of case study research (Stake, 1998). Naturalistic, or non-participant, qualitative observation consists of "gathering impressions of the surrounding world through all relevant human faculties" (Adler and Adler, 1998, p.80). With its non-interventionist nature, neither manipulating nor stimulating its subjects (Adler and Adler, 1998; Agrosino, 2007), it enriches qualitative data gathered through interviews directed by the

researcher, as well as providing an opportunity for comparison and triangulation between what is said (which may be an official or scripted version of events) and what is experienced first-hand (Gummesson, 2007). For example, Emberson *et al.*'s (2006) qualitative exploration of the motivations, interactions, practices and difficulties inherent to the role of supplier-employed merchandisers in managing the supply chain combined semi-structured interviews with overt non-participant observation. The combination of techniques enabled researchers to observe instances of phenomenon reported by respondents as well as identify variation between stated and actual practice. However, qualitative observation has been under-addressed in the methodological literature (Adler and Adler, 1998) and observational methods remained underexploited in business and management research (Gummesson, 2007). The main criticisms of qualitative observation are its potential lack of validity and reliability (Adler and Adler, 1998; Agrosino, 2007): observations by their very nature are subjectively interpreted by observers, and there is little way of confirming that observations are 'real' and not merely the effects of chance. However, Adler and Adler (1998) point out that the strength of observation is its "great rigour when combined with other techniques" such as interviews, thus identifying its role in enhancing consistency and validity across a range of qualitative data. Credibility can be increased by making systematic observations and maintaining an observation log, as shown in Appendix III. Gummesson (2007, p.133) urged PhD students to "be more audacious in their choice of topic and methodology" by taking observational methods to heart and exploiting the value of non-verbal communication and personal first-hand experiences of phenomena. In the field of CSR, it is quite possible that senior managers may wish to present a scripted or official version of events, and therefore triangulating observational techniques with interview data is justified. The use of a range of senses such as smell, hearing, sight and touch would produce a wealth of data that could be used to triangulate interview findings, examples of which are shown in Table 4.8 below.

Sense	Potential data collected
Sight / eyes	Spacious or crowded factory, code of conduct on display, evidence of protective equipment used by workers, canteen, medical facilities, appearance of workers e.g. clean/healthy/content or dirty/tired/stressed
Hearing / ears	Noise levels or machinery, tone of voice used e.g. whether evidence of supervisors verbally abusing workers
Smell / nose	Existence of noxious fumes or chemicals
Touch / skin	Temperature within factory – existence of air-conditioning or fans

Table 4.8 Potential data which could be collected via observational methods utilising all senses

Although observational methods may be vulnerable to issues of ethical malpractice, due to their covert and unobtrusive nature and the potential for invasion of privacy (Adler and Adler, 1998), this will not be an issue in the research. By taking a supply chain management rather than a worker perspective, observations will be made of factory premises rather than human participants *per se*. Furthermore, observation will be overt and not disguised nor misrepresented. In every case company, the researcher was offered a guided tour of the premises during the normal working day, which permitted the collection of observational data as specified in Table 4.8 on the preceding page.

4.5 Data analysis

It is important to establish logically thorough data analysis methods that will successfully achieve the research objectives. Mitchell (1983, p.207) states that "case studies may be used analytically … only if they are embedded in an appropriate theoretical framework". Higgs (2001) subsequently advised that qualitative research should be guided by coherent yet dynamic frameworks that provide flexibility to explore different perspectives, rather than static frameworks that resemble procedural regulations. Broad and flexible frameworks permit themes and patterns to emerge freely from the data (Lincoln and Guba, 1985). This facilitates a grounded approach to data analysis, whereby analysis and interpretation of fieldwork refines existing conceptual descriptions in an iterative, cyclical manner. Another benefit of such an approach is that the analysis produces findings that are faithful to the informants' understanding of the data (O'Donnell and Cummins, 1999).

Following data analysis techniques used by O'Donnell and Cummins (1999), Jenkins (2006) and Jüttner *et al.* (2006), the theoretical constructs derived from the literature review were used as key themes to guide the narrative analysis of interview transcripts, as shown below in Figure 4.6.

Figure 4.6 Conceptual framework of CSR in garment supply chains

These theoretical constructs were considered broad enough to allow respondents to present their own perspectives on the issues as well as allowing data to emerge in a grounded manner. Appendix VII shows how the constructs of the integrative framework for understanding CSR in fashion supply chains were transposed into specific data requirements to enable the formulation of relevant and logical interview questions. The interview questionnaire is presented in Appendix VIII. Findings developed from thematic qualitative data analysis and theoretical contributions were based on analytic generalisation. Analytic induction, the systematic and exhaustive examination of a limited number of cases in order to provide generalisations, was conducted in order to arrive at more general truths. Induction allows for modification of concepts and relationships between concepts, occurring throughout the research process, with the aim of most accurately representing the reality of the situation (Ratcliff, 1994). Transcription of 19 key informant interviews resulted in over 70 pages of transcripts. Data analysis followed Lacey and Luff's (2004) process:

- Familiarisation with the data through review, reading, listening etc.
- Transcription of tape recorded material
- Organisation of data for easy retrieval and identification
- Coding
- Identification of themes

- Re-coding
- Development of provisional categories
- Exploration of relationships between categories
- Refinement of themes and categories
- Development of theory and incorporation of pre-existing knowledge
- Write-up, including excerpts from original data (e.g. interview quotes) to support interpretations.

Data analysis was conducted manually in a systematic way by categorising, abstracting, comparing and contrasting the transcripts and then integrating the analysis with other sources such as documentary evidence. Following the coding of transcripts according to the headings in the theoretical framework, tabulations enabled data reduction and systematic comparison of themes across transcripts. For each unit of analysis (i.e. the particular heading from the theoretical framework, such as 'retailer buying practices'), the tabulation contained a summary of each transcript excerpt that related to the unit of analysis. Each transcript was read and re-read in the search for relevant excerpts and to code the text. Some excerpts related to more than one unit of analysis while some, as emergent themes, did not relate to any. As the analysis progressed, separate tabulations were drawn up for emerging themes that had not been identified in the literature review. The tabulations ensured a systematic, logical procedure that could be replicated to arrive at the same conclusions; thereby providing construct validity and reliability necessary to establish quality (Yin, 2003).

The procedure of data analysis began with manual colour-coding of the transcripts, using highlighter pens to identify passages which related to pre-determined codes from the headings in the theoretical framework. Some passages had more than one code applied to them where the data represented more than one theme from the theoretical framework. Descriptive and analytical annotations were also made to the transcripts. Data analysis was mostly deductive, by applying codes from the theoretical framework to passages of transcripts. A small portion of the analysis followed an inductive approach by allowing codes to emerge from the data. Grounded Theory analysis is inductive, in that the resulting theory 'emerges' from the data through a process of rigorous and structured analysis (Lacey and Luff, 2004). The themes that emerged from the data in a grounded, inductive way are incorporated into the data analysis in Chapters Five and Six. Once the coding was complete, thematic tabulations were created to

enable the researcher to read across the dataset with ease. Examples of a coded interview transcript and a thematic tabulation are provided in Appendices IV and V.

Compared to data analysis, data interpretation was altogether more intuitive and subjective, as this phase involved grasping the meaning of others and identifying patterns in meaning to gain insights. A researcher makes sense of data using 'lenses' based on concepts, theory or perspective (Ghauri and Grønhaug, 2010). However, by logging or diarising exactly how data reduction and display were conducted, as well as how conclusions were formed and verified, a research audit trail can be produced which helps to reduce the arcane nature of qualitative methods (Miles and Huberman, 1984; Guba and Lincoln, 1981).

Qualitative data requires "a clear explanation of how the analysis was done and conclusions reached, and a demonstration of how the raw data was transformed into meaningful conclusions" (Easterby-Smith *et al*., 2002, p.117). Huberman and Miles' (1998) interactive model of the components of data analysis is shown in Figure 4.7 below and links the three sub-processes of data reduction, data display and conclusion drawing and verification which take place before, during and after data collection.

- Data reduction involves the selection and condensation of the potential universe of data through the researcher's choice of conceptual framework, research questions and cases prior to the collection of data. After data collection, data reduction is also achieved by summarising, coding, theme-finding and clustering techniques.

- Data display is defined as the assembly of information in an organised and compressed manner to enable conclusions to be drawn or action to be taken. Examples of focused data displays include structured summaries, synopses, diagrams and matrices. Focusing on such reduced sets of data helps the researcher to see patterns within (Koulikoff-Souviron and Harrison, 2005). Although numerical frequencies of empirical experiences may be shown in data displays, these should be avoided in data interpretation since "the cases were not a random sample and precise frequencies formed from them are not the end point of the analysis" (Sobh and Perry, 2006, p.1206).

- Conclusion drawing and verification describes the process of the researcher interpreting meanings in the displayed data. This process is usually understood to be multiple and iterative, as the writing-up process requires further analysis of the data displays, while the emergent written text in turn stimulates further analysis (Koulikoff-Souviron and Harrison,

2005). Techniques include the use of comparison and contrast, noting of patterns or themes, clustering, triangulation, seeking negative cases, following up unanticipated findings and double-checking results with respondents. The data is thus transformed by being condensed, clustered and sorted and also by creating links within the data.

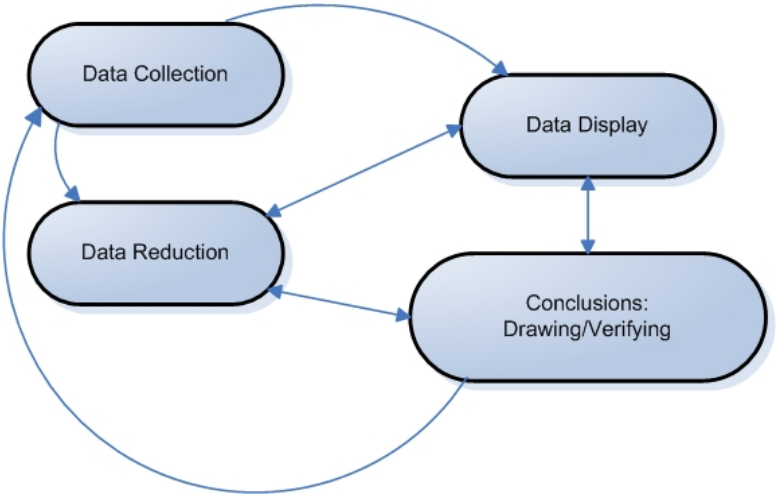


Figure 4.7 Interactive model of data analysis components (Huberman and Miles, 1998)

Conclusion drawing and verification entails writing up research interpretations and explanations. With either single or multiple case approaches, the detailed case study write-ups which typically form within-case analyses are central to the generation of insight as they help researchers make some initial sense of the large volumes of data (Eisenhardt, 1989). The aim of the case-by-case analysis was to facilitate data reduction and permit eventual data display (Huberman and Miles, 1998). When using a multiple case study approach, Yin (2003) recommended that each case should be analysed individually before attempting cross-case comparisons. From the large volume of information contained in the interview transcripts, conducting a detailed case-by-case analysis permitted the data to be set out within the framework of the theoretical model. Compressing and organising qualitative data into meaningful units of analysis enabled the researcher to see patterns within the data and ultimately to draw conclusions and progress understanding of the phenomenon in question (Huberman and Miles, 1998; Koulikoff-Souviron and Harrison, 2005; Shaw, 1999). The constructs developed in the research model acted as a framework to guide the initial data reduction and analysis of data from each case study company. Furthermore, Yin's (2003) analytic techniques, outlined below, were adopted to ensure internal validity:

- **Pattern matching** entails the comparison of an empirically based pattern with a predicted one. In explanatory case studies, the patterns may be related to the dependent and/or

independent variables of the study. Coinciding patterns help to strengthen the internal validity of a case study.

- **Explanation building** is a specific form of the pattern matching technique which involves stipulation of a presumed set of causal links about a phenomenon. However, in case study research such links may be complex and difficult to measure in any precise manner due to their tendency to occur in narrative form (Yin, 2003). Successful explanations reflect some theoretically significant propositions, so that causal links may reflect critical insights into process or theory of the subject of study. If correct, propositions may lead to recommendations for future actions or major contributions to theory building in the field.

Table 4.9 below identifies various data analysis techniques employed in a selection of papers referred to in the literature review on SCM and CSR. These studies used case research methods and their stated research objective was theory building from inductive research in order to increase understanding of the phenomenon in question. The table includes single case studies by Jüttner *et al.* (2006) and Simatupang *et al*. (2004); however, the majority of researchers used cross-case analysis within a multiple case approach as a means of building stronger and richer theories.

Case study	Research objective	Methodology	Within-case analysis	Cross-case analysis
Heikkilä (2002)	"To increase understanding of factors contributing to well-performing demand chains" (p.748) and the "development of testable hypotheses that are generalisable in various application environments (p.753).	Multiple case approach using quantitative data, interview responses and survey results from 6 companies which were customers of an industry leader and which were chosen according to stated selection criteria.	Detailed case study write-ups combining interview, quantitative and survey data. Reliability and construct validity achieved by informants' review of analysed data.	Search for cross-case patterns: similarities and differences. Case comparison across groups.
Williams *et al.* (2002)	To develop and test theory on where strategic capabilities should lie within global aerospace supply chains.	Phase one multiple case study of 4 cases designed to develop driver and response categories followed by phase two quantitative survey to test validity of case study findings.	Use of qualitative software package to aid data storage and management. Coding and grouping of interview transcripts using a hierarchical tree to structure units of analysis and the sub-categories within each unit.	Analysis of cases across 7 industry driver categories and 11 industry response categories. Search for linkages between concepts.
Carter and Jennings (2002)	To explore the concept of logistics social responsibility from the perspective of manufacturing companies within the supply chain.	Multiple case approach using in-depth semi-structured interviews with 26 managers of medium- to large-sized manufacturing companies. Cases chosen to achieve a high degree of industry variation and spanning 3 main logistics functions of purchasing, transportation and warehousing.	Data codes developed after rather than prior to collecting data. Coding used to create thematic links and patterns in the interview transcripts. Use of text management and qualitative data analysis software to aid data organisation and coding.	Higher level coding by way of construction and analysis of partially ordered meta-matrices and conceptually clustered matrices to ensure internal validity. Analyses across whole group as well as by function and by research objective (i.e. activities, antecedents and consequences).
Maon *et al.* (2009)	To develop an integrative framework of CSR design and implementation which is grounded in theory and practice.	Multiple case study using theoretical sampling. Interviews with senior managers of 3 exemplary companies were triangulated with observation on site and documentary evidence.	Detailed case study write-ups to develop rich, in-depth case histories. Manual data analysis, use of open and axial coding techniques.	Compare and contrast between companies, iterative analysis moving between literature and empirical data to develop rich, in-depth findings which were grounded in theory.

Jüttner *et al.* (2006)	To explain the unstudied phenomena of demand chain alignment and PLC management, in terms of relationships between concepts, and to explore the validity of research propositions in practice.	Single case approach using semi-structured interviews and unstructured co-development workshops, supported by documentary data. Case company chosen according to selection criteria derived from research propositions.	Searching for associations and patterns relating to research propositions.	Not applicable
Simatupang *et al.* (2004)	To develop and test a set of research propositions for exploring supply chain coordination and to explain differences/similarities between theory and practice.	Exploratory single case approach using in-depth semi-structured interviews with senior management and operations staff alongside site observations. Case company chosen as typical in fashion industry.	Data matching between observations and interviews. Reliability and construct validity achieved by two levels of interview and informants' review of analysed data.	Not applicable
Perks and Halliday (2003)	"To explore the nature of trust as it evolves over time in inter-organisational relationships" (p.339).	Longitudinal multiple case approach using 4 case studies of strategic collaboration between large multinational European and Japanese companies, chosen to provide replication as well as variation to deepen understanding of the phenomenon.	Interview findings triangulated with documentary evidence.	Cross-case analysis by sources and signals of trust, as well as drawing on previous research in similar subject area.
Jenkins (2006)	"To progress understanding of the limitations on, and opportunities for, CSR in SMEs through the exploration of exemplary characteristics in the study companies" (p.242).	Multiple case approach using in-depth semi-structured interviews with 24 SME owner-managers whose companies were selected as exemplars of CSR.	Comparison of interviewee responses and drawing out of key themes from narrative analysis of transcripts.	Across whole group as well as by industrial sector and by size.

Table 4.10 Data analysis techniques within CSR/SCM/SME research

Ultimately, the aim of this thesis was to produce an integrative framework to capture the issues and drivers of CSR and understand how they influence CSR implementation in fashion supply chains, thus contributing to a deeper understanding of the phenomenon. The methodological approaches taken by Carter and Jennings (2002) and Maon *et al.* (2009) were therefore considered the most appropriate ones to follow. This research is also exploratory by nature and aims to progress understanding at this stage by building theory rather than by testing hypotheses.

- Consequently, it was decided to adopt a purely qualitative approach focused on developing rich explanations of the phenomenon under study (Carter and Jennings, 2002; Maon *et al.*, 2009) rather than using mixed methods of quantitative and qualitative research as adopted by Heikkilä (2002) and Williams *et al.* (2002).

Carter and Jennings' (2002) research was an empirical investigation of a relatively new and under-researched supply chain phenomenon and begins with a literature review to identify the underlying determinants of the phenomenon, synthesising two streams of literature on logistics and on CSR. Maon *et al.* (2009) developed a preliminary framework for the design and implementation of CSR through a literature review.

- The initial development of a framework for understanding CSR in garment supply chains is based on a literature review and synthesis of SCM and CSR.

Carter and Jennings (2002) conducted in-depth telephone interviews lasting 45-60 minutes with key informants in a range of companies which were selected to achieve a high degree of variation between industries and to understand logistics social responsibility, its antecedents and consequences from the standpoint and perspective of manufacturing organisations in the supply chain. The number of interviews was based on the point of data saturation. Maon *et al.* (2009) conducted on-site face-to-face interviews with managers in 3 companies chosen to reflect exemplary CSR practice and also to reflect a range of industry sectors.

- In-depth face-to-face interviews lasting 45-60 minutes were conducted on site with key informants in a range of garment manufacturing businesses which were selected through purposive sampling to achieve a variation between business model (full package supply or contract manufacture) and organisational size (large corporation vs. SME). The objective was to elicit the supplier perspective on the Inhibitors and Drivers of CSR in global fashion supply chains and the consequences of each on CSR implementation at factory level in a lower labour cost country. Interviews continued until the point of data saturation.

Carter and Jennings (2002) took a grounded approach by not establishing codes ahead of interviewing. Maon *et al.* (2009) grounded the codes in theoretical categories, in order to ensure the research was grounded in theory as well as in practice.

- Since the quality of theoretical development is key to the analytic generalisability of qualitative research (Johnson and Christensen, 2004), in this research it was decided to ground the codes in the literature, in order to increase the analytic generalisability of the theoretical propositions.

From their empirical findings, Carter and Jennings (2002) drew up a framework of logistics social responsibility, consisting of drivers, barriers, factors that overcome barriers, and consequences. By relating CSR to logistics, they contributed to theory on how firms address the role of logistics management as a responsible corporate citizen. Maon *et al*. (2009) synthesised key challenges and facilitators in the CSR design and implementation process. Their findings enabled them to develop an integrative framework and identify critical success factors for the CSR process, thus contributing to theory on the process of developing and implementing CSR in organisations.

- By drawing up an integrative framework which identifies the Inhibitors and Drivers of CSR in fashion supply chains, as well as an understanding of the Pillars that represent the theoretical constructs of CSR, this research will contribute to greater understanding of CSR in fashion supply chains.

Having set out the justification for adopting a qualitative research approach to researching CSR in fashion supply chains, the next chapter will present the empirical results from the multiple case study of Sri Lankan export garment manufacturers.

CHAPTER FIVE: CASE-BY-CASE ANALYSIS WITH RESEARCH MODEL CONSTRUCTS

5.1 Case study companies

The case study companies were all based in south western Sri Lanka with production facilities in some cases spread across the country. A basic summary is shown below. The business model is either full package supply (FPS) or contract manufacture (CM).

Co.	Employees in Sri Lanka	Factories in Sri Lanka	Business model	Date set up	Customers
A	25,000	24	FPS	1969	Gap, Old Navy, M&S, Next, Lands' End, Abercrombie & Fitch
B	10,000	12	CM	1979	George (Asda), M&S, Gap, Intimissimi, Tesco, Warner Bros.
C	15,000	21	FPS	1946	Eddie Bauer, Liz Claiborne, Levis, Tesco, M&S, BHS, Matalan, Asda
D	5,200	7	FPS	1991	Gerry Weber, Esprit, Chaps Ralph Lauren, Betty Barclay
E	5,000	4	FPS	1978	Tommy Hilfiger, Nike, Polo Ralph Lauren, Liz Claiborne
F	300	1	CM	2000	Noni B
G	300	1	CM	1995	Reborn, Macy's

Table 5.1 Case study companies

The remainder of this chapter describes each of the case study companies in turn. Each case study begins with an introduction to the company by way of its history and business operation. This is followed by an analysis of each company based on the key constructs in the conceptual framework: CSR Inhibitors, CSR Pillars and CSR Drivers. Photographic images are used to triangulate data where relevant; however, company logos are blocked out for reasons of confidentiality.

5.2 Company A

5.2.1 Company history and business operation

Company A was Sri Lanka's largest garment exporter. Through a range of wholly owned business units and joint ventures, Company A provided full package supply solutions to global fashion brands and retailers such as Gap, Next, Limited Brands, Abercrombie & Fitch and Marks & Spencer.

Company A began as a textile trading house in Sri Lanka in 1969. Following growth in the apparel manufacturing industry during the 1970s and 1980s, Company A made a series of acquisitions in Sri Lanka which enabled it to develop into a multifaceted group providing total apparel solutions to its customers. In 2009, the company consisted of 25 fully integrated manufacturing facilities in Sri Lanka supported by strategically located international sourcing offices which enabled it to provide inspired apparel solutions.

Company A was privately owned and structured into three sectors: Apparel, Textiles and Investments. The core Apparel business focused on product development, manufacturing and marketing of its key product lines – casualwear and intimate apparel. The Textiles business produced its own fabric, thread, buttons and hangers. Investments focused on building alliances and partnerships with related businesses in order to expand Company A's product base and strengthen its position as a leading provider of total apparel solutions. In 2007, Company A expanded the business into India to take advantage of lower labour costs and proximity to fabric sources, by setting up a 1000 acre vertically integrated textiles and garment park in the south.

In 1996, Company A set up its own College of Clothing Technology within the Apparel business. It provided two streams of industry training to school leavers and to existing employees, offering over 100 differently specialised courses. Facilities include a CAD studio, a multiple buyer-accredited textile research and development laboratory, an IT laboratory, sewing rooms and a reference library (pictured below).

Figure 5.1 Reference library in Company A's College of Clothing Technology

The Casualwear division was the core business within the Apparel sector. It supplied woven bottoms such as basic chino-type trousers, cargo pants, five-pocket jeans, shorts and casual skirts to key global brands and retailers such as Gap, Old Navy, Marks &

Spencer, Abercrombie & Fitch, Limited Brands and Next. Within this division, there were seven manufacturing units including a centralised cutting facility. There was also a centralised hub for design and product development as well as marketing and merchandising. The organisational structure was based on Customer Business Units (CBUs) which enabled Company A to give a high level of customer service to its buyers with dedicated personnel that worked on one customer account only. The organisational structure for the Casualwear division is shown below, with details for the Old Navy Customer Business Unit located at the Seethawaka Industrial Park in Avissawella. The organisational structure shows a hierarchical management structure. As a subsidiary retail brand of Gap, Old Navy retailed casualwear for adults and children at lower prices than its parent brand. The Casualwear factory visited was dedicated to Old Navy and Gap casual woven bottoms and had 1300 employees in total. At the time of the interview (July 2009), about 60% of the total production volume was for Old Navy with the remaining 40% mostly dedicated to Gap apart from a small amount for Lands' End. The plan was for the factory to be 100% Old Navy. By dedicating factories to single customers, Company A aimed to strengthen trading relationships and offer a more personalised service.

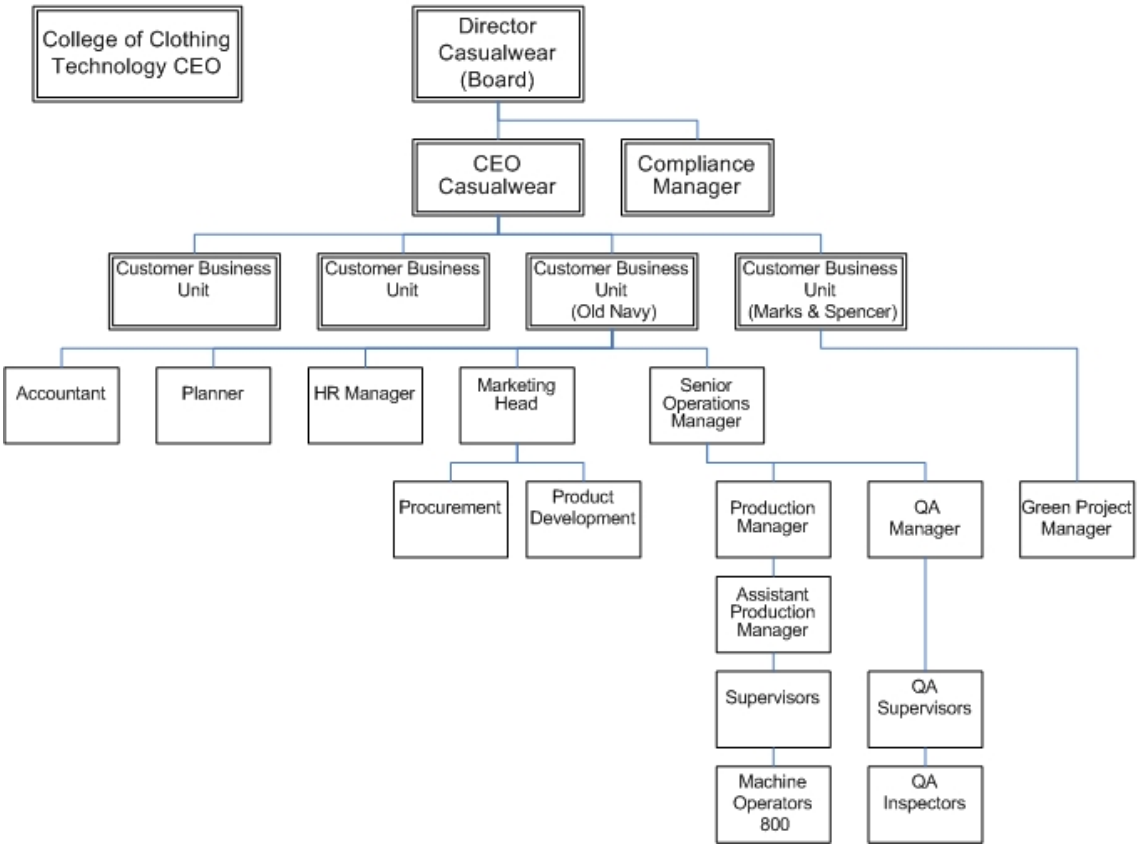


Figure 5.2 Company A organisational chart

The second CBU visited was the Marks & Spencer eco-factory in Seeduwa. This plant was originally 33 years old but was converted to the eco format in 2008. It had 1750 employees of which 950 were machine operators and produced around 300,000 woven bottoms per month. Cut pieces were sent directly from a centralised cutting facility so that only sewing assembly was carried out in the factory. Within this factory there were 12 differently-abled employees. All of the CBUs within the Casualwear division came under the remit of the group's Compliance Manager.

5.2.2 CSR Inhibitors

- *Downward price pressure*

Due to the increased competition in the garment both from low-cost producers in lesser developed and economic recession in its customers' markets, Company A in line with the majority of other garment producers was subject to requests for price cuts from its customers. However, this downward price pressure was mitigated somewhat due to the strength of the trading relationships Company A had with its buyers. Working together and sharing information enabled buyer and supplier to negotiate over how best to make modifications to the garment specification or the production process in order to achieve cost savings. Open book accounting and collaborative working with buyers was perceived by the Senior Operations Manager as a positive element that helped both parties to achieve their aims.

> "When they are asking for a discount, we give them our cost sheets: tell us where you think that we can reduce further. And they are suggesting also. So when they are asking for a discount what we'll do, we do some changes, design modifications and we say to them if we do these things we can come down the price by this much. So it's a win-win solution, ultimately we agree."

Another way in which Company A mitigated the impact of downward price pressure was by taking on greater volumes of orders for customers. The size and competences possessed by Company A helped it to become a strategic supplier for many of its customers. The Senior Operations Manager explained that Company A produced 40% of Gap's woven men's casual trousers, and two of four of Old Navy's core men's styles.

Greater volumes enabled Company A to increase efficiency in manufacture and achieve economies of scale. Lower margins were thus offset somewhat by greater volumes of business. However, Company A's aim of taking on greater proportions of its

customers' business would be limited in practice by the customers' wish to spread sourcing risk across multiple geographical locations. For example, Old Navy's four core men's styles were split between suppliers in Sri Lanka, Pakistan and Bangladesh.

The Green Project Manager at the Marks & Spencer plant acknowledged the effect of reduced volumes of orders. While Marks & Spencer had taken the full capacity of production in June 2009, this did not continue into the following month and Lands' End made up the remainder of the capacity. Company A was fortunate in having a number of key buyers that it could usually fill any spare capacity with another customer's order so that machines did not lie idle.

At a Vendor Summit in 2009, the Director of Company A admitted that pressure from buyers to reduce prices was a continuing industry challenge. However, although prices across all garment categories had fallen 10-27% over the last two years, this had stimulated an increase in sales. In 2008, the company had seen significant growth in sales despite lower average unit costs, contracting inventories and a slump in retail sales (Lanka Business Online, 2009).

- *Product nature*

The Casualwear factory which was the focus of the study produced core basic garments such as chinos and other similar casual style men's and women's woven bottoms. These garments were not high fashion and therefore had a relatively long product lifecycle. As such, volumes were larger and styles ran for far longer than fashion garments. The main retail customers listed in the previous subsection are mid-market brands rather than high fashion brands. Other Casualwear factories within the division produced more fashionable garments for customers such as US brand Ann Taylor.

The Old Navy Customer Business Unit operated a VMI agreement with Old Navy. Although basic casual styles were more likely to face downward price pressure than high fashion lines in an increasingly competitive market, the Senior Operations Manager felt that the long-running nature of the order for Old Navy enabled the workers to achieve higher production efficiencies as they were able to operate at the peak of the learning curve. Hence, they were able to earn production incentives on top of their normal salary. Core basic garments with long PLCs are also more suited to VMI (vendor managed inventory) agreements whereby the manufacturer takes responsibility

for managing the customer's stock and replenishing according to forecast rather than waiting for the retailer to re-order. The Senior Operations Manager explained:

> "We are keeping six weeks of stock depending on the customer demand forecast, we analyse that and we produce. So every week we are getting a purchase order from the customer, so depending on the purchase order we ship. We are continuously manufacturing based on the customer forecast".

While lead time was three months for normal orders from the point of fabric procurement, through manufacturing and shipping to arrival in the customer's country, the VMI agreement enabled Company A to reduce lead time to six weeks. Through VMI, Company A was able to plan ahead and provide a better service to the customer.

This demonstrates that there is a trade-off to be made between producing smaller volumes and greater varieties of fashion garments, for which a price premium can be attained and larger volumes of core basic items which are not subject to regular style changes but which are subject to greater levels of downward price pressure.

There was no VMI agreement within the Marks & Spencer green factory. Garments were made to order only and lead time was approximately eight weeks from arrival of fabric at the centralised cutting facility.

- *Labour intensity of manufacture*

Within the Casualwear business, a state-of-the-art, fully automated denim facility was established in 2005, the first of its kind in Sri Lanka. The automated denim plant was Company A's only investment in automation of the sewing process. Due to the long-running nature of the product and the relative lack of style changes in terms of garment construction for a standard pair of five-pocket style jeans, seen below, investment in automated machinery was justified.

Figure 5.3 Five-pocket style jeans

With 400 machine operators, the denim plant shown in Figure 5.4 below was able to produce around 12,500 pairs of standard five-pocket style jeans per day. This was facilitated by three different types of machines which enabled back pocket hemming, back yoke and back pocket placement to be performed automatically with an operator present to feed the fabric into the machine. These machines reduced average throughput time from 20-25 minutes to 13-15 minutes per pair, depending on style. The manufacturing process flow operated on a COR (cut order) mechanism initiating from fabric issuance to the finishing process with the whole operation managed via online information tracking. Denim customers included Levis, Marks & Spencer and Gap.

However, apart from the centralised cutting facility, there was no evidence of automation in the other Casualwear plants and the sewing process remained highly labour intensive. Due to the high level of style changes and smaller order sizes for higher fashion garments, investment in similar machinery was difficult to justify when compared to the low labour cost and plentiful pool of available labour resources.

Figure 5.4 Interior of Company A's denim plant, showing sewing lines & garment processing area

The enduring labour intensive nature of the manufacturing process recently led to problems with recruitment, especially in urban zones where the cost of living was higher than in rural locations. The Senior Operations Manager at Company A explained the difference between rural and urban industrial parks:

> "Industrial parks like (Avissawella), it's not that difficult to recruit. When it comes to cities like Ratmalana, Seeduwa, there's a challenge because people have to board and boardings are expensive, the cost of living is high in those cities, they are a bit reluctant to go to those areas now".

- *Retailer buying practices*

The key customers of the Casualwear business were large US and UK based brands, including (in descending order by volume) Gap, Next, Old Navy, Banana Republic, Lands' End and Marks & Spencer.

As a long-standing key supplier to Gap and Old Navy for the past eight years, Company A was familiar with its customer's business and this enabled it to plan ahead more easily. Company A preferred long running orders which enabled plants to run at maximum production efficiency without making line changes or sacrificing efficiency as operators familiarised themselves with new styles. The Senior Operations Manager of the Old Navy Business Unit pointed out that although machine operators' basic salaries in Company A were comparable with other large garment manufacturers in Sri Lanka, the fact that this particular factory worked on a long running VMI basis enabled the operators to earn a good production bonus on top of their basic salary, overtime and attendance incentive. Therefore average gross monthly salary was around 16,500 rupees (approximately £88.50), just short of the 16,706 rupee living wage recommended for supporting a standard family of four by the Asia Floor Wage Alliance (McMullen and Maher, 2006; ActionAid, 2010).

However, due to the recent economic recession, Gap and Old Navy's terms of payment had increased in invoice settling time by 50% from 30 days to 45 days. Within a climate of downward price pressure and requests for cost-cutting by buyers, Company A found that ethical standards continued to evolve and the company was expected to incorporate any new requirements regardless of the difficult business climate. However, in practice buyers such as Gap, Abercrombie & Fitch, Next and Marks & Spencer regularly provided training and support for Company A from their sourcing offices in Sri Lanka and this helped Company A to meet and adhere to any new standards in CSR. The Senior Operations Manager thus found Company A's customers to be supportive. The customers' continuous improvement initiatives helped the business to remain at the forefront of ethical standards:

> "They help us a lot to update our knowledge and to make the changes required to adhere to the new standards".

For example, as part of its 'Plan A' commitment to 'be a fair partner', in 2010 Marks & Spencer launched a Supplier Exchange "to drive best practices, stimulate innovation and help suppliers secure funds to develop more sustainable production techniques and

invest in their workforces and local communities by 2012" (Marks & Spencer, 2010, p.36). Furthermore, by setting up several 'Ethical Model Factories' and providing training at worker, HR and management level within each factory, Marks & Spencer hoped to identify and cascade best practice to improve factory working conditions in a sustainable manner (CSR360, 2010). Marks & Spencer also runs supplier seminars in its key sourcing countries.

However, the CEO of Company A acknowledged the pressure of meeting customer delivery deadlines in an interview with Fernando (2007). Even in the immediate aftermath of the 2004 tsunami, the CEO made the decision to continue production amid the panic and chaos in order to meet the shipping deadlines because "in the apparel industry, missing deadlines is committing suicide". It could be concluded that meeting customer deadlines could take business priority over social compliance and therefore demands for short lead times may jeopardise labour standards on the factory floor.

- *Supply chain complexity*

Company A employed over 25,000 employees directly and an equivalent number indirectly. However, due to the high level of control in the form of vertical integration and joint venture partnerships, there was a good level of visibility in the supply chain. As a large full package supplier, Company A rarely needed to venture outside the boundary of the firm for products or services needed to complete an order. With its own mill and finishing plants, as well as thread, button and hanger manufacturing existing within the boundary of the firm, Company A was able to guarantee CSR standards were being adhered to throughout the manufacturing process. The Senior Operations Manager felt this helped to strengthen Company A's competitive position as a full package supplier. On occasion, however, external parties would be used when nominated by a customer:

> "Sometimes we source from other parties as well, because when a customer nominated supplier then we source from them. But most of the cases we try to develop ourselves capabilities and offer a full package".

In 2007, the company had expanded the business into India by building a 1000 acre fabric park in order to take advantage of lower labour costs and proximity to fabric sources. As well as capitalising on India's competitive advantage in fabric production, retaining successive supply chain processes within the boundary of the firm facilitated the maintenance of ethical standards within Company A's supply chain.

The CEO of Company A's College of Clothing Technology confirmed that under no circumstances would subcontracting be carried out with unauthorised suppliers:

> "If (Company A) want to do subcontracting we have to first go and see that company is compliant, otherwise we cannot give subcontracting".

This statement was echoed by the Senior Operations Manager. Moving outside the vertically integrated business of Company A entailed extra responsibilities: compliance with codes of conduct would need to be ascertained before Company A could outsource to a local supplier.

> "We have a compliance team to look after the compliance of the business and if we are going to a third party to make sure that third party adhere to our compliance standards".

- *Supply chain power distribution*

As Sri Lanka's leading apparel exporter, Company A had a relatively high level of power within the supply chain and was therefore less likely to be exploited by its buyers. The Senior Operations Manager felt secure in the knowledge that the business with main buyers would continue to exist and in some cases grow, notwithstanding the fact the company had no formal contract guaranteeing future work from its buyers. The added value provided by Company A in terms of quality and service, such as its VMI agreements with certain buyers, meant that it would be difficult for a buyer to transfer the business to another supplier. The Senior Operations Manager explained:

> "They are not in a position to do that definitely, because the volume is so huge and also they cannot be depending on a vendor like us for just go and build a vendor like us very easily".

The added value in Sri Lanka was confirmed by the Head of Sustainable Business at Marks & Spencer, who referred to Sri Lanka's strengths of relatively skilled, high quality garment manufacture combined with well-managed factories and competitive wage rates. The competences of Company A provided it with some level of power in terms of negotiations with buyers: the Senior Operations Manager felt sure if any problems occurred they would be solved to the mutual benefit of both parties, rather than for the benefit of the buyer at the expense of Company A. Nevertheless, the CEO alluded to the ultimate power of the customers in an interview with Fernando (2007) when he referred to the pressure of meeting delivery deadlines even in the immediate aftermath of the 2004 tsunami.

5.2.3 CSR Pillars

Company A as a group had multiple CSR accreditations including SA8000, WRAP, C-TPAT, ETI, OHSAS which are described in Appendix II. The company had also won several national CSR awards in the last few years, including a safest workplace award, and in 2009 was commended by the United Nations Global Compact as an example of good CSR practice and compliance with the principles of the Global Compact. As well as conforming to its customers' codes of conduct, Company A had also formulated its own social compliance policy which was displayed at factory entrances in both Sinhala and English, and appropriately implemented and audited with the business.

Figure 5.5 Company A's social compliance policy displayed at factory entrance

The Casualwear division led the rest of the company in sustainable business development. In 2009, its lead manufacturing plant for Marks & Spencer set a global benchmark for low energy consumption, water conservation, solid waste management and low carbon emissions, as the first and only apparel manufacturing facility in the world to be rated Platinum under the Leadership in Energy and Environmental Design (LEED) Green Building Rating System of the US Green Building Council. The plant was converted within the space of a year and supports Marks & Spencer's 'Plan A', a five-year, 100-point sustainability plan that encourages its suppliers to make their supply chains carbon neutral through eco-friendly manufacturing processes. The plant won the national award at the Energy Globe Awards in 2008. Additionally, all seven manufacturing plants in the Casualwear division had recently been certified by SGS as

compliant with the 'Garments Without Guilt' scheme. The interior of the Platinum LEED-rated casualwear factory at Seeduwa is shown below.

Figure 5.6 Interior view of Company A's Platinum LEED-rated Casualwear factory

For employees, Company A provided free transport, uniforms including protective equipment (as shown below), breakfast and tea throughout the day, subsidised lunch and healthcare benefits in line with the rest of the industry.

Figure 5.7 Company A workers in uniforms and dust masks provided free by their employer

Minority ethnic groups and disabled workers were accommodated alongside able-bodied workers as a matter of course. The company had recently established some plants in the Northern territories and launched a programme to rehabilitate a number of ex-LTTE (Liberation Tigers of Tamil Eelam) soldiers to work in the plants, thereby integrating those affected by the civil war into the nation's workforce. Employees were referred to as 'associates' rather than 'workers' and disabled people were referred to as 'differently-abled', in order to positively emphasise the value brought to the business by employees and the strength of contributions from disabled employees.

A dedicated CSR Centre within the business coordinated CSR initiatives and activities. Since 2006, an eight-page magazine was published several times a year and made available to employees and customers, examples of which are shown below.

Figure 5.8 Examples of Company A's CSR magazine

Company A's long-term CSR efforts centred on its 'Water is Life' programme which aimed to improve access to drinking water for Sri Lankans by building new desalination plants along the coast and then distributing the water to needy communities (Fernando, 2007). The project was initiated in 2006 to help some of its employees' communities that were unable to access clean water, but grew to encompass larger scale projects carried out in partnership with the UNDP. This included the creation of a water resources research and training centre which was initially funded in conjunction with Gap but since 2008 this was run in partnership with Deutsche Bank. Typical village water pumps installed by Company A are shown below.

Figure 5.9 Company A's 'Water is Life' CSR programme: examples of village water pumps

- *Moral philosophy*

In terms of CSR, Company A's aim was:

> "To lead in being responsible corporate citizens. Not because we are convinced it is a good way of doing business but because we believe it is the right way of doing business" (Mission Statement, Company CSR magazine, Issue 1 2009).

This suggests that the moral argument rather than enlightened self-interest drove Company A's CSR activities. Its website proclaimed that the corporate vision of CSR centres on improving the lives of the wider society rather than corporate profitability:

> "We are proud of our social responsibility record and highest compliance standards. It's about improving lives within the (Company A) sphere and those others that it touches in our neighbourhoods".

This was confirmed by the Compliance Manager, who stated that Company A's most important corporate responsibility was its human rights responsibility. This could be evidenced by some of the HR practices within the business. The Senior Operations Manager claimed disabled workers were accommodated into the business as a matter of course or in terms of a moral imperative rather than enlightened self-interest:

> "In those cases if we need certain adjustments to be done or certain things to be done to accommodate their needs and requests, we will go out of the way and do those requirements, that's a normal thing for us not a special thing".

The Senior Operations Manager felt that the Buddhist culture in Sri Lanka helped to support the concept of social compliance and responsible business, so much so that he claimed social compliance would be largely present in Sri Lanka even without the regulation of national laws, export regulations and buyer demands:

> "The mindset is that you can't exploit people who are under you … since you want to get large money out of your business. That mindset is not there … The Buddhist culture is demanding fairness and social justice and equity between all the people and so that kind of things are there, it is a part of the culture … let's say situation where no such demands, no rules and regulations, no standards, still I would say 70-80% of the things which we are practising could have been there".

The moral philosophy pillar of CSR was thus underpinned by the Buddhist culture.

- *Competitive advantage*

Adhering to externally accredited CSR standards over and above its own and individual customers' codes of conduct enabled Company A to differentiate itself and promote its ethical supply chain management capabilities. Since social compliance and responsible business represented the strategic core of Company A, voluntary certification to international CSR standards was budgeted for by the company and also helped to

prepare for changes to vendor CSR requirements, which were often based on these global standards. For example, Gap's Code of Vendor Conduct was last updated in 2008 and is based on conventions established by ILO as well as being aligned with the policies of SAI and ETI (Gap, 2009).

The Senior Operations Manager felt that Company A's high standards of CSR were beneficial to the business as they helped to attract good quality workers in a competitive industry. The company was well-known in Sri Lanka for its high ethical standards and employment conditions. Company A's plants were usually located in BOI industrial parks or EPZs and in such circumstances the company competed against dozens of other garment manufacturers for local workers:

> "If I take this zone, there are about 30 entities similar to us … There is a lot of competition for good people … for us to benchmark ourselves and highlight the differences between another company and us, our ethical practices have helped us a lot … ordinary employees will understand the difference between a (Company A) plant and another average plant".

Similarly, the Compliance Manager felt that treating employees with dignity and respect was beneficial to the business and resulted in a committed and motivated workforce:

> "When we are taking care of our employees … there will also be a return to the business, people are very committed, they are loyal to the company and they do whatever maximum they can contribute".

The CEO of the College took a broader view and stated that good standards of CSR could be used as a competitive weapon to help the nation as a whole compete against its lower labour cost neighbours such as Bangladesh, Pakistan and Cambodia.

> "We are using (CSR) as a weapon. We have clean factories; we have superb manufacturing management compared to other neighbours in this part of the world."

In the green factory, the Green Project Manager acknowledged the beneficial effect of the eco-conversion on employee attendance and efficiency. There were fewer health issues amongst staff and production efficiency had increased by 4%.

The benefit of CSR for supplier competitive advantage was confirmed by the Head of Sustainable Business at Marks & Spencer. Since discovering that CSR made commercial sense for the business, Marks & Spencer aimed to engage suppliers

throughout the value chain. This was facilitated by working with suppliers who were receptive to CSR implementation and understood the long-term benefit from CSR in terms of its link to quality assurance.

- *Sustainable development*

Company A's five corporate values, as listed below, influenced its approach to business activity and supported sustainable development.

- Integrity (honesty, transparency and fairness)
- Teamwork (facilitates innovation and improvement, supports long-term success)
- Customer service (surpass expectations to ensure repeat business and growth)
- Learning and development (investment in the most valuable resource: employees)
- Ownership and commitment (be accountable and facilitate synergy)

According to Company A's website, the drivers for the business were social responsibility, values and work culture. The corporate values guided employees to become aligned with corporate goals. The website explained:

> "As well as encouraging associates to becoming customer-focused, incorporating speed, flexibility, innovation and passion into their work allows them to think more productively and perform for results. Accommodating change and embracing openness and transparency leads to the appreciation of others and the progressive development of the individual, at work and elsewhere".

Nurturing and developing individuals to become more productive and innovative both at work and in their personal lives supported the sustainability of the business and the concept of a work-life balance.

As a labour-intensive business, Company A recognised that motivated workers were key to maintaining high levels of production efficiency and quality that supported both competitive advantage and a sustainable business. The Senior Operations Manager felt garment businesses in Sri Lanka realised that CSR was advantageous to their long-term success and that their survival was dependent upon their employees:

> "Most of the businesses, especially in apparel, they are looking for a sustainable business. They do understand that unless you pay enough and look after your employees enough then ultimately you will not have people to work in your factories".

Company A's focus on its people enabled it to retain its position of 'preferred employer' in Sri Lanka. Recognising that an organisation equates to no more than the sum of its people, the website states:

> "At (Company A) we aim to constantly inspire our people".

By inspiring its employees, Company A hoped motivate and empower its employees and thus maintain a sustainable enterprise. The website copy was supported by the Social Compliance Manager, who explained that employees were central to the business and this way of thinking and guided HR initiatives and activities:

> "We believe that our corporate responsibilities in human rights are most important, so we do all our aspects even from our mission statement we talk about people, inspired people, how we're going to make inspired people. Behind that we have a lot of activities HR-related and we ensure that always we do ethical kind of access to the business".

For example, Company A ran a programme promoting equality of opportunity and treatment for disabled persons in vocational rehabilitation, training and employment (Company CSR Magazine, Issue 2, 2006). Disabled workers were accommodated into the business on an ongoing basis, with a special training school set up in 2008 and 34 differently-abled workers employed as of 2009. A culture of internal appreciation and recognition was fostered via a range of gestures such as the Kaizen awards for innovative thinking, merit awards for work and attendance, 'I value you' cards and gifts and the 'Pat on the back' initiative promoting instant appreciation of behaviour and performance among colleagues. An annual corporate awards party celebrated outstanding executive, team and individual performance. Organised sports events such as cricket tournaments encouraged social interaction between employees.

Company A also contributed to sustainable development in the industry as a whole and towards the national economy. By ensuring domestic subcontractors conformed to its stringent criteria on quality, on-time delivery and CSR through an ongoing process of monitoring and evaluation, Company A cascaded best practice to smaller local suppliers and thus enabled them to develop sustainable businesses.

5.2.4 CSR Drivers

- *Consumer desire for guilt-free fashion*

Although there was no direct contact and therefore no direct pressure from end consumers to Company A, its main retail buyers helped to drive the CSR agenda forward. The Casualwear business' main buyers were large global high street brands such as Gap and Marks & Spencer who were arguably leaders in pushing the CSR agenda forward in the fashion retail industry. Indeed, the Head of Sustainable Business at Marks & Spencer explained that consumers would send signals, rather than exert direct pressure on the retailer to become more sustainable in its business. By interpreting the signals, the retailer could respond to what it saw as market opportunities

For example, Marks and Spencer's 'Plan A', a five-year, 100 point eco-plan, was launched in January 2007 in response to concerns from customers, employees and external stakeholders. According to Marks & Spencer's corporate website, 'Plan A' was the medium that enabled it to work together with customers and suppliers to combat climate change, reduce waste, use sustainable raw materials and trade ethically. Encouraging suppliers to conform with and support the sustainability agenda was a major drive within the plan. The Manager of the Green Project confirmed that the conversion of Company A's lead manufacturing plant for Marks & Spencer into an eco-factory in 2008 was initiated by the retailer. As the first garment manufacturing factory in the world to receive platinum LEED rating, it supported Marks & Spencer's 'Plan A' objective of making the supply chain carbon-neutral through eco-friendly manufacturing processes. Consumer pressure, which Marks & Spencer claimed had provided some of the impetus for 'Plan A', thus impacted directly upon the retailer and indirectly upon the supplier. The Compliance Manager confirmed that Company A's buyers represented the greatest outside pressure to improve social compliance:

> "We have third party pressure like Sri Lanka labour laws, interested parties like NGOs as well as our buyers, especially our buyers".

The Senior Operations Manager spoke of the support that Company A received from its buyers in keeping up-to-date with CSR developments:

> "They organise training programmes, conferences. Gap do, and if I take Abercrombie and Fitch, they visit us regularly and educate us, M&S they do, Next they do from their local office".

The Group Compliance Manager felt that buyers were the main source of external pressure to drive the CSR agenda forward and improve standards further. Some buyers

exerted greater pressure by insisting that Company A conducted social or environmental projects that benefited a wider stakeholder group than employees within the firm.

In 2008, Gap updated its Code of Vendor Conduct to reflect changing priorities and requirements. This update was based in part upon input from stakeholders including consumers. The new Code required improvements and adjustments on the part of suppliers including Company A. Again, this demonstrated how consumer pressure impacted upon the retailer and in turn these demands were fed upstream through the supply chain to the manufacturer.

In addition, Company A received input from Sri Lanka Apparel to help to improve social responsibility standards. The aim of Sri Lanka Apparel's 'Garments Without Guilt' initiative was to promote Sri Lanka to Western fashion retailers as an ethical manufacturing destination in order to achieve a sustainable differential advantage against other garment manufacturing countries. Its pioneering efforts in CSR were geared towards pre-empting buyer requirements and gaining first-mover advantage. The Senior Operations Manager felt the high standard of Sri Lanka's labour laws eased the pressure of improving social compliance within the business. Adhering to buyers' CSR requirements was facilitated by the stringent labour laws that were already in place, in addition to BOI regulations and 'Garments Without Guilt' guidance:

> "Some are even tighter than international requirements. Most of our labour law requirements are tighter than the vendor requirements".

Therefore consumer pressure was not a driver of CSR implementation for Company A.

- *Trust as an antecedent of commitment, cooperation and collaboration*

The Senior Operations Manager felt that after seven to eight years of trading, the nature of the relationship with one of Company A's main casualwear buyers was one characterised by trust and commitment and was as strong as it could possibly be.

> "With Gap we have a very close relationship because (of) VMI, we are carrying their inventory … For Old Navy we haven't gone to that level but we are in the process of developing".

The VMI agreement with Gap helped to cement the relationship as it entailed significant sharing of confidential information, for example cost sheets in the case of open-book accounting. The Senior Operations Manager did not see this as a potentially risky state of vulnerability, but rather a positive win-win situation where both parties could share

best practice and help each other to improve. Working closely together as a team helped to present a united front against the challenging competitive climate and was more effectively than working alone.

> "Our cost sheets we do share with them, especially when they are asking for a discount. We give them our cost sheets, tell us where you think that we can reduce further. They are suggesting also … it's a win-win solution, ultimately we agree".

An additional benefit that Company A enjoyed as a result of its responsible business practices and ethical credentials was its trusted position within society towards its customer, employee and community stakeholders. As key supplier to many global retailers and brands as well as being one of Sri Lanka's preferred employers, Company A recently posted a fan page on premier global social networking site Facebook and had a total of 1897 fans as of January 2011. The fan page is used to publicise information on CSR-related awards and achievements, as well as job vacancies. It provides an anecdotal measure of the goodwill generated by the company which results in its popularity. The Compliance Manager pointed out the need for trust in the relationship between management and employees and the role of a centralised CSR function to ensure harmony between both parties, in addition to managing the interface between the company and external stakeholders:

> "We act as trust agents to ensure that relationship between employees and management".

Teamwork and commitment were two of Company A's five corporate values. Its website also publicised the collaborative teamwork approach by acknowledging the key roles its retail customers and suppliers played in the company's success. Since Company A provided a full package supply service rather than contract manufacturing, there was evidence of cooperative and collaborative buyer-supplier working. The Senior Operations Manager explained:

> "We do full package supply. We do designs, not for all customers, but some customers they ask for designs, like M&S they take our designs …. Then we source fabrics and trims".

In 2007, Company A launched its Centre for Inspiration creative hub, a uniquely designed 270,000 square foot building for the Casualwear division. This was a one-stop shop for all stages of the supply chain from design to delivery. Within the hub, there

was a state-of-the-art product development and design centre, a central warehouse, a high-tech cutting facility and centralised marketing, merchandising and supply chain management operations. It allowed Company A's employees to work alongside customers during the conceptualising, designing, constructing and sampling processes and thus demonstrated Company A's commitment to collaborative working and adding value to the full package service.

The Senior Operations Manager felt that the close-knit nature of the trading relationship with the customer helped to guarantee continuity and future orders. The high level of service provided and the depth of understanding of their customer's business meant that it would be difficult and time-consuming for the customer to find another supplier and build up to the same level of relationship with them. Although there were no formal contracts or guarantees of work, the nature of the trading relationship demonstrated considerable commitment and this enabled Company A to feel secure in the knowledge they would not lose suddenly lose their customer's business:

> "It will take them four or five years at least to build a relationship like this. So they are not going to move away in one month; that will not happen".

Notwithstanding the intense global competition in garment manufacturing, the large volumes handled by Company A protected the business from a great deal of competition since there were fewer alternative suppliers who could compete with its ability to successfully handle such large production volumes.

Company A also shared a lot of information such as key performance indicators and customer calendars with its suppliers in order to enable them to contribute towards the challenges involved. Such information sharing facilitated cooperative and collaborative working within the supply chain.

- *Supply chain management – long-term orientation, shared goals*

A long-term orientation with shared goals was most apparent between Company A and its customer Gap. The VMI agreement was a long-running arrangement that enabled Company A to perform at a high level of effectiveness and efficiency. Within the VMI agreement, open-book accounting enabled Gap and Company A to collaborate on cutting costs. The shared goal was to continue business in the face of a challenging business climate where there was immense pressure to reduce costs.

The Head of Sustainable Business at Marks & Spencer also spoke of the far-sighted vision of Sri Lankan factory managers and owners, which supported the implementation of CSR as it enabled them to see the long-term benefits and opportunities for mutual learning. The presence of a long-term orientation and shared goals was therefore clear.
At a vendor summit event in 2007, the CEO spoke of Company A's long-term plan to build a concise supplier base that would enable it to compete effectively against the high level of competition in the industry by being able to adapt quickly to changing market conditions. He acknowledged the inherent challenge of collaboration in an industry where competition was the norm, but concluded that a long-term cooperative approach would help all supply chain members work towards the demands of the end customer more effectively and share in the gains of growth and development. To support the SCM philosophy of working together with suppliers to achieve greater gains for all, Company A had a programme of supplier development within which best practices were cascaded down through the supply chain.

- *Supply chain rationalisation*

Company A was aware of the benefits of a smaller supply base in increasing supply chain visibility and improving service provision. At a vendor summit event in 2007, the CEO spoke of Company A's plans to build on long-term relationships with a core group of trusted partners in order to create a compelling service offer to its customers. This was seen as a way of successfully navigating the increasingly challenging retail environment:

> "We need to focus on a concise vendor base that can adapt swiftly to the rapidly changing market requirements"

Downstream, there was evidence of supply chain rationalisation undertaken by some of the customers of the Casualwear division. The Senior Operations Manager confirmed that Company A was a key supplier to Gap and Old Navy and that for some of Old Navy's woven bottoms Company A held 40% of total global production volume. In practice this amounted to being responsible for two out of the four core men's styles retailed by Old Navy. The other two styles were currently placed with alternative Asian suppliers, one in Pakistan and the other in Bangladesh. This is indicative of the supply chain rationalisation trend where buyers place larger volumes of business with fewer trusted suppliers. The large volumes were also conducive to setting up the VMI agreement: the factory production capacity was around 280,000 garments per month of

which around 170,000 garments were produced for Old Navy within the VMI agreement. The aim was to increase the volume of Old Navy so that the factory would be a 100% Old Navy plant.

Marks & Spencer sourced from over 70 countries but Sri Lanka was one of its key sourcing locations. Furthermore, as part of its 'Plan A' sustainability programme, Marks & Spencer had introduced a supplier ranking system on ethical trading. It could therefore be concluded that Marks & Spencer's rationalised supply base would include suppliers with the best CSR performance, providing greater impetus for suppliers to implement CSR in order to continue supplying this customer.

- *Supply chain integration*

The high level of vertical integration in the group enabled Company A to provide a full package service to its customers without having to outsource functions outside of the vertical supply chain. This enabled Company A to retain control over CSR standards in its operations. Furthermore, the CEO hoped that building strong relationships with a concise supplier base would enable Company A to adapt quickly to changing market conditions and thus counteract heavy competition in the industry.

5.2.5 Summary

Company A had multiple CSR accreditations and had won many accolades for CSR. There was a dedicated CSR Centre within the business that coordinated large scale philanthropic projects such as providing clean water and sanitation facilities to poor communities in Sri Lanka. Internally, its vision of 'inspired people' and its regard for employees as the key resource within the business supported its commitment to conducting all business activities in a responsible manner. As a self-professed 'preferred partner' to its global apparel customers and 'preferred employer' within the Sri Lankan garment industry, Company A was proud of its high levels of social responsibility both within the immediate business and externally within society. It used its ethical credentials to position itself as a quality apparel supplier towards customers, since its high standards enabled it to conform to the ethical requirements of premium fashion retailers and brands. CSR also helped to attract quality candidates and ensured high levels of employee motivation and retention, and hence business efficiency. CSR

thus contributed significantly to the sustainability of the business as well as providing a clear competitive advantage.

5.3 Company B

5.3.1 Company history and business operation

Company B was one of Sri Lanka's largest contract manufacturing companies supplying approximately 24 million garments per year to US and EU buyers including Marks & Spencer, Asda, Tesco, Intimissimi, Gap and Warner Bros.

Founded in 1979 with a single garment manufacturing factory housing 10 machines and 15 employees, Company B had grown over the years into Sri Lanka's leader provider of contract manufacturing services to US and EU retail buyers. Securing a large order from Marks & Spencer in 1989 enabled the business to expand and at the time of the interviews in July 2009, Company B had a workforce of approximately 25,000 and 13 plants across Sri Lanka. These included 11 manufacturing plants, an embroidery plant and a hand embellishment unit. Additionally, it owned three hostels in the Colombo area where female workers from remote areas received free accommodation.

Company B's belief in rural empowerment led the decision to locate factories in rural villages rather than cities. Its expansion into rural areas began in 1989 with the set up of its first rural factory in the North-West province, where priority in personnel recruitment was given to those beneath the poverty line. In 1992, the BOI launched the 200 Garment Factories Programme (200 GFP), an attractive incentive package to encourage garment manufacturers to move to rural areas (Kelagama, 2005). Company B took advantage of these special incentives and built its expansion strategy upon the 'town to village' concept. In this way, Company B helped to alleviate rural poverty by providing employment in villages. This removed the need for providing hostels and enabled employees to return home to their families at night rather than living away from home, hence retaining traditional family bonds intact.

Company B operated as a garment manufacturing subcontractor for many US and UK retailer brands and worked mostly with locally based manufacturing subsidiaries of global brands and retailers. Since full package supply requires greater financial capital

requirements in terms of paying for fabric and accessories upfront, the company operated as a second tier supplier only. For example, Company B produced Marks & Spencer garments which were then supplied to Crystal Martin Ceylon, a wholly owned Sri Lankan subsidiary of Hong Kong based apparel supplier Crystal Group. Crystal Martin Ceylon had its own factories in Sri Lanka but subcontracted some work on a long-term basis to Company B amongst others. Company B also made for Italian label Intimissimi. However, garments were supplied to Omega Line, the Sri Lankan subsidiary manufacturing operation of Intimissimi's parent group Calzedonia. Since setting up its first Sri Lankan factory in 1997, Omega Line had become one of the largest investors in the Sri Lankan apparel industry. Company B was also sole supplier to Grasshopper UK, a UK-based sourcing operation supplying babywear to UK retailers such as Asda. Grasshopper previously had its own UK manufacturing plants in Wolverhampton but had outsourced the manufacturing operation to Company B in 1999 to take advantage of the lower labour cost. Company B had also recently entered into partnership with one of the UK's leading design and sales companies, Intraport Plc, which specialised in design for UK high street brands including Marks & Spencer, Arcadia Group, Next and Laura Ashley. Although lacking in the financial capital requirements of full package supply, Company B hoped the combination of Intraport's expertise in design and access to UK high street multiples would help it become a preferred manufacturing choice for more brands and retailers.

The organisational structure for Company B is shown in Figure 5.11 overleaf. Interviews and observation were carried out at the Main Factory and at Factory 4, circled on the chart. The Main Factory was situated in the Ratmalana area of Colombo and Company A's head office was on this site, including the Chairman's office and the HR function. The Main Factory was dedicated to producing babywear for Grasshopper UK on behalf of retail brands such as George at Asda. Production capacity at the Main Factory was approximately 800,000 pieces per month. Factory 4 was situated in Alawwa, a rural area approximately 60km inland from Colombo, and consisted of three manufacturing units as well as a fabric warehouse, offices, canteen and a small training centre.

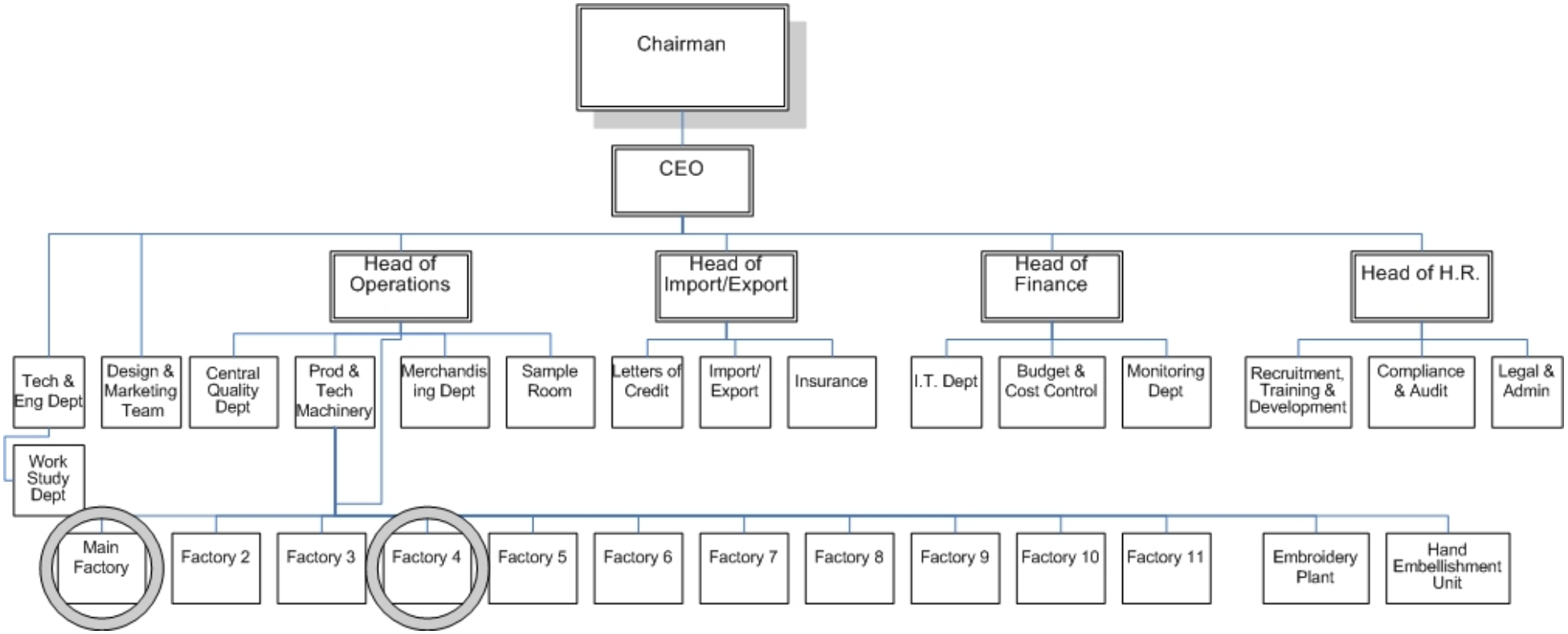


Figure 5.10 Company B organisational chart

The view of Factory 4's entrance, amongst the typical lush vegetation found in rural areas, is shown in Figure 5.11 below. There was a vegetable garden within the factory premises in which king coconuts, herbs, spices and vegetables were grown and used by the cooks in the canteen.

Figure 5.11 View of Company B's Alawwa factory entrance

Factory 4 had been converted from an old textile factory. The first manufacturing unit within Factory 4 was dedicated to Marks & Spencer while the other two produced for Italian label Intimissimi. On the original site, shown above, there was a Marks & Spencer dedicated facility and a dedicated Intimissimi facility. As the business with Intimissimi increased, land on the other side of the road was used to build another Intimissimi facility in 2007, which was more modern and spacious. The organisational structure of Factory 4 is shown in Figure 5.12 below.

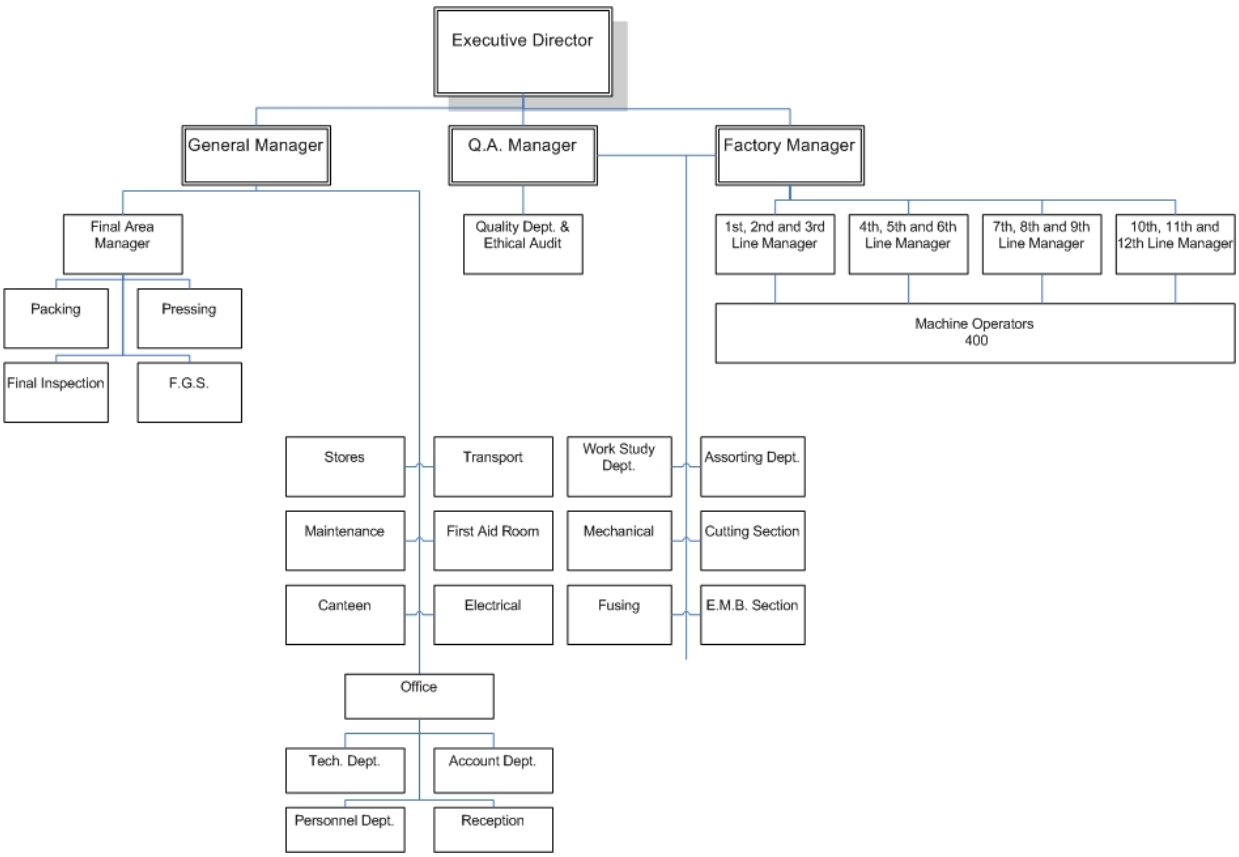


Figure 5.12 Factory 4 organisational chart

The Executive Director was based in the Marks & Spencer facility but was responsible for overseeing the whole of Factory 4. Beneath the Executive Director, the positions were repeated across each separate customer facility within Factory 4. For example, there were three General Managers; one each for the Marks & Spencer facility and the two Intimissimi facilities. The General Managers from each of the two Initimissimi facilities were interviewed. At the time of the visit in July 2009, the General Manager of the first Intimissimi facility had just been promoted to a higher level of responsibility across both Intimissimi plants as he had worked on the account for several years and knew the customer well. As the second Intimissimi facility was only two years old, the General Manager had moved there from another part of Company B's business.

5.3.2 CSR Inhibitors

- *Downward price pressure*

As a contract manufacturer, Company B operated on a smaller profit margin than some of its full package competitors that were able to capitalise on the creation of value-added supply chain management. As such, unit costing was based on the standard

minute value (SMV) of the garment and calculated in US dollars. This process was achieved via standard work study techniques of breaking down the operations and measuring the time taken for the garment construction process from cutting to finishing. Both parties agreed on the timing of the operation before settling on a price. The Chairman explained:

> "Cost is very simple, very transparent. (The customer) knows what is the minute value for the garment, we know what is the minute value. So we fix the minute value, for example, eight cents per minute value cost – if there are twelve minutes, twelve (times) eight: that is my CM".

In the Intimissimi unit, the Factory Manager said that a software program helped increase the accuracy of the standard minute value calculation and until the present time there had been no discrepancies between the SMV calculated by Company B and the SMV calculated by the buyer. As such, there was no pressure from Omega Line for Company B to further reduce the unit cost.

From the Main Factory, baby garments were shipped to Grasshopper, a UK sourcing operation that acted on behalf of major store groups including some discount retail brands such as George at Asda. When producing for discount retailers, margins were tight and Company A was dependent on its customers' large order volumes to sustain the business profitably.

At the time of the interview, the Chairman was aware of the difficulties inherent in the low-added value nature of contract manufacturing and was beginning to formulate plans to start producing some own-brand lines that could be sold into the domestic market. Although a large company in terms of employee numbers, Company B was unable to move into full package manufacturing very easily due to the costs of paying for fabric and trims upfront. This meant that although Company B had been producing Marks & Spencer garments for the past 15 years, it was unable to become a direct supplier. It was hoped that entering into partnership with UK-based design and marketing agency Intraport Plc would help Company B overcome its lack of design capabilities and access a larger market.

- *Product nature*

In the Main Factory, a typical baby garment produced by Company B was a basic all-in-one baby-grow made in cotton jersey fabric with embroidery or appliquéd decorations

and a popper fastening. Machine operators were able to achieve a relatively high level of efficiency since the basic style was simple and remained constant. Additionally there was some automation in the factory such as laying and cutting machinery which reduced the number of manual workers required. In manufacturing for EU high street retailers, there was an added responsibility to ensure garments were not contaminated with broken needle parts during the production process. A strict broken needle policy was in place which including stringent procedures for replacing broken needles on machines. All broken needle incidents were detailed in a log book and there was a central area with a dedicated member of staff responsible for taking in broken needles and giving out replacements. Additionally all garments were passed through a metal detector to check for metal contamination prior to packing and shipping.

In Factory 4, the garments for Marks & Spencer were mostly core basic pieces such as plain viscose jersey leggings and T-shirt style tops for the Limited Collection range. With 400 machine operators, production capacity for such basic T-shirt styles was around 18,000-20,000 pieces per day.

Garments for Intimissimi, however, were more fashion forward and were thus subject to a higher level of design changes from season to season. The fashion element of the product nature meant that fabrics were usually more difficult to work with than those used for core basic pieces. For example, there was a range of shift dresses in a high-pile woollen blend. A range of loungewear/sleepwear was made from micro-modal fabrics and typically included lace trims or inserts and contrast yokes or neck binding. The micro-modal fabric was fine and slinky and consequently difficult to work with due to a lack of dimensional stability. This meant that machine operators needed superior handling skills in order to overcome the difficulties and achieve the required quality and efficiency in manufacture. However this was recognised by the buyer and an allowance factor was given for the type of fabric. For example, micro-modal garments were costed at nine cents per standard minute while for ordinary woven fabrics the cost was eight cents per standard minute. The combined output of the two Initimissimi units was around 11,000 pieces per day.

- *Labour intensity of manufacture*

While the Main Factory was able to speed up the production process through the use of automated laying and cutting, Factory 4 on the other hand found the nature of the

viscose jersey fabric for the Intimissimi garments so difficult to work with that automated laying was rejected in favour of manual laying and cutting in order to achieve the required quality. Hence more workers were required during the laying and cutting stage. With manual cutting, protective chainmail gloves had to be worn while operating blade saws and these were provided to employees.

- *Retailer buying practices*

Intimissimi, a leading Italian lingerie, sleepwear and apparel brand with over 1100 retail outfits worldwide, had a subsidiary sourcing and manufacturing operation in Sri Lanka called Omega Line. Omega Line was set up in 1997 with a state-of-the-art factory in Sandalankawa, followed by another factory in Badalgama in 2003 that produced Calzedonia-branded swimwear for the eponymous parent group (Just-style, 2003). Since 2001, Omega Line had outsourced some of its production for the Intimissimi label to Company B and over this period a good trading relationship developed. The Factory Manager of the first Intimissimi unit was able to plan ahead better as the buyer committed to fill capacity for a full year and this was confirmed in writing. This meant he did not have to find other buyers to take spare capacity or risk running at less than full capacity. Even if the buyer did not have sufficient orders to fill Company B's factory, they would first transfer some production from their own factories before reneging on the agreement. The Factory Manager explained:

> "Our buyer, there is a written document for the full year they are booking … I don't have any doubt … they will fill our capacity … full year they are loading. If they don't have enough orders sometimes they are taking their in-plant production, they give to me to fill up my capacity".

Production lead time was normally seven to eight weeks. Additionally, Omega Line's payment terms were favourable towards their supplier: payment was made immediately following shipment if required by the factory. The buyer appreciated the need for the factory to pay their workers salaries on time in order to comply with CSR requirements and also to ensure a sustainable business. The Factory Manager explained:

> "After ship, if I want the money, same date I can get it, not 30. Sometimes they are giving advance, because if I tell them I don't have money, not enough money to give the salary … like that they are giving. Protect your workers, give them salary on time".

The Executive Director said that payment terms from Crystal Martin were 30 days and this helped maintain regular cash flow within the business. However, lead times were shorter – usually four weeks.

- *Supply chain complexity*

The Chairman recognised the potential perils of subcontracting to other manufacturers and so the manufacturing supply chain effectively ended at Company B:

> "Everything is done in our organisation. We cannot depend subcontractors, they can let you down very badly, quality issues, so many things can happen. It's better we have to use our own men".

However, the dangers Company B associated with subcontracting centred on production quality and reliability of delivery rather than issues of ethical compliance. Although Company B did not outsource manufacturing, on occasion accessories would need to be sourced from outside suppliers either domestically or abroad. In this case, there was no ethical audit or assurance required of the supplier. The Chairman acknowledged:

> "We don't check any of those things, we just buy. Only we are ethical for our (own) manufacturing plants".

Therefore, while visibility from the retailer to the garment manufacturer was relatively clear and ethical manufacturing could be assured within the manufacturing segment of the supply chain, the same could not be said to apply further upstream in the supply chain in the manufacture of garment trims.

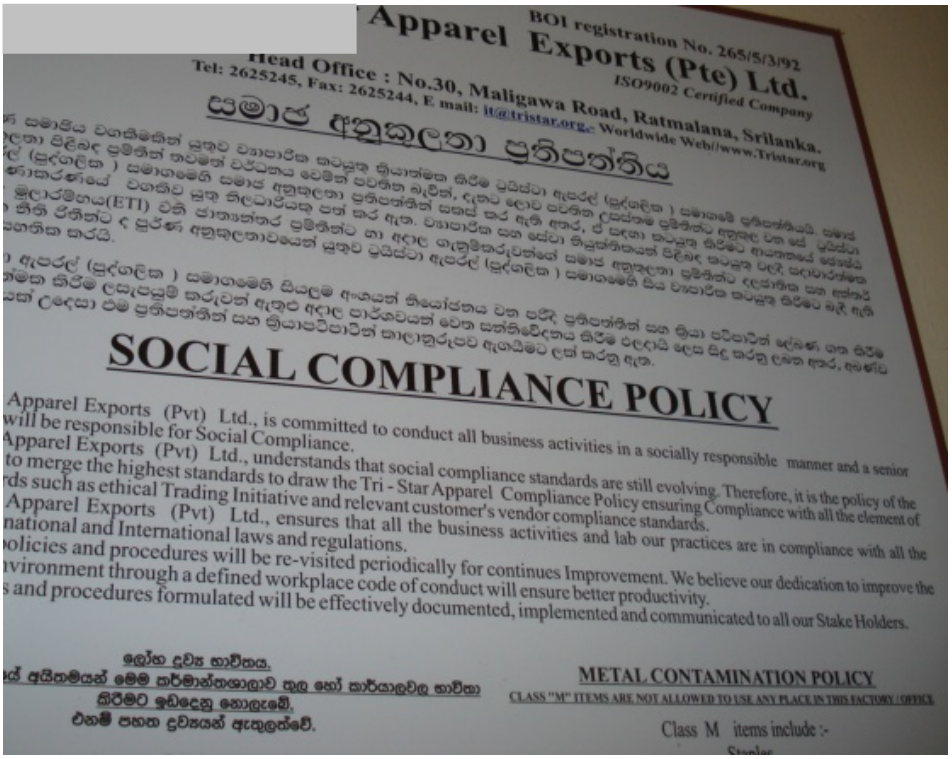
- *Supply chain power distribution*

Company B was larger in size than some of its competitors, in terms of employee numbers. However, as a contract manufacturer, Company B had less power in the supply chain than its full package competitors. Although the Chairman maintained that order sizes had not dropped in recent months due to the effects of the Western recession, the company along with other players in the industry found itself under pressure to cut costs. With a lack of added value to absorb cost reductions then its profit margins were more vulnerable to buyer price cuts.

5.3.3 CSR Pillars

Company B's website and brochures included information on CSR. The company also its own Social Compliance Policy, displayed visibly at each manufacturing unit in both

Sinhala and English. It comprised a general statement of intent, followed by specific policies on metal contamination, product safety, quality, health and safety, as below:



BOI registration No. 265/5/3/92

Apparel Exports (Pte) Ltd.

ISO9002 Certified Company

Head Office : No.30, Maligawa Road, Ratmalana, Srilanka.

Tel: 2625245, Fax: 2625244, E mail: it@tristar.org.- Worldwide Web//www.Tristar.org

සමාජ අනුකූලතා ප්‍රතිපත්තිය

SOCIAL COMPLIANCE POLICY

Apparel Exports (Pvt) Ltd., is committed to conduct all business activities in a socially responsible manner and a senior will be responsible for Social Compliance.

Apparel Exports (Pvt) Ltd., understands that social compliance standards are still evolving. Therefore, it is the policy of the to merge the highest standards to draw the Tri - Star Apparel Compliance Policy ensuring Compliance with all the element of rds such as ethical Trading Initiative and relevant customer's vendor compliance standards.

Apparel Exports (Pvt) Ltd., ensures that all the business activities and lab our practices are in compliance with all the national and International laws and regulations.

olicies and procedures will be re-visited periodically for continues Improvement. We believe our dedication to improve the nvironment through a defined workplace code of conduct will ensure better productivity.

s and procedures formulated will be effectively documented, implemented and communicated to all our Stake Holders.

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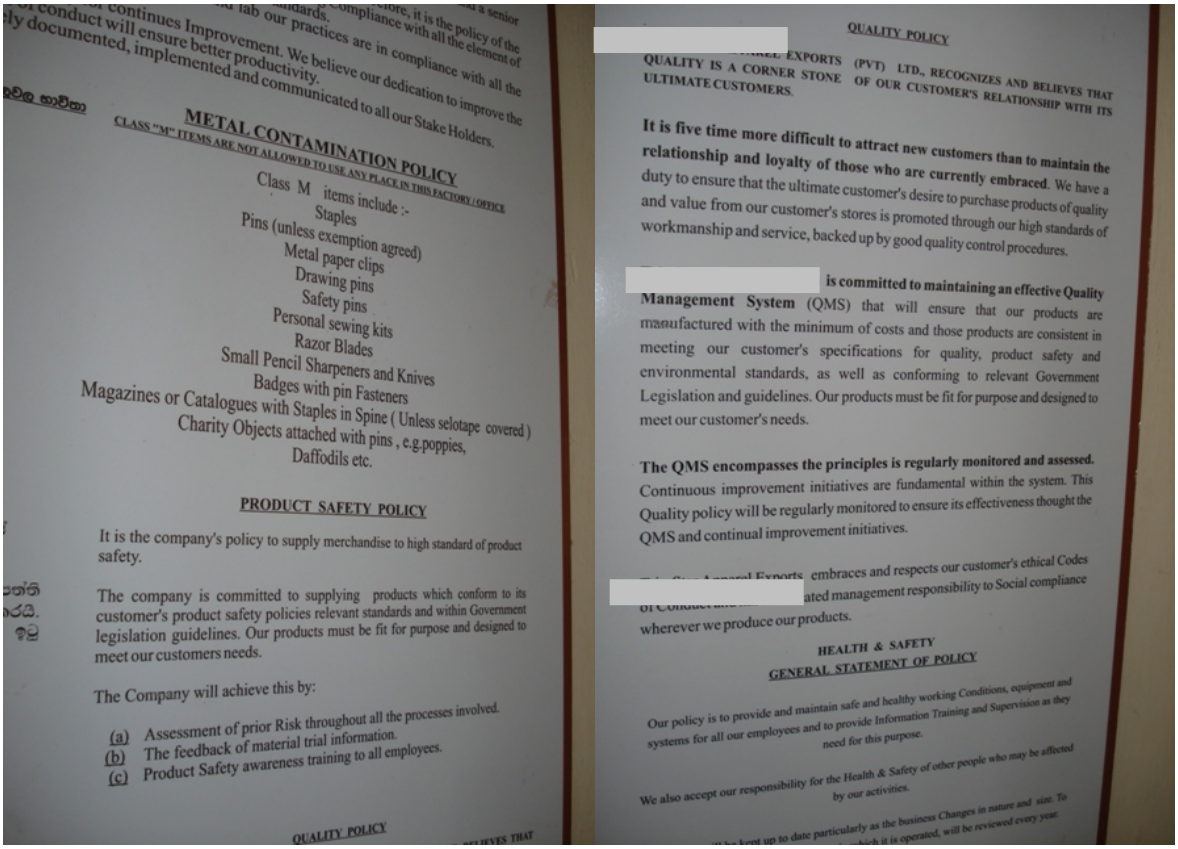
METAL CONTAMINATION POLICY

CLASS "M" ITEMS ARE NOT ALLOWED TO USE ANY PLACE IN THIS FACTORY / OFFICE

Class M items include :-



METAL CONTAMINATION POLICY

CLASS "M" ITEMS ARE NOT ALLOWED TO USE ANY PLACE IN THIS FACTORY / OFFICE

Class M items include :-

Staples
Pins (unless exemption agreed)
Metal paper clips
Drawing pins
Safety pins
Personal sewing kits
Razor Blades
Small Pencil Sharpeners and Knives
Badges with pin Fasteners
Magazines or Catalogues with Staples in Spine (Unless selotape covered)
Charity Objects attached with pins , e.g.poppies, Daffodils etc.

PRODUCT SAFETY POLICY

It is the company's policy to supply merchandise to high standard of product safety.

The company is committed to supplying products which conform to its customer's product safety policies relevant standards and within Government legislation guidelines. Our products must be fit for purpose and designed to meet our customers needs.

The Company will achieve this by:

(a) Assessment of prior Risk throughout all the processes involved.
(b) The feedback of material trial information.
(c) Product Safety awareness training to all employees.

QUALITY POLICY

QUALITY IS A CORNER STONE OF OUR CUSTOMER'S RELATIONSHIP WITH ITS ULTIMATE CUSTOMERS.

It is five time more difficult to attract new customers than to maintain the relationship and loyalty of those who are currently embraced. We have a duty to ensure that the ultimate customer's desire to purchase products of quality and value from our customer's stores is promoted through our high standards of workmanship and service, backed up by good quality control procedures.

is committed to maintaining an effective Quality Management System (QMS) that will ensure that our products are manufactured with the minimum of costs and those products are consistent in meeting our customer's specifications for quality, product safety and environmental standards, as well as conforming to relevant Government Legislation and guidelines. Our products must be fit for purpose and designed to meet our customer's needs.

The QMS encompasses the principles is regularly monitored and assessed. Continuous improvement initiatives are fundamental within the system. This Quality policy will be regularly monitored to ensure its effectiveness thought the QMS and continual improvement initiatives.

embraces and respects our customer's ethical Codes ated management responsibility to Social compliance wherever we produce our products.

HEALTH & SAFETY

GENERAL STATEMENT OF POLICY

Our policy is to provide and maintain safe and healthy working Conditions, equipment and systems for all our employees and to provide Information Training and Supervision as they need for this purpose.

We also accept our responsibility for the Health & Safety of other people who may be affected by our activities.

Figure 5.13 Elements of Company B's Social Compliance Policy displayed in the factories

Although the BOI granted a concession for garment manufacturers to employ 16 and 17 year olds as trainees, Company B's policy was not to employ anyone under the age of 18, which demonstrated how CSR went over and above legal regulations. Free transport and breakfast was provided for workers, as well as free urban hostel accommodation for workers who had come from remote rural villages. Welfare shops, healthcare benefits and insurance were provided in line with the rest of the industry. Company B organised trips for workers four times per year which were very popular.

- *Moral philosophy*

The Chairman professed that his initial motivation to start the business thirty years previously was to make a difference to society rather than make profit in itself. This was achieved by his pioneering expansion policy of setting up new plants in rural areas instead of towns and cities. He explained:

> "My business is driven not to make profit; my business was started to help the society … I'm the first person to take industry from town to village, I took the industry to the village, I invested one million dollars in the village, I created thousand jobs, entire village started developing".

This strategy ultimately created wealth for the whole village, as the workers earned more money than before they were able to spend some of the salary with the village traders and this enabled the whole village to develop on the back of the garment factory.

> "When you set up a factory … all the money you pay monthly for the village worker, they spend the money among the village shops, even the banana seller is surviving, the village is developing".

This helped to alleviate rural poverty and empower rural communities. However, there appeared to be a clear business benefit in locating new factories near to large pools of labour in rural areas, especially where there was no other competition, unlike the industrial parks which might house around 30 other garment factories.

The Chairman's desire for the business to help society was also demonstrated through the philanthropic activities undertaken by Company B. Recent projects included building a home for disabled children in Hikkaduwa, building an orphanage for street children and building an extra wing of classrooms and a cricket pavilion in a local college. Additionally the company had helped victims of the tsunami by building over 200 houses for people, including some employees, whose homes were destroyed. The

philanthropic activity carried out by the Chairman was attested to by the Factory Manager of the first Intimissimi unit:

> "Our Chairman, especially our Chairman doing a lot of charity".

The hierarchy within Company B was relatively flat in relation to its size and the Chairman tried to retain a family culture by having an open door policy and practising 'management by walking about' (MBWA). He felt it was important for the workers to know him and to feel they could approach him with any problems. It was not seen as desirable for managers to stay within the walls of their office but rather they were encouraged to spend some of their working day on the shop floor and to maintain a dialogue with machine operators in order to be aware of what was happening before anything reached crisis point.

> "We have put the system so we know exactly what is happening in each and every factory. We go and talk to these girls".

The Chairman felt it was important for him to set a good example to his managerial employees and promote engagement between managers and factory workers:

> "If I don't set a lead, they will also relax, they will also get used to the normal cubicle work".

He also felt himself to be relatively unique amongst other similar businessmen in the country thanks to his hands-on approach to the business. He would personally get involved in the recruitment of new employees and in providing counselling to employees with family or household problems. As an example, he had recently recruited 60 female workers from a village in the war-torn Northern Province to come and work in the Main Factory in Colombo:

> "I personally went to this village, I selected the girls, I talked to the girls, 4000 girls came to get the job so I selected 60. I brought them to Colombo, yesterday 11 o'clock I address the girls. I had the dinner with them, I gave them a watch and a gift, I welcomed them and put them in the hostel and I went home at 12 o'clock in the night. No Chairman in Sri Lanka will do this … but for me that is the most important thing".

Hostel accommodation was provided free of charge to employees who had come from rural areas to work in urban factories.

- *Competitive advantage*

The Chairman had a personal policy of setting time aside to attend his employees' family funerals. He acknowledged the commercial benefit of this kindly act in terms of improved levels of employee motivation and retention as employees felt cared for and

valued members of the organisation. In Sri Lanka, attending funerals is an important traditional social obligation, and the respectability of the deceased and their family would be gauged by the number, and social status, of funeral attendees. Therefore, the attendance of the Chairman of the company would bestow an immense sense of honour to the family of the deceased, as well as a sense of reciprocity on the employee.

The Factory Manager of the Marks & Spencer facility recognised the link between ethical working and profitability:

> "If we are doing good ethically, a lot of profit we can make".

He felt that health and safety standards reduced lost time due to accidents and increased factory efficiency. Employee satisfaction was measured on a daily basis: HR executives went to the production lines daily to speak with employees and in addition HR executives from the company headquarters would visit to hold focus group discussions with a selection of workers. The Factory Manager of the Intimissimi facility held a small action group on a weekly basis where he would invite one worker at a time to the boardroom and hold a one-to-one conversation to find out if there were any issues, either work-related or personal. He said that workers would sometimes discuss their personal problems and greatly appreciated the opportunity to unburden themselves, especially if it led to a change or solution to their problem:

> "After that, everybody is working very happily".

According to the Executive Director of Factory 4, labour turnover was about two%, which was lower than the industry average. However, this may have also been influenced by the fact that the factory was in a rural area with no competitors nearby and so it would have been difficult for workers to move to another garment factory.

- *Sustainable development*

The Chairman recognised the importance of the human resource in such a labour-intensive industry for the continuation of the business. This influenced the organisational structure: the Chairman headed up the HR function rather than marketing, production or quality departments:

> "As a Chairman, I know the most important thing is the human resource, people, so I am head of the Human Resource department … if you want to make this a successful operation, the most important thing for me is not the production (capacity), not the quality, that will come, without the people there's no factory".

The Deputy Chairman was also part of the HR function. In a separate interview, he echoed the Chairman's statements:

> "Our biggest asset is our workforce, that means we have to look after the workforce, we have to give priority number one for the workforce".

When the Chairman first set up the business, he recognised that workers from rural areas were so poor that often they would not have had breakfast before coming to work. Beginning a working day on an empty stomach meant that employees tended to tire quickly and were therefore unable to achieve expected productivity levels. This had a detrimental effect on the business so he decided to provide free breakfast for the workers every day before the shift started as well as snacks at the end of the afternoon before overtime began.

> "From the start, last 30 years free breakfast, evening cakes, buns, biscuits free of charge".

This practice later became standard in the Sri Lankan garment industry.

The Chairman's beliefs about the importance of the workforce to the continuation of the business were filtered down through the organisation via policies, practices and organisational structure. HR personnel from the Head Office regularly travelled to the various factories to conduct audits and check up on conditions and speak with employees. Female HR personnel were usually sent because it was felt the rural female employees would feel more comfortable speaking with another female rather than a man. Additionally, in each factory there was a HR department responsible for monitoring conditions and worker situations. The Factory Manager of the second Intimissimi unit described the function of the personnel department in the factory. The main responsibility was to maintain a regular dialogue with the machine operators and help them with any problems that might impede their productivity or ability to work:

> "We have three people in the Person Department, two ladies and one man, they almost every day go to the lines and individually they are talking with the employees. They are asking what they have problems, then they write down what they have because sometimes in the factory they have some problems, sometimes in their home they have some problems. Every day they are asking and write down and come and tell me the girl have a problem then we can sort out the problem".

The Chairman was proud of the fact that Company B paid wages higher than the minimum wage recommended by the BOI. Additionally, he identified himself as a pioneer of the monthly bonus in Sri Lanka. He decided to pay employee profit-sharing

bonuses on a monthly basis rather than annually as the employees depended on this bonus and could not afford to wait for a whole year for a lump sum.

> "We pay monthly, profit-sharing monthly … People need cash, they cannot wait for one year, today they need the money, not next year. So I decided to pay monthly based on the profit".

The Factory Manager of the first Intimissimi unit believed that maintaining good working conditions for employees in terms of providing sufficient hygiene and motivating factors was essential for retaining good workers:

> "I want to keep them. I want to keep them mean they must be happy, that means we have to supply food, transport, wages, not giving very big stress. If they like to ask me a problem directly, we have to listen very carefully, we have to give them toilet, we have to give them free time".

5.3.4 CSR Drivers

- *Consumer desire for guilt-free fashion*

The Factory Manager of the second Intimissimi manufacturing facility pointed out that its customers were a significant influencer of CSR standards and helped to ensure CSR remained a strategic priority for Company B.

> "At the moment every buyer they are asking us what are the benefits we are giving to the girls. They are not asking what is the quality, what is the production (capacity). Most of buyers now they are asking every time what are the benefits for the girls".

There was no CSR information on Intimissimi's website, as of December 2009. However, Intimissimi owned all its manufacturing units worldwide and this suggested a greater degree of visibility and control of the supply chain which would support CSR (Intimissimi, 2009). Although the Marks & Spencer unit supplied Crystal Martin Ceylon rather than Marks & Spencer directly, there were still stringent standards to be adhered to as a subcontractor. However, there was no evidence that Company B was aware of any direct consumer pressure to implement CSR.

- *Trust as an antecedent of commitment, cooperation and collaboration*

The Intimissimi unit had a close relationship with its buyer that insulated the business somewhat against the effects of downward price pressure in the industry. Having dealt with Omega Line for eight years, the relationship was characterised by trust and commitment. The Factory Manager of the main Intimissimi facility felt secure that the

buyer appreciated the skilfulness of the workers in Company B and the quality of their production. He felt this was one of the main reasons why the buyer committed to full capacity a year in advance.

Company B also made efforts to cultivate trust within the village communities in which manufacturing plants were situated. Once a female machine operator had been employed for six months, the Factory Manager would invite the employee's husband, parents and children to an open afternoon in the factory premises. Within a rural community that traditionally subsisted on cultivating agricultural crops such as rice, the newly-established garment industry was something of an enigma to many villagers. The Factory Managers recognised that the employees' families may be somewhat suspicious about what went on behind the factory gates. By holding an open afternoon which included time for tea, biscuits and a tour of the factory, the Factory Managers hoped to gain legitimacy within the community and the support of the employees' families. Gaining trust and legitimacy within communities was especially relevant in Sri Lanka due to the collective culture and strong family networks. Families were strong influences and Company B needed the trust of the employees' families to help maintain a content workforce.

There was evidence of commitment and collaboration from Omega Line towards Company B. The relationship was very close with frequent communication between both parties. Omega Line's main office was a 30 minute drive from Factory 4 and a Quality Controller would visit the factory on a daily basis, while Factory Managers would go to the Omega Line office once a month for planning meetings. Both Intimissimi Factory Managers spoke of the strong working relationship with their buyer. This was evident through examples of solutions to problems that benefited the factory and especially the workers. The buyer paid on time and on occasion paid early when it became apparent that the factory was in financial difficulty.

> "After ship, if I want the money, when I send the invoice, same date I can get it, not 30 (days). Sometimes they are giving advance, because if I tell them I don't have money, not enough money to give the salary … like that they are giving. Protect your workers, give them the salary on time".

Cooperation was evident by the buyer's acknowledgement of the extra handling time required due to the difficult nature of the micro-modal fabric which resulted in an extra allowance on top of the standard cost per minute. Regarding commitment, the Marks &

Spencer unit had a five year commitment from Crystal Martin Ceylon which enabled the Executive Director to plan ahead and manage the business better.

- *Supply chain management – long-term orientation, shared goals*

Company B recognised that ensuring good working conditions for employees was key to developing a sustainable business. The Chairman acknowledged the business benefits of maintaining good CSR standards. Employee reliability for example was crucial to be able to manage and plan the business to achieve required quality levels and delivery due dates.

- *Supply chain rationalisation*

Previously, the Intimissimi units produced for other buyers such as Benetton but for the past year were solely dedicated to Intimissimi. The Marks & Spencer unit had been producing exclusively for Marks & Spencer for the past 15 years. The Main Factory was exclusive supplier to Grasshopper UK. This suggests that Company B had survived any supply chain rationalisation initiatives of its customers in recent years and retained its position as key supplier to many of them. As a subcontractor, Company B did not source materials and therefore had no input into supply chain rationalisation further upstream.

- *Supply chain integration*

As a contract manufacturer, Company B experienced little supply chain integration with its customers. There was little rationale for either collaboration or integration due to the lack of value-added services such as sourcing or product design and development provided by Company B.

5.3.5 Summary

As Sri Lanka's largest export subcontractor, Company B was unusual in that the Chairman retained a hands-on involved approach in the business, even to the point of travelling to poor rural locations to recruit machine operators for new factories. He had pioneered the concept of rural empowerment by setting up new factories in villages rather than towns. CSR had been practiced in the business from the start, with free breakfast provided to employees for the last 30 years. Both the Chairman and Deputy Chairman regarded workers as the company's key assets, evidenced by them heading up

the HR function rather than sales or production for instance. This recognition supported the implementation of CSR within the business. However, Company B did not cascade its standards further upstream in the supply chain as it made no ethical demands of its fabric or accessories suppliers.

As a subcontractor, Company B traded on tight margins compared to other full-package suppliers; however, this did not preclude the implementation of CSR within the business. Externally, philanthropic activities were carried out on a countrywide scale including building homes for people devastated by the 2004 tsunami in the south of the country and providing free clothing to internally displaced persons in refugee camps in the north. Internally, the company provided social benefits to workers such as free breakfast, transport and hostel accommodation as well as assistance in times of emergency. Working relationships with buyers were strong and long-standing, and despite the fact that Company B operated as a subcontractor on lower margins than other case study companies, certain buyers were supportive in their buying practices (by paying early for example) to ensure Company B maintained social compliance.

5.4 Company C

5.4.1 Company history and business operation

Company C employed 15,000 people in Sri Lanka and provided full package apparel supply solutions to major US and UK brands and retailers such as Marks & Spencer, BHS, Asda, Tesco, Nike, Eddie Bauer, Liz Claiborne, Levi's and Polo Ralph Lauren.

Sri Lanka's oldest apparel business, Company C was founded in 1946 as a retail operation selling garments, textiles, carpets and jewellery. Garment manufacture began in 1954 with own-brand men's shirts. The company expanded via a series of wholly owned and partnership ventures to become a vertically integrated provider of garment services supplying large global brands and retailers.

Although its main business was apparel, the company had also made strategic investments in the Sri Lankan hotel industry. At the time of the interviews (July 2009), it owned 11 large scale factories and 10 leased factories in the south-western region of Sri Lanka, including embroidery, printing and washing plants and a product

development and design centre. Joint ventures facilitated forward and backward integration, enabling Company C to access knitted fabrics, accessory manufacture including garment trims as well as identification and tracking products, and shipping carton production within Sri Lanka. The group offered full package garment services to its global buyers. The group had also established strategic alliances with garment factories in Vietnam and Bangladesh in order to increase flexibility in capacity and customer service. There was also a separately managed private company that provided management training and education to employees. Teaching was conducted by senior employees of Company C where possible and by visiting lecturers from local universities if the area of expertise was unavailable with the group. The Group Compliance Manager, for example, had a degree and background in statistics which enabled him to deliver teaching modules in the subject.

Company C was a family business which was originally Indian-owned; however successive generations of the family had since settled in Sri Lanka. The company retained the familial open culture over the years and this was evidenced by the flat hierarchical structure and open door policy within the factory sites. The current CEO began his career with Company C as a Production Assistant and this demonstrated the company's commitment to its value of developing employees and promoting from within. Views of Company C's purpose-built casualwear factory at Kahathuduwa are shown below.

Figure 5.14 Entrance to Company C's casualwear factory in Kahathuduwa

Figure 5.15 Interior view of Company C's casualwear factory in Kahathuduwa

Total employees at this plant numbered 1700 including 980 machine operators and average production capacity per month was 225,000 garments. Within this plant, Company C produced for around 15 different buyers. Lead time from order placement to shipping was 45 days if the fabric was in-house against 90 days if the fabric needed to be sourced. The organisational structure is shown below.

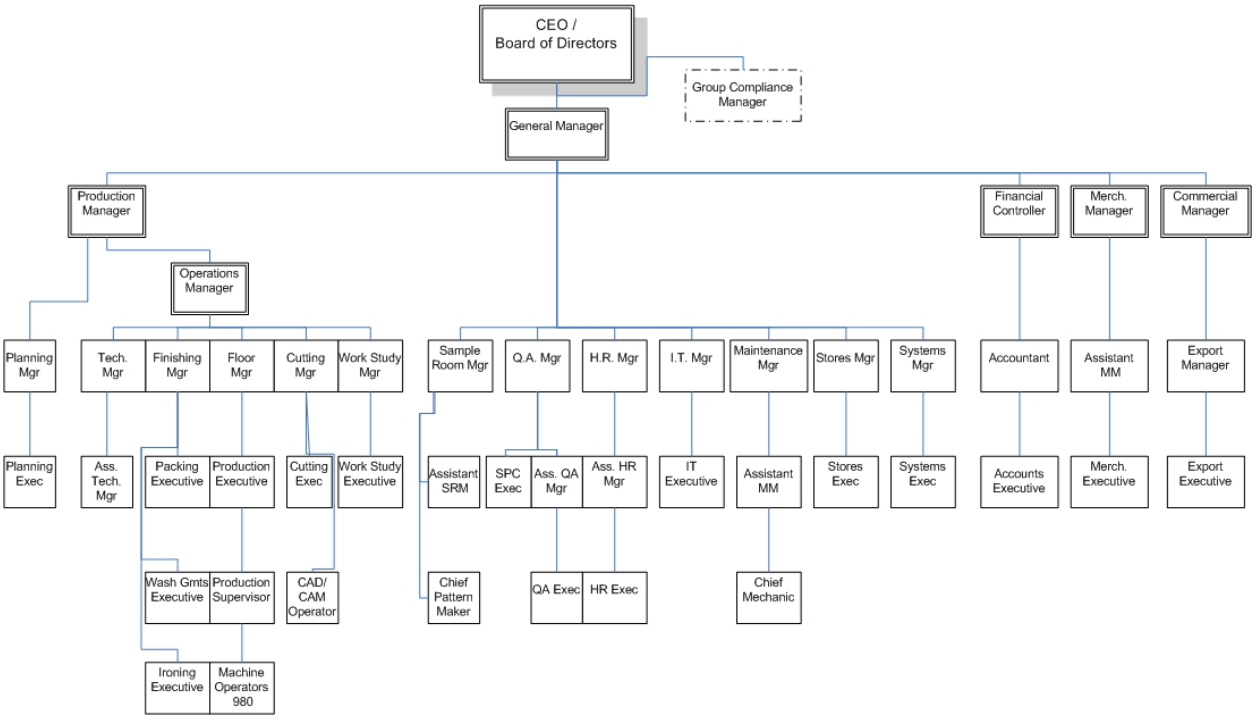


Figure 5.16 Company C organisational chart

Interviews were conducted with the HR Manager of the Kahathuduwa plant and with the Group Compliance Manager, who was the most senior person in the company responsible for CSR.

5.4.2 CSR Inhibitors

- *Downward price pressure*

At the official opening of Company C's latest eco-factory in October 2009, the Group Director acknowledged the reduction in production volumes as a result of the global economic downturn (De Silva, 2009). The Director of Company C admitted that trading was very difficult due to the margins being so slim (Barrie, 2009). During the interview, the Group Compliance Manager had also indicated that the recent economic recession and consequent reduced orders had impacted upon the fortunes of Company C. In particular, the training and development budget had been reduced in 2009 from its previous level of three million Sri Lankan rupees per annum (approximately £16,000).

> "This year we have not allocated big budgets for training and development because of the recent economic crisis".

The HR Manager confirmed this and explained that the focus would therefore be on internal, rather than externally provided training in light of the economic situation.

Company C's buyers set maximum unit prices per order in line with planned retail selling price. There was pressure on Company C to achieve the costing but on occasion this would not be initially possible. However, since costing information was shared openly, the buyer was able to recommend alternate sources of supply which would reduce the overall costing. The Group Compliance Manager explained:

> "Sometimes we say the accessories will cost (X) then they say OK, you better (source) from this place then you will get a lower price, then from our side we can lower the cost then we can place the order".

It is interesting to note that in order to reduce the cost, the buyer would seek to remove excess cost by using alternative fabric or trim suppliers, rather than pressuring Company C to reduce its production cost or margin. As a long-term key supplier to many of its customers, Company C had a certain amount of power in its trading relationship and therefore may have been under less pressure to consent to unsustainable unit prices.

For orders where buyers nominated their own material suppliers, Company C was not always able to reduce the cost to an acceptable level for the buyer. In such circumstances, the buyer would use its supply chain might to go further upstream and contact its nominated materials suppliers to ask them to make cost reductions. The Group Compliance Manager explained:

> "Because there's a way we can't go beyond that because they have nominated … so it ends up at X level. They say they can't do the X level so we give the breakdown. Then they say OK, we will ask from them, then you can reduce like this, that kind of negotiations happening always".

Cooperative negotiations and a long-term relationship orientation between Company C and its buyers thus ensured that the company did not arrive at a situation where CSR standards were compromised by extreme downward price pressure.

However, speaking about the possibility of Sri Lanka losing its GSP+ status, which would effectively mean a cost increase of 9.6% (Ayling, 2010c), the Director of Company C confirmed that some buyers had already requested that Company C absorbed either all or part of the duty component (Barrie, 2009).

- *Product nature*

Company C's competence lay in manufacturing core basic garments such as woven chino-type trousers and knitted polo shirts rather than fashion pieces. These were less subject to frequent style changes and more standardised in garment construction. This enabled the operators to achieve a higher rate of efficiency and maximise their production incentives. Priority was on supply chain efficiency over effectiveness, which indicated a lean manufacturing approach.

- *Labour intensity of manufacture*

Although Company C had invested in state-of-the-art technology in the pre-production process, there remained was a lack of automation in the manufacturing process. Factories were equipped with CAD/CAM systems to assist the product development and pattern and marker making processes, as well as automated cloth spreaders and cutters. The embroidery plant was one of the best-equipped in the country and operated 24 hours a day with 204 heads and ultrasonic cutters. However, automation in the garment sewing process was limited to automated pocket welting or loop attaching machines, which accounted for a small proportion of total garment sewing time but which reduced the SMV and helped to ensure consistent quality nevertheless.

- *Retailer buying practices*

Company C was not involved in any VMI arrangements and only made garments to order. It was common practice to cut a certain percentage extra, for example two or five

percent, in any given order to account for rejects. The Group Compliance Manager explained that while some buyers would accept a certain percentage over the order quantity, others would take exactly the order quantity only. In such circumstances, Company C was expressly forbidden to sell the garments on as stock-lots. With buyer consent, extra garments could be given away to employees as long as the labels were cut to prevent the employees selling them on. In recent times, overmakes were taken to the Northern Territories to be given to Internally Displaced Persons in camps following the end of the civil war. In extreme circumstances however, the buyer would request any extra garments be burnt:

> "From buyer to buyer it's different. Sometimes they say you have to burn it … sometimes they say you can give it to your employees only … we have to cut off the labels, but before that we have to get the consent from the buyer".

Standard lead time for garment production was six weeks, depending on the size of the order. On occasion buyers would ask for urgent orders. However, the Group Compliance Manager described this scenario as a request for a favour rather than a demand for the impossible:

> "Sometimes they want urgent orders, they know we can't make it but they ask please help us".

Trading relationships were supported by written purchase orders and annually assigned sourcing agreements.

> "Most of the buyers, they have their agreements so we sign their agreements and if there is anything we cannot accept and finally there will be a contractual agreement, in most of the cases".

This indicated that Company C did not feel under excessive pressure to unconditionally accept retailer buying terms, but was able to negotiate over terms that either conflicted with national regulations or that had a negative impact on the business. As a valued sourcing partner, Company C was able to negotiate over any problematic contract terms and reach a compromise that was acceptable to both parties. Terms of payment from customers ranged from 30 to 90 days.

- *Supply chain complexity*

As a vertically-integrated full package provider, supply chain complexity was reduced somewhat as Company C was able to source most components such as trims and packaging cartons internally or through its subsidiaries. However, the Group

Compliance Manager estimated around 90% of fabrics and trims were sourced from overseas. With full package orders, buyers would usually nominate suppliers that had been appropriately audited for their conformance to ethical manufacture according to the buyer's code of conduct. Sometimes Company C would also source from external suppliers. In these circumstances the company would audit the supplier prior to establishing a trading relationship and upload the reports onto SEDEX, a global supplier ethical database that enables suppliers to share details of their ethical audits with retailers. Company C did not permit its suppliers to subcontract work and this helped the reduce supply chain complexity.

As part of a corporate Green Initiative drive, Company C formulated 20 commitments to be achieved by 2012. In terms of supply chain management, it committed to responsible buying and supporting suppliers through a variety of means. Responsible buying would be facilitated through a scorecard system that enabled suppliers to be ranked on their ethical credentials. A supplier exchange would enable Company C to work with its suppliers to educate them on sustainable production techniques and drive best practice through the supplier tiers.

- *Supply chain power distribution*

Company C's customers were large global brands and retailers ranging from high-end apparel brands such as Ralph Lauren and Liz Claiborne to discount garment retailers such as Tesco and Matalan. As such, they commanded a considerable proportion of power in the supply chain. However, as a supplier of choice to many of its customers, Company C was less likely to experience undue negative pressure from its customers endangering the sustainability of its business. Furthermore, the diversification of the company into the leisure and tourism sectors protected it somewhat from the pressures of the garment industry during economically challenging times.

5.4.3 CSR Pillars

Company C built a green plant in 2008 located 70km south of Colombo, which achieved gold LEED certification, the highest worldwide for any newly-built garment facility at the time, and SA8000 compliance. Currently running at half capacity, it was expected to run at full capacity of 70,000 standard hours and 1200 employees by the end of 2009. This plant was also working towards OHSAS certification.

Figure 5.17 Company C's custom-built green factory in Agalawatta

All of Company C's plants were ETI certified for the benefit of global brands and retailers for whom ethical accreditation was paramount in reassuring customers and avoiding media scrutiny and negative publicity. Certain plants were WRAP certified for the benefit of US buyers. In addition, three plants had been certified by SGS as compliant with Sri Lanka Apparel's 'Garments Without Guilt' programme and the company was working on SA8000 certification throughout the business. It had won a number of CSR awards including buyer awards, national industry awards and industrial workplace safety awards. It won Best CSR Supplier award from Tesco in 2007-2008 as well as consecutively winning Nike's Best Vendor award in 2003, 2004, 2005 and 2006.

Company C's core focus on its employees was demonstrated by the corporate motto which was used as a strapline on all company documents and referred to on the website:

"The difference is our people".

This motto was actualised by means of eight ground rules, listed below, and a corporate code of conduct, which consisted of 14 separate policies covering a range of issues from customs compliance to empowering the differently-abled. The eight ground rules were followed by all levels of employees in the business and thus fostered a good working environment while the code of conduct assigned individual responsibility and an audit procedure to ensure all 14 policies were being implemented and practised.

1. Express yourself without fear
2. Pay 100% attention
3. Accept criticism
4. Speak your mind
5. No hierarchy, ideas only
6. Honesty at all times
7. Transparency and openness
8. Share ideas

Free uniforms and breakfast were provided for workers. Transport was subsidised. Company policy forbade recruitment of anybody less than 18 years of age. There was a comprehensive code of conduct which included areas such as recruitment of differently-abled people. In addition, Company C had a trust fund set up for charitable activity and organised various social events for employees such as trips, parties and sports events. Bonuses were paid bi-annually and the company also provided loans ahead of the festival season. There was an open, relaxed culture in the company, evidenced by the open plan layout of the management offices and the radio playing for the workers in the factory. The line layout permitted employees to chat to each other while working, as opposed to sitting one behind the other in a line. The HR Manager confirmed:

> "We have an open-door policy. As you can see I don't have a door to my room".

The results of social reporting and employee satisfaction surveys were used to make improvements within the business, which in turn helped maintain employee motivation and retention. The Group Compliance Manager confirmed he was responsible for carrying out internal audits of all Company C's facilities, including leased factories and subsidiaries:

> "My plan is to have at least two audits per year (each factory)".

The HR Manager said that annual employee satisfaction surveys were carried out independently by local university students. Recent changes that had been made as a result of these surveys included shifting overtime from Sundays to Poya (public holiday) days and finishing factory shifts at 6.30pm.

> "After the findings we will address our systems and procedures as per their likes and dislikes … People sometimes like to work on Poya days rather than Sundays … If you work on a Sunday for (urgent) work, people are getting de-motivated, but if you work on a Poya day they are OK. They don't like to work after 6.30, so normally the factory closes then".

This demonstrated that by acknowledging worker preferences, motivation could be increased, as well as loyalty in the long term. This improved productivity and efficiency more than Company C could hope to achieve with compulsory overtime.

- *Moral philosophy*

While acknowledging that the ultimate goal of business strategy should be to make profit, the HR Manager expressed his stance on CSR within the business in terms of a social contract between business and society.

> "Because the company is existing in the society, so society helps the organisation for our existence, for our survival. So we think we should also contribute to the society for that".

The Group Compliance Manager categorically accepted the presence of CSR in business operations and explained that the reason for his post was the company's commitment to ethical ways of working. He described some of the recent charitable activities that the company had initiated via its Memorial Trust fund, such as rebuilding 54 homes following the tsunami, building a library for a nearby school and organising a home gardening competition for local villagers to raise awareness and promote the use of pesticide-free growing methods. Following Marks & Spencer's 'Marks & Start' initiative which promoted the employment of disadvantaged groups via work placements, Company C had also begun its own 'H-Start' programme to assist differently-abled people find work placements and apprenticeships in its offices and factories.

- *Competitive advantage*

The HR Manager recognised that CSR activities could have a beneficial effect for the firm as well as for society:

> "We are spending a lot of money on CSR activities because we believe that there is an advantage for the organisation as well as for society".

CSR was seen as a positive element of management that increased competitive advantage and enabled the business to not only attract more customers, but to attract better quality customers also. The HR Manager felt that CSR protected the company against other domestic competitors. On a wider scale it protected the industry as a whole by presenting a differential advantage that neighbouring developing countries did not have:

> "You are competing with a lot of companies not only from Sri Lanka but in China, India, Bangladesh, Vietnam. There is something unique for us to tell our buyers that we are doing our business ethically, we are having these types of characteristics in our business which do not follow by other companies in China or India or someplace like that. Our company is so much better than those other places. Thereby we can get even more business, good business".

The Group Compliance Manager perceived the benefits of implementing CSR in terms of greater productivity due to less downtime:

> "It's a benefit. It reduces lost time and accidents. We feel the safer workplace is more productive".

The HR Manager confirmed the view that good CSR practices helped raise motivation levels and retention of employees. By analysing the results of the employee satisfaction survey to identify motivating and de-motivating factors, Company C was able to improve its business by increasing job satisfaction and worker productivity levels.

- *Sustainable development*

The HR Manager's perspective on CSR was a holistic one in which CSR was an essential element that was both a product and a process in the business. Through the generation of profit the business was able to improve invest in improving the worker experience as well as supporting society through community investments. CSR as a business process, in terms of providing facilities and working conditions, supported the generation of more profit, thus enabling further investment in society which resulted in a sustainable model of development.

> "Business has to give priority for profit, that's the ultimate goal, but when we are achieving that profit, then company likes to spend certain portion of the profit to society … if we adhere (to CSR requirements) … ultimately it will help us to increase (employees') motivation level, thereby to increase production, thereby increase efficiency. So final outcome is good profit. From that profit again we are able to give to society some portion. You cannot take one part out from that process, if you take one part then there will be a problem with the other parts, so definitely compliance has to be there".

As well as training and development sessions, Company C also ran monthly motivational lectures designed to infuse workers with a sense of pride and worth by highlighting the value of their contribution to the economy as well as to their family:

> "We are discussing how they are contributing to the Sri Lanka economy, the worth of their contribution, the value of their contribution, we are telling them that they are doing a good job".

The guest lectures supported one of the key principles of Sri Lanka's 'Garments Without Guilt' programme of empowering women within both business and society by addressing their personal and social development as well as their technical skills.

5.4.4 CSR Drivers

- *Consumer desire for guilt-free fashion*

The drive for continuous improvement in CSR standards came from Company C's buyers, rather than from the end consumers themselves. The company was a key supplier to Marks & Spencer and this relationship was the driver for building an eco-factory as well as formulating the 'H-start' initiative for empowering differently-abled people via work placements and apprenticeships. As a high street pioneer in green and ethical consumption, Marks & Spencer had initiated Company C's commitment to eco-production. In collaboration with Marks & Spencer, Company built its first eco-factory in 2008. Marks & Spencer also built two other eco-factories in the country with two other suppliers that year. Following the success of this project, Company C had decided to make a commitment, as part of its Green Initiative, to ensuring all manufacturing facilities were carbon-neutral by the end of 2012. Another eco-factory, this time without assistance from Marks & Spencer, was built by 2009. At the official opening on 2 October 2009, the Group Director spoke of Company C's plan to convert all of its manufacturing facilities to the green model over time (De Silva, 2009). It therefore appeared that Marks & Spencer's aim to drive sustainability through the supply chain by encouraging suppliers to take ownership of CSR issues themselves, as explained by the Head of Sustainable Business, had been successful in the case of Company C.

- *Trust as an antecedent of commitment, cooperation and collaboration*

The Group Compliance Manager spoke of Company C's relationships with its main buyers as characterised by trust and commitment. Both parties were interested in maintaining the long-term survival of the relationship and made efforts to support this. The Group Compliance Manager felt that buyers had maintained long-term relationships with Company C because they could trust in its capabilities of customer service as well as high-quality, ethical and on-time manufacture.

For example, Company C had a long-standing relationship of 20 years duration with Liz Claiborne Inc., a US-based designer and marketer of premium retail brands. The Liz Claiborne Group owns several other labels apart from the eponymous ladieswear brand, including Kate Spade, Mexx and Juicy Couture and as well as a number of franchises and licensing agreements. Liz Claiborne was established in 1976 and began outsourcing production to Asia in 1977. Notwithstanding the creation of a code of

conduct for suppliers in 1996, the brand came under fire during the late 1990s for unacceptable conditions in some of its South American subcontractor facilities. These included evidence of 13 year old child labourers working 12 hour days and allegations of routine denial of access to health care and sick days notwithstanding deduction of both from employees' wages. Although Liz Claiborne had established a code of conduct to protect workers rights, few workers had ever seen it or had it explained to them and this demonstrated to the company that without independent monitoring and verification a code of conduct could not ensure social compliance (The New York Times, 1997; NLC, 1999; Bernstein *et al.*, 2000). However, as a family-owned and run business, Company C had from the start instilled a familial, caring culture. The HR Manager explained:

> "Now it's third generation managing the business so (as) it's a family-run business, they are always concerned about people's security, their freedom and their facilities, all these things. Sometimes we do certain things better than those big companies listed in the stock market because we don't have shareholders. Because the family, when this was a small business, they managed the business by having good relationships with people, but now it's a fairly big business. Even now the owners when they visit the factory, they go to the production floor … they talk with people. Even the machine operators, they are having the opportunity to talk with the directors, the owners".

Liz Claiborne had no publicised CSR problems with any of its Sri Lankan manufacturing partners. The duration of Company C's relationship with Liz Claiborne could be explained by the buyer's trust in Company C to provide a quality ethical manufacturing service which would not expose them to unnecessary risk of CSR scandals and bad publicity.

In some cases Company C had been dealing with its customers for 20 years or more. The relationship with Liz Claiborne was of approximately 20 years duration and with Eddie Bauer it was around 15 to 20 years. The Group Compliance Manager felt that the strength of the trading relationships that Company C had developed with its customers was "the reason why we have survived for 50 years". Cooperation and collaboration occurred both ways: in some cases the buyer would assist Company C by providing technical advice or suggesting alternative sources of supply to achieve lower unit costs, and in other cases Company C would assist its buyers by accommodating urgent orders.

Both parties helped each other solve problems on an ongoing basis for mutual benefit and ultimately for the long-term survival of the relationship. The Group Compliance Manager explained:

> "Most of the time they help us technically, they send us the manual … they ask what is the cost breakdown … then they say OK you better (source) from this place then you will get a lower price then from our side we can lower the cost then we can place the orders. There are negotiations going there, they help us … Sometimes we help the buyers … Sometimes they want urgent orders, they know we can't make it but they ask please help us. Because we are a group of companies we will check with other factories … It's that kind of relationship."

- *Supply chain management – long-term orientation, shared goals*

There was a long-term orientation in Company C's relationships with its buyers, evidenced by the already lengthy duration of many of its trading relationships. Most buyers would assist with technical issues by providing information in the form of manuals and on cost reduction by suggesting alternative sources of supply for fabrics and trims. Training would be provided to promote awareness and compliance with new CSR developments and enable Company C to continue being a supplier of choice. The Group Compliance Manager felt that buyers provided much assistance and support:

> "They help us technically ...They help us (lower the cost) … They organise training for us. It's a big relationship, you know, we get a lot of support from the customers".

Support and assistance from buyers helped to overcome challenges such as downward price pressure and increased CSR regulations to maintain the trading relationship.

- *Supply chain rationalisation*

There was evidence of supply chain rationalisation as Company C worked towards its Green Initiative goals. Of the 20 commitments which made up the Green Initiative, several mentioned supplier rationalisation and the development of closer relationships with a select group of key suppliers as a precursor to reducing carbon emissions and cascading best practice in responsible buying throughout the supply chain. For example, to improve supply chain standards, Company C's commitment was to:

> "Partner with our best suppliers to share the best practices of ETI/GSP and ensure their adherence (to) the statutory requirements" (company document).

This suggested Company C would cascade best practice with its best performing suppliers and direct investment towards the development of closer relationships with them rather than a piecemeal approach with its extended supply base.

- *Supply chain integration*

There was a high level of integration of operations between Company C and its customers in terms of collaboration, sharing information and working closely together. This was mostly related to the design and product development process rather than manufacturing and logistics. The company had a dedicated product development centre employing designers, fabric technologists and garment technologists which was geared towards collaborative working with buyers. However, Company C had not moved into VMI arrangements with any of its buyers at the time of the interview (July 2009).

5.4.5 Summary

Company C was a family-owned business. Although it had grown to become one of Sri Lanka's largest garment suppliers with longstanding buyer relationships, the traditional family values were retained and there was an informal open-door culture within the business which supported CSR. A lack of shareholders enabled the owners to exercise greater managerial discretion with regard to CSR and facilitated the retention of small family business values within a company employing 15,000 people. The company's slogan "the difference is our people" emphasised the focus on human resources which were considered key to the company's success. As such, Company C invested in employee training and development and there were several examples of workers who had risen through the ranks from the factory floor to senior management level. Free uniforms, breakfast and transport were provided as well as air-conditioning even on the factory floor. The company had formulated its own comprehensive code of conduct which was rigorously audited as well as conforming to its global buyers' CSR requirements. In addition, it had eight ground rules for all employees which supported social compliance and helped to enhance the management-worker relationship. The concept of social responsibility was endemic within the corporate culture.

5.5 Company D

5.5.1 Company history and business operation

Company D was a full package supplier with 5,200 employees in Sri Lanka. It supplied predominantly ladies fashion garments to around 20 major US and EU retail buyers including Marks & Spencer, Edinburgh Woollen Mills, Chaps Ralph Lauren, Esprit and Gerry Weber. Although specialising in ladieswear, the company also produced a small amount of men's trousers. Total annual production was around six million garments.

Company D's main market was Western Europe, which accounted for around 85% of production, with the remaining 15% exported to the US. Originally set up under the BOI scheme by a Sri Lankan-based German national in 1991, by 2009 the business had expanded to seven plants spread across Sri Lanka, including two in the North-East. Six were manufacturing plants and there was also a centralised cutting factory located in Kosgoda. The head office was based in two buildings on the outskirts of Colombo with 225 employees in total. Here, design and merchandising functions were carried out. There was also a branch office in Germany employing approximately five people where marketing activities were carried out. The Director flew to this office on a regular basis to hold sales meetings with EU-based customers. At the time of the interviews (July 2009), the company was in the process of developing a website which included a section on CSR. The website launched in 2010. The organisational structure for the factory in Hikkaduwa is shown below.

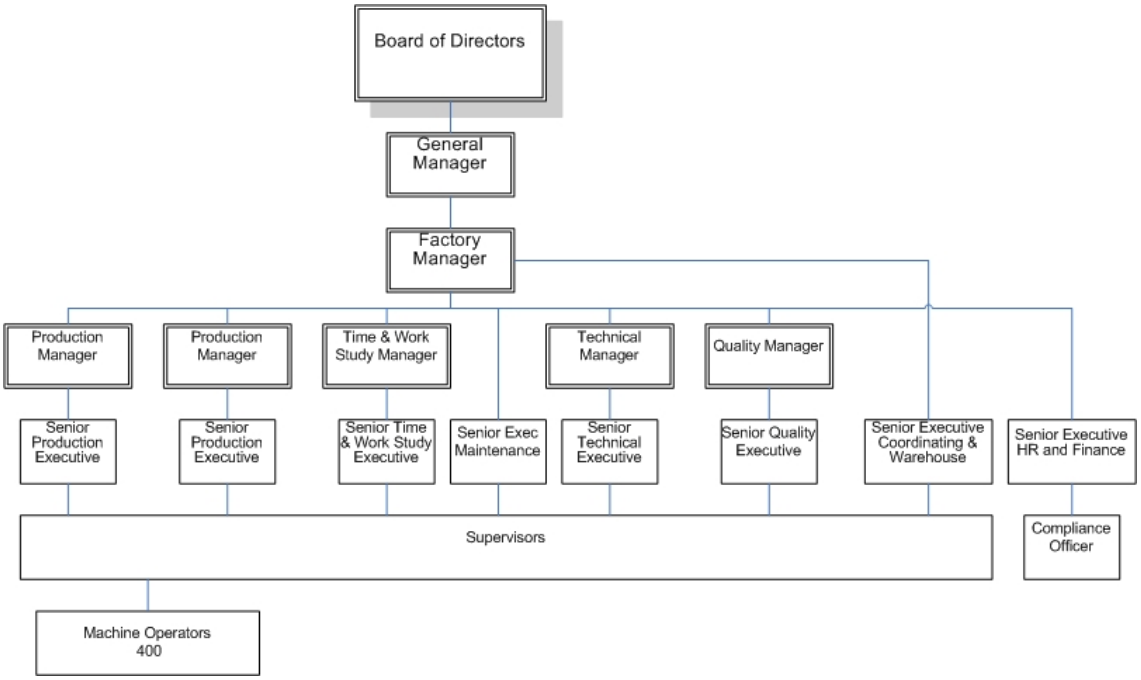


Figure 5.18 Company D organisational chart

The Hikkaduwa factory was set up in 1997 and produced shirts and blouses for three customers. Total employees at this plant were 850 including 400 machine operators. Gerry Weber took around 85 percent capacity and the remaining 15% was shared between Chaps Ralph Lauren and Esprit. Gerry Weber is a German ladieswear group that own five brands aimed at "fashion-conscious grown-up women" and retailed worldwide in 300 own stores and 1400 concessions. Positioned in the upper mid-price market segment, the main Gerry Weber brand is aimed at the "modern woman" of 30 and upward and collections are therefore "modern without being too experimental … sophisticated and feminine" (Gerry Weber, 2009a). In 2009, a typical Gerry Weber blouse retailed at £60-£70 in the UK. Chaps is Ralph Lauren's denim brand which was launched in 1978. A typical casual ladies shirt retailed at around US$55. Esprit is a US-based youthful lifestyle brand offering affordable luxury and is retailed in 640 own stores and via 12,000 wholesalers worldwide. A typical casual ladies shirt retailed at around £28 in the UK.

Production capacity in the Hikkaduwa plant was around 120,000 blouses per month. The premises consisted of two production facilities and a separate canteen and first aid room. Production lead time was 30 to 45 days, dependent on order size. Interviews were conducted with the General Manager of the Hikkaduwa plant and one of the Directors of the company at the Head Office in Nugegoda on the outskirts of Colombo. The Hikkaduwa plant was in a rural location on the south-western tip of the island. The exterior of the factory in Figure 5.19 below shows a tethered water buffalo grazing alongside white egrets with the lush tropical foliage typically found in non-urban areas. The interior picture shows the modern factory floor and first aid room entrance.

Figure 5.19 Exterior and interior views of Company D's Hikkaduwa factory

5.5.2 CSR Inhibitors

- *Downward price pressure*

Company D's customers tended to be retailers operating in the mid to upper price segments of the ladieswear market who did not position themselves primarily on price. Gerry Weber for example, positioned itself in the upper-mid price segment and the Chairman felt this enabled the brand to win extra customers who had become disenfranchised from the luxury segment (Weber, 2009b). The adoption of stricter cost-management procedures since the onset of the global recession in September 2008 had enabled the brand to increase revenues in spite of the challenging economic situation (Weber, 2009a). Starting from November 2007, Gerry Weber had outsourced their entire inventory and logistics management function to reduce costs (Weber, 2008). With the adoption of stricter cost-management measures in 2008, the company aimed to consistently cut procurement costs while maintaining the same quality levels. In his statement at the 2009 AGM, the Chairman explained:

> "The global sourcing system allows us to benefit from wage cost differences between individual countries and to reduce our procurement prices steadily while at the same time maintaining the high quality of our products" (Gerry Weber, 2009b).

However, Company D did not admit to experiencing aggressive cost-cutting demands from its customers, claiming that the main effect of the global recession was the reduction in order sizes. Due to the partnership nature and the long-term orientation of the relationship with Gerry Weber, the Factory Manager indicated an acceptance of the current business climate with regard to reduced orders:

> "We are understanding if they have to give us less also, we never blame it on them … Now in a situation like this year and maybe next year, we understand".

The reduction in orders was confirmed by a press release from Gerry Weber (2009b): a slowdown to single-digit growth in incoming retailer orders for the autumn/winter 2009 season had translated into reduced orders for manufacturers.

- *Product nature*

Company D produced fashion garments not core basics. The main customer of the Hikkaduwa plant, Gerry Weber, offered "top-quality combination collections … with trendy cuts and fabrics, quality manufacturing, a love of detail and a harmonic colour

palette" (Gerry Weber, 2009a). Although basic blouse construction remained fairly constant, there was a high level of design detail changes for each new style, such as pintucking, pleating, topstitching and ruching. Annually, Gerry Weber produced seven collections, each with three themes, and supplied retailers with new merchandise every two weeks from the centralised distribution centre (Gerry Weber, 2009c). Short lead times were as much a priority as cost efficiency: in a 2009 press release, the Chairman of Gerry Weber affirmed:

> "Short response times in the development of the collections are just as important for our success in the market as is high cost efficiency" (Gerry Weber, 2009d)

With the extra demand for high product quality levels, Company D had a challenging triumvirate of objectives to achieve: cost efficiency, speed and quality. The General Manager thus acknowledged that the market in Germany was "very difficult".

Blouses produced for Gerry Weber were predominantly made from high-tech synthetic fabric blends with a sheer silky feel. As such, the fabrics were difficult to work with and required high levels of operator skill to achieve the required quality levels. The General Manager acknowledged that the German market in particular was "very difficult" because of the high quality requirements. The nature of the product and the quality levels influenced the factory layout and the employee breakdown. Greater numbers of Quality Controllers were required since quality control (QC) occurred at three different points in the line: once before pressing, once after pressing and a final QC prior to packing. If defects were found at any point in the process a garment would be returned to the line to be reworked. Because of the high value of the fabric used for Gerry Weber, Company D could not afford to risk producing garments which could be rejected. The stringent QC procedures in the factory enabled the General Manager to feel confident that 100% of garments produced could be shipped to the customer, with no seconds. He said that quality took priority over cost:

> "Quality we never (compromise on). I would say it's the main thing you can see when you move inside the plant".

This was evidenced by the greater proportion of QC checks in the line compared to that witnessed at other factories. Figure 5.20 below shows the supervisor monitoring the lines on the left, with the pressing station with QC check just behind on the right-hand side image.


Figure 5.20 Interior views of Company D's factory at Kosgoda

- *Labour intensity of manufacture*

The cutting plant at Kosgoda had automated layers and cutting machines although at the garment sewing level the process was very much labour intensive. The labour intensity of the business influenced the CSR stance of the management; as a labour-intensive industry the human resource was the most valuable resource in the business and therefore deserved protection and development. The Hikkaduwa factory was located in a rural area and according to the General Manager, labour turnover was relatively low at 3%. Across the whole group, turnover was slightly higher at around 5%, according to the Director. The General Manager said:

> "Very strongly I believe in (CSR). Because it is people oriented, I would say, human resources, in this aspect where we are in manufacturing, labour-intensive industry … We have not diversified and we don't have other interests in any other groups like banking and construction and so on. This is our only industry … so the people, the employees who are with us are very important for us".

However, the company made investments in innovation and technology to improve efficiency reduce the labour intensity in the manufacturing process. This supported the company's philosophy of continual process improvement and continuing skills development for workers. The General Manager said:

> "Bringing in new innovation, new methods, using technology that is available, where people have improved in their knowledge. So we believe in contributing for that".

He then explained how profit was reinvested back into the business to upgrade factory technology and increase thereby increase efficiency as well as making the process less arduous for the workers:

> "We can share the excess that we generate out of this by reinvestment … more modern instruments, machine laying off and bringing in new machinery, lot of comfort we can provide".

On the corporate website, mention was made of the investment in a variety of sophisticated and high-tech machinery in order to promote continuous improvement in manufacture. Training and development of workers was a key company theme and supported the business objective of supplying high quality fashion garments to its customers. The Director explained:

> "We have programmes in the factories as well as the (external) institutes that are carrying out programmes, we send people for training. We have allocated a fairly reasonable budget for that in our systems, people are trained".

In Company D, the labour intensive nature of the manufacturing process and high level awareness of the contribution of the human resource to corporate success was in fact a driver of investment in training and development.

- *Retailer buying practices*

The Director acknowledged the business difficulties resulting from retailer long payment terms. As a full package supplier, the costs included not only employee wages but also upfront payment for fabric and trims. He stated that Company D worked on 30 day credit terms with its current customers. The company had only ever worked with one customer (Zara) on 90 day credit terms a few years ago, but no longer worked with this customer due to the difficulties experienced with the long payment terms. He explained that due to a lack of profitability on blazer orders and a recent increase to 90 day credit terms, the company had scaled down its operations for Tesco and now only produced a line of trousers for them.

In January 2009, the General Manager spoke of a two year commitment from Gerry Weber; however, by July 2009 this appeared to have been annulled as he confirmed there was no guarantee of future orders from Gerry Weber. However, the General Manager felt secure in the longevity of the relationship since the factory had dealt with the customer for 12 years and had become a key supplier for Gerry Weber blouses over

that time. He admitted that business could be challenging and on occasion the factory would make a loss on a certain line; however, he took a holistic view of the overall season and both parties would work together to ensure adequate margins were achieved for both.

> "If we are losing in one maybe we catch up in others. And overall we try for that season with the margin where we want to be, not to lose, for both parties".

- *Supply chain complexity*

As a full package supplier, Company D used many sources of supply for fabrics and accessories. Fabrics were all procured from the South Asian region although rarely from Sri Lanka due to the lack of export quality woven fabrics available domestically. Domestic procurement was limited to trims and packing items such as thread, poly-bags, hangers and cartons. Company D tended to work with customer-nominated suppliers, which would therefore be approved and audited by the customer. The General Manager explained:

> "Mostly the top-end buyers that we are working (with) (have) the nominated suppliers for the materials. So they are generally the suppliers that fall into this kind of discipline, the code for ethics and all that. So we work with reputed suppliers I would say".

For example, Esprit's corporate webpage included detailed information on its commitment to responsible sourcing practices:

> "At Esprit, we aim to develop and maintain long-term relationships with our business partners based on openness, honesty and trust. We seek to understand their business needs and aim to provide mutual support to ensure establishing sustainable business partnerships" (Esprit.com, 2009).

Esprit's CSR requirements were communicated to buyers via its Vendor Compliance Manual, and audits were carried out to monitor and encourage compliance with the principles contained therein.

If buyers did not nominate sources of supply, Company D would use its own suppliers. The Director admitted that the company presently had no CSR requirements of suppliers that were not customer-nominated; and from those customers that did not specify nominated suppliers, there were no demands made on Company D to ensure social compliance further upstream in the supply chain. However, the Director acknowledged this was likely to become a requirement in the near future as CSR increased in importance:

> "We have not gone into that too much into checking about their compliance. Of course I think we might have to also do it because things are becoming more and more important".

- *Supply chain power distribution*

As a key supplier to some of its customers, such as Gerry Weber, Company D had the advantage of a relatively greater share of the power in the supply chain. This was evidenced by its ability to drop or scale down operations with unprofitable customers, such as Tesco, or customers whose buying practices were deemed unreasonable, such as Zara. With a Sales and Marketing Office in its key market and a director who was a German national, Company D was commercially astute in terms of proactively seeking new customers and business opportunities. This meant the company was less reliant on customers that turned out to be problematic and was able to dictate its terms of business to a certain extent rather than unconditionally accepting a retailer's terms.

5.5.3 CSR Pillars

As a BOI enterprise, Company D was bound to adhere to the BOI guidelines on labour standards and employment relations. In addition, the Director pointed out that already two or three of Company D's plants had been accredited by SGS through the 'Garments Without Guilt' scheme. The company adhered to individual buyers' codes of conduct and was formulating its own code of conduct. A range of social benefits including free breakfast and transport and subsidised lunch were provided for factory workers. Salaries were above the minimum required by the BOI and the company made provision for a doctor to conduct onsite medical examinations on a weekly basis if required.

- *Moral philosophy*

CSR initiatives were implemented primarily as a moral imperative. Following Kant's categorical imperative, social responsibility was believed to be the correct thing to do rather than being governed by enlightened self-interest. The General Manager had a strong personal belief in the importance of CSR in the business. He felt that this was a particularly important element due to the labour-intensive nature of the business and the consequent importance of human resources.

> "We have a responsibility for their lives and not only for achieving the quality or the cost factor profitability but something better, to improve their lives".

The Director had recently attended a seminar run by Marks & Spencer and the company had signed up the Marks & Spencer's flagship community programme 'Marks & Start' scheme. As part of Marks & Spencer's 'Plan A' sustainability agenda, 'Marks & Start' provides work placement opportunities for disadvantaged groups such as the homeless, disabled, young unemployed or lone parents. The scheme runs in supplier countries including Sri Lanka, where Marks & Spencer suppliers are encouraged to train and recruit disabled people to enable them to enter mainstream employment. The General Manager said that this was part of Company D's policy as an inclusive employer:

> "Wherever possible, we have accommodated short of hearing people, also people who are unable to walk properly but still can sew. We feel we should wherever possible give them a chance; that is the policy here".

Company D's factories were mainly located in concentrated Buddhist-Sinhalese areas, while the Head Office was located in a multicultural zone. In terms of ethnic discrimination, the Director, who was himself of the minority Catholic Tamil ethnic group, corroborated the company's inclusive policy:

> "Where the head office is concerned, we have basically all the communities. I am a Tamil. We don't have discrimination as such".

The General Manager described how the inclusive policy aimed to multicultural workforce:

> "We all work together, all kinds. As a company we have a multicultural type of concept …We try to manage that approach".

The company did not engage in large-scale charitable activity but focused on helping local institutions where the factories were located. The Director explained:

> "Not on a big scale but in the areas where the factories are, the temples, the orphanages or any other institutes we do (charitable activity)".

- *Competitive advantage*

The Director recognised that employee retention was a key business benefit of CSR:

> "We have a disciplined way of working, we have a disciplined way of treating our employees and so on; they stay with us".

A Compliance Officer was employed at factory level and was responsible for social auditing within the business in terms of working hours and health and safety issues. In addition, the Director explained that overtime would be checked by the finance department, who were "quite stringent" in their audits. Compliance was therefore managed by two separate business functions, although the Director did not elaborate on

how the finance department dealt with overtime limits. However, as a BOI enterprise, the company had to pay overtime at 1.5 times the usual rate and also ensure that female workers did not work more than 60 overtime hours per month.

However, the Director also highlighted the potential conflict between CSR and business requirements. On occasion, restrictive labour laws prevented the business servicing its customers when problems arose and extra work was needed:

> "The negative side if of course when we get stuck for a style we cannot do extra overtime and night-work and things like that".

Commercial interests were thus impeded by labour laws which were geared towards worker protection, regardless of the workers' wishes. The General Manager agreed that the effect of CSR requirements restricted business freedom to maximise profit:

> "I would say there are restrictions, we cannot do what we want".

Although this might have had the effect of discouraging certain buyers and investors, he did not perceive this as a negative influence but an appropriate counterbalance that tempered the potential excesses of business:

> "We cannot go out of the boundaries to make profits, there is a well balance maintained by way of the social compliance requirements … I think to an extent you need also because you can't compare luxury country style to the lifestyle here … so I think to moderate we need (CSR regulations)".

The Director recognised that the negative consequences of CSR could be overcome by better business planning. This would help to avoid the last minute overtime or night-work requirements which compromised the company's adherence to CSR standards:

> "If the preparation and everything is properly done and things are happening according to plan we can definitely go through it".

In the case of a conflict between social compliance and business necessity, social compliance would take priority. As a BOI factory certified with the national 'Garments Without Built' scheme, Company D could not risk losing the competitive advantage bestowed through the commercial perks of BOI status or the CSR accreditation of the 'Garments Without Guilt' scheme. The risk of losing long-term competitive advantage for a short-term gain was not justifiable.

- *Sustainable development*

The General Manager felt that the garment industry was positively accepted in a traditionally male-dominated society as an appropriate way for women to contribute to both household income and the economy at large.

> "People accept this as a good industry where the female employees can be used in big numbers, which solves a major problem, because our men were kind of productive people traditionally. This has brought the female to also earn and support the family".

The empowerment of women in both business and society was one of the founding principles of Sri Lanka's 'Garments Without Guilt' initiative. Through employment in the garment industry, they could make a difference to both their immediate families and to society at large. Company D, as an employer, thus contributed to both economic and societal development in the rural areas in which factories were located. Achieving harmony between the industry and Sri Lankan culture thus helped to ensure social acceptance of the industry:

> "People like this new industry, the factory environment, so long as we maintain those standards".

Company D had a policy of employee development. The Director proclaimed:

> "Women are the core of our business so they are given the opportunities".

The General Manager believed in "developing and retaining people" and explained the virtuous circle that was created when the company invested in the workers to improve them and thereby generated more profits, which would then be reinvested to improve working conditions for employees. For example, the generation of profits funded investment in machinery upgrading which would help employees by improving or speeding up the production process:

> "In order to achieve their personal goals they have to work towards our business (goals) and that brings the unity … We can share the excess that we generate out of this by reinvestment, kind of expansion, more modern instruments … bringing in new machinery, lot of comfort we can provide. So that way while we try to improve their lives to achieve their personal goals, by using them we try to achieve our business goals".

The employer-employee relationship was symbiotic and mutually rewarding. Employees were instrumental in driving business success, but the fruits of success were shared between all by continual reinvestment and expansion of the business.

The policy of employee development was also supported by internal and external training and development initiatives. Traineeships were available both at factory level and in the Head Office for graduate merchandisers. The Director said that Company D had allocated "a fairly reasonable budget" for employee training and development. A six week induction programme at factory level enabled new machine operators to join the production line. The company actively encouraged operators to become multi-skilled as a way of increasing their salary, so that after two years they would become fully-skilled operators on the highest salary band. The General Manager explained:

> "Although initially they specialise in one operation, if they retain with us, we ensure by the end of the second year they are fully skilled, multi-skilled operators and we bring up to Grade A level where they get the highest salary by internal job rotation. We train them, we encourage them – even at the interview we say this is your basic but after six months Grade B you get this much, and up to Grade A you can go, and don't wait here, try to get this higher salary. Because we don't need anyone to retain as a trainee forever, we also want them to be skilled".

Multi-skilled employees became more valuable to the business as they could be deployed at various points in the line to maximise flexibility in line planning and also to provide cover for absent colleagues.

Employee satisfaction was monitored on a regular basis via a joint consultative committee in each factory. The Director explained:

> "We have a joint consultative committee in the factory representative of the workers and we have a monthly meeting with them to ensure that we have a good relationship and also that their grievances are brought up at the meetings".

The General Manager explained that during the initial six month induction period, new employees would be treated carefully to ensure they were happy in their job. Two questionnaires were administered to new employees during this period to check "how they really feel about the new job". This process allowed any grievances to be raised and attended to. The General Manager said:

> "For up to six months we go very carefully with them … initial six months we look after like infants".

However, after six months, employees were left to their own devices. It was assumed by management that they would feel confident enough to approach the HR department directly with any issues so there was no longer any need to initiative feedback.

> "After that (six months) no need because they are on their own. If they are not happy they definitely communicate with our HR department and their grievances put up and we immediately attend to their needs".

Also, grievances could be addressed to the factory representative who would raise them at the next monthly joint consultative committee meeting.

5.5.4 CSR Drivers

- *Consumer desire for guilt-free fashion*

Consumers were not found to be a key driver of CSR in Company D as they were too far removed in the supply chain. However, neither did Company D's buyers appear to be significant promoters of CSR: although there was a small section of 320 words on Gerry Weber's environmental policy, prior to December 2010 there was no mention of CSR on Gerry Weber's corporate website (www.gerryweber-ag.de), nor was the subject mentioned in any annual reports. A press release from October 2010 announced the appointment of a Social Compliance Manager, and since December 2010 the corporate website includes information on Gerry Weber's membership of the Business Social Compliance Initiative. Esprit provided some information on its CSR principles and philanthropic activities on its website, including mention of its Vendor Code of Conduct and its membership of the Business Social Compliance Initiative. Although Company D adhered to individual buyers' codes of conduct, it appeared that BOI regulations and internal values and principles were greater CSR Drivers than buyers or consumers.

- *Trust as an antecedent of commitment, cooperation and collaboration*

Company D received formal purchase orders and the relationship was governed by formal written contracts in order to comply with local laws. However, the Director conceded that legal contracts were present for the sake of formality rather than necessity. In practice, the trading relationship was managed more informally and cooperatively. If problems occurred, discussions would take place to find a solution that benefited both parties. In the history of the firm, Company D had never run into litigation because of non-adherence to contractual stipulations. It thus appeared that the legal contract was present to comply with local laws but in practice, neither party resorted to contractual remedies to solve problems. Rather, trust, cooperation and a mutual long-term orientation guided the problem solving process.

Company C had a close working relationship with Gerry Weber. Although there was no formal commitment to guarantee future orders, both the Director and the General Manager felt secure in the continuation of the relationship. The Director felt that the service level provided by Company C protected the company from losing business to lower-cost competitors:

> "With the service we are giving they wouldn't do that" (go to another supplier).

The nature of the trading relationship was positively described and the General Manager went as far as saying:

> "We take pride in servicing (Gerry Weber) … we really take pride in saying that we produce for them, they are our buyer".

- *Supply chain management – long-term orientation, shared goals*

As key supplier to Gerry Weber, Company D had worked with the buyer for 12 years and both parties had built up a mutual long-term orientation towards the relationship. The relationship with Esprit was of shorter duration at five years, however this buyer was explicitly committed to developing long-term, sustainable supply chain relationships (Esprit.com, 2009) and this helped to drive continuous CSR improvement.

- *Supply chain rationalisation*

Although Company D dealt with approximately 20 buyers in total, it had strong relationships with around half of these. Since the company had a strong business it was able to pick and choose its customers to some extent, and those customers that were unprofitable or unreasonable could be dropped. During the January 2009 visit, the General Manager claimed the company was not looking for any new customers. The preferred business model was to do greater volumes of business with fewer buyers in order to realise the investment in time and effort and the subsequent learning curve that resulted from the initiation of new customer relationships.

- *Supply chain integration*

Integration of operations between Company D and Gerry Weber was evidenced by the high level of information sharing. Gerry Weber had invested aggressively in IT optimisation in recent years and this permitted the immediate transfer of point-of-sales information from its retail stores to head office (Weber, 2009b). Data analysis provided Gerry Weber with a greater insight into its customers, and was shared with key suppliers. The Director of Company D felt that the trading relationship was "closely

integrated". Marketing information provided from Gerry Weber enabled Company C to build a good understanding of the buyer's business needs as well as to prepare and plan for the season ahead.

> "They inform us what is the market, how the sales are going, we get that information".

This was confirmed by the General Manager:

> "At the end of the season, what happened and the going trends based on the next season, and all that valuable information, they provide us. So we are really guided. And we know exactly what will happen next season so we have time to do our preparation here".

Sharing retail demand enabled Company D to maintain its standards of CSR as the planning cycle was longer and this obviated the need for excessive amounts of overtime or nightwork close to order deadlines. It also helped to cement the close working relationship since Company D had a greater understanding of its buyer's business and was therefore able to tailor its service offering accordingly.

5.5.5 Summary

Company D was a medium sized company that had built up strong trading relationships with its customers. As a manufacturer of upper mid-market fashion garments, it was proud of the high quality levels it was able to achieve. Company D believed CSR was essential in such a labour-intensive industry and provided a range of social benefits as well as a comprehensive training and development programme for employees. CSR implementation in the business was based on the idea of mutual gain for workers and for the business. Training and development enabled workers to become fully skilled in all aspects of the production process. They could then earn higher wages and become fulfilled and at the same time, the company benefited from higher employee skill levels.

CSR activity was concentrated internally. Company D contributed towards local schools, hospitals and temples but did not have a large-scale external philanthropy programme. It adhered to its customers' CSR requirements and was in the process of developing its own code of conduct. Some of its factories were certified according to the 'Garments Without Guilt' initiative. Although ethical monitoring did not yet extend further down the supply chain to its fabric or accessories suppliers, the company recognised that as CSR developed, this would soon become a requirement.

5.6 Company E

5.6.1 Company history and business operation

Company E was the Sri Lankan manufacturing subsidiary of a vertically integrated global supplier of premium cotton shirts. The case study analysis will therefore include some discussion of the parent group. Company E's parent company was a wholly family-owned firm established in 1978 that produced over 60 million shirts annually, supplying leading high-end brands and retailers including Abercrombie & Fitch, Nike and Tommy Hilfiger in the US, and Hugo Boss, Next and Marks and Spencer in the EU. Sales were concentrated on the US (60%), EU and Japan (30%) and China and other emerging markets (10%). The parent company also made own-brand stock for sale in wholly owned retail outlets in China and was a rare example of a fully integrated producer. It owned its entire supply chain from initial research and development to breeding of cotton, cotton farms, spinning mills and garment factories, to accessory manufacture and a network of retail stores in China (Knight, 2006). The current Chairman took over the business from her father in 1995 and was CEO from then until 2006. She was instrumental in transforming the business from a contract manufacturer to a full package supplier.

The parent company had production facilities in Malaysia, Vietnam, Mauritius and Sri Lanka as well as in China. Company E was set up in 1978 under the BOI incentive scheme and employed 5000 people across four plants in Ja-Ela, Yakkala, Kegalle and Koggala. Sri Lanka was the parent group's third largest geographic location after China and Mauritius, employing 15% of the parent company's total employees. Over the years Company E moved from being an order taker to providing greater value-added services in terms of merchandising and product design and development, thus securing a loyal customer base to become a long-standing supplier to premium global brands such as Tommy Hilfiger, Nike, Polo Ralph Lauren, Façonnable and Liz Claiborne.

Company E was essentially a CMT operation. Marketing, sourcing and trading negotiations were centralised and carried out in Hong Kong within the parent company, and all fabrics and trims were sent from China.

The factory at Ja-Ela had 1160 employees including 410 machine operators and produced around 90,000 garments per month. The factory was spacious and included a

fabric and trims receiving warehouse packing was part of each line rather than a separate area. It was WRAP and ISO 140001 certified. While 40% of the workforce lived nearby, 60% came from outside the capital of Colombo and therefore resided in boarding houses nearby. Company E did not provide hostel accommodation for workers nor did it contribute to the cost of boarding for the migrant workforce. However, free transport was provided for all employees.

Company E declined to share their organisational structure. However, after visiting the management offices and the factory floor at the Ja-Ela plant, it appeared similar to the other case study companies. The factory floor included fabric store and warehouse, canteen and first aid facilities, a HR department and a merchandising department.

5.6.2 CSR Inhibitors

- *Downward price pressure*

The parent group's core business strategy centred on moving upmarket and investing in improving quality in order to achieve the goal of becoming the world's best shirt-maker. Quoted in a 2005 interview, the then-CEO of the parent group believed this move would help differentiate the company in the face of increased competition in the lower end of the apparel market following elimination of quotas in January 2005:

> "If (parent group) can reach the pinnacle of quality, profit margins are better and competition is less" (Murphy, 2005).

Operating in the premium end of the market, Company E was less susceptible to downward price pressure experienced by manufacturers producing core basic items. By focusing on quality, merchandising service, product development capability and speed-to-market rather than competing mainly on the basis of cost (Pelleg-Gillai, 2007), the company built a sustainable competitive advantage which enabled it to weather the fallout of the global economic recession and downturn in apparel orders from its major global markets. On the group's thirtieth anniversary in 2008, the CEO of the parent group said the company received full orders for the first half of that year, despite the weakening of the US market which made up the majority of its business. He felt this was due to the group's ability to offer an efficient full-package service backed up by a vertically integrated supply chain (Sung, 2008). The group's competence and innovativeness thus differentiated it from the competition and helped it to weather the challenges of market downturn.

- *Product nature*

Company E produced knitted fashion tops such as polo shirts. These were high quality garments which tend to be relatively complex in terms of construction and finish – for example complex seam placement and construction, stonewashing or embroidery. A typical garment was a Polo Ralph Lauren short-sleeved polo shirt with embroidered crest and distressed 'vintage' finish retailing at around £75. The complexity of manufacture and the high quality requirements of the garments contributed to the relatively low productivity level in the factory, which ran at 55% in the month preceding the interview (June 2009). However, productivity was offset to a certain extent by the higher value-added of the garments. The high levels of quality and skill offered by Company E meant that there was less competition from other garment manufacturers in the region. This enabled the Director of (Sri Lankan) Operations to feel secure in the trading relationships which Company E had with its buyers. The Chairman of the parent group had also spoken of how she felt a price premium could be commanded by the guarantee of a superior product (Wanxian, 2008). The achievement of high quality was the driving force within the parent company and this was also observed to be the case within Company E. Investments were made in machinery and operator training as well as the organisational structure: for each buyer there was a dedicated merchandising team and a Vendor Nominated Person employed on behalf of the buyer. These investments in machinery and human resources supported the production of high quality garments and the provision of added value services to customers. Product nature in this case was thus a CSR Driver rather than an Inhibitor.

- *Labour intensity of manufacture*

Labour intensity of manufacture was high in Company E since there was a lack of automation with no automated production handling system and no automated fabric laying machines. However, there was a conveyor belt in the warehouse that enabled boxes to be moved from a point at the end of the production line to the truck. Lines were organised in a different manner to the other case study companies with the packing carried out at the end of each line rather than in a centralised packing area. With its specialisation in fashion sportswear, Company E had invested in a bank of high specification embroidery machines for its customers that could produce high quality embroidered crests such as brand logos or national sports team logos.

The parent company had a drive to invest in technology as an enabler of more efficient supply chain management. At a conference in 2008, the CEO of the parent group spoke of the company's goal to improve efficiency levels and reduce production costs. This was achieved in part by greater levels of automation in factories such as laser cutters and travellers that moved work-in-progress from one work station to another (Sung, 2008). However, these were not yet in evidence in Company E.

- *Retailer buying practices*

Since Company E was purely a CMT unit, all trading negotiations with customers were carried out by the parent company headquarters in Hong Kong. As a key supplier to its customers, the parent company arguably had greater power in the supply chain than some of its competitors who did not have key supplier status. The size and capabilities of the parent company also meant that it had less competition from other suppliers who were unable to handle such great volumes and high quality of production. The relative power of the parent company in the supply chain and the CEO's philosophy of 'business with conscience' meant that Company E did not experience pressure from retailer buying practices that compromised its CSR policies. The Director of (Sri Lankan) Operations stated that Company E's relationships with its customers were very favourable and this was corroborated by the parent group's status as key supplier to many of its customers. He furthermore stated that Company E's business operations were never compromised by retailer buying practices such as short-notice cancelled orders or specification changes:

> "We were never let down by anyone so far. Our relationships are excellent".

- *Supply chain complexity*

As a first tier supplier to its customers, Company E's supply chain was relatively straightforward. Since all sourcing and trading negotiations were carried out by the parent group in Hong Kong, it operated solely as a CMT operation. As a vertically integrated organisation, the parent company was able to supply the great majority of fabrics and trims to Company E directly from China. Company E did not subcontract orders. The size of the parent company and the level of investment in quality upgrading enabled all specialist operations to be carried out in-house.

For example, the Director of (Sri Lankan) Operations in Company E felt that although the company produced complicated, high fashion garments in terms of garment construction as well as finish and embroidery, there was no need to subcontract any of

the processes. The business had recently invested in a bank of high-specification embroidery machines in Company E and all the various wash and finishing processes were contained within the immediate boundary of the firm.

The parent company's drive to improve quality led to investment in technology as an enabler of getting products to market faster, reducing wastage and energy consumption in the production process and moving goods faster through the vertically integrated entity. According to the Chairman of the parent group, vertical integration facilitated strict control of quality throughout the production process (Wenlei, 2009).

- *Supply chain power distribution*

The size of the parent company and its status as key supplier to many of Company E's customers offset to some extent the uneven nature of the power distribution in the trading relationship. As one of the world's leading premium shirt manufacturers employing 47,000 people worldwide with a turnover of more than half a billion US dollars, the parent group held a level of influence not usually possessed by smaller garment manufacturing companies. The competences possessed by Company E also helped to restore the power imbalance in the supply chain to a certain extent. As a manufacturer of high quality fashion products, it had a greater differential advantage and fewer direct competitors than a manufacturer of core basics.

5.6.3 CSR Pillars

The Chairman of the parent group was instrumental in building a progressive, dynamic organisation that balanced profit-seeking with social conscience. As a privately-owned firm, she could exercise greater managerial discretion on matters she felt strongly about than a company that was answerable to shareholders. In a newspaper interview in 2008, she acknowledged:

> "I am fortunate because the company I lead is a family-owned group - I can do anything I decide to do" (Wanxian, 2008).

With its emphasis on ethical business practices, social and environmental responsibility and worker welfare, the Chairman's philosophy filtered down to the company's subsidiary operations. CSR was incorporated within the parent group's strategic focus on quality-based differentiation. A corporate-wide 'e-culture' was formulated by the CEO and this enabled CSR to be placed within the strategic core of the business. As a

subsidiary, Company E was bound to adhere to the following five ruling principles of the corporate 'e-culture':

- Ethics – be a good citizen and a good employer
- Environment – cherish the environment
- Exploration – explore and embrace innovative solutions and enhancements
- Excellence – reduce wastage through functional excellence
- Education – promote a culture of learning and support education.

The parent group was one of the founding members of the UN Global Compact in 2000 and formulated its own code of conduct in 2002; however, it did not formally establish a dedicated CSR department until 2004. Within this department, high level board responsibility for CSR within the parent group lay with the Chairman's sister, who was Vice-Chairman as well as Director of CSR. The CEO's business philosophy was supported by the CSR reporting structure. There was a CSR manager responsible for the Sri Lankan and Malaysian operations who reported to the Director of CSR. At each of the four factories that made up Company E, the HR manager together with the Factory Manager managed day-to-day CSR issues and reported to the Director of (Sri Lankan) Operations on a monthly basis at a review meeting. In the Ja-Ela plant that was visited, the HR department was situated on the factory floor and had plate glass office walls facing out to the floor. This enabled the HR department to keep a close view of what was going on in the factory and also enabled machine operators to approach HR with any issues, since they could easily step away from the line and go to the HR office, without having to exit the building. In contrast, the account management and merchandising team were located in an office separate from the factory floor. The HR Manager went to the sewing lines every day to maintain a regular dialogue with the employees. Social reporting was conducted on a weekly basis and reported to the Group CSR Manager. The Director of (Sri Lankan) Operations confirmed that he chaired a monthly review meeting which was attended by all Factory Managers. Issues such as job and worker satisfaction, turnover, inputs and recruitment were discussed and the meeting would be appropriately documented.

In Company E, the parent group code of conduct was displayed on the company premises and outlined the philosophy behind the code of conduct as well as listing the commitments, as shown in Figure 5.20 overleaf. However, it was displayed in the management suite only, not on the factory floor, and was shown only in English, not

Sinhala. Therefore it appeared to be more for the benefit of management and visitors than factory workers.

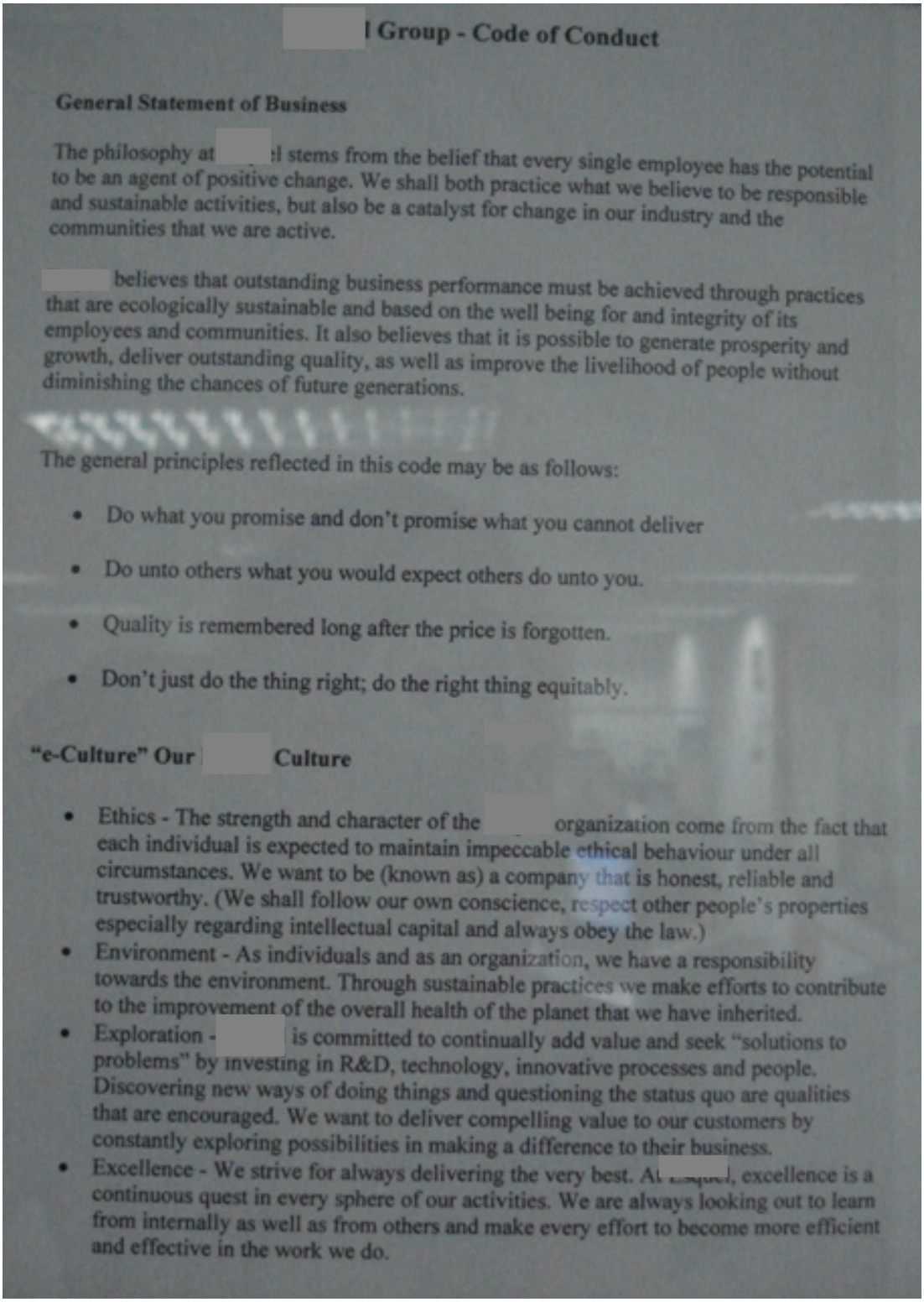
The Director of (Sri Lankan) Operations defined CSR as activity that went over and above legal requirements:

> "It's how each company would want to do the social apart from what the law says".

As such, Company E conducted charitable activity in the local area for schools, hospitals and day-care centres as well as for its own workers. The Director of (Sri Lankan) Operations explained:

> "If they are down with some kind of sickness or accident, we look at things like that. We just contributed three million rupees (approximately £16,000) last week to a boy who lost his hearing. So we do a lot, I think we are over and above what we should be doing".

In terms of CSR focused on its own employees, the Director of HR and Administration said that Company E provided free breakfast, dry ration packs, transport and medical facilities. In addition, an annual bonus was paid and there was a process for workers to obtain a salary advance, for example ahead of the New Year festival season, as well as library facilities (Kangaraarachchi, 2008). The company employed a small number of differently-abled people as well as a variety of different ethnic groups. It provided comprehensive training programmes from internal machine operator inductions to graduate merchandising training schemes that included sessions from external training providers. Social benefits such as free breakfast, transport and healthcare were in place for workers as well as extra perks such as excursions and parties. In April 2010, Company E conducted a 3.4 million Sri Lankan rupee project (approximately £19,500), funded by the parent company's charitable foundation, to rebuild the tsunami-damaged neonatal wing of one of Sri Lanka's key maternity teaching hospitals.



Group - Code of Conduct

General Statement of Business

The philosophy at l stems from the belief that every single employee has the potential to be an agent of positive change. We shall both practice what we believe to be responsible and sustainable activities, but also be a catalyst for change in our industry and the communities that we are active.

believes that outstanding business performance must be achieved through practices that are ecologically sustainable and based on the well being for and integrity of its employees and communities. It also believes that it is possible to generate prosperity and growth, deliver outstanding quality, as well as improve the livelihood of people without diminishing the chances of future generations.

The general principles reflected in this code may be as follows:

- Do what you promise and don't promise what you cannot deliver
- Do unto others what you would expect others do unto you.
- Quality is remembered long after the price is forgotten.
- Don't just do the thing right; do the right thing equitably.

"e-Culture" Our Culture

- Ethics - The strength and character of the organization come from the fact that each individual is expected to maintain impeccable ethical behaviour under all circumstances. We want to be (known as) a company that is honest, reliable and trustworthy. (We shall follow our own conscience, respect other people's properties especially regarding intellectual capital and always obey the law.)
- Environment - As individuals and as an organization, we have a responsibility towards the environment. Through sustainable practices we make efforts to contribute to the improvement of the overall health of the planet that we have inherited.
- Exploration - is committed to continually add value and seek "solutions to problems" by investing in R&D, technology, innovative processes and people. Discovering new ways of doing things and questioning the status quo are qualities that are encouraged. We want to deliver compelling value to our customers by constantly exploring possibilities in making a difference to their business.
- Excellence - We strive for always delivering the very best. At , excellence is a continuous quest in every sphere of our activities. We are always looking out to learn from internally as well as from others and make every effort to become more efficient and effective in the work we do.

Figure 5.20 Company E's code of conduct displayed in management suite

- *Moral philosophy*

In terms of the parent company CEO's business philosophy, CSR was strategic and motivated by competitive advantage as well as a sense of moral imperative. The CEO has been quoted as saying:

> "It is very important for us to set an example in Asia as a company that can be both viable and socially conscious" (CNN, 2009).

The group's website stated a desire to set an example of 'business with conscience' and "prove that a company can be both profitable and committed to sustainability and worker welfare". It appeared that the company recognised that in order to successfully influence the textile and garment sector into becoming more socially responsible, it had to demonstrate that implementing CSR did not necessarily have to come at the expense of profitability.

- *Competitive advantage*

For the parent group, certification against internationally recognised CSR standards such as WRAP and CSC900T resulted in increased competitive advantage as it won more orders and reduced costs of repeated buyer audits on its factories (Wenlei, 2009).

For Company E, the Director of (Sri Lankan) Operations felt that the company's success resulted directly from balancing the business need for profitability with social responsibility. The success of CSR implementation was demonstrated by the low labour turnover in the plant as claimed by the HR Manager. Although the Director of (Sri Lankan) Operations estimated turnover to be around 8%, the HR Manager in the Ja-Ela factory confirmed it was unusually low for the industry at 1%, admitting:

> "I don't actually know the real reason yet, I need to explore it further. It's about less than 1%. Very good … That is something I have seen in this factory because in other factories I have not seen this".

The HR Manager went on to explain how Company E's management approach had changed with the inauguration of a new management team who set about implementing human resource management (HRM) practices and policies designed to support labour relations within the business. Examples included training and development, performance appraisals and work incentives. The HR Manager noted that successful labour relations as a result of implementing HRM resulted in the development of human capital in the business and hence contributed towards competitive advantage in terms of increased productivity:

> "If you look at this company earlier, it was totally different depending on the management that you have in the factory. Now this management …. we consider the industrial harmony is very much required when it comes to productivity".

This was corroborated by the parent group's corporate website, which publicised the fact that workers were regarded as the greatest asset in the business. They were seen to

have the greatest potential to drive the goals of the enterprise and this was incorporated into the corporate 'e-culture'. After taking over the business from her father in 1995, the Chairman of the parent group recognised that the success of the business was driven to a large extent by a motivated workforce (CNN, 2006). The importance of the individual employee and their potential for contributing to the goals of the company was thus acknowledged in the corporate philosophy that prefaced the code of conduct:

> "The philosophy of (parent company) stems from the belief that every single employee has the potential to be an agent of positive change".

This suggested that the parent group believed in empowering employees to enable them to contribute towards corporate goals and as such CSR underpinned corporate strategy.

However, the HR Manager thought that Company E had been relatively slow in embracing CSR. In comparison, other Sri Lankan garment suppliers had embraced the concept of CSR several years ago and used it to brand their businesses to their buyers as well as to their employees:

> "If you look at (Company A) and (another company), they branded their company with CSR. Externally as a good company to their brands. In the same time they internally branded, as employee brand … anybody would like to join (Company A) or (the other company) because they have branded themselves as a good CSR company … if you look at (Company E) it has not been to that extent early, but now we are also moving into the same extent. (The parent group) has started growing a big social responsibility department to recognise that area".

This suggests that the parent group's CSR philosophy may have been slow to filter down to subsidiary level. Alternatively, CSR may have been deeply embedded within the parent group, but was so inexplicit or uncodified that workers were not aware of it. However, as a BOI enterprise, Company E had adhered to BOI requirements on labour standards and employment relations since its establishment in 1978.

On a national scale, the Director of HR and Administration in Company E claimed that Sri Lanka was a leader in ethical standards compared to other garment manufacturing countries such as Vietnam or China:

> "We are far ahead with other compliances such as work environment, salaries and ethical labour force" (Kangaraarachchi, 2008).

Due to the higher wage rates and business costs in Sri Lanka, ethical leadership was instrumental in enabling the country to retain the GSP+ status of duty free access to EU

markets and hence compete effectively with other garment manufacturing nations. CSR therefore conferred a significant competitive advantage on a national scale.

- *Sustainable development*

The parent company was a founding member of the UN Global Compact in 2000 and adopted its own corporate code of conduct in 2002, which is based on WRAP guidelines and the codes of its major customers. Its code of conduct began with a general statement of business vision which endorsed the principles of sustainable development:

> "(Parent company) believes that outstanding business performance must be achieved through practices that are ecologically sustainable and based on the well-being for and integrity of its employees and communities. It also believes that it is possible to generate prosperity and growth, deliver outstanding quality, as well as improve the livelihood of people without diminishing the chances of future generations".

Besides the moral imperative, CSR was identified by the parent group as being closely related to business risk, in terms of non-adherence to international labour standards for example, and hence the management of CSR was taken seriously and formally institutionalised within the company.

In Company E, the HR Manager recognised that CSR implementation helped to ensure higher levels of employee loyalty and commitment. For example, he noted that this was the first garment factory he had worked in where he had seen female employees coming back to work after they had gotten married and had children. Traditionally, Sri Lankan women would not return to work after they had settled down and begun raising a family. The working conditions, including training and development opportunities that were provided by Company E encouraged female employees to return to work at a later date and continue their career at perhaps supervisory level. This information contrasted starkly with Fine's (1995, p.26) finding of a contract given to a female worker within Biyagama EPZ which violated labour law and stated:

> *"If you a female employee, you shall agree to resign when and if you get married".*

Although workers could choose from many other garment manufacturing companies located in the immediate vicinity, the HR Manager professed that there were many long-term employees in Company E:

> "We have about 60% employees who have worked here more than five years; out of that 60% another 60% is more than ten years".

This translated into a high level of human capital and meant that the company did not always lose the skills and expertise of women that left to have families. Furthermore, it supported economic development of society by providing women with employment opportunities once they started to have families, a great benefit particularly to families and households where stable incomes were usually non-existent (Hancock *et al.*, 2009).

5.6.4 CSR Drivers

- *Consumer desire for guilt-free fashion*

CSR in Company E was driven less by end consumers and retail buyers than by the parent company Chairman's own business philosophy and vision of creating a firm that could serve as an example of a profitable yet ethical enterprise. However, the corporate website acknowledged the value of working closely with buyers in improving transparency and driving CSR standards forward. Therefore the influence of consumers was discounted as they were too far removed in the supply chain from Company E.

- *Trust as an antecedent of commitment, cooperation and collaboration*

As a Chinese-based company, the Chairman felt that the strategic priority was for the parent group to become an honest, reliable and trustworthy company and be perceived as such in its key US and EU markets (Wenlei, 2009). Behaving ethically and contributing towards society legitimised the business within society and enabled it to establish itself as honest, reliable and trustworthy.

The Director of Operations felt that Company E's trading relationships were cemented by trust. He had a positive view of the relationships with buyers and perceived them to be very strong:

> "We have a very very close established relationship and most of all it's the trust. We were never let down by anyone so far, our relationships are excellent and we are in continuous progress that we are making with each and every customer".

Trust in the trading relationships enabled the company to invest in understanding its customers' businesses and also fostered the flexibility and adaptability necessary to survive in challenging markets. For example, the potential for collaboration on design and product development with buyers required trust to encourage both parties to share information and feel protected from the threat of opportunistic behaviour.

The vertically integrated nature of the parent group facilitated collaboration between different functional divisions in the supply chain. The practice of collaboration contributed to the group's key strength in product development. For example, design and merchandising teams worked closely together with the research and development function on fabric technology such as the development of wrinkle-free and nanotechnology performance qualities (Wenlei, 2009).

The parent company had also opened a series of sales offices in its key global markets in the US, UK and Japan in order to build a closer and more direct relationship with its customers (Pelleg-Gillai, 2007). This supported the concept of relationship marketing. The company collaborated with customers on design as well as working closely together on CSR to improve standards.

- *Supply chain management – long-term orientation, shared goals*

The business philosophy of the parent group's Chairman encompassed a long-term SCM approach to managing the business. In an interview with Knight (2006) she claimed:

> "I'm not just trying to make a shirt … I'm trying to see if we can make the shirt while bringing everybody in the value chain with us".

The value chain in this case was the entire vertically integrated firm, and this particular mode of governance was chosen by the Chairman as a way of ensuring that all supply chain members would share in the success of the business.

The Director of (Sri Lankan) Operations was unable to comment on the existence of any long-term trading agreements that Company E had with its customers, since all trading negotiations were conducted at the parent group's Hong Kong headquarters. However, the key supplier status and the long-term trading history that the business had with many of its customers enabled it to plan for the future with some degree of security, for example by investing in technology and equipment as well as training and development for workers. The long-term orientation therefore supported CSR within the business.

- *Supply chain rationalisation*

As a vertically integrated enterprise from cotton seeds to store delivery, Company E's parent group exemplified the ultimate in supply chain rationalisation. The Chairman felt that vertical integration was the only way to control quality levels and provide a

guarantee to consumers of a superior product. Upon taking over the business from her father in 1995, she decided to invest in 12,000 acres of cotton farming land in China's remote northwest. Speaking of this initial decision, she explained:

> "To ensure the quality of each element of our shirts, I didn't have any other choice but to build up an integrated operation structure for [parent group] and the first step was building a cotton plant" (Wanxian, 2008).

Vertical integration therefore supported the assurance of quality throughout the production process from seed to store, as well as facilitating greater control over CSR within the various supply chain stages.

- *Supply chain integration*

The Director of (Sri Lankan) Operations confirmed that there was a "very strong" level of integration of operations between the company and its customers in terms of sharing information and working together, evidenced by design collaboration for example. There was also substantial integration of operations between Company E and its buyers in terms of quality control. Company E employed Vendor Nominated Persons on behalf of the buyer and their responsibility was to ensure the buyer's production requirements were met. This included conducting a final check of a sample of garments against garment specifications, ensuring the correct packaging was used and liaising with the buyer over any specification changes. Each buyer's VNP had their own air-conditioned office within the warehousing section of the Ja-Ela factory. The VNP system supported the concept of relationship marketing by enabling the provision of a higher level of service to the buyer. The dedicated point of contact between buyer and supplier helped to ensure the buyer's requirements were fulfilled and also supported the concept of relationship marketing.

5.6.5 Summary

CSR implementation in Company E was driven by the parent group. As a family-owned business, the Chairman's personal beliefs and values strongly influenced the corporate business philosophy, which acknowledged that a balance between profit maximisation and social responsibility was necessary to achieve corporate success. CSR was core to the business operation and as a subsidiary, Company E adhered to the comprehensive code of conduct formulated by the parent group. The Chairman's philosophy of 'business with conscience' was supported by high level accountability for

CSR and a formal dedicated process for managing CSR right down to subsidiary operational levels, which was evident in Company E. Evidence of CSR in Company E included charitable activity in local areas as well as within the business, the implementation of HRM policies and practices designed to improve labour relations, and a corporate culture that promoted collaborative effort and continual improvement. CSR was seen as an integral element of drive towards quality that permeated all levels of the business.

5.7 Company F

5.7.1 Company history and business operation

Company F was a contract manufacturer located in the southwest Alpitiya district of Sri Lanka. The business was a simple CMT operation supplying branded ladieswear to a single customer, Australian fashion retail group Noni B, under the retailer's own label Liz Jordan. Noni B was founded in 1977 and was one of Australia's leading fashion retailers, operating over 200 stores across the country. According to the retailer's website, the Liz Jordan brand was aimed at women who enjoyed a full active lifestyle and wished to purchase stylish, contemporary clothes for all occasions.

Company F was Australian-owned by one of two brothers, who was based in Australia and managed the customer side of the business by liaising with the buyer. Design, sourcing and contract negotiation were conducted in Australia, close to the buyer, while the manufacturing element was located in Sri Lanka, and managed by the other brother, in order to take advantage of lower labour cost rates as well as the reputation for high quality garment manufacture. The factory was built in 2002 under a BOI investment incentive package and by 2009 had approximately 300 employees including 150 machine operators. The factory hierarchy is shown in the organisational chart overleaf.

There was also a small amount of additional manufacturing carried out in China. Patterns, fabrics and trims were sent from Australia and finished garments were then sent back to be distributed to the customer's stores. Most of the fabrics and trims were sourced from China and Korea. The managing Director explained:

> "All of our designing and everything is done in Australia, the markers are done in Australia, so all the marking in and the pattern making, everything's done in

Australia, we get a package here, we plot the markers, we cut it, sew it, pack it and send it, CMP: cut, make and pack".

Garments were made to order only and the business was driven by lead time reduction more than cost minimisation. Lead time was ten weeks, including six weeks for production and four weeks on the water to Australia. It was more important that the buyer received the goods on time, since penalties would be levied in the case of late deliveries. Hence, the focus was on improving effectiveness in terms of lead-time reduction rather than improving physical efficiency in terms of cost per item.

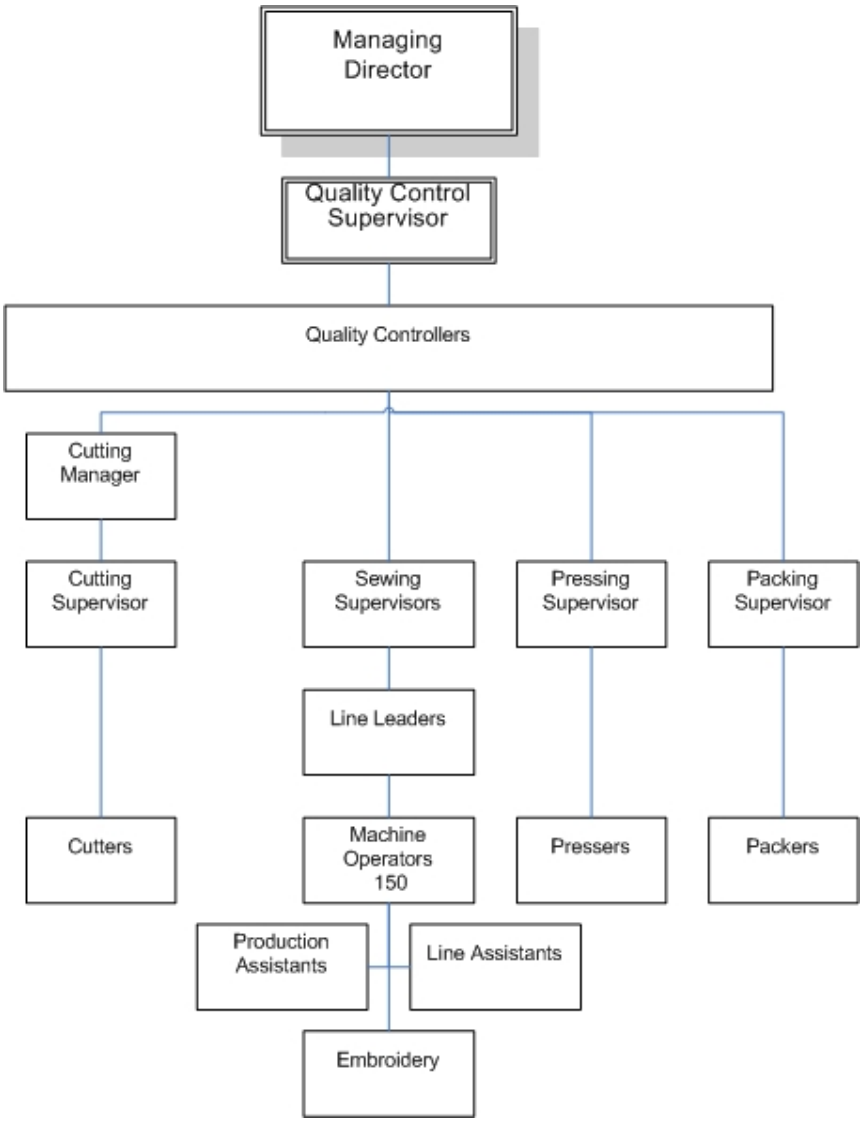


Figure 5.21 Company F organisational chart

5.7.2 CSR Inhibitors

- *Downward price pressure*

Company F decided to move production to Sri Lanka in 2000 in order to benefit from lower labour costs. According to the Managing Director, the buyer continued to demand "lowest price, fastest delivery" as common to the rest of the industry. This drove the sourcing policy for fabric, trims and accessories, which were purchased from whichever location had the lowest cost, currently China and Korea.

- *Product nature*

The Managing Director perceived the garments as mid-market rather than high fashion:

> "It's mid-range, it's aimed at the office girl 25-35 age group, not high priced".

Although garments were fairly basic and did not tend to feature complex detailing or construction, collections changed regularly to reflect current seasonal trends and there was almost no direct repetition of styles from season to season. Company F produced a wide range of styles for the buyer's Liz Jordan brand, from jeans and denim jackets, to tailored separates, to knitted tops and occasionally eveningwear. Because of the large range and the need to reflect changing seasonal trends, there was little continuity in styles. Operators needed to be multi-skilled to work on a variety of fabrics and styles.

As the garments were mid-market fashion, the Managing Director said that lead time reduction was prioritised over cost per item, since penalties would be levied in the case of late deliveries. Hence, current business focus was:

> "[To] ship as fast as possible at this point in time."

However, he acknowledged that the priority should have been leanness rather than agility, which indicated that profit margins perhaps dictated a lean approach rather than being sufficient to provide a high level of customer service in terms of agility. It appeared that with the continual style changes, there was a challenge in achieving required quality levels alongside sufficient production efficiency to enable on-time shipping to the buyer. As such, the Managing Director was unable to implement a strategy of cost minimisation to increase profitability as a result of the ever-present learning curve in handling new styles.

- *Labour intensity of manufacture*

Company F had invested in high-tech software for marker plotting. Laying and cutting was done by hand and there was no automation in the sewing process. As a small

business focussed primarily on maintaining cash flow, it was difficult for Company F to invest in new technology or modern machinery on a regular basis and thus no significant investments had been made in the past five years.

- *Retailer buying practices*

Company F's buyer placed orders on a two month planning cycle. This duration allowed for four weeks' production and four weeks on the water to Australia. The minimum lead time in which Company F could complete an order was six weeks, as the shipping time could not be reduced. However, the Managing Director claimed that such short-notice orders were rarely placed, maybe only once or twice a year. As such, Company F received sufficient advance notice to be able to plan the business and schedule production to avoid excessive amounts of overtime. Once the order had been placed, the Managing Dierctor claimed that the buyer did not ask to make changes in the order, either in terms of the garment specification or the order quantity. He also stated that the buyer had never cancelled an order. The retailer's buying practices in this case appeared to support rather than compromise CSR within Company F.

- *Supply chain complexity*

Fabrics were sourced by the Australian office from China and Korea and sent directly to Company F, while certain accessories and trims were bought by Company F. Sourcing was based on cost per item. The Managing Director estimated around 97% of goods were imported from outside Sri Lanka due to cost reasons:

> "I can buy them in Australia imported from China cheaper than I can buy them here and air freight them here and it's still cheaper".

Domestic sourcing would only happen in case of emergency:

> "If we need to source something locally because we've run out we source it. But mainly from outside. Too expensive, seems ridiculous. It's sad you can't buy trims and things from the country you're in because they're too expensive, and they're ridiculously expensive".

Company D did not make any CSR demands of its own accessories suppliers.

- *Supply chain power distribution*

As a SME with no other customers, Company F did not hold power in the relationship with its buyer. It had no alternative but to accept the buyer's terms of business.

5.7.3 CSR Pillars

Company F did not have a code of conduct and the Managing Director claimed that the buyer did not specify any ethical requirements either. However, as a BOI enterprise, Company F adhered to the BOI ethical guidelines on providing free breakfast for workers. In addition, the company provided free bus transport and organised social activities for employees such as occasional trips and an annual party. Employee satisfaction was monitored via a suggestion box scheme. On the December 2008 visit, the factory was festooned with New Year decorations and a radio was playing for the benefit of the machine operators, as shown in Figure 5.22 below.

Figure 5.22 Company F's factory floor, showing New Year decorations

Company F made charitable donations on a small scale to temples, schools and orphanages in the local area around the factory. There were no joint charitable initiatives between Company F and its buyer.

- *Moral philosophy*

Although Company F had no explicit code of conduct, the Managing Director felt that CSR should be the norm within a business rather than an optional activity:

> "It's the norm, it's how it should be".

However, although he professed to a personal commitment to upholding standards in the supply chain, he did not volunteer examples or elaborate on the reasons why CSR should be the norm. CSR implementation was essentially driven by externally imposed

legal requirements and could thus be perceived as reactive rather than proactive. As a BOI business, the company was bound to adhere to BOI standards as well as the requirements of Sri Lanka's labour department and these requirements appeared to drive the implementation of CSR within the business.

> "Because we're a BOI factory we have BOI standards, you have to have so many toilets per person for the workers, you have to have a nurse, you have to give them breakfast, there are standards you have to follow".

Figure 5.23 below shows the relatively spacious nature of the factory floor with high ceilings. However despite the height of the ceiling, a good level of lighting was provided for operators by suspending lights over workstations.

Figure 5.23 Factory floor view in Company F

As a small business with a flat hierarchy and a lack of middle management, the Managing Director found that on occasion some employees would take advantage of his kindly nature, rather than vice versa. For example, he had recently had to forbid employees from taking toilet breaks during the last half hour of their shift. This resulted from the discovery that an increasing proportion of line operators would take extended toilet breaks before they were about to go home and spend the time chatting with colleagues or styling their hair before leaving.

- *Competitive advantage*

Company F provided bus transport for workers. However, this initiative appeared to be guided by enlightened self-interest rather than goodwill *per se*, since the Managing Director recognised that the semi-rural location of the factory was difficult for workers to get to and this affected the company's ability to recruit high quality workers as well as the labour turnover rate, which he estimated at 6-7%. Although he considered this figure to be very high, it mirrors the Sri Lankan garment industry average of 7%, and is only slightly higher than the global benchmark of 5.5% (Adhikary *et al.*, 2006). Providing transport for workers, as shown below, would therefore enhance the firm's performance in terms of being able to attract and retain good quality workers.

Figure 5.24 Company F's bus transport for workers

- *Sustainable development*

As a SME, the Managing Director of Company F was focused on the "here and now" rather than the future. There was a lack of long-term planning in Company F and the Managing Director's focus was on day-to-day operational issues of production and labour management to the exclusion of forward planning and strategic management. The focus on 'firefighting' or dealing with urgent issues to ensure business survival at the expense of detaching from the business to think strategically. This precluded the existence of a long-term vision inherent in the concept of sustainable development. However, he recognised that in the medium-term, employee turnover and productivity was likely to be affected by working conditions and this drove the initiatives of employee satisfaction monitoring and social benefits such as trips and parties.

5.7.4 CSR Drivers

- *Consumer desire for guilt-free fashion*

For Company F, end consumers did not present a driving force for the implementation of CSR. There was no CSR information on the buyer's website apart from a sentence summarising one of their four core values:

> "We Each Lead the Way - We act ethically and honestly at all times and try to make a positive difference in our community" (Noni B, 2009).

This supported the Managing Director's assertion that the buyer made no demands for CSR since it was not such an important issue in Australia compared to the UK.

> "They are not like UK buyers, they have no (CSR) input whatsoever".

- *Trust as an antecedent of commitment, cooperation and collaboration*

The Managing Director estimated the length of the trading relationship with the buyer to be approximately 20 years. He perceived it to be essentially an arm's length relationship rather than a partnership relationship but later said the level of trust in the relationship was "very good":

> "There's a working understanding there I think".

The development of trust between buyer and supplier appeared to be based on the length of the trading relationship and the reliability and benevolence of the buyer's behaviour over the 20 year period of the relationship. For example, the buyer was prepared to buy extra garments that had been produced over and above the order quantities:

> "We make to order, we cut 5% extra and they normally take that, that's an understanding we have, if there's fabric left over we'll try and sell some extra to them".

It is common practice for garment buyers to send a small percentage of extra fabric and trims to the CMT factory to ensure the correct order quantity can be produced regardless of fabric faults or mistakes in the production process. In this case, the company did not encounter many quality problems with the fabrics or trims and production was accurate enough that the extra materials were commonly used to produce extra garments. The buyer's response to the extra garments may be explained in terms of enlightened self-interest, since mopping up extra garments would prevent garments being sold by the factory through unauthorised channels. One example was the local discount department store, House of Fashions in Colombo city centre, which sold brand name overstocks and cancelled orders bought from local factories. Taking the extra garments from the factory could be perceived as a win-win situation for both buyer and supplier, since the

buyer retained control of the brand name by controlling distribution channels while the supplier felt secure in the knowledge that extra work would be paid fairly. It also demonstrates the effect of the trust in the relationship. This was a situation of uncertainty since the order contract did not stipulate the buyer would pay for extra garments over and above the order quantity. However, the buyer's history of equitable behaviour in similar situations enabled the company to feel that similar future unanticipated contingencies would be dealt with in a similarly equitable manner. There was no mechanism to deal with buyer cancellation of orders or the occurrence of a problem for which a solution was not stipulated in the contract. The reason given by the Managing Director was that such an occurrence had never happened before. Based on the consistent positive past performance and behaviour of the buyer, the company seemed to anticipate an optimal solution would be reached to any such occurrence without opportunistic behaviour on the part of the buyer.

Company F did not tend to subcontract work when faced with insufficient capacity because of the lack of control over the process. While there was a good level of trust downstream with the buyer, the same did not apply upstream towards subcontractors. Owing to previous poor experience of the process, the Managing Director did not trust subcontractors to carry out work to the quality standards and delivery times required and hence had ceased using subcontractors altogether.

As a CMT unit, the Managing Director said there was no contact with the buyer: they simply gave the specifications for the goods and requested the lowest price and fastest delivery. Demand information was not shared nor was there any evidence of collaborative working. Notwithstanding the length of the trading relationship and Company F's reliance on a single customer, the buyer gave no guarantee of future orders which would enable the company to make informed long-term plans.

> "[There's] no commitment. If they shut their door tomorrow you don't know with anybody".

The Managing Director estimated that Company F was one of a dozen or so suppliers to the buyer. However, by making no effort made to seek new customers, he appeared to hold some faith in the continuation of the trading relationship.

- *Supply chain management – long-term orientation, shared goals*

The Managing Director had a short-term approach to the business. There were no long-term plans in place and he perceived the business to be "just here and now for the moment". The flat structure and lack of middle management in the company meant that he was solely responsible for managing the whole Sri Lankan operation. Consequently, he was left with little time after managing day-to-day operational issues to pursue more strategic issues such as looking for new customers or making long-term plans. As a CMT operation, there was no evidence of shared goals between Company F and its buyer. Notwithstanding the duration of the trading relationship, the Managing Director acknowledged that there was always an outside possibility the buyer could choose to move the business to another supplier and as such there was a lack of long-term shared goals between Company F and the buyer. However, it was possible that negotiations over long-term plans were undertaken by the Australian head office rather than the Sri Lankan production site; however, the Managing Director did not confirm this.

- *Supply chain rationalisation*

Company F did not appear to have a supply chain rationalisation strategy for sourcing fabrics, trims and accessories. Its sourcing strategy was based purely on cost. Since supply chain rationalisation is part of a longer-term holistic management of the supply chain and Company F was a SME focused on day-to-day survival, this could explain its eschewal of supply chain rationalisation.

- *Supply chain integration*

There was a lack of integration of operations between Company F and its buyer. There was no evidence of collaborative working and the Managing Director acknowledged that consumer demand information was not shared. Over the duration of the trading relationship, Company F had remained a CMT supplier. There did not appear to be any drive to develop the business and provide added value services to the buyer. As such, integration of operations remained non-existent.

5.7.5 Summary

Company F was a subcontractor manufacturing for a single Australian customer. As of December 2009, the customer's website did not explicitly publicise any commitment to CSR or ethical sourcing of garments and the Managing Director of Company F admitted

there was no pressure from the customer to implement CSR. As a BOI company however, there were certain standards to follow and in addition the Managing Director had a personal moral standpoint on CSR. However, for the most part CSR was driven by competitive advantage and sustainable development, in terms of being able to attract and retain high quality machine operators in a labour intensive business.

The company had a long-standing relationship with its customer that was characterised by a certain amount of trust despite the lack of formal commitment. The buyer took extra garments over and above the order quantity and placed orders with sufficient lead time that Company F did not need to schedule last minute overtime in order to meet delivery deadlines. Although Company F had not guarantee of future work, the Managing Director seemed to trust in the continuation of the relationship as he professed not to be looking for new customers.

5.8 Company G

5.8.1 Company history and business operation

Company G was a knitwear manufacturer with 300 employees located in the Malabe district of Sri Lanka. Established in 1995, the company operated as a subcontractor by producing garments to order for other Sri Lankan factories supplying the export market. End buyers included US brands such as Gap, Macy's and Reborn. Delivery lead times were short: as little as one week depending on the number of garments ordered. Inventory mostly consisted of work-in-progress, since the company made to order only and did not tend to hold stock for its customers. The company did not manufacture for the domestic market.

As a small company, the Managing Director preferred to operate as an indirect exporter rather than move towards direct exporting since he felt the demands and volumes of large retail buyers were too great for the company to handle. A further hurdle was the increased financial requirements in terms of banking facilities to handle export orders. The risk of direct exporting was greater than the risk in supplying local domestic companies, in terms of cancelled orders and stringent quality requirements.

> "We could do direct exports but since we are small here we cannot handle a customer like those customers …also we need banking facilities to do that … and also it is safer for us to do work for local companies".

As an SME, prompt payment of invoices was important for the business to maintain a steady cash flow. The Managing Director thus felt that another benefit of supplying domestic companies rather than directly exporting was the speed of payment, which was normally received within a month.

> "For these contracts for subcontractors [we get] payment 14 days after delivery … minimum is 14 days but within 25 days we can get the payment."

5.8.2 CSR Inhibitors

- *Downward price pressure*

As a subcontractor, Company G did not provide any added-value services such as design or sourcing and hence margins were tight. The company experienced a greater level of order cancellations rather than pressure to reduce costs and this sometimes led to the factory running at a loss if no other orders came in to replace them.

- *Product nature*

Garments produced by Company G were core basics rather than fashion items and mainly comprised of T-shirts, sweatshirts and polo shirts. However, the main focus of the business was lead time minimisation rather than cost reduction:

> "The most important thing is customer satisfaction [so] we have to deliver the goods on time".

Company G's business was influenced more by its position in the supply chain than by the nature of its products. For basic functional items the supply chain would usually be expected to be lean and to prioritise cost over lead time and service, while for fashion items the supply chain would be agile and place greater importance on lead time over cost efficiency. However, since larger manufacturers used Company G's services for capacity flexibility, it was therefore paramount that Company G was able to meet their delivery deadlines, regardless of the type of garment being made.

- *Labour intensity of manufacture*

Company G had made some investments to reduce the labour content of the sewing process. There was evidence of cost-saving measures such as the introduction of electronic machines designed to reduce the cost of garment manufacture by reducing the labour time involved. The Managing Director said:

> "We do specialised machines like electronic machines, programmable machines so with that we reduce the cost of the operations, the time of the operations, the labour time".

At the time of the visit in January 2009 however, the factory did not appear to be running at full efficiency. Only one customer's products were in the line: polo shirts and sweatshirts for US brand Reborn. Some operators were standing around and chatting to colleagues and those that were working appeared to be taking their time. The employees appeared to be happy but from a business point of view the human resources were not being utilised as efficiently as possible, as shown below.

Figure 5.25 Company G's factory floor, showing a number of empty workstations in the QC area

- *Retailer buying practices*

On occasion Company G's customers would cancel orders at short notice due to factors beyond their control. The Managing Director explained:

> "We get reasons like the buyer cancels the orders, the fabric did not come on time, trims did not come on time, quality problems with fabrics, things like that".

If another order was not found in time to fill the lines, then the factory would be idle and would run at a loss, since all workers were employed on a permanent full-time basis. The frequency of order cancellation and the consequent drain on cash flow were key motivations for searching for new customers and new avenues of business. According to Sri Lanka national labour laws, it was difficult to fire or lay workers off,

without due cause. For BOI enterprises there were separate regulations on the matter. In the case of lay-off due to non-disciplinary reasons, the company would first need to seek permission from the Commissioner of Labour and so this was not an option for avoiding short-term factory losses. Additionally, the Managing Director pointed out that customers requested changes to their order "quite often". As a relatively powerless SME subcontractor, it was difficult for Company G make a stand against this practice.

- *Supply chain complexity*

Company G had little direct contact with either main buyers or with suppliers. As a subcontractor, Company G did not need to source any fabrics or trims as these were sent by the main buyer. They were most often sourced globally from China, India and Indonesia rather than domestically. The Managing Director estimated around 75% of fabrics, trims and accessories were imported. Company G did not subcontract its own orders and thus represented the last point in the chain. CSR requirements from end retail buyers filtered down to second-tier subcontractor level. For example, end customers Gap and Macy's requested social compliance audits to be passed prior to any orders being subcontracted to Company G from other Sri Lankan garment manufacturers.

- *Supply chain power distribution*

As a final tier subcontractor in the garment supply chain, Company G was relatively powerless compared to other supply chain members. For example, when orders were cancelled at short notice, Company G would not be compensated for the cancellation of the order and while most of the time another order would be placed which would fill the gap, sometimes the factory would be idle and losses would result.

> "Sometimes we have idle time, then we are going at a loss if we couldn't manage to fill up the gap".

In such circumstances, the company was unable to request compensation for the loss in cash flow. As a relatively powerless subcontractor, the company faced a high level of competition and therefore lacked bargaining power in relation to its buyers. This meant that the company was unable to stipulate the payment of compensation in the event of an order being cancelled, as the buyers would simply take their business elsewhere. As a result of buying practices downstream and the imbalance of power in the supply chain, Company G's business suffered.

5.8.3 CSR Pillars

In terms of welfare of workers and the environment, the Managing Director believed CSR to be an important aspect of the business. He felt that welfare of the workers was paramount in business sustainability. CSR initiatives in the company went beyond the immediate interest of the firm and beyond merely obeying the law or other regulations:

> "We like to follow the compulsory labour laws but then on top of that we do other various welfare things for the workers".

As an indirect exporter, Company G had BOI status. As well as adhering to BOI standards, the company provided some social benefits for employees such as free transport and subsidised meals. In addition the company organised social entertainment for the workers from time to time. The HR Manager was responsible for managing CSR issues. Company G's spacious, clean and well-lit factory floor is shown below.

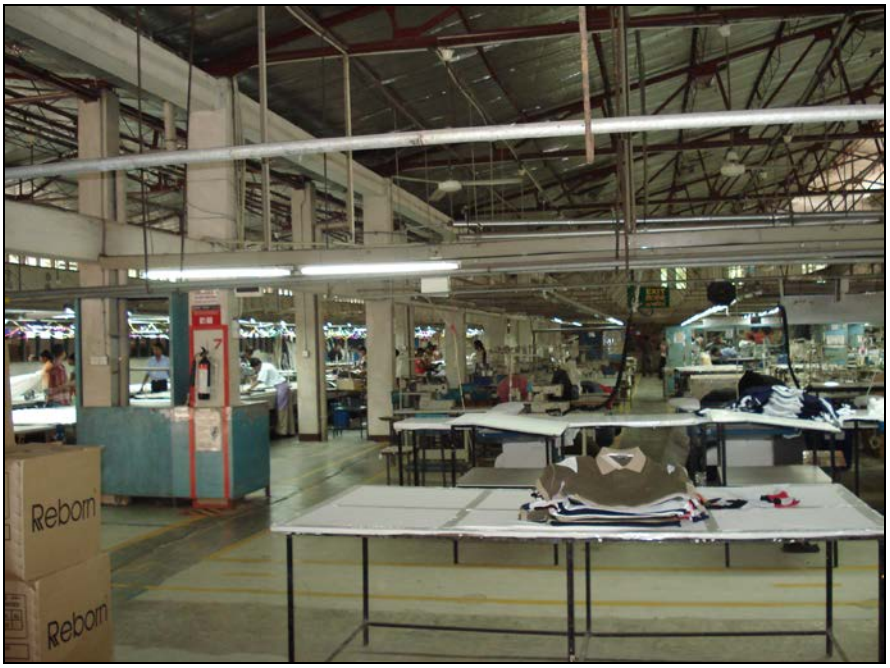


Figure 5.26 Factory floor view at Company G

- *Moral philosophy*

The Managing Director professed that worker welfare was paramount in the business and that therefore the company took steps to ensure this:

> "We have to look after welfare of the workers, of course we do that, very important".

However, he did not elaborate on any moral standpoint and it seemed as though the benefit to the business in a labour intensive industry sector was the main motivation for CSR within the company.

- *Competitive advantage*

The Managing Director's reason for running the business was profit maximisation rather than lifestyle choice or as a way of helping society. CSR was undertaken as a form of enlightened self-interest, as it enabled the company to do subcontracting work for large global buyers such as Gap and Macy's.

- *Sustainable development*

By ensuring employees were looked after well, the Managing Director hoped to improve retention rates and thus avoid excessive recruitment and training costs. He said that while recruiting senior management or administrative positions was not a problem, recruiting good quality, committed machine operators proved to be problematic. He realised that good standards of CSR in terms of worker welfare and training would help to ensure machine operators stayed with the company and progressed in their abilities to become fully skilled operators that added value to the business.

5.8.4 CSR Drivers

- *Consumer desire for guilt-free fashion*

Although Company G had no direct contact with end consumers or retail buyers, the latter had a strong influence on CSR implementation within the business. For large US buyers such as department store Macy's or Gap, Company G faced an annual CSR audit which was carried out either by the buyer themselves or by a third party auditor. With a sourcing office in Sri Lanka, Gap was able to conduct the audit in-house, while Macy's employed the services of a local third party to conduct the audit. The end retail buyers also provided training programmes for subcontractors to help them meet CSR requirements and thus promoted continual improvement throughout the supply chain. Therefore the influence of consumers in CSR implementation was discounted.

- *Trust as an antecedent of commitment, cooperation and collaboration*

Although the Managing Director felt that a good level of trust, cooperation and commitment existed between the company and its buyers, he was actively looking for new customers. The search for new business opportunities indicated that given the nature of the business, he recognised a long-term trusting relationship was not necessarily a guarantee of regular future orders.

The good level of trust did not transfer into all areas of the business. For example, when the orders, patterns and fabrics were received from a customer, the company checked all materials rather than just a random sample to ensure everything was present and correct. This checking procedure resulted in increased labour time and hence transaction costs were generated. The existence of a higher level of trust between trading partners would have reduced the need for checking all materials and reduce the transaction costs thus generated.

The Managing Director acknowledged the company was only one of several subcontractors that its customers would deal with; however, he felt that there was a good level of trust, cooperation and commitment in the trading relationships. This stemmed from the duration of the relationships, which he estimated at 13 years. As a SME, Company G could provide capacity increase on a flexible basis for larger manufacturers which avoided the need for the latter to make heavy capital outlay on premises, equipment and wages. The nature of this type of relationship meant that there was no formal guarantee of future work:

> "We don't have a long-term contract, that they give us so much work for so many periods".

The benefit of flexible subcontracting relationships for larger manufacturers was that they could be terminated as well as initiated relatively quickly according to market fluctuations. As such, there would be no benefit for a larger manufacturer in establishing a long-term commitment. Taking into account the lack of guarantees due to the nature of the business, the Managing Director felt that ensuring customer satisfaction in every order helped to secure future work for the company:

> "Customer satisfaction … that's the main focus".

- *Supply chain management – long-term orientation, shared goals*

As a SME, Company G had a largely short-term focus on maintaining cash flow due to the difficulties it faced in obtaining external loan finance:

> "Finance is nowadays difficult because the banks are not financing, especially for this industry, so we have to manage our own finance".

The company did not engage in any form of long-term commitment or planning with its customers. The only evidence of a long-term orientation was the Managing Director's commitment to ensuring customer satisfaction by adhering to delivery deadlines. He hoped that customer satisfaction would ensure the continuity of the trading

relationships. Additionally, worker welfare was seen as a means of ensuring adequate human resources were in place to support customer satisfaction, whereby workers were committed to the business and competent enough to produce good quality garments within the delivery timeframe.

- *Supply chain rationalisation*

In terms of its upstream supply chain, Company G was the last point as it did not subcontract its work nor source fabrics or trims. In terms of the downstream supply chain, the company had not been on the receiving end of supply chain rationalisation as it had been supplying most of its customers for many years. Adhering to CSR audit requirements and providing good customer service helped it avoid becoming a victim of its end buyers' supply chain rationalisation initiatives.

- *Supply chain integration*

There was a lack of integration in the supply chain between Company G and its customers. As a subcontractor, it had no contact with suppliers since all materials were sourced and sent by the main buyer. Its customers did not share demand information and it had no contact with the main buyer. It appeared to have a largely passive role in the supply chain since it was reliant on receiving orders from larger manufacturers that needed extra capacity.

5.8.5 Summary

Company G was a SME subcontractor that provided added capacity flexibility to larger manufacturers in Sri Lanka that supplied global brands. Retailer buying practices in terms of cancelled orders affected its business since the factory would run at a loss if orders were cancelled at short notice and no other work was found to replace them. However, since none of the larger manufacturers in the case study admitted to problems with retailers cancelling orders, it may have been the case that Company G was subjected to cancelled orders as manufacturers realised they did not require the extra production capacity after all. There was a lack of integration or long-term collaborative planning between Company G and its customers. These factors did not support effective or timely communication between Company G and its customers, which was demonstrated by the short-notice cancellations that sometimes occurred.

Although it operated at the lower end of the value chain, Company G nevertheless managed to accommodate some CSR activities within the scope of its business, most notably by providing staff training and benefits such as subsidised food and transport. As a SME however, it was not justifiable for Company G to invest in an air-conditioning system within the factory and hence only fans were used. Nevertheless, from factory observation, the machine operators appeared to be content in their workplace and were not subjected to unpleasant working conditions. CSR was driven to a certain extent by the need for the business to be sustainable and retain employees and also via the influence of global end buyers that demanded CSR audits to be carried out throughout their supply chains.

5.9 Summary of case-by-case analysis

Tables 5.2 and 5.3 overleaf provide an analytic summary of each case study company.

Table 5.2 is structured according to the key constructs from the integrative framework. Summary highlights are provided for the CSR Inhibitors and Drivers which influenced CSR implementation both negatively and positively in each company, and a synopsis of the three pillars of CSR which made up the corporate understanding of CSR within each company. The greatest CSR Inhibitor for full package suppliers was lengthy buyer payment terms, since these suppliers had to pay for materials in advance. The effects of downward price pressure were experienced to a greater extent by contract manufacturers who offered no added-value services than by full package suppliers. For subcontractors and SME manufacturers, the relative lack of power in the supply chain reduced their ability to negotiate terms of business. Although product nature was core basic rather than fashion, quality standards were relatively high as key buyers were mid-market retailers and global brands with high quality expectations. For Company D, the target was 100% perfect garments, and any that had defects were sent back to the line to be reworked. In terms of CSR Pillars, the moral argument formed the corporate understanding of why CSR should be implemented. However, continued investment and increased engagement was driven to a greater extent by recognition of the business benefits of CSR implementation. The labour intensity of the business and the increasing global competition underpinned the CSR Pillar of sustainable development. Finally, the CSR Drivers moderated the negative effect of CSR Inhibitors. The key

Drivers were vertical integration of full package suppliers and a long-term partnership approach to buyer-supplier relationship management.

Table 5.3 provides a summary of the evidence of CSR within each case study company which may be used to compare and assess the companies on their CSR performance. CSR was evident in all companies, albeit on a smaller scale in contract manufacturers and SME suppliers, due to a lack of resources. The highest level of CSR implementation was evidenced in the larger full package suppliers such as Companies A and C, who used CSR as a way to differentiate their business from the competition in other lower labour cost countries. They had greater financial and human resources to invest in strategic CSR initiatives and involve their buyers for greater effect. Smaller companies such as Company D in contrast tended to focus CSR efforts on their workers, with only the local community benefiting from their philanthropic activities.

Company	CSR				
	Inhibitors	**Moral Philosophy**	**Competitive Advantage**	**Sustainable Development**	**Drivers**
A	Downward price pressure on core basic garments Increase in buyers' terms of payment from 30 to 45 days	Moral argument for CSR took priority over enlightened self-interest Buddhist culture supported tenets of CSR Charitable activity	CSR beneficial in attracting and retaining high quality workers CSR used as a means of differentiation compared to other lower labour cost countries CSR helped improve motivation amongst workers and generate loyalty and commitment	5 corporate values were based on development of employees The concept of business sustainability formed the business case for implementation of CSR CSR best practice cascaded through supply chain via supplier development schemes with non-vertically integrated suppliers	Buyers' CSR initiatives e.g. Marks & Spencer 'Plan A' Vertical integration Long-term partnership relationships with buyers characterised by cooperation and trust inc. VMI and open-book accounting Part of supplier development scheme Relatively high level of supply chain power for a supplier

	Inhibitors	Moral Philosophy	Competitive Advantage	Sustainable Development	Drivers
B	Downward price pressure Low margin and lack of value added in contract manufacturing meant that cost reductions were difficult to absorb Difficult to handle fabrics required greater levels of manual labour As a contract manufacturer, relative lack of supply chain power CSR standards not extended to supply chain: no CSR requirements of suppliers	Chairman started business with social priority as the primary business motivation and this continued to be the primary business motivation today Charitable activity	CSR seen as a way of attracting better quality customers and improving profitability Caring for employees e.g. attending family funerals and paying monthly bonus seen as beneficial in terms of improved levels of motivation and retention	Workforce seen as primary asset within business, which drove the HR and CSR policies and practices	Lack of subcontracting Close cooperative relationship with buyer, inc. frequent contact and favourable 30 day terms of payment Advance commitment from buyers enabled factory managers to plan ahead and allocate resources Chairman's policy of MBWA (management by walking about) and frequent dialogue with machinists enabled prompt identification of any problems or issues

	Inhibitors	Moral Philosophy	Competitive Advantage	Sustainable Development	Drivers
C	Reduced orders and downward price pressure Buyer requests for urgent orders	Belief in a social contract between business and society underpinned CSR policy	Improving safety increased productivity levels due to reduction in lost time and accidents CSR helped to attract more and better quality customers, evidenced by voluntary certification against globally recognised CSR standards CSR used as a source of competitive advantage compared to other lower labour cost countries	CSR seen as part of a holistic process of good standards and working conditions leading to improved productivity and profits, reinvested to further improve standards and continue the cycle CSR supported empowerment of women in contributing to economic development Results of employee satisfaction survey used to make changes to working practices to improve job satisfaction, commitment, motivation CSR best practice cascaded though supply chain with key suppliers	Close, cooperative, long-term trading relationship with buyer Vertical integration Lack of subcontracting Lack of hierarchy and open-door management policy encouraged dialogue between machinists and management Buyers' CSR initiatives e.g. Marks & Spencer 'Plan A' and 'Marks & Start'

	Inhibitors	Moral Philosophy	Competitive Advantage	Sustainable Development	Drivers
D	Reduction in order sizes as a result of global economic recession Key customers demanded very high quality levels CSR standards not yet extended to supply chain: no CSR requirements of suppliers that were not nominated by buyers	CSR viewed as a moral imperative due to the labour intensive nature of the business and the consequent value of human resources to the business	Treating employees well reduced labour turnover rates Maintaining standards helped to ensure the industry was perceived in a positive light by Sri Lankans	Workers encouraged to achieve business goals, but the fruits of success were shared with them in terms of machinery upgrading and improvement of working conditions as well as training and development opportunities Workers were encouraged to increase their skills and this meant the business had a greater number of multi-skilled operators while workers were able to earn higher salary levels commensurate with their skills and experience	Close cooperative trading relationship between company and buyers – company took pride in producing for the buyer, while the buyer appreciated the quality of product and service received Closely integrated partnership, the main buyer shared sales information and this enabled the company to plan ahead and allocate resources Skill in producing high quality garments meant sufficient orders to be able to pick and choose customers to a certain extent

	Inhibitors	Moral Philosophy	Competitive Advantage	Sustainable Development	Drivers
E	Complex and high fashion product nature Labour intensity of manufacture and lack of automation	Corporate philosophy underpinned by belief that business success must be achieved through practices that ensure the well-being and integrity of both employees and local communities	Vertical integration was seen as key to controlling quality levels which would result in industrial upgrading CSR implementation resulted in lower labour turnover rates and a significant proportion of long-term employees CSR presented a differential advantage over other lower labour cost countries such as Vietnam or China Adhering to CSR seen as a means of reducing business risk	Parent company owner's business philosophy was centred on creating a win-win scenario for the whole value chain and empowering employees to create a motivated workforce	Vertical integration Parent company was privately owned which enabled a great degree of managerial discretion Lack of subcontracting Corporate philosophy of 'business with conscience' was centred on chairman's personal beliefs about the importance of CSR and corporate ethics Key supplier status to many buyers bestowed a sense of security and company was able to plan ahead

	Inhibitors	Moral Philosophy	Competitive Advantage	Sustainable Development	Drivers
F	Retailer buying practices: demand for lowest price and fastest delivery meant choice of trim sourcing location was based purely on cost SME status: limited resources and focus on fire-fighting and 'the here and now' rather than long-term strategic objectives	Personal moral standards of MD governed certain aspects of worker welfare over and above BOI requirements: evidence of a relaxed atmosphere within the factory to the point that sometimes workers took advantage of the MD's kindly nature	CSR enabled the company to recruit and retain quality workers in an industry with relatively high labour turnover rates	CSR enabled the company to overcome the problem of its rural location for recruiting quality workers to ensure adequate human resources over the medium term	Customers were not a significant driver of CSR implementation
G	Retailer buying practices: last minute order cancellations resulting in factory running at a loss Lack of power in supply chain SME status: limited resources and focus on short-term cash flow rather than long-term strategic objectives	No evidence to suggest this was a pillar of CSR from the corporate viewpoint	CSR enabled the company to do subcontracting work for large global buyers such as Gap and Macy's Ensuring worker welfare reduced labour turnover and associated costs of recruitment and training of new workers	Worker welfare important in attracting and retaining quality workers, thereby building a business that was able to satisfy its customers	Part of supplier development scheme Long-term relationships with certain customers

Table 5.2 Summary of case-by-case analysis

Company	Evidence of CSR
A	• BOI factory – adhered to BOI regulations on employee welfare and labour relations • Multiple globally recognised CSR accreditations e.g. SA8000, WRAP, ETI, OHSAS, C-TPAT as well as certification against national 'Garments Without Guilt' scheme • Dedicated CSR department and CSR champion with high level responsibility for CSR – Compliance Manager • Transparency of supply chain evidenced by a high level of vertical integration and the fact that subcontracting would only be given to approved subcontractors • Social reporting conducted by HR and CSR departments e.g. working hours, employee satisfaction and turnover • Minimum age for workers (18) higher than the minimum permitted by national law (16) • Diversity management: minority ethnic groups accommodated within the workplace as a matter of course • Human capital development: learning and development was one of the 5 corporate values and was achieved via investment in employees. A special programme provided work experience and employment for disabled people, and the corporate culture encouraged employees to maximise their potential • Special programme to rehabilitate ex-LTTE soldiers to work in newly opened plants in the Northern Territories • Free healthcare, transport, uniforms, breakfast and tea provided for workers and subsidised lunch • Production bonus paid monthly • Salaries higher than minimum required by BOI • 'Water is Life' philanthropic programme to improve access to clean drinking water for Sri Lankans • Own CSR policy • Social activities organised for employees e.g. sports tournaments, trips and parties
B	• BOI factory – adhered to BOI regulations on employee welfare and labour relations • No external CSR accreditation • CSR champion and high level responsibility for CSR – the Chairman was also head of the HR department • At senior management level, open door policy and management culture of MBWA (Management By Walking About) • Dedicated HR personnel responsible for maintaining a daily dialogue with workers to ensure any problems could be swiftly addressed • No subcontracting • Minimum age for workers (18) higher than the minimum permitted by national law (16) • Diversity management: minority ethnic groups accommodated within the workplace as a matter of course • Free healthcare, transport, breakfast and tea provided for workers • Free hostel accommodation provided for workers in city factories

	• Bonus paid monthly to employees • Salaries higher than minimum required by BOI • Expansion strategy based on building factories in rural areas to alleviate rural poverty and enable workers to return to their homes at night • Philanthropic donations to local communities • Own CSR policy based on ETI base code • Social trips organised for employees
C	• BOI factory – adhered to BOI regulations on employee welfare and labour relations • Multiple globally recognised CSR accreditations e.g. SA8000, WRAP, ETI, OHSAS, C-TPAT as well as certification against national 'Garments Without Guilt' scheme • CSR champion and high level responsibility for CSR – Group Compliance Manager • Subcontracting only given to audited suppliers • Open door policy – management sat in an open plan area • Social reporting and annual employee satisfaction surveys used to make improvements to the business • Free breakfast, uniforms and healthcare as well as subsidised transport provided to employees • Bonus paid bi-annually to employees • Salaries higher than minimum required by BOI • Own CSR policy • Dedicated HR personnel responsible for maintaining a daily dialogue with workers to ensure any problems could be swiftly addressed • Diversity management: minority ethnic groups accommodated within the workplace as a matter of course, specific policy governed empowerment of disabled employees, own programme to assist disabled people to find work placements and apprenticeships • Human capital development: dedicated training and development budget and policy of recruitment and promotion from within • Dedicated trust fund for charitable activity and philanthropic donations • Social events such as trips, parties and sports events organised for employees
D	• BOI factory – adhered to BOI regulations on employee welfare and labour relations • CSR accreditation: certification against national 'Garments Without Guilt' scheme • In the process of formulating own code of conduct • Factory level CSR champion – Compliance Manager • No subcontracting • Free breakfast, transport, healthcare and subsidised lunch provided for workers • Salaries higher than minimum required by BOI • Diversity management: minority ethnic groups accommodated within workplace as a matter of course; disabled people accommodated where

	possible; commitment to Marks & Start scheme to provide work placements and apprenticeships for disabled people • Human capital development: training and development provided to enable employees to become multi-skilled and earn higher wages • Social reporting conducted within each factory • Senior Management held monthly meeting with worker representation committee • Reinvestment of profits to improve working conditions for employees • Philanthropic donations to local communities
E	• BOI factory – adhered to BOI regulations on employee welfare and labour relations • Multiple globally recognised CSR accreditations e.g. WRAP, CSC900T, ETI, OHSAS, C-TPAT, also 'Garments Without Guilt' • CSR champion and high level responsibility for CSR – Group CSR Manager • Own CSR policy and corporate e-culture (ethics, environment, exploration, excellence, education) • Human capital development: training and development provided for machine operators and graduate management and buying trainees; corporate culture promoted continual improvement • Diversity management: ethnic minority groups and disabled workers accommodated within the business as a matter of course • Philanthropic donations to local communities • Social reporting conducted weekly and reported to Group CSR Manager • HR personnel responsible for maintaining a daily dialogue with workers to ensure any problems could be swiftly addressed • Free breakfast, snacks, transport and healthcare for workers • Annual bonus • Social events such as trips and parties organised for workers • Senior Management held monthly meeting with worker representation committee
F	• BOI factory – adhered to BOI regulations on employee welfare and labour relations • Free healthcare, breakfast and transport provided for workers • Social events such as trips and an annual party organised for workers • Employee satisfaction monitored via suggestion box scheme
G	• BOI factory – adhered to BOI regulations on employee welfare and labour relations • Free healthcare and transport and subsidised meals provided for workers • Social entertainment organised from time to time for workers

Table 5.3 Evidence of CSR within case study companies

CHAPTER SIX: CROSS-CASE ANALYSIS WITH RESEARCH MODEL CONSTRUCTS

6.1 Introduction

Cross-case analysis involves the identification of patterns in the data. The aim of this chapter is therefore to interpret the findings across all of the case studies using the framework of the conceptual model. The headings for analysis are the same as in the previous chapter and based on the key constructs in the conceptual framework. Each heading ends with a table comparing the influence of CSR Inhibitors and Drivers on implementation of CSR across the case study companies.

6.2 CSR Inhibitors

6.2.1 Downward price pressure

Most of the case study companies experienced some sort of pressure from customers to meet lower cost targets. The effects of the Western recession were also observed in reduced order volumes from EU and US customers.

For full package suppliers that had long-term, collaborative and integrated trading relationships with their customers, downward price pressure had less of a negative effect as both parties were able to work together to achieve a mutually acceptable solution. For example, Company A had an eight year trading relationship with Old Navy and operated under a VMI arrangement whereby the company was responsible for managing the customer's inventory. Although it did not operate under VMI arrangements, Company C nevertheless had long-standing trading relationships with many of its customers of 15 or more years' duration. Both companies provided full package supply solutions and had close collaborative relationships with their customers, evidenced by sharing information and working together on design and product development. Although customers of both companies requested cost reductions, they would help their supplier achieve the target by suggesting design modifications or alternate sources of accessories to enable the final cost to be brought down. The Senior Operations Manager at Company A felt that the open, collaborative nature of the trading relationship enabled problems to be solved and ultimately resulted in a "win-win

solution" for both buyer and supplier. Companies D and E were full package suppliers that specialised in producing high quality, high fashion garments and their distinct competences protected them from the fallout of economic recession in terms of downward price pressure and reduced order volumes. The Director of (Sri Lankan) Operations at Company E claimed the business was operating at full capacity despite the economic recession. Neither company was looking for new customers.

However, companies that were purely contract manufacturers, such as Company B and Company G, suffered noticeably greater effects of downward price pressure, cancelled orders and reduced volumes. As contract manufacturers, they did not offer added-value services such as design, product development or sourcing and hence margins were tight and there was little reason for a collaborative integrated trading relationship with customers. As such, Company B was exploring the possibility of producing own label garments for sale into the domestic market in order to counteract the effects of downward price pressure and low margins in contract manufacturing. Company G was actively looking for new customers and lines of business to counteract the effect of short-notice cancelled orders on the business.

Company F was also a contract manufacturer; however, added-value was provided by the Australian headquarters of the company which handled all sourcing and trading negotiations. Therefore, although purely a CMT operation, it was the manufacturing subsidiary of a company that offered added-value services therefore did not experience the negative effects of downward price pressure and reduced order volumes as much as the other contract manufacturing companies B and G. Table 6.1 below summarises the level of impact of downward price pressure on CSR implementation across the case study companies.

Company	Impact of downward price pressure on CSR implementation
A	Low – mitigated by collaboration with buyers to achieve cost targets
B	Moderate – low margins as CMT supplier
C	Low – mitigated by collaboration with buyers to achieve cost targets
D	Low – mitigated by collaboration with buyers to achieve cost targets
E	Low – mitigated by collaboration with buyers to achieve cost targets
F	Moderate – low margins as CMT supplier
G	Moderate – low margins as CMT supplier

Table 6.1 Impact of downward price pressure on CSR implementation across all companies

6.2.2 Product nature

Across the case study companies, product nature did not appear to compromise CSR. Sri Lanka's garment industry is not known for producing fast fashion or tailored items such as formal jackets but rather core basic, casual sportswear and lingerie. Its location is too far from key consumer markets in the US and EU for fast fashion and additionally its lack of fabric production capacity hinders its ability to produce fashion garments. Most of the case study companies therefore produced core basic garments. Hence, PLCs were not as short as for high fashion garments, which may only have a shelf life of six to eight weeks, and garment construction was fairly straightforward. This enabled machine operators to learn a style and reach a relatively high level of efficiency over a longer period of time than would be possible with fast fashion garments. The long-running nature of certain styles, for example men's casual woven bottoms in Companies A and C, enabled management to plan ahead and workers to achieve a higher rate of efficiency and maximise their production bonuses. The long-running nature of these styles also fostered the implementation of VMI in Company A which would not be justifiable for fast fashion orders that had a greater level of style variation. Via VMI, Company A gained greater visibility of retail demand and was able to become more proactive in terms of planning ahead for factory scheduling and capacity loading.

Only Companies D and E produced fashion garments: Company D produced upper mid-market ladieswear while Company E produced fashion-influenced sports tops for designer brands. However, since both companies were key suppliers to their main buyers and quality was the driver in the manufacturing process, it did not appear that the nature of the garments impacted negatively on CSR within the businesses. With quality of product being the main objective, this necessitated quality of process too. Hence, CSR was in fact supported by the nature of the product in these two cases. The Chairman of Company E's parent group believed that a price premium could be commanded by guaranteeing a superior product (Wanxian, 2008) and this guided the corporate strategy, which focused on empowering employees to enable them to help achieve corporate goals. For example, Company D's training and development programme supported the possibility of a long-term career for employees. The company's success in providing an ethical working environment was evidenced by the high proportion of long-term employees in the factory and in particular the number of employees that returned to the business after having children.

Companies B and D produced ladieswear in fabrics which were difficult to handle: Company B produced micro-modal jersey leisurewear with a range of trims while Company D produced blouses in high-tech synthetics with a range of design details such as ruching and pleating. Both companies had long-standing trading relationships with their customers. Their competence in producing high quality garments in difficult fabrics helped to ensure the continuity of the trading relationship. The length of the learning curve required to achieve high quality production shielded the companies to a certain extent from losing their customers' business to other manufacturers. Company B was thus able to earn a premium over the normal CMT price for the garments, which took into account the extra time needed to handle difficult fabrics. As a full package supplier, Company D's competence placed it in sufficient demand from its buyers that it was able to cease doing business with customers that were unprofitable or proved to be too difficult or unreasonable to work with.

The focus on quality in Companies D and E supported CSR through the investment in technology and worker training and development. In the other large companies (A, B and C), the core basic nature of the garments meant that workers were able to achieve a level of efficiency that would be difficult to achieve with greater levels of style changes that are characteristic of fast fashion. This enabled them to earn production bonuses. Small businesses F and G did not pay production bonuses due to their relative lack of resources. However, the Managing Director of Company F acknowledged the influence of fashion and the need to reflect seasonal trends in that market, which meant that the company had to focus on lead time reduction rather than cost reduction. Table 6.2 below summarises the level of impact of product nature on CSR implementation across the companies.

Company	Impact of product nature on CSR implementation
A	Low – core basic long-running styles
B	Moderate – higher fashion content for Intimissimi with steeper learning curves and more frequent style changes mitigated by closeness of trading relationship
C	Low – core basic long-running styles
D	Moderate – higher fashion content with steeper learning curves and more frequent style changes mitigated by investment in training and development and labour saving machinery
E	Moderate – higher fashion content in terms of finish but basic cut of garment remained the same e.g. distressed finish polo shirts
F	Moderate – higher fashion content for mid-market ladieswear, shorter PLCs
G	Low – core basic styles

Table 6.2 Impact of product nature on CSR implementation across all companies

6.2.3 Labour intensity of manufacture

In order to maximise efficiency for large orders, all companies used the progressive bundle system within factories: garment assembly was broken down into small operations and bundles of work progressed down the production line through each operation in sequence until the garment was complete. However, there was little investment in automation of the sewing process due to the flexible nature of fabric, which did not lend itself to automation. The low labour cost and high labour availability meant that there was a sound case for employing more workers rather than investing in technology. None of the companies used automated travellers or production handling systems that moved bundles of work from one operator to the next.

As the country's largest apparel exporter, Company A had invested in some automated machinery in its denim plant. In this case, the order volumes and the style consistency of five-pocket jeans justified investment in technology. For the most part however, the high level of style changes meant that high tech automation was limited to the pre-production stages of marker plotting, fabric laying and fabric cutting. However, while Company B used automated cloth spreaders for cotton jersey in its babywear factory, these were rejected in favour of manual cloth spreading in its Intimissimi factory after finding that the machinery was unable to cope with the slippery nature of micro-modal jersey. Similarly, Company E rejected automated cloth spreaders in favour of manual cloth spreading as a way of ensuring quality levels for its premium branded garments. In Company D, the General Manager spoke of the company's philosophy of sharing the gains of success with workers. Investment in new machinery increased efficiency and reduced the labour intensity of the manufacturing process, thus making the job more pleasant for machine operators.

The enduring labour-intensive nature of garment manufacturing led the investment in human resources that supported the wider goals of CSR. Without exception, all of the larger companies (A, B, C, D and E) professed that workers were the most valued resource in the business. This was elicited through interviews as well as being corroborated through corporate websites, reports and magazines. It was this belief that seemed to drive CSR strategy in many of the case study companies: the realisation that as the key organisational resource, workers required both nurturing and protection from harm in order to become empowered employees capable of contributing to organisational performance. These larger companies had dedicated HR departments

and HRM practices and policies such as training and development programs, incentive schemes and counselling. SME companies F and G's investment in HRM was less due to their relative lack of resources, but both Managing Directors displayed an awareness of how worker welfare in a labour intensive industry related to business sustainability.

Understanding that workers were crucially important to the success and survival of a labour intensive business guided some of the CSR and HR policies and practices. All case study companies demonstrated an awareness of the workers' contribution to corporate success, given the labour-intensive nature of the industry, and the consequent need for good standards of worker welfare. The recognition of employees' contribution within the labour-intensive industry also linked to the element of sustainable development within CSR and represented a virtuous circle: good CSR standards contributed to worker welfare and resulted in productive, efficient and committed employees that in turn contributed to business success and sustainability. It was more likely that successful, sustainable businesses would expand, thereby providing employment to more people and contributing to society by alleviating poverty and unemployment. The labour intensity of the manufacturing process turned out to have a positive effect on CSR implementation, since it was recognised that workers were key to the success and sustainability of the industry, which in turn contributed to the development and sustainability of society. Table 6.3 below summarises some of the evidence from key informant interviews and documents which demonstrate that workers were regarded as the most valuable asset in the business.

Co.	Ranking	Examples of evidence
A	High	Corporate strapline: "Inspired people" Social Compliance Manager: "Our corporate responsibilities in human rights are most important … we do a lot of activities to ensure our employees are happy"
B	High	Chairman: "The most important thing is the human resource … we have to take care like gold" Deputy Chairman: "Our biggest asset is our workforce … we have to give priority number one for the workforce"
C	High	Corporate strapline: "The difference is our people" HR Manager: "We are spending a lot of money on CSR activities because we believe that there is an advantage for the organisation as well as for society"
D	High	MD: "Women are the core of our business so they are given the opportunities" Factory Manager: "The employees who are with us are very important for us"
E	High	Corporate philosophy: "Every single employee has the potential to be an agent of positive change" Director of (Sri Lankan) Operations: "You need profitability to survive but … social responsibility is part and parcel of the game"
F	Medium	MD: "It's [CSR] the norm; it's how it should be"
G	Medium	MD: "We have to look after the welfare of the workers"

Table 6.3 Evidence of workers perceived as key organisational resource in case study companies

Table 6.4 below summarises the level of impact of labour intensity of manufacture on CSR implementation in each case study company. It was concluded that labour intensity of manufacture was a Driver not an Inhibitor of CSR implementation.

Company	Impact of labour intensity of manufacture on CSR implementation
A	Low – workers regarded as key organisational asset
B	Low – workers regarded as key organisational asset
C	Low – workers regarded as key organisational asset
D	Low – workers regarded as key organisational asset
E	Low – workers regarded as key organisational asset
F	Low – workers regarded as key organisational asset
G	Low – workers regarded as key organisational asset

Table 6.4 Impact of labour intensity of manufacture on CSR implementation across all companies

6.2.4 Retailer buying practices

All of the larger case study companies (A, B, C, D and E) had good working relationships with their main buyers and did not admit to experiencing problems as a result of retailer buying practices. The Director of (Sri Lankan) Operations claimed that Company E's relationships with its buyers were "excellent" and denied having ever been let down by any customer. The Director of Company D felt the company had a good relationship with all its customers, although admitted that "of course off and on there are hiccups". He did not elaborate on exactly what kind of problems the company experienced with its buyers but acknowledged that the challenges of the current business environment sometimes resulted in the company making a loss on certain orders. However, both parties took a broader perspective and worked together to ensure that a mutually satisfactory margin was achieved over the season, rather than per order.

- <u>Last minute changes and order cancellations</u>

There was less likelihood of last minute changes to orders since Sri Lanka did not tend to produce fast fashion. With core basics, buyers were able to forecast more accurately and the consequences of under- or over-buying were less severe than for fast fashion products that may have a PLC of only a few weeks.

The only company that openly admitted to suffering as a result of retailer buying practices was Company G, the domestic subcontractor. The Managing Director spoke of the frequency of last minute order changes or cancellation, the latter which would sometimes result in the factory running at a loss if no other order was found to replace the cancellation. However, this did not impact directly upon workers since Sri Lankan

national law prevented the laying off of workers without just cause, and so workers were protected from being laid off to counteract short-term factory losses.

The Executive Director at Company B admitted that the customer would on occasion ask for changes to be made to the order; however he pointed out that the customer was aware changes could not be made once the order had gone into production and pieces were actually in the sewing lines. Changes were permitted only for the following order. This indicated that Company B had a higher degree of power in its trading relationship than Company G, which suffered from last-minute cancelled orders.

- Lack of written contracts

Overall, there was a lack of written contracts of advance commitment from retail buyers that would enable manufacturers to plan their future business. Companies A, C, D and E signed sourcing agreements which laid out the buyer's terms of business and expectations; nevertheless these agreements did not guarantee future levels of business. The Executive Director at Company B said that he had a five year contract for work from Crystal Martin. In addition, the Factory Manager at Company B said that Intimissimi guaranteed to fill capacity a year in advance, even if that meant shifting production from some of their own factories to fulfil the commitment, and this enabled the Factory Manager to plan the business. In July 2008, the General Manager at Company D spoke about a two year commitment for future orders from Gerry Weber; however in December 2008 this agreement no longer appeared to be in place. The Managing Director of Company F stated there was no explicit commitment from customers and the business although he appeared to be hold faith in the continuation of the relationship as he was not looking for other customers.

The length of trading relationship seemed to counteract the lack of written guarantees, since only Company G was actively looking for new customers and new avenues of business. In addition, the added value services and volumes provided by the larger full package suppliers seemed to counteract the lack of guarantees of future orders. The Senior Operations Manager at Company A did not feel at risk of losing the main buyer, since he felt it would be very costly and time-consuming for the buyer to find a supplier that could produce similar volumes and provide the same level of service.

The Group Compliance Manager at Company C spoke of sourcing agreements that were signed off at senior director level and purchase orders that dictated production at factory level. Most companies received formal purchase orders but in practice trading relationships were governed more informally and problems would be resolved without resorting to the contractual stipulations. The Director of Company D explained the sourcing agreement that was used for the sake of formality rather than practice: when problems arose, they were solved by mutual agreement not by recourse to the contract.

- Pressure to reduce lead time

Lead time reduction did not appear to be an insurmountable problem in any of the companies; however this may have been influenced by the fact that Sri Lanka is not primarily a fast fashion producer and therefore companies experienced less time pressure. Lead time for actual garment manufacture ranged from six weeks to eight weeks in most cases. However, since fabric needed to be imported, overall lead time from point of fabric procurement to arrival in the customer's port was roughly three months. Shipping took three weeks and fabric procurement could take three to four weeks. Company A found the VMI arrangement reduced overall lead time from fabric procurement to arrival in the customer's port by six weeks. Greater visibility of end consumer demand enabled Company A to plan ahead and keep six weeks' worth of stock. Company C did not have any VMI arrangements with its suppliers. Production was therefore standard at three months lead time including fabric procurement or six weeks lead time if the fabric was in-house, plus shipping time. On occasion Company C's customers would ask for short notice orders to be completed within a shorter time period, but as a large company with multiple factories, this did not present so much of a problem as for a smaller company with a single factory and the company would try to accommodate the buyers' requests. The Group Compliance Manager referred to this as a request for a favour rather than a demand to achieve the impossible.

- Open-book accounting

Only Company A practised open-book accounting with its key buyer and this was linked to the VMI arrangement. The buyer could see Company A's costs and how much profit it made from each style. The Senior Operations Manager spoke of the practice in positive terms. He perceived the openness to be a "win-win" situation whereby both parties could work together to mutual advantage. By seeing a precise cost breakdown, the buyer was better able to suggest to Company A where cost savings

could be made and this ultimately led to the continuation of the trading relationship. He did not feel that sharing such confidential information placed Company A in a vulnerable position with its buyer.

None of the other companies practised open-book accounting with their buyers. The Director of Company D said that buyers could see various breakdowns showing fabric, trim and manufacturing cost but this did not show confidential profit margin. In Company C, the Group Compliance Manager acknowledged that buyers would ask to see the cost breakdown, and this would enable them to advise on where savings could be made, for example by sourcing from a different supplier.

For full package suppliers that had closely integrated relationships with their buyers, the sharing of confidential cost information did not appear to work against the supplier. Instead, it cemented the collaborative nature of the relationship by providing the buyer with the information necessary to give informed advice on cost savings for example. Without the necessary information, the buyer would not have been able to provide advice and both parties may have reached an impasse in terms of achieving the target cost price the buyer needed to place an order.

- Length of payment terms

Ranging from 30 to 90 days, the length of buyer payment terms had the potential to negatively impact supplier business sustainability. One of the effects of the Western recession was an increase in invoice settling time: for example, Company A's main buyer Gap had recently increased its payment terms from 30 to 45 days. For full package suppliers that sourced fabrics, trims and accessories outside the boundaries of the firm, this could be problematic in terms of managing cash flow. Fabric was paid for in advance or upon delivery and employee wages were paid on a monthly basis; hence, a significant amount of capital support was required to keep the business going if buyers insisted on lengthy payment terms. It was not possible to apprehend a detailed financial picture of the effect of lengthy buyer payment terms on the health of any of the companies. However, an indication was given by the Managing Director of Company D's decision to cease or scale down business with the two buyers that insisted on 90 day payment terms. As a smaller, non-vertically integrated organisation, Company D experienced difficulties managing the business on such credit terms. With less pressure than the larger Companies A, B and C to fill factory capacity, it was able to de-select

unprofitable or unreasonable customers to a certain extent. As a subcontractor, Company B lacked the capital support required to extend lengthy credit terms to its customers. Company G on the other hand was a SME and required prompt payment of invoices in order to maintain a steady cash flow. The Managing Director therefore decided to supply the domestic market only. While export customers payment terms ranged from 30 to 90 days, domestic customers' invoices were settled within 14 to 25 days. Table 6.5 summarises the level of impact of retailer buying practices on CSR.

Company	Impact of retailer buying practices on CSR implementation
A	Low – due to partnership and higher relative power in supply chain
B	Moderate – due to CMT status and consequent low margins and lack of power
C	Low – due to partnership and higher relative power in supply chain
D	Moderate – due to smaller size and lower relative power in supply chain
E	Low – due to partnership and higher relative power in supply chain
F	Moderate – despite CMT status, there was partnership with parent company
G	High – due to small size, CMT status, low margins and lack of power

Table 6.5 Impact of retailer buying practices on CSR implementation across all companies

6.2.5 Supply chain complexity

Vertical integration facilitated greater management control of CSR within the supply chain. Companies A, C and E were vertically integrated and this helped to improve management and control of CSR. As full package suppliers, they could offer greater assurance of CSR since sourcing and production was mostly all conducted within the boundary of the firm. However, due to Sri Lanka's lack of fabric production capacity, most fabrics had to be sourced from overseas.

Company A had recently invested in a 1000 acre fabric park in India to take advantage of India's competitive advantage in terms of proximity to fabric sources and lower labour cost. Retaining successive supply chain processes within the boundary of the firm facilitated greater visibility and control over quality as well as ethical standards in the supply chain. Similarly, the Chairman of Company E's parent company explained her decision to invest in vertical integration as the only way she could guarantee quality of product and process within the supply chain. Quality issues were also cited by the Chairman of Company B as the reason for not subcontracting production outside the boundaries of the firm. The Managing Director of Company F professed not to subcontract production due to poor experiences in terms of inferior quality and delivery delays, although the potential for poor ethical standards was not considered an issue.

Overall, the drive for high levels of quality and service reduced the prevalence of subcontracting and addition of further layers of complexity to the supply chain.

Firm size influenced the approach to ethical auditing outside the boundary of the firm. Companies A and C were two of Sri Lanka's largest apparel exporters while Company E was the Sri Lankan subsidiary of the world's largest shirt supplier. These companies were full package suppliers to premium global brands and retailers. They had dedicated CSR departments and recognised the business risk of lax CSR standards in the outer reaches of their supply chains. Companies A and C both required ethical audits to be passed before subcontracting any work outside the boundary of the firm.

Company D on the other hand was a smaller-sized full package supplier that was not vertically integrated and therefore had to source from outside the boundary of the firm, Supply chain complexity was greater than for the vertically integrated firms. However, while Company D adhered to ethical requirements within the boundary of its own firm, it did not require any ethical assurances from its suppliers. If the buyer nominated a supplier for Company D to source from, it was assumed the supplier would have been appropriately audited for CSR by the buyer. However, when the buyer did not nominate a supplier, Company D would use its own sources but would not conduct its own ethical audit. However, the Director of Company D anticipated this would become a requirement in the near future. Company B was a contract manufacturer. It had a policy of not subcontracting production, due to previous poor experience with quality and service issues. However, the company would on occasion source some small accessories or basic trims from the local market. Although it had formulated its own comprehensive code of conduct and used CSR to differentiate itself in a crowded marketplace, with the Chairman professing that his prime motivation for running the business was to improve society rather than maximise profits, Company B did not have any ethical requirements of its suppliers. The Chairman admitted ethical audits were only conducted within the boundary of the firm, not its supply chain.

Company F, as a small subcontractor, did not source fabrics but was involved in sourcing trims such as thread, buttons or interlining. The Managing Director estimated that 97% of materials were sourced from overseas. Fabrics were mainly sourced from China and Korea due to Sri Lanka's lack of production capacity; however, trims and accessories were also sourced mainly from China due to the lower cost. With a single

customer that had no ethical requirements, Company F made no enquiries of CSR standards further upstream in its supply chain but sourced purely on the basis of cost and product quality.

Although there was strong evidence of CSR implementation within many companies, the philosophy did not always extend further upstream in the supply chain. The subcontracting of production was less of an issue than the sourcing of materials. Companies B, D and F did not conduct ethical audits of its own fabric or trim suppliers (that were not nominated by the customer). Industry leaders such as Companies A, C and E had close integrated relationships with their key customers and this was a significant driver to maintain standards of CSR further upstream in the supply chain. Table 6.6 below summarises the level of impact of supply chain complexity on CSR.

Company	Impact of supply chain complexity on CSR implementation
A	Very low – vertical integration and use of buyer-nominated suppliers, ethical audit required of subcontractors and non buyer-nominated suppliers
B	Moderate – no subcontracting, but no ethical audit of non buyer-nominated trim suppliers
C	Very low – vertical integration, ethical audit required of subcontractors
D	Moderate – no ethical audit of non buyer-nominated suppliers
E	Very low – high level of vertical integration
F	Moderate – no subcontracting, but sourcing criteria based solely on price
G	Low – subcontractor with no sourcing responsibilities

Table 6.6 Impact of supply chain complexity on CSR implementation across all companies

6.2.6 Supply chain power distribution

The power distribution between buyers and suppliers appeared to be influenced by the closeness and the level of supply chain integration in the trading relationship. The power balance shifted towards the supplier as the relationship became closer and more integrated and as the supplier performed more value-added services. For example, as Company A took on greater proportions of Old Navy's casual woven bottoms business and took over operational management via the VMI agreement, the cost and difficulty of switching to another supplier increased for Old Navy. This gave Company A a greater degree of power in the relationship. Company B's relationship with its buyer Intimissimi also demonstrated the power shift as the supplier performed more value added services. As Company B excelled in manufacturing garments in difficult fabrics, the buyer was prepared to help the supplier by sending payment earlier than required

under the contract, in order to ensure Company B could adhere to its CSR requirements and pay its workers on time.

The larger vertically integrated companies A, C and E were full package suppliers. Both Company A and Company E were key suppliers to many of their customers and felt sufficiently secure in their trading relationships that they did not anticipate losing any of their key customers' business. As the Senior Operations Manager at Company A pointed out, it would be difficult for many buyers to move the business elsewhere now that the volume had built up and a close trading relationship had developed whereby the supplier was familiar with the customer's business and requirements.

Although considerably smaller, Company D also had a relative share of power in its trading relationships. With highly-skilled employees who were able to work with high-tech synthetic fabrics and the ability to manufacture to high quality levels, Company D was in demand as a supplier and therefore able to select the customers it was prepared to work with. By providing such highly sought after value-added services, it gained sufficient power to be able to refuse to do further business with customers that turned out to be unprofitable or unreasonable.

Company G was a SME subcontractor and did not offer any added value services. Although it had long-standing relationships with its customers, there was a lack of integration between the two parties. As a small subcontracting business, it was relatively dispensable and therefore at the mercy of short-notice cancelled orders. The company was therefore actively looking for new customers and lines of business. Table 6.7 below summarises the level of impact of supply chain power distribution on CSR.

Company	Impact of supply chain power distribution on CSR implementation
A	Low – due to large size and added value services provided
B	Moderate – large size but lack of added value services provided
C	Low – due to large size and added value services provided
D	Moderate – although only medium sized, added value services provided
E	Low – due to large size of parent company and added value services provided
F	High – lack of power due to small size
G	High – lack of power due to small size and lack of added value services

Table 6.7 Impact of supply chain power distribution on CSR implementation across all companies

To conclude the cross-case analysis of CSR Inhibitors, Table 6.8 provides a summary of the negative impact of CSR Inhibitors on CSR implementation across the companies.

CSR Inhibitor	**Ranking of influence**	**Negative influence on CSR implementation**
Downward price pressure	Moderate	Less influence for full package manufacturers that provided added value services and operated on higher margins. Greater influence for contract manufacturers that worked on SMV and operated on smaller margins.
Product nature	Low	Core basic nature of garments and long-running orders enabled payment of production bonus to workers in certain companies. Reduced the negative effect of downward price pressure, since buyers and suppliers could collaborate on improving efficiency. The long-running product nature also improved visibility of retail demand and reduced pressure for short lead times.
Labour intensity of manufacture	Low	Workers regarded as key organisational asset, which drove investment in human resources and concern for working hours and conditions. Good CSR improved employee productivity and commitment, contributing to business success and sustainability. Hence this factor was reclassed as a CSR Driver.
Retailer buying practices	Moderate to high	The core basic nature of the product meant that demand forecasting was less difficult than for fast fashion, therefore manufacturers experienced less pressure to reduce lead times or to change orders. The main issue was the increase in retailer payment terms which affected business cashflow, especially for full package manufacturers that pay for raw materials in advance. Written contracts of advance commitment were rare, however long-term trading relationships of 10-20 years existed. Open-book accounting used to collaboratively make improvements to reduce production cost.
Supply chain complexity	High	Outsourcing was rare for full package, vertically integrated suppliers, thus reducing complexity and increasing visibility and control. Although audits were carried out for garment manufacturing subcontractors, this did not extend to raw materials suppliers. Subcontractors had greater supply chain complexity than full package suppliers, as fabric sourcing had to be done outside firm boundaries. For the smallest companies, supply chain complexity was increased by downward price pressure: materials had to be sourced from the cheapest location rather than from Sri Lanka.
Supply chain power distribution	Moderate	Large full package suppliers apportioned a greater level of power than contract manufacturers or SME subcontractors, due to their strong managerial capabilities and greater resources for negotiating with buyers. Companies with clear competitive advantage were highly sought after suppliers and had fewer direct competitors than those without a clear differentiating factor. Subcontractors were at the mercy of buyers as they had no competitive differentiation and were thus easily manipulated.

Table 6.8 Summary of impact of CSR Inhibitors on CSR implementation

6.3 CSR Pillars

Evidence of CSR was found within all case study companies, regardless of size or business model. A summary of evidence was provided in Table 5.3 at the end of the previous chapter. Based on the information in Table 5.3, Table 6.9 below summarises the level of CSR implementation in each case study company.

Company	Level of CSR implementation
A	High – CSR embedded within core of business
B	High – CSR embedded within core of business
C	High – CSR embedded within core of business
D	Moderate – CSR compliance-based and not yet embedded within core of business
E	High – CSR embedded within core of parent company
F	Moderate – CSR compliance-based due to lack of concern from buyer
G	Moderate – CSR compliance-based due to lack of resources as SME

Table 6.9 Level of CSR implementation across all companies

At a basic level, all companies apart from domestic subcontractor Company G were BOI enterprises and as such had to adhere to BOI regulations on CSR issues such as employment law, wages and labour relations. However, it was found that the seven case studies paid well above the minimum rates stipulated by the BOI: for example, the CEO of Company A's College of Clothing Technology estimated the average monthly wage in Sri Lanka for a machine operator to be around 15,000 rupees (approximately £78.50). As well as adhering to BOI regulations, all companies produced for large international retailers and brand names and therefore had to adhere to their customers' codes of conduct. The only exception to this was Company F, whose Managing Director said that their buyer had no CSR requirements since this had not yet become an issue in the Australian market. Over and above the BOI requirements and customer codes of conduct that were adhered to, some companies had also formulated their own code of conduct. There was evidence in all companies of some degree of social reporting, stakeholder satisfaction monitoring, charitable activity, measures to address diversity and working conditions, and human capital development. As would be expected, the larger full package suppliers with greater resources and market power were able to contribute on a larger scale as well as use their power to influence other parties, such as the government, to help drive CSR forward. For example, Company A lobbied the government to improve statutory labour regulations and persuaded its key buyers to contribute towards a large scale water purification project.

6.3.1 Moral philosophy

The moral argument for CSR appeared to be the basis for implementing CSR across many of the companies. For example, the Chairman of Company B professed that he started the business in order to make a contribution to societal development. Although there was a lack of formal procedures and documentation, many of the companies had practised CSR activities for a long time although they may not have referred to them as such. Company B paid monthly, rather than annual bonuses and had provided free breakfast for workers from the very beginning of the business 30 years previously. Although there was a business benefit in providing free breakfast, as employees were more productive than if working on an empty stomach, there was no clear business benefit to paying monthly rather than annual bonuses, as was common in other firms. In Company A, the Senior Operations Manager felt that even without rules, regulations and standards, the vast majority of what was practised in Sri Lanka would still exist. Company E had practised CSR activities for some time but the parent group had only relatively recently formalised its own code of conduct. This suggested that there was a moral underpinning for CSR rather than merely a business case.

The moral argument for CSR in the industry was a Kantian imperative not to use human beings as a means to an end, but to grant them dignity and respect. This imperative was greatly supported by Sri Lanka's main religion of Buddhism, which held that it is wrong to exploit people beneath oneself. In Company C, the HR Manager alluded to the power of the religion in dictating business practices. As a result of employee feedback, it was rare for the factory to open on Sundays for overtime work. Workers preferred not to work overtime on Sundays as many attended religious classes then, but instead preferred to work overtime on Poya days. He also referred to a social contract between business and society, effectively requiring business to contribute to society in return for society's permission and support for business to exist. In Company D, the Factory Manager spoke of the industry's responsibility for workers' lives, as well as meeting quality and cost targets. The business philosophy of Company E's parent group centred on a balance of social conscience and profit-seeking. In Company A, a statement in the company CSR magazine made the point that being good corporate citizens was the right way of doing business, not only a good way of doing business. This sentiment was echoed by the Compliance Manager, who claimed that Company A's corporate responsibilities in human rights were considered to be the most important and underpinned the business aims and objectives. The empirical data thus demonstrated

the deontological underpinning to CSR in the Sri Lankan context. This provided factory managers with an impetus to implement CSR within the business in the face of initial financial and human resource investment. Indeed, the Head of Sustainable Business at Marks & Spencer also confirmed that the retailer's initial decision behind the launch of 'Plan A' in 2007 was driven by a moral imperative that it was "the right thing to do". In time however, the retailer realised the commercial benefits of CSR initiatives and this justified further investment and development in 'Plan A'. It could therefore be concluded that while the moral imperative provides the initial impetus to implement CSR, the pillar of competitive advantage provides the ongoing justification to continue and develop CSR implementation. Table 6.10 below summarises the proportion of moral philosophy as a pillar of CSR in each company.

Company	Moral philosophy as a pillar of CSR
A	High – based on social conscience and a moral duty not to exploit workers
B	High – based on social conscience and a moral duty not to exploit workers
C	High – based on social conscience and a moral duty not to exploit workers
D	Moderate – due to greater emphasis on the business case for CSR
E	High – based on social conscience and a moral duty not to exploit workers
F	Moderate – due to greater emphasis on the business case for CSR
G	Moderate – due to greater emphasis on the business case for CSR

Table 6.10 Moral philosophy as a pillar of CSR across all companies

6.3.2 Competitive advantage

Within the Sri Lankan garment industry, CSR was seen as a way of competing against other garment producing nations in Asia. Informants in Companies A, C and E judged Sri Lanka to be far more sophisticated in CSR than neighbouring garment manufacturing countries such as India, Bangladesh, Vietnam and Cambodia. The CEO of Company A's College of Clothing Technology and the HR Manager in Company C felt that Sri Lanka's superiority in ethical manufacture represented a unique competitive advantage compared to other South-East Asian garment producing nations. Similarly, the Director of HR and Administration in Company E considered Sri Lanka to be far ahead of neighbours such as Vietnam or China in terms of working environment, salaries and ethical labour standards (Kangaraarachchi, 2008).

Industry body Sri Lanka Apparel's 'Garments Without Guilt' scheme, which launched in 2006, was therefore aimed at capitalising on Sri Lanka's reputation for ethical garment manufacture and promoting it as an ethical manufacturing base. Some of the

case study companies likewise used their CSR credentials as a way of differentiating themselves in a crowded marketplace, towards buyers as well as in terms of recruiting and retaining employees. Company A for example, was self-professed "preferred partner" with its global customer base and also "preferred employer" within Sri Lanka.

The main competitive benefits resulting from CSR were employee motivation and retention, increased productivity and the ability to win more business. In Company C, the Compliance Manager talked of reduced accidents and downtime as well as increased productivity that resulted from improved health and safety procedures in the factory. Investment in human capital in the form of training and development increased the skills and efficiency of the workforce, and this enabled Companies B and D to continue supplying their demanding buyers. In Company D, the Director and the General Manager acknowledged the positive effect on employee loyalty that was achieved through maintaining good ethical standards. In particular, the General Manager spoke of the mutual benefit to the firm as well as the individual employees:

> "While we try to improve their lives to achieve their personal goals, by using them we try to achieve our business goals".

For Company E, the business case for CSR was equally as important as the moral argument. The Director of (Sri Lankan) Operations felt that achieving the right balance between social responsibility and profitability was the reason for the company's success. More specifically, the HR Manager spoke of the unusually low labour turnover rate in the factory, and the high proportion of long-term employees compared to other garment factories he had worked in previously. Harmonious labour relations between workers and management contributed to improved productivity levels in the factory. The HR Manager in Company C's comment summarised the general opinion across the case study companies that CSR could bring definite competitive benefits to the firm as well as helping to improve society as a whole:

> "We are spending a lot of money on CSR activities because we believe that there is an advantage for the organisation as well as for society".

However, the Director of Company D and the HR Manager in Company C pointed out the potential conflict between worker protection and commercial imperatives, acknowledging that although Sri Lanka's labour laws worked in favour of employees, they could be less attractive for buyers and investors due to limits on overtime and termination of employment. For CSR efforts to be beneficial for the firm as well as for

society, a balance needed to be achieved between both, otherwise societal benefits might be achieved at the expense of firm benefits which might ultimately risk business sustainability. Table 6.11 below summarises the proportion of competitive advantage as a pillar of CSR in each case study company.

Company	Competitive advantage as a pillar of CSR
A	High – to attract buyers and potential employees, to gain loyalty and increase productivity from existing employees
B	High – to attract buyers and potential employees, to gain loyalty and increase productivity from existing employees
C	High – to attract buyers and potential employees, to gain loyalty and increase productivity from existing employees
D	High – to attract buyers and potential employees, to gain loyalty and increase productivity from existing employees
E	High – for parent company: to attract buyers and potential employees, to gain loyalty and increase productivity from existing employees
F	Low – due to lack of interest from buyer
G	Low – due to limited resources and overriding price-sensitivity of business

Table 6.11 Competitive advantage as a pillar of CSR implementation across all companies

6.3.3 Sustainable development

Sustainable development also proved to be a significant element of CSR in the case study companies. The larger companies A, B, C, D and E articulated a commitment to sustainable development while the smaller Companies F and G were focused on short to medium-term business sustainability. Most companies claimed that human resources were their greatest asset and recognised that social compliance enabled them to motivate and retain quality workers. The Senior Operations Manager in Company A spoke of how sustainable business development helped to drive the CSR agenda in the Sri Lankan garment manufacturing industry, since factory owners and managers realised that worker welfare was important for business sustainability particularly in such a labour-intensive industry sector. Sustainable development was strongly linked to the labour-intensive nature of the manufacturing process: without adequate levels of worker welfare, the business would be unable to maximise the output of its human resource, in terms of productivity or loyalty that came from higher levels of motivation and retention. Lower productivity levels and higher labour turnover rates were not conducive to building a sustainable or successful business.

Similarly, the Chairman of Company B recognised the significance of the factory workers to the success of the business, since without workers there could be no factory.

His initial business motivation supported the concept of sustainable development: by building a profitable business, he hoped to contribute to societal development and help alleviate rural poverty in Sri Lanka. The concept of sustainable development guided the company's business expansion strategy of locating new factories in rural areas, and more recently in the war-torn Northern Territories to help rebuild communities that had been devastated by the civil war.

In Company C, the HR Manager saw CSR as an element in a circular process whereby CSR contributed to profit generation, which then enabled more investment in CSR and so on. This holistic view supported the concept of sustainable development, by enabling the achievement of present business goals as well as laying the foundations for future generations to achieve their business goals. The General Manager of Company D similarly spoke of a virtuous circle process whereby maintaining good levels of CSR contributed to higher levels of productivity and worker retention, which in turn helped to generate greater profits. These profits would be reinvested in the business to further improve working conditions for employees, for example by upgrading machinery. Sustainable development was thus an important element of CSR in Company D.

The code of conduct drawn up by Company E's parent group also endorsed the principles of sustainable development:

> "Outstanding business performance must be achieved through practices that are ecologically sustainable and based on the well-being for and integrity of its employees and communities. It also believes that it is possible to generate prosperity and growth, deliver outstanding quality, as well as improve the livelihood of people without diminishing the chances of future generations".

The philosophy of 'business with conscience' was borne from the parent group Chairman's desire to build a company that could be both profitable and committed to worker welfare and sustainability.

The Managing Directors of the smallest Companies F and G did not articulate any commitment to sustainable development; however, they both demonstrated awareness that good standards of CSR or worker welfare would encourage worker productivity as well as attraction and retention of employees, hence supporting the business goals of short to medium-term profitability and sustainability. As small companies, they were focused on the short to medium term more so than the long term, which precluded the

strategic vision inherent in the concept of sustainable development. In these smallest companies therefore, sustainable development was only a minor element of CSR. Table 6.12 below summarises the proportion of sustainable development as a pillar of CSR.

Company	Sustainable development as an element of CSR
A	High – strategic vision, appreciation of enduring labour intensity of garment manufacture and the role of CSR in attracting and retaining workers
B	High – strategic vision, appreciation of the need for licence to operate and societal approval to succeed with 'town-to-village' business expansion plan
C	High – strategic vision, appreciation of enduring labour intensity of garment manufacture and the role of CSR in attracting and retaining workers
D	High – to support human resource development, productivity and retention
E	High – formed the underpinning business philosophy of parent company
F	Moderate – due to focus on short to medium-term rather than long-term
G	Moderate – due to focus on short to medium-term rather than long-term

Table 6.12 Sustainable development as an element of CSR implementation across all companies

To conclude the cross-case analysis of the CSR Pillars, Table 6.13 provides a summary of how CSR was conceptualised across the case study companies according to the importance of each Pillar in constituting an understanding of the CSR phenomenon.

CSR Pillar	Importance of Pillar in understanding CSR
Moral philosophy – normative case	The normative case was underpinned by the Buddhist belief in social conscience and not exploiting those beneath oneself. This cultural underpinning provided the strongest foundation for CSR implementation and facilitated factory managers' understanding of the concept of CSR. It also provided an impetus for implementing CSR in the face of initial financial and human resource investment.
Competitive advantage – business case	With downward price pressure and competition from neighbouring garment producing nations, companies recognised the potential of CSR to become a differentiating factor which could lead to competitive advantage. Externally, CSR could help attract Western buyers who sought a low-risk sourcing destination, while internally, CSR could result in becoming an employer of choice and hence attracting and retaining the best quality workers. The business case also underpinned initial CSR efforts and there was evidence of CSR being embedded within the business before the advent of codes of conduct and retail buyer concerns: factories provided free breakfasts for workers as they realised this would make them more productive than working on an empty stomach. The business case provided the impetus for ongoing investment and roll-out of CSR.
Sustainable development	Due to the enduring labour intensity of the garment manufacturing function, implementation of CSR supported sustainable development in the business. As workers contributed to business goals, CSR also enabled to business to address workers' needs and wants. On a wider basis, as the garment industry is Sri Lanka's key export industry, it also contributed to national societal goals in alleviating poverty through trade and the creation of employment.

Table 6.13 Summary of CSR Pillars across all companies

6.4 CSR Drivers

Across the case study companies there was evidence that each of the key CSR Drivers supported the implementation and development of CSR, however the empirical data showed that consumer desire for guilt-free fashion was not a significant driver for suppliers as they were too far removed in the supply chain to have a direct effect.

6.4.1 Consumer desire for guilt-free fashion

Consumers did not have a direct influence on CSR in garment manufacturers due to the lack of direct connection in the supply chain. Being one step removed from the end consumers, a greater influence on garment manufacturers was the buyers themselves. While in some instances companies had implemented CSR ahead of buyers' requirements, ongoing supplier development schemes and CSR training helped them keep up to date with the latest developments in the field of CSR. For example, the Chairman of Company B stated that he had provided free breakfast for his workers right from the establishment of the business 30 years previously; however, it was the influence of customers such as Marks & Spencer that drove the formalisation of CSR within the company. The Group Compliance Manager in Company A felt that buyers were the main source of external pressure to drive the CSR agenda forward and improve standards. Hence, the larger full package Companies A, C and E worked together with some of their main buyers on CSR issues. Companies A and C built their first eco-factories in collaboration with their key buyer Marks & Spencer. Following the success of the first eco-factory, Company C then built a second one, this time without assistance from Marks & Spencer and in 2009, the Group Director spoke of Company C's plan to convert all manufacturing facilities to the green model over time (De Silva, 2009). In Company A, the Green Project Manager said that although Marks & Spencer funded the high-tech skylights that permitted the passage of light into the factory without accompanying heat, the project was in fact handled by Company A along with a Sri Lankan building consultant who was instructed to manage the entire project. This suggested that premium retailers and brands often provided the initial impetus for suppliers to upgrade CSR, in terms of providing ideas and information on recent developments in the Western world that required standards to be upgraded. Large full package suppliers were then able to harness their resources and act on this information, taking the opportunity to upgrade and move towards the leading edge of the field.

Buyers also helped to drive the CSR agenda in their supplier companies by providing training courses and seminars to keep suppliers up-to-date with new CSR developments. For example, companies that supplied Marks & Spencer were able to take advantage of locally run training programmes and seminars by the local buying office. Company C and Company D had attended the recent Marks & Start seminar where Marks & Spencer presented their scheme to promote employment among disadvantaged groups. Both companies subsequently embraced the principles of the scheme. The Director of Company D said the company had signed up to the Marks & Start programme and was working on providing employment opportunities for disabled people in the factory. As mentioned in the previous paragraph, Company C embraced the Marks & Start programme and went even further by launching a similar scheme to improve diversity management in the business.

Other large global buyers also provided training and assistance in CSR-related matters. The Group Compliance Manager at Company C spoke of buyers' support in terms of organising training and sending information manuals which helped the company to become more socially compliant. He gave examples of legal requirements which by nature did not come under the umbrella of CSR, including REACH (Registration, Evaluation, Authorisation and restriction of Chemicals) registration in the case of EU customers and compliance with CPSIA (Consumer Product Safety Improvement Act) for US customers. Examples of CSR-related training programmes included Marks & Spencer's 'Marks & Start' seminar, which was attended by Companies A, C and D. The Senior Operations Manager spoke of training programmes and conferences that were organised by Company A's main buyers. Support for CSR was not only provided to first tier manufacturers, but was also extended to subcontractors. The Managing Director of Company G spoke of training programmes provided by retail buyers such as Gap and Macy's that enabled him to stay abreast of new developments and pass the annual audit required to continue subcontracting for these buyers.

However, the Managing Director of Company G denied that the buyer gave any support or encouragement to become more socially compliant, on the basis that the market in Australia had not yet embraced the concept:

In general therefore, buyers had an interest in keeping their key suppliers up-to-date with new CSR developments and fostering a culture of continual improvement in

supplier organisations, as this helped to ensure the sustainability of the trading relationship. Table 6.14 below summarises the level of impact of consumers on CSR implementation in each case study company.

Company	Impact of consumers on CSR implementation
A	None
B	None
C	None
D	None
E	None
F	None
G	None

Table 6.14 Impact of consumers on CSR implementation across all companies

6.4.2 Trust as an antecedent of commitment, cooperation and collaboration

Interviewees in all case study companies without exception spoke of the presence of trust in the trading relationships with their buyers. The Director of (Sri Lankan) Operations in Company E estimated the length of trading relationship with the company's main buyers to be about 25 years and described the nature of the relationship primarily in terms of trust:

> "We have a very very close established relationship and most of all it's the trust".

Some of the larger suppliers had also been dealing with many of their key buyers upwards of ten years. For example, Company B had been manufacturing for Marks & Spencer for twenty years and Company C had been supplying Liz Claiborne and Eddie Bauer for the same amount of time. Company D had been working with Gerry Weber for the past twelve years.

Trust enabled buyers and suppliers to feel secure in sharing confidential information without the threat of opportunistic behaviour by the other party. The Senior Operations Manager at Company A spoke in only positive terms on the subject of the open-book accounting arrangement with key supplier Old Navy, whereby the company shared costings openly with the buyer. He saw this as a "win-win solution" which enabled both parties to work together to achieve cost savings in the manufacturing process. Similarly, Company D's buyer Gerry Weber shared confidential market information and retail demand with the company, which enabled Company D to prepare for the upcoming season and better understand the buyer's business requirements.

Trust in the trading relationships enabled both parties to work together when problems occurred without resorting to contractual remediation, thus reducing transaction costs. The Director of Company D said that a written contract was in place but emphasised that this was effectively for the sake of formality only, since the presence of trust enabled both parties to work together to solve any problems for mutual benefit.

Because of the lack of formal written contracts in the industry, the development of trust in the trading relationship enabled suppliers to feel relatively secure in the knowledge that the trading relationship would continue. It also encouraged suppliers to share confidential information such as costings with buyers. Trust acted as an antecedent to collaborative working or integration of operations within the supply chain which in turn supported CSR implementation.

In terms of supporting CSR, the Compliance Manager in Company A spoke of trust between the company and its employees, generated through CSR policies and practices and which helped to legitimise the company within society as well as motivate and retain employees.

Across all the case study companies, there was little formalised commitment in terms of guaranteed future orders that would permit manufacturers to confidently plan ahead and invest in their businesses. The Managing Director of Company G explained:

> "We don't have a long-term contract, that they give us so much work for so many periods".

Company B was one of the few companies that had a formal contract for future orders from a buyer. The Factory Manager said that the buyer provided a written guarantee of taking full capacity a year in advance. This was adhered to in all circumstances, even if the buyer had insufficient orders, as attested to by the Factory Manager:

> "There is a written document for the full year they are booking … If they don't have enough orders sometimes they are taking their in-plant production, they give to me to fill my capacity".

In the Marks & Spencer production facility, the Executive Director spoke of a five year guarantee from Crystal Martin Ceylon for the Marks & Spencer business. However, this was fairly atypical compared to the other case study companies. Apart from Company B, at factory level few interviewees were aware of any written guarantees of future orders. Interviewees in larger full package suppliers such as Companies C and E

spoke of higher-level commitments in the form of sourcing agreements that would be negotiated and agreed at director or senior management level. The lack of formal contracts guaranteeing future work was overcome to a certain extent by the strength and longevity of the trading relationships: notwithstanding the lack of formal commitment Company F was not actively looking for new customers. There appeared to be an unspoken commitment in several cases emanating from a combination of the duration of the relationship and past performance. Interviewees thus articulated a certain feeling of security in the relationship notwithstanding lack of formal contracts.

In the larger companies, this feeling of security was helped by the integration and collaboration between buyers and suppliers. The greater level of added value services provided by the full package suppliers helped to generate a bond. The Senior Operations Manager in Company A felt it would be difficult for the buyer to replicate the level of business and customer service with another supplier: at the very least, he estimated it would take several years for the buyer to build a similar relationship with another supplier. Hence, providing value-added services and taking on greater proportions of the buyer's business, as well as taking on greater operational responsibilities as in the case of VMI helped to create a long-term commitment, albeit an implicit one. The Senior Operations Manager in Company A felt secure in the trading relationship and felt that the close-knit nature of the relationship, given the VMI arrangement, and the in-depth understanding of the customer's business and requirements helped to guarantee continuity and future orders. He estimated it would take four or five years for the customer to build a similar relationship with a new supplier. However, in a conversation with Group Supply Chain Director of a large UK-based fast fashion retailer, he estimated that a new relationship could be developed in around 15 to 18 months and strongly disputed it would take as long as four or five years (Osborne, 2009). Company A also had a purpose-built product development and design centre that enabled buyers and production teams to work together during the pre-production process.

In Company C, the Group Compliance Manager felt that the strength of the trading relationship was the reason for Company C's longevity. This strength was based on the high level of customer service that the company provided to its customers in terms of supplying on-time, value-added goods produced in socially compliant conditions. The value-added service was supported by a cooperative, collaborative relationship. For

example, buyers would provide technical advice to enable Company C to reduce manufacturing cost and the company would try to accommodate urgent orders for its buyers wherever possible. Company C's Product Development Centre with in-house sample room enabled buyers to work alongside production designers, fabric and garment technologists and get samples made up quickly, thus significantly reducing the product development process and speeding up time to market.

In Company D, the Director felt secure in the trading relationship with main customer Gerry Weber by reason of the level of service provided, which he perceived reduced the likelihood of the buyer moving the business to another supplier. The company provided a full package supply service with a sufficiently high level of operator skill and quality control required to supply the upper mid-market. Through the provision of retail demand and market data, Company D also had an in-depth understanding of the buyer's business and was therefore able to provide a better tailored customer service.

There was evidence of collaborative working in Company E's parent group, where design and merchandising teams worked together with research and development on fabric technology. Buyers and suppliers collaborated on design issues as well as on driving the CSR agenda forward. In Company E itself however, there was less evidence of collaborative working since Company E was essentially a CMT function. The Vendor Nominated Persons who were employed on behalf of the main buyers supported collaborative working by acting as the buyer's agent within the factory. They provided assurance to the buyer that goods were produced according to required specification as well as ensuring that ethical conditions were maintained.

As a CMT operation, there was no evidence of collaborative working in Company F. Collaboration on design and product development was carried out at the Australian headquarters in the buyer's home market.

Equally, as a CMT subcontractor, there was no evidence of collaborative working in Company G. Due to the nature of the business, providing flexible manufacturing capacity for other suppliers, there was a lack of information sharing that would enable the Managing Director to plan for the season ahead in good time. Although the nature of the business was challenging and last-minute cancelled orders sometimes resulted in the factory running at a loss, he felt there was a commitment from the buyers due to the

long-standing nature of many of the company's trading relationships. In common with the other case study companies, the Managing Director felt that ensuring customer satisfaction helped to guarantee continuity and future orders.

To summarise, commitment was mainly based on the duration of the relationship and positive past performance. Commitment supported business continuity and sustainable development: suppliers were able to invest in human capital development and process upgrading as they felt secure in the continuity of the trading relationship and wished to improve the level of customer service. For example, the Senior Operations Manager in Company A spoke of the company's plan to take on more of Old Navy's casual woven bottoms business and become even closer in trading. The Director of (Sri Lankan) Operations in Company E spoke of the "strong commitment" the company had with its key buyers and "continuous progress" that the company was making with each of them.

Cooperative working was evidenced by buyers providing suppliers such as Companies A and C with technical assistance on design or process modifications or alternative sources of supply that could reduce cost. This helped to drive down cost in the manufacturing process as well as supporting the continuity of the trading relationship by enabling buyers to place orders at the target price. Company C also cooperated with buyers by trying to accommodate short-notice orders wherever possible.

Collaborative working entailed greater integration between buyers and suppliers and was evidenced by the product development centres in larger full package suppliers where buyers could work with the production team and speed up time to market. In contract manufacturers such as Company B, cooperative working was demonstrated by the close working relationship and frequent communication between the Intimissimi facility and the buyer. Daily visits by the buyer's QC and monthly planning meetings attended by Factory Managers helped to maintain closeness in the trading relationship and also facilitated collaborative problem solving. The high level of contact between Company B and Intimissimi improved visibility of the production process for the buyer's representatives.

However, apart from the VMI arrangement in Company A, there was no evidence of sophisticated technology-enabled collaboration such as VMI, RFID or EDI. Table 6.15

summarises the level of impact of trust as an antecedent of commitment, collaboration and cooperation (CCC) on CSR implementation in each case study company.

Company	Impact of trust as an antecedent of CCC on CSR implementation
A	High – based on long-standing relationship characterised by trust, technology-enabled collaboration (VMI) enabled better planning through visibility of demand, cooperative problem solving, collaborative product design and development
B	High – based on long-standing relationship characterised by trust, frequent contact with Intimissimi QC ensured visibility of production process
C	High – based on long-standing relationship characterised by trust, cooperative problem solving, collaborative product design and development
D	Moderate – based on long-standing relationship characterised by trust, evidence of commitment via office in buyer's home market and investment in HR and machinery to provide improved levels of customer service
E	High – based on long-standing relationship characterised by trust, collaboration evidences by allocation of VNP for each key buyer, which ensured CSR was part of the quality assurance process
F	Low – long-standing relationship with presence of trust, but no evidence of CCC: CSR implementation based on compliance with BOI regulations only
G	Low – lack of trust due to arm's-length relationships, no evidence of CCC

Table 6.15 Impact of CCC on CSR implementation across all companies

6.4.3 SCM: long-term orientation and shared goals

Across the case study companies, it was found that a SCM mindset facilitated CSR. This was most clearly articulated by the Chairman of Company E's parent group, who said:

> "I'm not just trying to make a shirt … I'm trying to see if we can make the shirt and bring everybody in the value chain with us".

The goal of sustainability for all businesses within the supply chain supported CSR. The larger case study companies worked together with their customers with the aim of ensuring sustainability of the trading relationship. Close relationships facilitated cascading best practice through the supply chain. Long-term sourcing agreements helped companies plan further ahead while supplier development programmes enabled suppliers to keep up-to-date with new regulations and changes in the field of CSR. For example, the CSR training provided by Gap and Macy's enabled second-tier subcontractor Company G to learn about new requirements and implement any necessary processes in time for the annual audit carried out on behalf of the end retail buyers. By including Company G in their supplier development schemes, these retail buyers supported business sustainability of the whole supply chain. In Company B, the Factory Manager said that buyer Intimissimi would on occasion pay invoices early

when it became apparent that Company B was struggling with cashflow. This supported CSR by enabling Company B to maintain regular salaries for workers, ultimately supporting the long-term sustainability of the business.

As well as CSR training and development, there was evidence of technical training and sharing of best practice in relation to the manufacturing process. Full package suppliers such as Companies A, B, C and D benefited from the close trading relationships with their key buyers. Sharing costing information enabled buyers to advise on design modifications or alternative sources of supply that would result in a cost reduction. In turn, this enabled suppliers to adapt to their customers' requirements in order to retain the business within the firm's boundaries rather than losing it to lower-cost competitors. In this way, both Companies A and E felt secure in their trading relationships and felt that their customers would not easily be able to replicate the relationship elsewhere. Table 6.16 below summarises the level of impact of a supply chain management approach to CSR implementation in each case study company.

Company	Impact of supply chain management on CSR implementation
A	High – long-term vision and partnership approach to business
B	Moderate – medium-term vision due to CMT business model
C	High – long-term vision and partnership approach to business
D	High – long-term vision and partnership approach to business
E	High – long-term vision and partnership approach to business
F	Moderate – medium-term vision due to SME status
G	Low – short-term focus due to SME status and CMT business model

Table 6.16 Impact of supply chain management on CSR implementation across all companies

6.4.4 Supply chain rationalisation

As key suppliers to many brands and retailers, Companies A, C, D and E were already part of their customers' rationalised supply chains. Rationalisation of the supply chain enabled buyers to build stronger trading relationships with fewer suppliers and by simplifying the supply chain in this way, visibility of CSR issues could be increased. In a conversation with the Group Supply Chain Director of a large UK-based fast fashion retailer, this strategy was confirmed. Although the company typically sourced from over 1000 factories in 37 countries, around 80% of its buying was sourced from 20% of its suppliers and within that 20% the majority of the buy was sourced from its top five suppliers worldwide (Osborne, 2009).

For suppliers, being part of a buyer's rationalised supply chain enabled them to develop the relationship and improve their core competences. An important antecedent of CSR, supplier development concerns the improvement of various supplier capabilities that are necessary for the buying organisation to meet its increasing competitive challenges (Watts and Hahn, 1993). Company A was a key supplier to Old Navy and for some styles held 40% of Old Navy's global production volume. Within the VMI agreement, Company A produced 170,000 casual woven bottoms per month and the volume justified Company A taking on the inventory management and forecasting function. The Senior Operations Manager in Company A spoke of how Old Navy split production of its four core styles of men's woven casual bottoms: two styles with Company A, one with a supplier in Pakistan and one with a supplier in Bangladesh. By taking on larger volumes of the buyer's business, Company A was able to invest in providing an improved level of customer service. For example, the organisational structure had recently been amended so that each Senior Operations Manager headed up a particular customer business unit and orders had been moved from one factory site to another so that some factories became dedicated production facilities for a particular customer. As a full package supplier, Company A in turn also planned to rationalise its own supply chain and build on long-term partnerships with a core group of trusted supply partners in order to improve its overall level of customer service to buyers and hence its competitive edge. Stronger partner relationships were seen as a way of exploiting synergy and thereby increasing agility and responsiveness in the challenging market environment. The CEO of Company A articulated these plans at a supplier conference in 2007:

> "We need to focus on a concise vendor base that can adapt swiftly to the rapidly changing market requirements".

Although Company B was a contract manufacturer, it had exclusive supplier status with its customer Grasshopper UK who supplied babywear to UK retailers such as George at Asda. It had been supplying Marks & Spencer garments for twenty years although more recently as an indirect supplier through Crystal Martin. It could thus be said that Company B was also part of its end customers' rationalised supply chains.

Company C was key supplier to many of its customers and Sri Lanka's largest indirect supplier to Marks & Spencer. As such, it remained part of its customers' rationalised supply chains. In terms of its own supply chain, Company C recognised that supplier

rationalisation and the development of closer relationships with a core group of suppliers would facilitate cascading best practice in responsible buying throughout the supply chain.

Company D had around twenty buyers in total but did most of its business with around half of these. The Director's preference was to do greater volumes of business with fewer buyers in order to realise the investment needed to build a successful trading relationship.

Company E's parent group was key supplier to many of the premium global brands that were its customers. However, as a CMT operation for the parent group, Company E did not source any materials itself nor subcontract orders.

Company F's sourcing strategy for small accessory items such as thread or poly-bags was based on lowest cost. There did not appear to be any rationalisation strategy on the sourcing of these items but rather an indiscriminate approach based on cost. Company G, as a domestic subcontractor, was the final point in the manufacturing chain as it did not further subcontract work nor source any materials. In terms of being a victim of supply chain rationalisation by its customers, the Managing Director felt that providing good customer service and adhering to CSR requirements of the end buyers would help ensure it remained a member of the supply chain. Table 6.17 summarises the level of impact of supply chain rationalisation on CSR implementation.

Company	Impact of supply chain rationalisation on CSR implementation
A	High – as a key supplier, relationship was closer and more deeply integrated. Sourcing mostly within boundary of vertically integrated firm
B	High – as a key supplier, formed part of its customers' rationalised supply chains and was able to benefit from supplier development schemes. No subcontracting carried out
C	High – as a key supplier, relationship was closer and more deeply integrated. Sourcing mostly within boundary of vertically integrated firm, rationalisation of supply base to enable cascading of best practice
D	High – as a key supplier, relationship was closer and more deeply integrated
E	High – as a key supplier, relationship was closer and more deeply integrated. Sourcing within boundary of vertically integrated parent company
F	Moderate – subcontractor yet a key longstanding supplier
G	Low – subcontractor not key supplier, therefore vulnerable to becoming a victim of supply chain rationalisation

Table 6.17 Impact of supply chain rationalisation on CSR implementation across all companies

6.4.5 Supply chain integration

Supply chain integration was exemplified by Company E's parent group. The Chairman pursued a strategy of complete vertical integration from cotton farms to retail outlets to ensure quality in each element of the supply chain. Companies A and C were also vertically integrated with in-house fibre and fabric production as well as accessory manufacturing capabilities. Keeping processes within the boundaries of the firm helped to ensure visibility and control of the supply chain.

A high level of integration between buyer and supplier encouraged CSR. Integration of the design and product development process was witnessed in the larger full package supply companies. Company A had invested in a central hub that facilitated a collaborative approach to product design and development. It provided a space for buyers and suppliers to work together. Downstream, supply chain integration was evident in the QC process since VNPs were employed on behalf of each customer. In Company A, the VMI arrangement meant that the inventory management process was integrated. This arrangement worked to the advantage of both parties. The buyer received added value from the supplier taking complete responsibility for managing inventory, while Company A benefited from greater visibility of retail demand and was able to plan its business better. Workers also benefited through the opportunity to earn production bonuses. The Senior Operations Manager in Company A referred to the VMI arrangement in only positive terms. This enabled better planning and production incentives to be paid to workers which increased their salary to be one of the best in the industry. Integrating the garment manufacturing processes resulted in closer linkages between buyers and suppliers which strengthened relationships. The requirement for collaborative working that resulted from supply chain integration also supported CSR in the garment manufacturing process. Table 6.18 below summarises the level of impact of supply chain integration on CSR implementation in each case study company.

Company	Impact of supply chain integration on CSR implementation
A	High – greater visibility of VMI resulted in better planning ability, vertical integration promoted better CSR standards
B	None – CMT supplier therefore no integration
C	High – vertical integration promoted better CSR standards
D	Moderate – sharing of demand and market information enabled better planning
E	High – vertical integration promoted better CSR standards
F	None – CMT supplier therefore no integration
G	None – subcontractor therefore no integration

Table 6.18 Impact of supply chain integration on CSR implementation across all companies

To conclude the cross-case analysis of CSR Drivers, Table 6.19 provides a summary of the positive influence of CSR Drivers on CSR implementation across the companies.

CSR Driver	Ranking of influence	Positive influence on CSR implementation
Consumer desire for guilt-free fashion	Low	None – too far removed in supply chain
Trust in buyer-supplier relationship	High	Overcame lack of written contracts and enabled suppliers to plan their business and encouraged them to share confidential information. Reduced transaction costs by enabling parties to work together to solve problems rather than resort to contractual stipulations. Facilitated a collaborative approach to CSR which achieved better levels of supplier engagement than a compliance-based approach that tended to create distrust.
Commitment, cooperation, collaboration (CCC)	High	Long-term buyer-supplier relationships and collaboration on pre-production activities evidenced in the larger full package suppliers, and reduced the negative effect of downward price pressure and demand for shorter lead times. CCC was not evidenced in smaller subcontractors.
SCM: long-term orientation, shared goals	High	Facilitated CSR by moving the focus from short-term costs to long-term benefits, shared goals encouraged a partnership approach to relationship management. Through shared learning and cascading best practice through the supply chain, CSR implementation was more effective than via a compliance-based approach: encouraging suppliers to take ownership and drive CSR through their businesses.
SCM: rationalisation	High	Increased visibility in the supply chain and facilitated supply chain integration. Also facilitated cascading CSR best practice through the supply chain.
SCM: integration	High	Strengthened buyer-supplier relationships and made it more difficult for buyers to move the business to another supplier. Within supplier businesses, vertical integration increased visibility and control of CSR issues.

Table 6.19 Summary of impact of CSR Drivers on CSR implementation

6.5 Summary of cross-case analysis

The cross-case analysis provided empirical support for all of the constructs in the theoretical framework apart from the positive influence of consumer desire for guilt-free fashion, which was found to be negligible. Consumers were too far removed from the garment manufacturers' position in the globally dispersed fashion supply chain to be a direct influence on CSR implementation at factory level. Additionally, labour intensity of manufacture was found to have a positive influence on CSR implementation rather than being a contributing factor to CSR issues. The positive influence was based on an

awareness of the workers' contribution to organisational goals in an industry sector that could not benefit from automation.

The presence of CSR Drivers, such as supply chain rationalisation and integration, helped to overcome the negative effects of CSR Inhibitors such as retailers' irresponsible buying practices and the continuous downward price pressure in the mid-market fashion sector. Industrial upgrading in Sri Lanka over the years resulted in an increasingly sophisticated garment manufacturing sector that was able to provide full package sourcing solutions and integration of pre-production functions for Western retail buyers. Full package supply required greater SCM skills than contract manufacture, and this provided the underpinning foundation of long-term trading relationships based on mutual benefit that in turn supported CSR implementation.

In the following chapter, the empirical findings will be discussed with reference to prior theory from the literature review, to form analytic generalisations based on the theoretical constructs of the conceptual framework for understanding CSR in fashion supply chains.

CHAPTER SEVEN: THEORETICAL PERSPECTIVES ON CROSS-CASE ANALYSIS, CONCLUSIONS, LIMITATIONS AND FUTURE RESEARCH

7.1 Introduction

The aim of this chapter is develop theory by linking the empirical data with the prior literature review to refine the theoretical framework for understanding CSR in fashion garment supply chains, as originally developed in Figure 4.5. This chapter is structured according to the headings within the revised framework. The development of theory on how fashion supply chain characteristics influence CSR implementation is based upon analytic generalisations derived from the empirical data. Final conclusions for academic theory as well as managerial implications are then presented, followed by acknowledgement of the research limitations and plans for future research development.

7.2 CSR Inhibitors

CSR Inhibitors were defined as factors within fashion garment supply chains that have a negative impact on CSR implementation at factory level.

7.2.1 Downward price pressure

It was identified in the literature that the fashion garment industry is a price-sensitive market (Knutsen, 2004) and that the high street fashion sector in particular faces simultaneous pressure for short lead times and low costs (Masson *et al.*, 2007). The pressure to reduce garment cost is incompatible with retail buyers' CSR requirements (Islam and Deegan, 2008), since garment manufacturers may cut corners to meet tight cost targets, for example by not paying overtime, or by ignoring limits on working hours (Siegle, 2010). Empirical data suggested that the negative impact of downward price pressure affected contract manufacturers more than full package suppliers. Contract manufacturers' garment cost was based purely on the SAM value of the garment and margins were small, with little or no collaboration or functional integration between buyer and supplier. In contrast, full package suppliers could work together with the buyer to achieve target cost reductions, in some cases by moving the decision-making point further upstream through VMI or by collaborative product development initiatives. This is consistent with the theory of industrial upgrading: as manufacturers

acquire new capabilities through their experience of supplying foreign buyers, they gradually shift to increasingly complex, higher value-added forms of exporting (Neidik and Gereffi, 2006). By providing a wider range of services beyond simple CMT assembly, such as product design and development or fabric sourcing, manufacturers are able to appropriate greater proportions of value from the supply chain. CMT assembly relies on simple activities and thus becomes a commodity, subject to intense price competition, whereas value-added services such as the provision of total supply chain management solutions are niche competencies and therefore more protected against the effects of intense price competition. Upgrading to full package supply, with the potential for collaborative ways of working and improving efficiency, proved to be a safeguard against downward price pressure for Sri Lankan export manufacturers.

The recent loss of GSP+ status may increase the downward price pressure in Sri Lanka, but it remains unclear whether this will have a destructive effect on CSR across the board. With EU shipments to attract 9.6% duty, garment cost will increase by around 10% (Ayling, 2010c; Page, 2009); however, since less than half of Sri Lanka's garment exports go to the EU and half do not qualify for GSP+ status, opinion is currently divided on how much of a threat the loss will present to the industry as a whole.

7.2.2 Product nature

Fashionable, innovative products experience much greater unpredictability in demand than basic, functional products (Fisher, 1997; Şen, 2008). To minimise forecasting errors, retail buyers demand shorter lead times and greater supplier flexibility so that they can place orders closer to the emergence of consumer demand, as opposed to the traditional model of forward-ordering nine months in advance. However, these demands do compromise suppliers' ability to comply with CSR requirements (Acona, 2004; Hearson, 2009).

Despite the fact that Sri Lanka specialises in core basic garments rather than fast fashion, suppliers nevertheless experienced pressure for faster shipping times. For example, Company A's VMI arrangement with Gap for men's chinos, which could be considered a basic staple garment rather than a fashion garment, enabled lead times to be cut from three months to six weeks. Although VMI is normally initiated with a view to increasing replenishment efficiency for functional products (Kaipa and Holmström,

2007), in the case of Company A the key benefit for the retailer was the reduction in lead time, or replenishment effectiveness. Therefore, while the product characteristics were commodity, the supply characteristics were fashion. Bruce *et al.* (2004) and Masson et *al.* (2007) observed that even at mid-market level, ladieswear is characterised by limited PLCs, a high degree of design variation per category and relatively unpredictable demand profiles. As consumer preferences evolve, there is evidence of increasing product proliferation even within relatively standardised market sectors in the garment industry (Morris and Barnes, 2008). Fisher's (1997) dichotomous typology therefore appears too simplistic to predict supply chain configurations for garments, since empirical data suggests that core basic garment supply chains require an element of responsiveness in addition to leanness. Fisher's (1997) model defined innovative products as those with a PLC of up to a year, while functional products had PLCs of two years or more. Within this definition, all retail garments would therefore be considered innovative with a degree of demand unpredictability. Indeed, Bruce *et al.* (2004) proposed that the garment industry would benefit from adopting a combination of lean and agile supply chain principles. The pressure for faster lead times on core basic garments may be explained by the trend away from forward ordering nine months ahead to in-season speed sourcing, whereby retailers seek to reduce their inventory by moving the decision-making point further upstream to the supplier. Product nature is a CSR Inhibiter for core basic garments as well as fast fashion garments, since in both cases suppliers experience pressure to reduce lead times. However, this is noticeably lower in Sri Lanka as it is a producer of predominantly mid-market, core basic garments that have lower fashion content and therefore less call for shorter lead times (Samaraweera, 2007). If Sri Lanka moved into the manufacture of garments with higher fashion content, such as fast fashion, there may be negative implications on its ability to maintain current levels of CSR performance.

7.2.3 Labour intensity of manufacture

Unlike textile production, garment manufacturing is a labour-intensive activity which requires low skill levels and is thus suited to developing countries with large pools of low-cost labour (Morris and Barnes, 2008). Due to the flexible nature of fabric, it is not amenable to automation (Jones, 2006) and is therefore likely to retain its labour intensity despite technological advances in the textiles and garment sector. This sets the context for CSR in fashion supply chains: manufacturing workers in a labour-intensive

industry are more prone to labour rights abuses and exploitation than those in less labour-intensive industries (Yu, 2008). However, within the Sri Lankan context it was demonstrated that labour intensity of manufacture could in fact drive CSR.

The government's 200 Garment Factories Programme (200 GFP) was specifically geared around improving welfare in the labour intensive garment manufacturing industry. An ambitious rural industrialisation programme established in 1992, it offered private investors financial incentives to open 200 export-oriented garment factories in villages throughout the country. It thus protected female respectability in a society were female employment was still a relatively novel concept and the idea of village girls moving *en masse* to urban areas in search of employment was associated with moral degradation. Its aim was not only to address rural poverty but also to address social expectations regarding young females in employment, as well as supporting the concept of a work-life balance since workers could return to their family homes each night. According to Lynch (1998, 2002), the Sri Lankan President wished to prevent a recurrence of youth unrest by providing rural employment opportunities and also to protect the morality of young females by removing the need for them to leave their villages to work in urban garment factories; however, subsequently the 200 GFP was redefined as a programme for protecting female morality. Since villages are generally associated with discipline, tradition and morality, then the 'town to village' concept of locating garment factories in rural areas enabled the protection of traditional Sri Lankan family-based culture. In Sri Lankan tradition, villages are often considered the locus of tradition and impervious to moral degradation, which is usually associated with urban areas such as Colombo or the EPZs scattered around the country, where females are the need for them to seek accommodation in city centre dormitories. Locating new factories in rural areas reduced the need for female workers to move away from their villages and seek boarding accommodation in the urban areas surrounding Colombo, and contributed to the protection of the females' moral characters (Lynch, 2002; 2007). In a culture where female modesty and respectability is taken as a measure of national status and pride, deviant female behaviour is perceived as having a destabilising effect on society. Hence there was considerable societal concern about young women working outside their village homes, away from their families, and in an urban industrial setting, where they were vulnerable to pre-marital sex, abortion, sexual harassment or even rape, as connotations of sexual promiscuity could damage the females' moral reputations as well as to their families' reputations (Lynch, 2007). The

‘town to village’ concept thus helped to protect valued aspects of society, since females could return to their family homes at night and were shielded from possible negative experiences in urban areas. Furthermore, the HR Manager in Company C spoke of the strong family pressure which meant female workers who came to work by bus each morning refused to do excessive overtime in the evenings as they were duty bound to be present for the family evening meal. For workers in dormitories who had nothing but an empty room to return to, there was no pressure to refuse overtime. Hence, locating factories near workers’ homes supported a work-life balance. The moral panic that resulted from female garment workers’ increased public visibility and unsupervised sexuality in urban factories, leading to societal concern about the disintegration of traditional Sri Lankan culture (Lynch, 2007), was thus appeased by bringing the industry to the villages. However, there was also a commercial reason that underpinned this strategy, since by locating factories in rural areas companies had access to large pools of labour required for labour-intensive operations and did not have to provide dormitories for workers.

Figure 7.1 overleaf shows some images of typical Sri Lankan village life: cattle roam freely, the pace of life is more relaxed than in urban areas, there are fewer motorised vehicles and the surroundings consist of lush tropical vegetation and paddy fields. Food is available to buy from roadside stalls rather than retail stores. Families tend to live in primitive wooden or breezeblock buildings surrounded by a patch of land which may be used to grow fruit and vegetables or to keep chickens. There are no high-rise buildings.

Company B based its expansion strategy on the ‘town to village’ concept with assistance from the government’s 200 GFP, and in fact the ‘town to village’ concept formed part of the corporate slogan which was painted on the factory gates in the Alawwa plant. The Chairman professed that in rural plants there were less HR issues relating to workers’ personal problems than in the company’s urban plants. He felt that workers who were able to return home each night were more stable and productive. This is aligned with Solomon’s (1992) point that a firm’s efficiency is not dependent upon mechanical operations but upon the collective will of its employees.

Figure 7.1 Scenes from typical Sri Lankan village life, 2009

As factory managers appreciated that efficiency is not dependent on a firm's mechanical operations, but on the collective will of its employees and the coordination of its working interrelationships (Solomon, 1992), this helped to embed CSR values within the organisation, in turn leading investment in human resources. All case study companies demonstrated an awareness of the workers' contribution to organisational goals and many managers professed that workers were the key organisational asset. Hence, there was a recognition that maintaining satisfactory working conditions and labour relations could result in clear benefit to the organisation in terms of increased productivity and a reduction in labour turnover.

The findings from the empirical data showed that labour intensity of manufacture in fact supported CSR implementation in the Sri Lankan context, by driving investment in human resources and worker welfare. Therefore, labour intensity of manufacture was moved from the category of CSR Inhibitors to CSR Drivers in the framework.

7.2.4 Retailer buying practices

The empirical data supported the premises in the literature that certain retailer buying practices affect suppliers' ability to implement and adhere to CSR requirements and contribute to supplier non-compliance with ethical codes of conduct (Ancona, 2004; Welford and Frost, 2006; Lim and Phillips, 2008; Hearson, 2009; Siegle, 2010). For example, suppliers could be pressured to cut corners and ignore maximum overtime hours when faced with last-minute order changes or late sample approval (Hearson, 2009; Siegle, 2010). However, the risk that suppliers would be pressured to disregard CSR requirements when dealing with challenging retailer buying practices was lessened by the presence of strong state support for CSR, in the form of strict national labour laws which applied to all businesses and BOI regulations which applied to export garment manufacturers. In fact, some interviewees acknowledged that although the labour regulations were effective in protecting workers, they could in fact impede commercial interests by prioritising worker welfare over servicing the retail buyer.

Although some of the larger companies had long-term sourcing agreements which were negotiated at director and senior management level, empirical data suggested a general lack of written contracts of advance commitment. This was identified in the literature as a possible threat to CSR compliance because it leaves the supplier unable to plan for

the future (Acona, 2004). However, the lack of written contracts must be considered in light of the argument for trust in trading relationships. The theory states that as trust develops, the risk of opportunism is mitigated and the cost of transacting is reduced, as trust removes the need for detailed legal contracts as a means of governance (Williamson, 1993; Ganesan, 1994; Bidault and Jarillo, 1997; Blomqvist, 1997). Italy's knitwear industry is a successful example of how supply chain networks characterised by trust enable transaction costs to be reduced (Uzzi, 1997), thereby maximising efficiency and effectiveness. In the Sri Lankan context, the larger companies' trading relationships were long-term and usually of at least ten years duration. In contrast to the findings of Hearson (2009) and Newton Responsible Investment (2005), there was no evidence of retail buyers pitting suppliers against each other to achieve short-term cost reductions. The lack of written contracts is therefore not necessarily an irresponsible retailer buying practice *per se*, but is consistent with TCE and trust theory which states that a long-term trading relationship supported by trust and commitment would have fewer contractual safeguards. Indeed, throughout the successful first 140 year history of Marks & Spencer, the business was run without any long-term written supplier contracts and some supplier relationships lasted up to 40 years regardless (Bevan, 2002).

Length of payment terms appeared to be on the increase partly as a result of the recent Western recession; however, this was more problematic for smaller manufacturers such as Company G that relied on regular injections of cash flow into the business. Small business theory states that the financial viability of the business is compromised without regular cash flow. Length of payment terms was also problematic for medium-sized businesses, as shown by Company D's decision to scale back business with retailers that insisted upon 90 days. Only large-scale suppliers such as Companies A and C had the requisite capital resources in place to provide a full package service (which required materials to be purchased in advance) and wait 90 days after order delivery to receive payment. However, by moving to a VMI arrangement, as with Company A and Gap, suppliers could benefit from a 4-5 week payment cycle rather than waiting 90 days.

Pressure to reduce lead time existed but was less of an issue due to the core basic product nature of Sri Lanka's export garments. There was little evidence of last-minute order changes or cancellations within larger suppliers; due to the long-term nature of the relationships, retail buyers understood that once the order went into the sewing lines it was not possible to make adjustments. However, there was evidence that supported

previous authors' findings: by collaborating with buyers during product development or by integrating design and product development into the sourcing task, suppliers could reduce uncertainty as well as lead times, thereby reducing the likelihood of order changes or cancellations further down the line (Pan and Holland, 2006; Frohlich and Westbrook, 2001; Vachon and Klassen, 2006).

Open-book accounting was present in Company A only and was perceived as a 'win-win' tactic that enabled buyer and supplier to work together to achieve target costs, thereby supporting relational continuity. Empirical data supported the theory that open-book accounting facilitates cost management across organisational boundaries within the supply chain network (Christopher, 2000; Jeacle, 2007). There was no evidence that it was misused by the buyer for inducing competitive bids from rival suppliers, as found in Free's (2008) study of the UK supermarket sector. This could be explained by the particular power distribution in Company A's trading relationships: as a large-scale supplier with competent management and large volume production capacity, it appropriated a greater share of the power than usually seen in buyer-supplier relationships (Hergeth, 2007). Furthermore, since Company A's trading relationships were characterised by trust, this reduced the likelihood of opportunistic behaviour and moved the focus from short-term gain onto long-term benefits. From their qualitative supply chain research, Kajüter and Kulmala (2005) similarly concluded commitment and cooperation underpinned successful open-book accounting: that is, an understanding that a firm's cost is relevant to the overall competitiveness of the entire chain and a long-term commitment to the supply chain network.

7.2.5 Supply chain complexity

Corporations are expected to take responsibility for the actions and behaviour of their suppliers as well as within their own firm boundary (Andersen and Skøtt-Larsen, 2009). However, the complexity of global fashion supply chains compromises CSR at factory level due to the lack of visibility and control of multiple supplier tiers spread across several countries (Welford and Frost, 2006). Certain fashion retailers such as American Apparel (with the strapline 'Made in Downtown LA: Sweatshop free') have justified their ethical credentials on the basis of their vertically integrated business model (American Apparel, 2010), while Chinese shirt manufacturer and retailer Esquel pursued a strategy of vertical integration in order to guarantee quality control (Wanxian,

2008) and to ensure the business philosophy of 'profit with conscience' extended throughout the supply chain from fibre to store. However, the large-scale shift in organisational structure from hierarchy to supply chain networks means that retailers are able to maintain economic control over their supply chains without being legally liable for the social impact thereof (Sobczak, 2006; Gereffi *et al.*, 2005). It is therefore a challenge to ensure CSR compliance throughout all supplier tiers.

Empirical data showed that vertical integration in supplier companies permits better visibility and control of CSR issues in global fashion supply chains through the reduction of supply chain complexity. Full package, vertically integrated suppliers such as Companies A, C and E rarely outsourced beyond the boundary of the firm unless the buyer nominated a specific supplier. For smaller or CMT companies, the drive for quality and customer service reduced the prevalence of subcontracting arrangements and hence the level of supply chain complexity. Although all case study companies required satisfactory ethical audits before subcontracting garment production, this did not apply to the sourcing of fabrics and trims from third parties. This may be explained by the fact that as textile and trim production is less labour intensive than the garment assembly process, human resource exploitation is less likely (Yu, 2008). Nevertheless, it was acknowledged that given the progression of the CSR agenda, ethical audits of fabric and trim suppliers would become required in the future. The empirical data confirmed that supply chain complexity is a CSR Inhibitor as respondents indicated that subcontracting was avoided in order to maintain control and visibility of CSR issues.

7.2.6 Supply chain power distribution

Understanding the power structure in a supply chain is necessary to appreciate how value is apportioned by supply chain members (Cox, 1999). Part of the rationale for CSR in fashion supply chains is centred on society's increasing intolerance for the unfair distribution of wealth and the negative societal effects that result from powerful Western retailers' global business operations (Sethi, 2003; Lobel, 2006; Smith, 2003).

The fashion industry is characterised by an exceptionally high degree of buyer concentration and a very low degree of seller concentration, which means that retailers possess far greater market power than manufacturers (Jones, 2006; Hines and McGowan, 2005). Retail buyers are thus dominant, demanding and increasingly

insistent upon lower prices, better quality, shorter lead times, smaller minimum quantities and supplier acceptance of as much risk as possible (Morris and Barnes, 2008; Flanagan, 2003; Kaplinsky, 2005). Despite evidence that certain retailer buying practices compromise CSR, the power imbalance means that suppliers may have little choice but to accept the demands imposed by their buyers (Hearson, 2009; Acona, 2004; New, 1997). However, large-scale suppliers that produce for high volume retail buyers such as Nike or Gap may acquire a greater degree of supply chain power since alternative suppliers that are able to produce such volumes are relatively scarce (Hergeth, 2007).

In Sri Lanka, 12% of suppliers accounted for 72% of all garment exports (Lezama *et al.*, 2004), which indicates a comparatively higher degree of seller concentration. Large-scale full package suppliers such as Companies A, C and E appropriated sufficient supply chain power to be able to hold negotiations with their buyers in order to reach a mutually beneficial solution. To a lesser extent, medium-sized suppliers such as Company D were able to appropriate some supply chain power. Managerial competence and commercial astuteness enabled them to negotiate skillfully with their buyers, while skill in achieving high quality standards on expensive and difficult to handle fabrics reduced the number of alternative suppliers from which their buyers could source. The Head of Sustainable Business at Marks & Spencer acknowledged the high level of managerial competence in Sri Lanka to be a strong supporting factor for CSR, as factory management and owners were able to take a long-term perspective and understand the benefits. Where suppliers had apportioned a greater share of supply chain power, buyers and suppliers were able move away from a coercive, compliance-based approach to a collaborative model for CSR implementation. It is accepted that greater CSR progress is made when suppliers are able to pursue CSR as an end in itself and embed it into the philosophy of the business, regardless of buyer incentives, coercion or monitoring (Lim and Phillips, 2008).

7.3 CSR Pillars

CSR was evidenced in all case study companies, ranging from philanthropic activities to strategic initiatives that created shared value for the firm and society. Applying Zadek's (2003) framework of the stages of CSR organisational learning to assess the level of CSR implementation in the case study companies, it was shown that none were in the

denial or defensive stage. The smaller companies D, F and G were in the second stage of compliance and moving towards the managerial stage, where CSR implementation was defensive, based on compliance-seeking and minimising the potential of harm to the business. Commitment and involvement was relatively piecemeal and reactive. CSR was operationalised through policies rather than being integrated within organisational systems, and problems were managed as they occurred rather than being antipicated. At the time of interview, Company D was in the process of drafting its own code of conduct and developing a web presence to publicise it, and therefore en route to the fourth strategic stage. Companies F and G were SMEs with limited resources available to invest in a more proactive, anticipatory approach to CSR. Their rationale for CSR implementation was limited to complying with BOI or buyer requirements. Hence, CSR was embedded into core management processes but not into core business strategies. Within the larger companies A, B, C and E, CSR was proactive and strategic, moving away from a compliance-based approach towards CSR as competitive advantage and the idea of a clear value proposition. These companies were clearly in the fourth and final strategic and civil stages of CSR implementation, with evidence of a sound commitment that went beyond compliance-seeking and PR concern. CSR was perceived as 'business as usual' and institutionalised within organisational systems. Progress was made through collaborative relationships with buyers and other stakeholders that fostered joint innovation and further institutionalisation of CSR within the extended supply chain network. Furthermore, Company A promoted broad industry participation by engaging with the government to progress statutory support for CSR. Many of the companies could be considered CSR leaders in the garment manufacturing industry: vertically integrated Companies A, C and E had multiple CSR accreditations and had also won CSR awards from their buyers and from external bodies. These firms had also integrated CSR into their core business strategies and used it as a point of differentiation against other Asian garment producing nations, as well as promoting broad industry participation by cascading best practice through the supply chain. Company B integrated CSR into its business expansion strategy into rural areas, which delivered the benefit of large pools of labour for the business and rural economic development for society.

Table 7.1 below categorises the case study companies according to Zadek's (2004) stages of CSR organisational learning, showing the level of progress in CSR implementation in each company.

Stage	Corporate behaviour	Case study companies at this stage
Defensive	Deny practices, outcomes or responsibilities	None
Compliance	Adopt a policy-based compliance approach as a cost of doing business	None
Managerial	Embed the societal issue in their core management processes	Company F, Company G, Company D
Strategic	Integrate the societal issue into their core business strategies	Company B, Company E
Civil	Promote broad industry participation in corporate responsibility	Company A, Company C

Table 7.1 Mapping case study companies' CSR progress onto Zadek's (2004) stages of CSR organisational learning

The term 'sunken CSR' (Perrini *et al.*, 2006) or 'silent CSR' (Jenkins, 2004) describes informal, unstructured CSR that is nevertheless deeply embedded within corporate strategies and behaviours. Sunken CSR was clearly present in Sri Lanka, since many factories had practised CSR activities long before the advent of retailer codes of conduct in the 1990s. This provided a strong foundation on which to build CSR progress with retail buyers as well as underpinning the moral rationale for CSR.

7.3.1 Moral philosophy – the normative case

CSR issues often arise as a result of the "differences in morality across borders" (Robertson and Fadil, 1999, p.385); however, in the case of Sri Lanka, the pillar of moral philosophy that underpinned CSR was the strongest of all. The national culture of Sri Lanka was found to support the implementation of CSR in the garment industry by providing a philosophical grounding in the moral argument in two key areas of Buddhism and collectivism. This supports Maon *et al.*'s (2010) assertion that successful CSR implementation is dependent upon attitudinal dimensions as well as strategic and operational support. In many of the case study companies, the rationale for CSR implementation had moved beyond compliance-seeking towards being an end in itself and as such took on a greater share of the moral argument. Moving beyond

buyer incentives and monitoring achieves better results as well as progressing the wider CSR agenda (Lim and Phillips, 2008; Welford and Frost, 2006).

CSR in the Sri Lankan context was based on the Kantian imperative to grant human beings dignity and respect while they contributed to organisational goals. This imperative was supported by the main religion of Buddhism, which held that it was morally wrong to exploit people beneath oneself. The majority of the population in Sri Lanka were Buddhists and this appeared to support the moral argument for CSR. For example, the Buddhist concept of Śīla refers to virtue, good conduct and moral discipline: the overall principles of ethical behaviour. CSR was therefore greatly supported by the alignment in morality between the supplier country and the retailer's home market, which reduced the likelihood of CSR transgressions arising as a result of "differences in morality across borders" (Robertson and Fadil, 1999, p.385).

Collectivism refer to the degree to which individuals are integrated into groups and provide an insight of how much members of a national culture define themselves apart from their group memberships, according to Hofstede's (1980) model of cultural dimensions. In individualist cultures, people are expected to develop and display their individual personalities and to choose their own affiliations. In collectivist cultures, people are defined and act mostly as a member of a long-term group, such as the family, a religious group, an age cohort, a town, or a profession, among others. Hofstede discovered that this dimension was dependent on national wealth: whereas developed nations would tend towards individualism, lesser-developed nations would tend towards to collectivism. Although Sri Lanka is not rated on the Hofstede scale, observation and experience triangulated with documentary sources suggested that the country veers towards a more collectivist model of national culture. The family unit is important within the national culture and young people tend to live with their families until they marry. In Company C, the effect of the strong familial ties became apparent when the HR Manager pointed out that as a result of employee feedback, the factory closed at 6.30pm as workers were keen to get back to their families and eat their evening meal together. If the factory stayed open later, the workers were less motivated and this became counter-productive as efficiency levels decreased.

Furthermore, the centrality of the female in Sri Lankan culture promoted the maintenance of CSR standards within the workplace. In Company D, the General

Manager spoke of the societal acceptance of the garment industry as employment for females, however this acceptance was conditional on the existence of good CSR standards. Societal concern for the virtue and respectability of females in employment supported the existence of good working conditions within the garment industry.

7.3.2 Competitive advantage – the business case

There was an external business case for implementing CSR as well as an internal one. CSR was perceived by several interviewees as an effective way of competing against other lower labour cost Asian garment-producing nations. It also formed the basis of the 'Garments Without Guilt' campaign, a government-supported initiative intended to promote Sri Lanka's ethical credentials to Western buyers. Terms and conditions of employment for all factory workers in Sri Lanka were governed by two separate laws called the Wages Board Ordinance and the Factory Ordinance. The Wages Board Ordinance governed employee remuneration while the Factory Ordinance governed employee safety and welfare. The latter was a 198-page document that set out required standards on health and safety matters such as overcrowding, ventilation, lighting, sanitary conveniences and machine safety maintenance. Within these regulations, there were also special requirements regarding the employment of women and young persons. These health and safety regulations were aligned with many retail buyers' codes of conduct. For example, Gap's Code of Vendor Conduct made special reference to areas of wages and benefits, working hours and occupational health and safety (Gap, 2009). These government enactments were enforced by the Labour Department, who would send representatives to visit factories and conduct compliance audits. According to the website of the Labour Department, its vision was:

> "To minimise labour disputes and sustain employee-employer harmony in an environment of safe and decent work with a view to developing a 'competitive and world class' work force".

This vision is aligned with the concept of sustainable development in terms of attracting, retaining and developing employees. To achieve its vision, the Labour Department had a mandate to enforce labour laws, settle industrial disputes, monitor occupational health and hygiene and promote employer-employee relations in general. The frequent level of contact from the Labour Department and the supportive nature of the relationship were confirmed by many of the interviewees. In addition, retail buyers also had contact with the Labour Department, which gave rise to a three-way stakeholder dialogue.

The case study companies recognised that good ethical standards in factories helped to motivate workers as well as reduce absenteeism and labour turnover. For example, the Chairman of Company B recognised that by providing free breakfast for poor village workers, they were able to attain a higher level of productivity than working on an empty stomach. Similarly, through attending workers' family funerals, he reasoned that workers would return to the factory with an increased sense of motivation and commitment to their workplace. Attending funerals in Sri Lanka invariably involve an element of reciprocity. In her anthropological study of female garment workers in Sri Lanka, Lynch (2007) discovered that some workers hoped that attending the funeral of the factory manager's father might lead to "immediate tangible favours in the workplace" (p.33).

However, despite the clear business case for CSR implementation, the Director of Company D acknowledged the potential conflict between CSR and commercial imperatives, for example when extra overtime was required to overcome a production problem but was forbidden by law. Protecting workers from exploitation labour could therefore compromise the level of customer service that the business could provide. It is challenging to find the right balance between worker protection and labour market flexibility: while strong employment regulation may increase the tenure and wages of workers, it may also have a negative side effect of constraining investment, ultimately resulting in reduced productivity growth for the industry (World Bank, 2007). Given the dynamic nature of the fashion industry, with retailers facing simultaneous pressure for low cost and shorter lead times (Masson *et al.*, 2007), the long-term effect of CSR that creates social good at the expense of business activity would be to drive away Western buyers. The HR Manager at Company C and the Senior Investment Manager at the BOI confirmed the view that Sri Lanka's strict labour laws could be a hindrance to business objectives and in certain circumstances could deter foreign investors.

Current thinking is that CSR implementation should move away from economic philanthropy, where the firm expects no dividends for its efforts (Donaldson, 1989) to a strategic vision that creates shared value for the firm and society at the least possible cost to the business (Porter and Kramer, 2006; McWilliams and Siegel, 2001). For CSR to be truly strategic and serve the interests of the firm and society without presenting a conflict with business financial goals (Gray and Milne, 2004), enlightened self-interest should take precedence over the moral argument. Hemingway and Maclagan (2004)

proposed that a lack of genuine ethical concern would not necessarily compromise the success of a strategic CSR implementation plan. Aligning firm competencies with CSR activities may enable the firm to overcome competitive pressures (Burke and Logsdon, 1996), such as downward price pressure and demand for shorter lead times. Therefore, although a firm grasp of the moral argument supports the embedment of CSR values within the organisation, it is in fact the pillar of competitive advantage that should take precedence as the underpinning foundation for CSR implementation. In this way, the creation of shared value for the firm and society is supported and the likelihood of value for society being created at the expense of value for the firm is reduced. The issue of aligning statutory regulations with the needs of a dynamic industry sector should be considered but is outside the bounds of this thesis.

7.3.3 Sustainable development

In addition to the moral argument and the business case, CSR is also underpinned by the third pillar of sustainable development. Following empirical data analysis, this pillar was further categorised into internal and external sustainable development. Taking an internal perspective, factory managers appreciated that the human resource was the most important organisational asset in the labour-intensive garment manufacturing business and the long-term viability of the firm was dependent upon having sufficient numbers of workers in the factory. This supports Solomon's (1992) premise that efficiency is not dependent on a firm's mechanical operations, but on the collective will of its employees and the coordination of its working relationships. Ensuring adequate worker welfare by implementing CSR therefore supported internal business harmony and continuity.

External sustainable development concerned the firm's contribution to wider economic development by improving the quality of life of the workforce, the local community and society in general (WBCSD, 1999). Company B's expansion strategy of locating new factories in rural areas not only gave the business access to large pools of labour but also contributed to the economic development of local villages: as females entered employment and began earning, they could spend money with local traders and hence the garment industry supported other local businesses. For Company B, sustainable development was linked to the concept of licence to operate: the Chairman recognised the importance of local community support to his business success. To rural dwellers, the large factory behind locked gates was a novel and curious sight. For a business that

relied mainly on female workers, it was important to reassure the local communities that nothing untoward went on behind the factory gates. The Chairman therefore invited workers' families to an open day to remove any suspicions or fears and show that garment manufacturing was a good industry for females. Without the acceptance of the local community, recruitment would be problematic, especially in a society that placed high regard on the morality of female citizens. Therefore, the business could only contribute to societal development once it had generated a licence to operate and had the support of the local community.

Following the end of the civil war in May 2009, the government offered special incentives for garment manufacturers to open factories in eastern and northern regions that were previously LTTE strongholds. Company A was the first garment manufacturer to open a factory in the eastern district of Batticaloa with assistance from the government, who provided the company with ten acres of land on a thirty-year lease and a tax holiday to set up the factory. A partnership with USAID aimed to generate 600 new jobs with the majority of the workers being women from families that were displaced due to the conflict, as well as approximately forty rehabilitated ex-LTTE soldiers. In addition, Company C took up the offer of special BOI concessions to set up a factory in the eastern district of Trincomalee and planned to generate 1000 new jobs (Samaraweera, 2009c). This demonstrated the support which garment manufacturers received from the government to achieved CSR objectives of contributing to economic development in wider society as well as improving the quality of life for the workforce, their families, the local community and society as a whole (WBCSD, 1999).

The sustainable development pillar of CSR was also supported by Sri Lanka's socio-economic status, with its relatively high quality of life in terms of life expectancy, adult literacy and education. With the nationwide system of free education for all, there was less necessity for children to work as schooling did not cost anything for parents. Books and uniforms were provided by the government for all children. Furthermore, the education levels and social upbringing in Sri Lanka helped to support the implementation of CSR in the garment manufacturing industry, as employees were able to grasp the principles underpinning CSR. The managerial competence and far-sightedness of factory owners and managers also helped them to comprehend the long-term benefits of CSR implementation. Therefore the empirical findings supported the

premise that CSR is the business community's contribution to sustainable development goals, both at a national and international level (International Alert, 2005).

7.4 CSR Drivers

CSR Drivers were defined as factors within fashion garment supply chains that have a positive supporting impact on CSR implementation at factory level.

7.4.1 Consumer desire for guilt-free fashion

It is doubtful whether significant consumer demand for ethically manufactured garments exists and there is a clear dissonance between ethical concern and ethical purchasing behaviour in fashion markets (Carrigan and Attalla, 2001; Vogel, 2005; Shaw *et al.*, 2006, Joergens, 2006; Shaw *et al.*, 2007). The empirical data showed that although supply chains were led by consumer pull rather than manufacturer push and there was evidence of demand chain management in terms of sharing market information, integration of processes and buyer-supplier collaboration efforts, suppliers were not aware of actual consumer demand for ethically produced garments. Instead, retail buyers were a significant influence on CSR implementation, through the creation of codes of conduct as well as the dissemination of best practice by organising supplier seminars and in-house training. Consumers were too far removed in the supply chain and therefore unable to exert direct pressure upstream on manufacturers. Instead, by exerting pressure on the retailer, consumer demand was interpreted and fed back to the upstream supply chain tiers. The Head of Sustainable Business at Marks & Spencer confirmed that the retailer responded to coded consumer signals rather than overt consumer pressure. In 2006 for example, Marks & Spencer launched its 'Look Behind The Label' campaign in response to consumer feedback for more information on how and where clothes were made.

In order to reflect this finding from the empirical data, the CSR Driver of consumer desire for guilt-free fashion was amended to retail buyers' concern for CSR in the conceptual model. This showed that consumer pressure influenced suppliers in an indirect way and that retailers interpreted consumer signals and fed these back up the supply chain through CSR initiatives such as codes of conduct.

According to Gwyther (2008), European retail buyers tend to show more interest in sustainability issues, and this was confirmed by the Company F's Managing Director's comment that Australian buyers, unlike their European counterparts, had no CSR requirements. However, certain US retailers such as Gap and Nike are now considered to be CSR pioneers, despite having experienced negative publicity over ethical transgressions in their supply chains during the 1990s (Zadek, 2004). Most of Company E's buyers were US retailers such as Nike, Abercrombie and Fitch, Tommy Hilfiger and Ralph Lauren, and indeed the entire business philosophy of Company E was based on ecological and social sustainability. Therefore, it does not appear to be conclusive that US retailers are less concerned with sustainability issues than European retailers (Gwyther, 2008, Perrini, 2006b). Furthermore, during the 1980s CSR was disproportionally a US phenomenon and US firms pioneered many CSR principles such as corporate philanthropy, social audits and corporate codes of conduct (Perrini, 2006b).

7.4.2 Trust as an antecedent of commitment, cooperation and collaboration

As an important governance mechanism that mitigates opportunism (Canning and Hanmer-Lloyd, 2008; Reve, 1990), trust is a significant predictor of positive performance in trading relationships (Ireland and Webb, 2007). Due to its dependence on avoiding the malevolent exploitation of trading partners (Morgan and Hunt, 1994), trust is an antecedent of CSR. According to the literature, CSR performance in supply chain relationships characterised by low trust levels tends to be relatively poor. Boyd *et al.* (2007) and Welford and Frost (2006) found that traditional supplier monitoring and audits did not lead to good CSR in global fashion supply chains, since suppliers could keep double sets of books and coach employees in what to say to auditors. A successful audit did not therefore represent the reality of the situation. Greater levels of trust between firms allow retail buyers to move away from monitoring supply chain partners towards value-adding collaborative activities instead (Vachon and Klassen, 2006). This was confirmed by the Head of Sustainable Business at Marks & Spencer in his explanation of the retailer's decision to move away from a compliance-based approach to CSR, which tended to breed a sense of distrust and which he likened to "trying to catch each other out", towards the implementation of window auditing. With only 25% of site visits unannounced, it was predicted that a significant difference would be made to the sense of partnership in buyer-supplier relationships. The challenge is therefore to move away from an inspection and auditing mentality towards the development of long-

term trusting buyer-supplier relationships (Welford and Frost, 2006). The Head of Sustainable Business at Marks & Spencer explained that by stifling innovation and creativity, traditional compliance audits only went so far in improving CSR in the supply chain. By creating an opportunity for shared learning and mutual benefit, the collaborative trust-based approach supported innovation, creativity and the drive for continuous improvement that would progress CSR for the mutual benefit of both parties (Valsamakis and Groves, 1998). Frenkel and Scott's (2002) study of Asian athletic shoe suppliers similarly found that the compliance-based approach resulted in achievement and maintenance of CSR targets, with no evidence of any push for further improvement by suppliers. Moving away from this approach would enable suppliers to adapt their business philosophy towards pursuing CSR as an end in itself, regardless of buyer incentives and monitoring (Lim and Phillips, 2008). Within all case study companies, respondents spoke of the presence of trust with buyers, which underpinned the longevity of the trading relationships and enabled buyers and suppliers to share information, collaborate and reach mutually beneficial solutions to problems. The empirical data thus supported prior theory that CSR implementation is most successful when underpinned by trading relationships characterised by trust.

Furthermore, Kelagama and Foley (1999) noted that Sri Lanka's most successful garment manufacturers were large businesses that had strong ties with the buying offices of large retailers such as Marks & Spencer and Liz Claiborne. Empirical data presented clear evidence of a shift away from traditional adversarial relationships towards long-term mutually beneficial partnerships characterised by commitment, trust and continual improvement (Bixenden and Abratt, 2007). The larger companies A, B, C, D and E had been supplying certain global brands and retailers for 10-20 years and in many cases had key supplier status (e.g. Company A – Gap and Marks & Spencer, Company D – Gerry Weber, Company E – Nike). Although there was little evidence of formal commitments for future orders, there was an unwritten assumption of continuity based on the duration of the relationship and satisfactory past performance.

According to the literature, collaboration is especially important for fashion products with unpredictable demand profiles (Khan *et al.*, 2008; Bergvall-Forsberg and Towers, 2008; Van Donk and Van Der Vaart, 2005). Company A's purpose built hub called the Centre for Inspiration enabled buyers and suppliers to work together during the product development stage. Company C had a specially designed Product Development Centre

where buyers could work alongside the production team and speed up the product development process. Where the buyer's design team and the supplier's production team are able to work closely together, it reduces the risk of misinterpretation of design requirements as well as late deliveries, which could otherwise result in missed sales opportunities or markdowns for the retailer (Khan *et al.*, 2008). However, there was no evidence of technology-enabled or virtual collaboration apart from Company A's VMI arrangement with Gap.

As well as increasing efficiency and effectiveness, commitment, cooperation and collaboration between buyers and suppliers are also supportive of CSR implementation. Lim and Phillips (2008) proposed that collaborative partnerships, where the buyer gives key suppliers secure product orders and other benefits, would remove disincentives and add incentives for CSR compliance. In time, suppliers should pursue CSR as an end in itself, regardless of buyer coercion or incentives. This was evident in the empirical data: the Head of Sustainable Business at Marks & Spencer explained how the shift to semi-announced ethical audits would improve CSR performance, since a collaborative partnership approach would encourage innovation and creativity for mutual benefit in a way that a coercive, compliance-based approach could not achieve. Similarly, the Senior Operations Manager at Company A, which supplied Marks & Spencer, felt that providing more added-value services contributed to the partnership nature of the trading relationship. Company A aimed to provide a high level of customer service, in terms of on-time, value-added goods produced in socially compliant conditions, in the expectation that this would guarantee continuity and future orders, thus creating an implicit long-term commitment. Towers and Burnes (2008) made the point that it is difficult for competitors to replicate the offering of other suppliers who have created seamless manufacturing processes based on close, beneficial trading relationships with their customers, and this appeared to underpin the longevity of trading relationships in the Sri Lankan context.

Following analysis of empirical data, it was concluded that trust between buyers and suppliers and commitment, cooperation and collaboration were distinct CSR Drivers in their own right. Hence, the construct of trust as an antecedent of commitment, cooperation and collaboration was split into two categories of trust in buyer-supplier relationships and commitment, cooperation and collaboration.

7.4.3 SCM: long-term orientation and shared goals

SCM explicitly ties the different levels of supply chains together and creates expectations that companies should not be part of, or engage in, corporate actions and behaviour that may cause ethical dilemmas in ongoing business operations (Svensson, 2009). With the shift from vertical integration to networks of independent supply chain entities in the fashion industry (Djelic and Ainamo, 1999), the long-term orientation and the drive to achieve shared goals enables supply chain networks to function as closely and seamlessly as vertically integrated firms whilst avoiding the disadvantages of capital plant tie-up, plant obsolescence and organisational inflexibility. It enables the network to overcome external firm-to-firm boundaries and become a service-driven network with supply as the shared goal (Towers and Ashford, 2003), thus reducing the friction and transaction costs between multiple supply chain tiers. The long-term sustainability of the supply chain network is dependent on the drive for mutually beneficial outcomes, as opposed to the drive for short-term gains at the expense of other supply chain partners that typified adversarial fashion supply chains.

Within Asian supply chains producing for Western retailers, Welford and Frost (2006, p.170) noted the shift in focus to the long-term, evidenced by "a desire to move business to factories where shared values, skill development, adequate training and capacity building ultimately means there is no need for an audit and inspection process". This was echoed by the Head of Sustainable Business at Marks & Spencer. The long-term orientation forms the basis of a relationship marketing approach and supports the development of trust, reducing the necessity for monitoring and audits and in turn reducing transaction costs (Welford and Frost, 2006; Varey, 2002; Jespersen and Skøtt-Larsen, 2005). The strategic benefits of long-term orientation and shared goals between buyers and suppliers were confirmed by the Head of Sustainable Business at Marks & Spencer: a co-defined approach to CSR that recognised the opportunity for shared learning and mutual benefit produced better results than a coercive, compliance-based approach that stifled innovation and creativity. The far-sighted vision of Sri Lankan factory owners and managers also helped to progress the CSR agenda. Across the larger full-package suppliers, a long-term vision and a partnership approach to relationship management was evidenced by long-term sourcing agreements at board level and supplier development programmes provided by key buyers, thus supporting the push for continuous improvement (Valsamakis and Groves, 1998). In addition, technical training and collaboration on cost reduction measures supported the long-term

sustainability of the trading relationship. A shift in focus to the long-term and the development of supplier capabilities enables supply chain networks to combat changing competitive forces and respond to volatile consumer demand with agility (Tan, 2001; Griffiths *et al.*, 2001). A long-term SCM approach to achieve shared goals also supports CSR implementation, as both concepts of SCM and CSR eschew the exploitation of supply chain partners. The key SCM concepts of integration, sharing information, cooperation and shared goals (Teng and Jamarillo, 2006) are antecedents of CSR because they set the foundation for supply chain relationship management and recognition of responsibility to stakeholders. The SCM approach also helps to overcome some negative consequences of retail buying practices: that is, compromising factory labour standards and working conditions by the demand for lower costs, shorter lead times and greater flexibility. This was evidenced in Company A's VMI arrangement with Gap, whereby costing transparency and increased efficiency enabled Company A to achieve lower target costs. The long-term orientation of the trading relationship enabled shared goals of the buyer and supplier, as well as benefit to the workers, to be achieved. By increasing efficiency, Company A achieved lower target costs and thereby retained the men's casual trouser business with the customer; while the long-running nature of the order enabled the creation of a production bonus for workers. The literature also confirms the alignment between the principles of CSR and SCM: CSR is now defined as a move to address the long-term negative consequences of global supply chain operations and to ensure a more equitable apportionment of the gains from global business operations between developed and developing nations (Lobel, 2006; Hemingway and Maclagan, 2004; Sethi, 2003). Similarly, SCM shifts the focus away from short-term gains and adversarial trading relationships towards long-term business sustainability and mutually beneficial relationships with shared goals (Hong and Jeong, 2006). It can therefore be concluded that the SCM philosophy provides the foundation for successful CSR implementation in fashion supply chains.

7.4.4 Supply chain rationalisation

Rationalisation of the supply base enables retailers to build closer trading relationships with a smaller number of better suppliers (Fearne and Hughes, 1999) and is also an antecedent of CSR implementation as it facilitates visibility across complex global networks (Welford and Frost, 2006). Rationalisation facilitates the drive towards continuous improvement for the mutual benefit of both parties (Valsamakis and Groves,

1998; Bixenden and Abratt, 2007). Larger full-package supply companies A, C, D and E had key supplier status with their buyers, meaning they were part of these retailers' rationalised supply base. This enabled them to develop the trading relationship by growing the business with the customer and improve their core competences. They also benefited from the retailers' supply chain investments, such as supplier development and CSR training programmes provided by Gap and Next. Supplier development refers to the improvement of various supplier capabilities that are necessary for the buying organisation to meet its increasing competitive challenges. It is also linked to the concept of industrial upgrading, whereby domestic firms gradually shift to increasingly complex, higher value-added forms of exporting by acquiring new capabilities through their experience of supplying foreign buyers (Neidik and Gereffi, 2006).

There is clear benefit to be gained from rationalising the supply base and building stronger relationships with fewer suppliers as this facilitates supplier development initiatives to be undertaken and the cascading of best practice throughout the supply chain. For example, Company A saw rationalisation and the development of a core group of suppliers as a strategic imperative that would help overcome the challenges of the competitive environment. Industrial upgrading from CMT to full package supply reduces the level of supply chain complexity, especially if the upgrading is achieved by vertical integration of upstream activities. If, on the other hand, industrial upgrading is based on virtual integration and flexible independent supply chain networks, then the focus on relationship marketing could support CSR implementation by building close relationships with fewer partners.

Supply chain rationalisation shifts the focus from short-term adversarial transactions based on price, to longer-term partnership relationships based on total cost. These closer trading relationships may in fact create economic opportunities of greater value than those created by spot market trading (Uzzi, 1997). Reducing cost through short-term adversarial trading relationships, as exemplified by Primark's sourcing strategy described in Section 3.5.1, does not take into account the extra cost of increased supply chain risk, reduced visibility and the possibility that suppliers will cut corners to achieve target costs. In contrast, sourcing from a smaller base of trusted suppliers increases visibility and reduces the risk of unauthorised subcontracting, ensuring the smooth uninterrupted flow of product (Waters, 2007) and protecting against negative publicity and industrial action. The CEO of New Look, the UK's second-largest womenswear

retailer known for its ethical credentials despite its low-cost, fast fashion business model, confirmed that although the retailer sourced from over 300 suppliers in 30 countries, almost half of business was conducted with the retailer's top five global suppliers with whom it had dealt for between eight and twenty years each (McPhail, 2010). Similarly, the Head of Sustainable Business at Marks & Spencer confirmed that sourcing from a smaller supply base of more innovative factories enabled the retailer to drive the CSR agenda throughout the supply chain, by successfully encouraging suppliers to take ownership of CSR in their business and progress the agenda themselves. Supply chain rationalisation is therefore an important antecedent of CSR: as well as increasing visibility in the supply chain, it enables the retailer to cascade best practice and build supplier capacity in CSR, thus progressing the agenda beyond the limits of a coercive, compliance-based approach. It is also a prerequisite for supply chain integration (Fearne and Hughes, 1999).

7.4.5 Supply chain integration

While garment production is labour-intensive with low barriers to entry, textiles production is much more capital-intensive and developing countries have therefore encountered difficulties creating backward linkages in the supply chain (Morris and Barnes, 2008). Supply chain integration has thus been problematic for many developing country garment manufacturers. Sri Lanka has little textile production capacity, however in recent years the country has gained a reputation for its sophisticated garment industry and its ability to provide total garment sourcing solutions for Western retailers, as a result of upstream supply chain integration. Full-package supplier Companies A, C and E were vertically integrated and interviewees in these companies referred to the benefits of improved quality and control by keeping transactions within the boundary of the firm rather than subcontracting. Supply chain integration reduces the risk of ethical transgressions in garment supply chains by increasing visibility and reducing complexity: by retaining business functions within the boundary of the firm, there is less likelihood of losing control or visibility in successive supply chain processes. This was exemplified by Company E, a wholly owned subsidiary of a fully integrated Chinese shirt manufacturer. The Chairman of the parent company believed that vertical integration not only facilitated complete control of operations to ensure product quality (Wenlei, 2009) but also balanced profit-seeking with a social conscience. Upstream supply chain integration also enables suppliers to

reduce lead times (Kelagama and Foley, 1999), which in turn helps them meet buyer demands for fast shipping without compromising factory labour standards.

As well as integrating backwards into the textile pipeline, integration of the demand function into the supply chain can enable suppliers to create competitive advantage by increasing flexibility of response (Doney and Cannon, 1997) and accuracy of demand forecasting (Selen and Soliman, 2002). This entails sharing information between buyers and suppliers (Towers and Burnes, 2008). Integration of the demand function into the supply chain can be virtual, rather than vertical, if enabled by technology such as VMI. Virtual integration aims to create a seamless, synchronised supply chain to deliver benefits of increased responsiveness and reduced inventory costs (Holweg *et al.*, 2005). Higher levels of integration have long been shown to improve performance of the supply chain (Chen and Paulraj, 2004a; Frohlich and Westbrook, 2001; Johnson, 1999; Morgan and Monczka, 1996) and there are many technological tools such as VMI and EDI that enable virtual integration between networks of independent supply chain partners. However, the success of virtual integration is contingent upon effective relationship management more than technological functionality. Once EDI is in place, the technical support needed for VMI is straightforward, therefore it is the relationship management that requires effort (Jana *et al.*, 2003). This was evident in Company A's VMI arrangement with Gap, which was based on a close trading relationship geared towards achieving mutual benefit for both parties. The close and trusting relationships that underpin effective virtual supply chain integration are also supportive of CSR implementation. Virtual integration also helped to overcome the problem of lack of written contracts from buyers and thus represented a commitment that enabled the supplier to plan and invest in the business: for example, in Company A the Senior Operations Manager felt that greater volumes and added value services provided to Gap via the VMI arrangement reduced the risk of losing Gap's business. Because the VMI arrangement reduced average lead time by six weeks, virtual integration also counterbalanced the pressure to reduce lead time which was identified as a negative influence on CSR. Finally, open-book accounting enabled Company A to work collaboratively with the buyer on cost-reducing initiatives, which helped to overcome the problem on downward price pressure, also accepted as compromising CSR.

Having mapped the empirical data to the theoretical constructs in the integrative framework, which were developed from the literature review, this chapter has identified

and discussed the analytic generalities of the research, presented in Table 7.2 and Figure 7.2 overleaf. The theoretical constructs which were amended following analysis of empirical data are highlighted in Table 7.2: Labour intensity of manufacture was re-categorised as a Driver and consumer demand for guilt-free fashion was changed to retail buyer concern for CSR. Trust and commitment/cooperation/collaboration were perceived as distinct Drivers in their own right and therefore became separate constructs. Table 7.2 summarises the conclusions drawn from the empirical data for each of the thematic components of the integrative framework, derived from the literature review. These form the basis of the final integrative framework for the implementation of CSR in global fashion supply chains, shown in Figure 7.2 overleaf.

Thematic components of conceptual framework	**Analytic generalities derived from empirical investigation**	**Revised thematic components for emergent model**
CSR Inhibitors		
Downward price pressure	Problematic for all suppliers but affected CMT suppliers to a greater extent than full package suppliers that provided added value services	Downward price pressure
Product nature	Applicable to all garments including core basic styles as well as fashion garments, although long-running styles enabled suppliers to overcome effects of downward price pressure	Product nature
Labour intensity of manufacture	Labour intensity was a CSR Driver, as suppliers realised human resource was a key organisational asset and hence acted to ensure worker welfare	Labour intensity of manufacture became a CSR Driver
Retailer buying practices	Lack of advance commitment, pressure on lead time and lengthy payment terms challenged suppliers' ability to adhere to CSR requirement	Retailer buying practices
Supply chain complexity	Complexity reduced visibility of CSR, which increased risk of CSR transgressions in outer supplier tiers	Supply chain complexity
Supply chain power distribution	Large-scale suppliers with greater resources and managerial competence acquired a larger proportion of supply chain power and were able to negotiate terms with buyers, to overcome negative effects of retailer buying practices. This also supported the shift away from a coercive approach to a collaborative approach to CSR	Supply chain power distribution became a CSR Driver
CSR Pillars		
Moral philosophy	Linked to Buddhist philosophy, the moral imperative not to exploit others was the underpinning foundation for CSR in Sri Lanka	Moral philosophy

Competitive advantage	Recognition that CSR contributed to attracting and retaining better quality workers as well as attracting better foreign buyers, but countered by potential conflict between worker protection and commercial imperatives/labour market flexibility	Competitive advantage
Sustainable development	Linked to labour intensity of manufacture: long-term viability of garment business dependent on sufficient numbers of productive workers in factory	Sustainable development
CSR Drivers		
Consumer demand for guilt-free fashion	Consumer demand too far removed from manufacturers. CSR driven by retail buyers who established principles (via code of conduct creation) and disseminated best practice (via supplier training)	Retail buyers' concern for CSR
Trust as an antecedent to commitment, cooperation and collaboration	By avoiding exploitation of trading partners, trust enables buyers and suppliers to move away from a coercive, compliance-based approach to a collaborative approach to progress CSR. Shift from adversarial relationship to long-term partnership helps to overcome effects of retailer buying practices, which otherwise compromise suppliers' ability to adhere to CSR requirements	Trust in buyer-supplier relationship Commitment, cooperation and collaboration
SCM: long-term orientation, shared goals	The drive for mutually beneficial outcomes for all supply chain partners is aligned with CSR principles not to exploit others and minimise negative consequences of business operations on stakeholders. SCM also supports supplier development and dissemination of best practice to progress CSR agenda	SCM: long-term orientation, shared goals
SCM: supply chain rationalisation	Improves visibility of successive supply chain tiers as well as facilitating development of closer trading relationships. Key supplier status enabled manufacturers to benefit from retail buyers' supply chain investments and build their CSR capacity. Prerequisite to supply chain integration	SCM: supply chain rationalisation
SCM: supply chain integration	Vertical integration significantly improves visibility and control of CSR. Virtual integration delivers the benefits of a seamless supply chain (e.g. reduced cost and lead times) without the disadvantages of vertical integration (e.g. lack of flexibility, capital requirements)	SCM: supply chain integration

Table 7.2 Synthesis of thematic components from literature and analytic generalities from empirical data for development of final integrative framework

Figure 7.2 Final integrative framework showing the influence of CSR Inhibitors and CSR Drivers on the Three Pillars of CSR

7.5 Research conclusions

This section presents the conclusions and the analytic generalities in relation to the original research objectives. To summarise, this thesis evaluated the impact of fashion supply chain characteristics on the implementation of CSR in Sri Lankan export garment manufacturers. The aim of the research was to generate a deeper understanding of CSR implementation with the fashion supply chain context, using analytical generalisation to develop theory on the subject area. The quality of theoretical development is key to the generalisability of qualitative research (Johnson and Christensen, 2004, p.19):

> "A well-developed theory explains how something operates in general … and it enables one to move beyond the findings of any single research study".

The presentation and analysis of empirical data in Chapters Five and Six include thick, rich description that demonstrate how the researcher was immersed in the data. With the aim of qualitative research in mind ("to produce a coherent and illuminating description of and perspective on a situation" (Schofield, 2000, p.72)), this thesis employed a case study approach in order to examine the phenomenon of CSR within its actual operating environment (the fashion supply chain) in order to produce theory which closely mirrors reality (Eisenhardt, 1989). The overall contribution of the thesis will now be clarified by evaluating the three key research objectives.

7.5.1 The first research objective

This was to identify the factors that inhibit or drive CSR in the context of globally dispersed fashion supply chains. From the literature review, six CSR Inhibitors and five CSR Drivers were identified and included in the conceptual framework, as listed below.

CSR Inhibitors	**CSR Drivers**
Downward price pressure	Consumer desire for guilt-free fashion
Product nature	Trust as an antecedent of commitment, cooperation and collaboration
Labour intensity of manufacture	SCM: long-term orientation, shared goals
Retailer buying practices	Supply chain rationalisation
Supply chain complexity	Supply chain integration
Supply chain power distribution	

Table 7.2 Summary of CSR Drivers and CSR Inhibitors from conceptual framework

However, following empirical research, it was concluded that labour intensity of manufacture acted as a CSR Driver not an Inhibitor within the Sri Lankan context. It was also discovered that consumer desire for guilt-free fashion was too far removed

from the supplier tiers in fashion supply chains, and in fact it was the retail buyers that drove the issue forward within the manufacturing function in globally dispersed supply chains, in response to consumer signals. Trust and commitment/cooperation/ collaboration were perceived as distinct CSR Drivers in their own right and so these two categories were split. Figure 7.3 below shows the revised integrative framework after analysis of the empirical data, featuring five CSR Inhibitors and five CSR Drivers. The CSR Drivers are positioned on the left to show how they moderate the negative effect of CSR Inhibitors on CSR implementation in fashion supply chains. While CSR Inhibitors are the fixed characteristics of fashion supply chains, regardless of the identities of the trading partners involved, the presence of CSR Drivers is dependent on the behaviour, values and attitudes of the trading partners in the supply chain network.

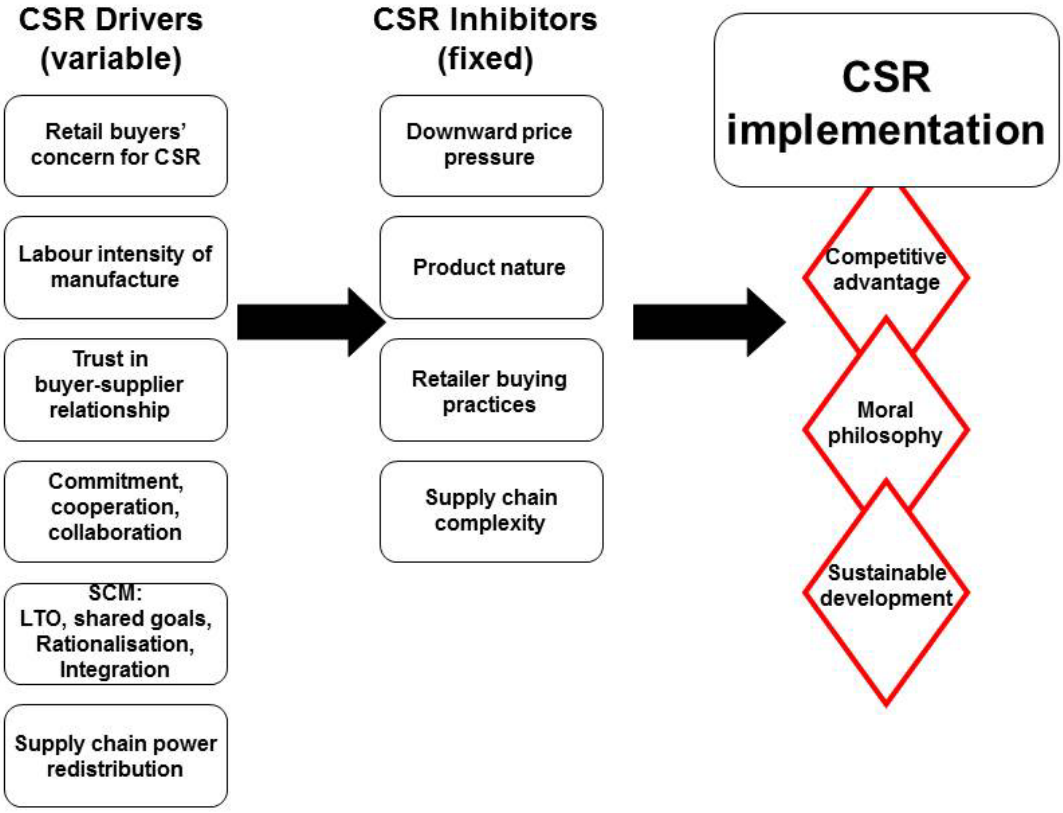


Figure 7.3 The moderating effect of CSR Drivers on CSR Inhibitors for CSR implementation in the Sri Lankan Garment Supply Chain

7.5.2 The second research objective

This was to examine the consequences of CSR Inhibitors and Drivers on CSR implementation in garment manufacturing firms in lower labour cost countries that supply Western retailers with fashion garments. Literature findings were confirmed by

empirical data: the particular nature of the fashion industry, being under pressure for both lead time and cost, compromises efforts to implement CSR within the manufacturing function. Supply chain complexity impedes visibility of CSR issues in successive supplier tiers, while the power balance weighted in favour of the retailers means that suppliers are often unable to negotiate better terms that would support CSR implementation at factory level. However, large-scale full package suppliers appropriated a greater share of power in the buyer-supplier relationship, which enabled them to negotiate better terms as well as move away from a coercive, compliance-based model towards a collaborative approach to CSR implementation. Greater CSR progress is made when suppliers pursue CSR as an end in itself and embed it into the philosophy of the business, regardless of buyer incentives, coercion or monitoring (Lim and Phillips, 2008). Supply base rationalisation and integration of functions such as product development and inventory management helped to reduce supply chain complexity and lead times, thus supporting CSR implementation by reducing the negative impact of pressure on lead time. Adopting SCM principles of long-term orientation and shared goals helped overcome the negative impacts of fashion supply chain characteristics (CSR Inhibitors) which compromise CSR in the manufacturing function.

7.5.3 The third research objective

This was to develop an integrative framework that provides an implicit strategy for CSR implementation in lower labour-cost country garment manufacturers supplying Western retailers, as shown in Figure 7.4 below. The final integrative framework was amended to contain five CSR Inhibitors, the Three Pillars of CSR and seven CSR Drivers. It is surrounded by the factors which emerged from the empirical data and were found to support CSR implementation in the Sri Lankan context, namely: national culture, governmental support and level of socio-economic development. The level of detail in the final integrative framework indicates quality of theoretical development which increases the generalisability of the research.

Figure 7.4 shows how the negative characteristics of fashion supply chains that compromise CSR implementation (the CSR Inhibitors on the left hand side) may be overcome by the presence of CSR Drivers, which represent characteristics within fashion supply chains that support CSR implementation.

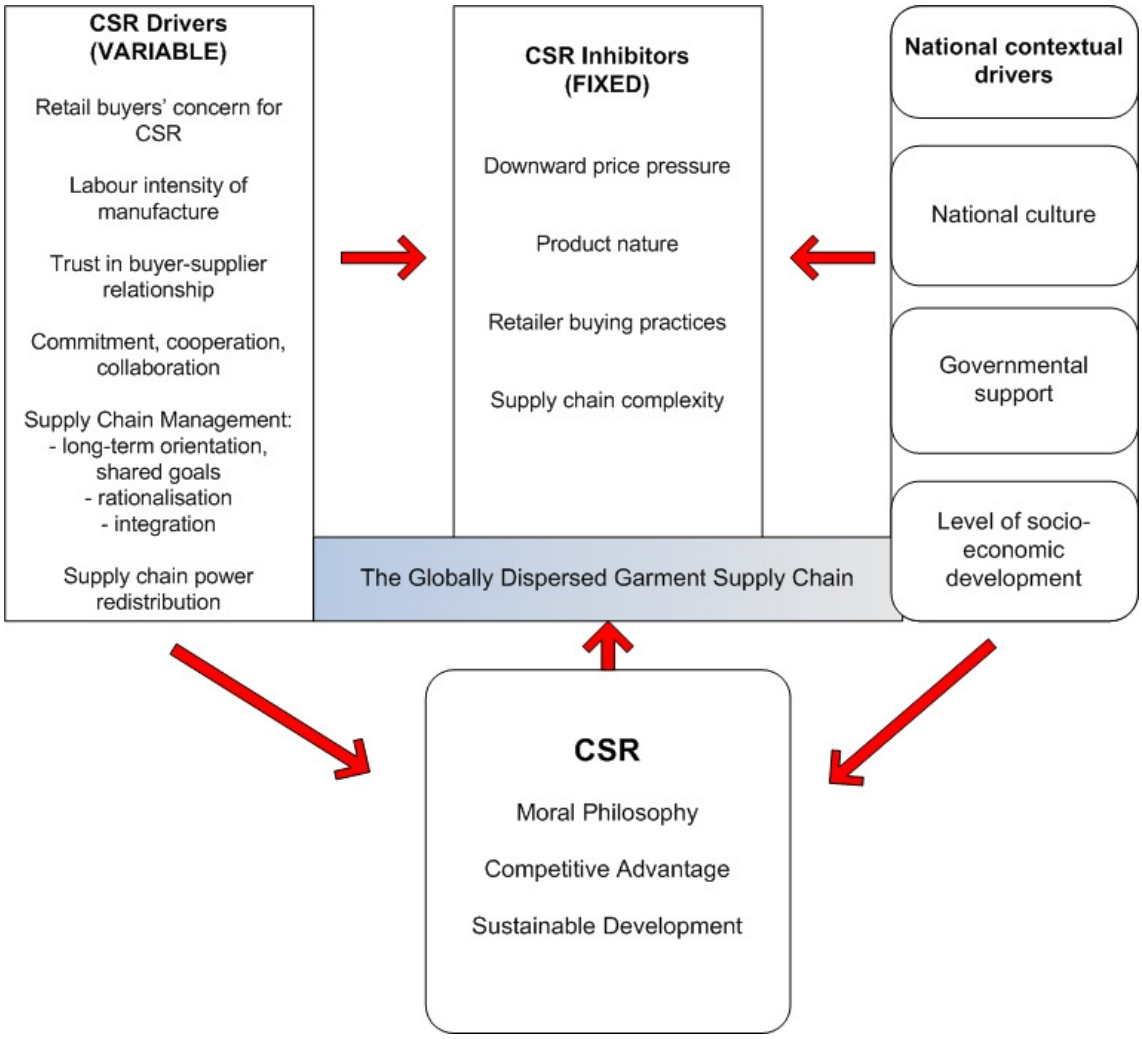


Figure 7.4 Final conceptual framework: The Influence of CSR Drivers, CSR Inhibitors and National Contextual Factors on the Implementation of CSR in the Garment Supply Chain

Downward price pressure may be alleviated by effective SCM, in terms of supply chain rationalisation, collaboration on cost reduction, and integration of pre-production activities or inventory management. Product nature refers to the element of fashionability in the garment. The higher this is, the greater the pressure for shorter lead times; however, this may be overcome by collaborating on pre-production activities to reduce lead time without compromising CSR. Retailer buying practices, such as the demand for shorter lead times, lower prices and greater flexibility to accommodate changes in style and volumes, impact negatively on the supplier's ability to maintain good CSR standards; however, this can be reduced through the development of trust between buyers and suppliers, and the adoption of a SCM approach which moves the focus away from adversarial trading and win-lose outcomes towards shared goals, partnership relationships and win-win outcomes. Supply chain complexity reduces visibility and control of CSR issues, but this can be overcome though efficient SCM: for

example, by rationalising the supply chain and putting greater volumes through vertically integrated full package suppliers, the various garment manufacturing processes are retained within the boundaries on one firm, thus reducing complexity and increasing visibility. By assessing the level of socio-economic development in a potential sourcing location, buyers can establish the likelihood of industrial upgrading in the garment manufacturing industry and the existence of full package suppliers that are able to provide added value services and advanced SCM competences. A power distribution in favour of retailers is characteristic of fashion supply chains; however, with higher levels of socio-economic development, the presence of a sophisticated garment manufacturing industry is more likely. Large full package suppliers with extensive capacity, a differential advantage and high level managerial competency appropriate a larger proportion of supply chain power and therefore the buyer-supplier relationship is likely to be co-defined rather than coercive.

The emerging themes of national culture, governmental support and level of socio-economic development represent the national context of the garment manufacturing industry and underpin the theoretical constructs of CSR. The national culture of Buddhism underpinned the moral argument for CSR and facilitated supplier engagement with CSR implementation in their businesses. The business case for CSR, in terms of competing against other lower labour-cost countries, was supported by the level of socio-economic development as well as governmental support, such as the 'Garments Without Guilt' initiative which supported retailer codes of conduct, the 200 GFP which provided incentives for locating new garment factories in rural areas, and also the remit of the Labour Department which monitored labour standards in export garment factories. Governmental support was thus aligned with the business case for CSR, based on a recognition that in a challenging industry sector with competition from other garment manufacturing countries nearby, CSR represented a unique differential advantage which could attract Western retail buyers seeking a low-risk sourcing destination. Governmental support also underpinned the sustainable development Pillar of CSR: by protecting workers, the potentially negative cultural impact of Western companies' global operations was minimised and social justice for all people in the supply chain was promoted. Similarly, the positive impact of labour intensity of manufacture supported the concept of sustainable business operations: without workers in the factory, a garment manufacturing business cannot exist. Good CSR ensures the sustainability of the garment manufacturing industry, which relies on large pools of

human resources. Finally, the level of socio-economic development, in terms of relatively high education levels and good managerial competency, coupled with the level of investment and industrial upgrading in the garment manufacturing sector, presented a national context that was conducive to CSR implementation.

7.5.4 Theoretical implications

The contribution of this thesis to existing theory is an understanding of the interplay of fashion supply chain factors on CSR implementation at factory level in a developing country, thus building on the current body of knowledge in the areas of fashion supply chain management and CSR. With increasing institutionalisation of CSR, demonstrated by the launch of ISO26000 in November 2010, there is a need for depth of understanding of CSR and how it is affected by the characteristics of specific industry sectors. In terms of the high street fashion industry, there is considerable non-academic research on how fashion retailer buying practices impact on CSR implementation at factory level; however, there is a lack of academic research in this area. This study is the first to identify and explore other characteristics of fashion supply chains in addition to retailer buying practices, in order to understand their effect on CSR implementation at factory level. By identifying CSR Drivers as well as CSR Inhibitors, this study provides an understanding of not only the negative factors that compromise CSR implementation in fashion supply chains, but also the positive factors that can improve CSR performance and implementation throughout global fashion supply chains. Given the difficulty of accessing data on such a sensitive, commercially confidential subject area, this research is therefore unique in terms of its context.

To summarise the theoretical contribution discussed in the previous section, it can be said that the principles of CSR are aligned with those of SCM. Therefore, the negative impact of CSR Inhibitors in fashion supply chains may be overcome by adopting a SCM philosophy which moves the focus to the long-term and prioritises relationship management, the development of trust, commitment and collaboration. These factors not only improve CSR performance, but can also help to reduce production cost and lead time in a sustainable manner.

7.5.5 Managerial implications

The global shift of garment manufacturing to lower labour-cost countries along with developments in telecommunications and the internet have increased awareness of ethical issues in fashion supply chains. As a high profile consumer industry, the high street fashion sector has become a focal point for the debate on worker exploitation and child labour and is particularly at risk of negative media publicity and consumer boycotts. In an industry sector facing unique pressure on cost as well as lead time, fashion retailers must understand how to align CSR implementation with the unique competitive challenges of the sector. Managerial implications of this research suggest that the benefits of strategic CSR provide a clear justification for CSR implementation in globally dispersed fashion supply chains, in terms of risk reduction and protection of brand image as well as in terms of ensuring supplier business sustainability. By adopting a SCM approach to trading relationships, fashion retailers can reap the rewards of improved supply chain performance and less compromise on CSR at factory level. By building closer relationships with fewer suppliers, sharing information and integrating pre-production activities such as product design and development, fashion retailers can reduce time-to-market without compromising worker welfare in factories. Adopting SCM principles thus overcomes the negative effects of retail buying practices. It also progresses supplier CSR performance beyond that which is achievable via a coercive, compliance-based model: in particular, the principles of shared goals and collaborative ways of working moves the focus onto the long-term and a partnership way of working as distinct from a short-term adversarial approach that tends to breed distrust. This encourages suppliers to be innovative and take ownership of CSR, driving it through their businesses to cascade best practice throughout the supply chain.

Furthermore, harnessing the local cultural context can support and progress CSR implementation at factory level: in Sri Lanka, the Buddhist philosophy provided the moral underpinning and hence facilitated supplier engagement with CSR implementation. Before the advent of codes of conduct and retail buyer concern for CSR, factory managers already comprehended the moral argument for not exploiting workers, as well as the concept of the stakeholder view of the firm, where the firm has responsibility to society as well as responsibility for maximising profits. Therefore, where there is a strong national culture which is aligned with the principles of CSR, fashion retailers may find that garment manufacturers are more readily able to engage with the issue as well as being prepared to invest financial and human resources in

implementation initiatives. This would enable retailers to move away from a traditional coercive and compliance-based approach to managing CSR in the supply chain, to a collaborative, co-defined approach that promotes mutual benefit. Without the moral underpinning and the acceptance of the firm's responsibility to society, fashion retailers may find it more difficult to encourage suppliers to take ownership of CSR. Attitudinal dimensions should thus be considered alongside strategic and operational factors.

The presence of governmental support advances CSR implementation and performance, reducing the likelihood of CSR transgressions by adding an extra level of accountability for supplier businesses. Furthermore, the level of socio-economic development also affects CSR implementation. With higher education levels, managerial competency increases and higher economic development, garment manufacturers are able to invest in industrial upgrading, thus creating a sophisticated industry sector able to cater to buyers' needs in terms of quantity, quality and cost. Therefore fashion retailers need to balance total sourcing cost alongside risk of CSR transgressions: for strong brands which trade on their ethical credentials, such as Marks & Spencer, the negative impact of CSR transgressions in the supply chain would outweigh the cost savings of sourcing from lesser-developed countries. In contrast, selecting a medium-developed country such as Sri Lanka, with good levels of education and managerial capability as well as a sophisticated garment manufacturing industry, reduces the risk of CSR transgressions.

Finally, fashion retailers should consider dedicating greater resources to managing CSR in their supply chains according to the nature of the product. For core basic garments with longer PLCs, demand profiles are more predictable and orders are at less risk of last-minute changes or cancellation. Additionally, machine operators have longer to learn the style and therefore are likely to reach the top of their learning curve in order to maximise production efficiency. With smaller orders of constantly changing styles, machine operators are less likely to reach the top of their learning curve and hence production efficiency is limited. Furthermore, factory managers have less time to improve the production process and increase efficiency than with long-running orders. This puts pressure on cost reduction by other means, which may compromise CSR within the factory.

The research has produced several useful managerial implications which fashion retailers could adopt in order to facilitate CSR implementation and improve worker

welfare at factory level, as well as to react to the unique competitive challenges of the high street fashion sector.

7.6 Limitations

CSR is a sensitive area and gaining access to companies to conduct research is difficult; therefore response rates may be low (Quazi, 2003). CSR research is also particularly vulnerable to social desirability bias (SDB), a form of response bias whereby respondents over-report behaviour in order to appear more socially responsible. It was difficult to establish whether interviewees were being wholly truthful in their general denial of problems due to retailer buying practices or whether they preferred not to admit to any problems with buyers to protect the ongoing trading relationship. Furthermore, interviewees at lower levels of management may be reluctant to answer questions on CSR because of the risk of incriminating themselves or their company. As a consumer industry, the fashion sector has been especially vulnerable to increased media attention on CSR issues (Jones, 1999; Solomon *et al.*, 2004) and negative publicity is known to damage corporate reputations (Welford and Frost, 2006). Along with other Asian garment-producing nations, Sri Lanka has been targeted by journalists and subjected to media exposés into labour standards within the garment manufacturing function (e.g. Smith, 2010; Jones, 2010), which may further inhibit respondents' willingness to answer research questions on CSR. In the challenging competitive environment, manufacturers may attempt to protect themselves from any negative publicity that may damage their ongoing trading relationships with prominent Western retailers. This was evidenced by a reluctance to answer questions on CSR and a reluctance to report negative aspects of buyer-supplier relationships. The interview excerpt below shows how the sensitive nature of CSR can inhibit the openness and willingness of interviewees to answer research questions:

> **Researcher:** What is your stance of CSR or compliance in your business? You can talk about it in an environmental sense if you like, so the idea that business should behave ethically and contribute to society rather than prioritising its own goals at the expense of workers and the environment.
>
> **Green Project Manager (Company A):** In a business sense I think the best person to answer that is the Compliance Manager, if you want I can give you his contact details.

In this instance, the Green Project Manager preferred to pass responsibility for answering the question to a more senior member of the organisation. This limitation was overcome by the use of data triangulation in order to corroborate research findings and increase validity and reliability (Yin, 2003). However, it has been acknowledged that the concept of triangulation assumes a singular, apprehendable reality, which is therefore incommensurable with the social contructivist paradigm as the latter assumes multiple subjective realities (Sobh and Perry, 2006). Therefore, although it is accepted that the validity and reliability of qualitative case study research is increased through triangulation of evidence sources (Yin, 2003; Riege, 2003; Flick, 1992), there is a growing body of academic thought that criticises the use of positivist criteria to evaluate phenomenological research (Dubois and Araujo, 2007; Schofield, 2000; Hill and McGowan, 1999; Sobh and Perry, 2006).

The limitation of interviewees being reluctant to answer sensitive CSR questions could have been further overcome by establishing a greater rapport with interviewees over a longer time period, for example by conducting fieldwork over a period of several months in order to build greater trust. However, due to a lack of external funding, extended fieldwork was not a feasible option for this study.

7.7 Future research directions

Due to the unique nature of the Sri Lankan context, the generalisability of the research to other garment manufacturing countries is potentially limited. Although Sri Lanka is one of the top 10 sourcing destinations for UK fashion retailers (Halliday *et al.*, 2009), it is a relatively small country and therefore is but one of many Asian garment manufacturing countries in a retail buyer's choice set. Therefore it would be valuable to replicate the research in other Asian garment manufacturing countries to establish whether the supporting factors (national culture, governmental support and level of socio-economic development) in the Sri Lankan context are in fact particular to Sri Lanka only, or whether they are also present in other countries. Applying the emergent model to other national contexts would increase understanding of the effect of the national context on CSR implementation in global fashion supply chains.

Future issues for fashion companies identified by Ansett (2007) include the need to provide deeper assurance into supply chains, the potential of full supply chain

disclosure requirements and the adoption of a common code of conduct. ISO 26000 (Guidance on Social Responsibility) was published on 1 November 2010; although not a certifiable management system, it aims to assist companies in contributing to sustainable development by integrating, implementing and promoting socially responsible behaviour throughout the organisation and, through its policies and practices, within its sphere of influence (ISO, 2010). It therefore represents continuing institutionalisation of CSR. Brands and retailers will therefore face increasing stakeholder expectations as the competitive environment evolves and stakeholders gain greater awareness of fashion supply chain issues. This reinforces the need for further CSR research within other national contexts in fashion supply chains. Furthermore, since the focus of this thesis was manufacturers primarily supplying British and European retailers not US retailers, future research may explore CSR implementation in manufacturers that primarily supply US fashion retailers to ascertain whether any differences in approach exist. For example, Sri Lanka's largest lingerie buyer is US company Victoria's Secret, and other key US buyers include Gap and Liz Claiborne.

The paradox of sustainable economic development also warrants further research. Although this refers to advancing social justice through business operations (equitably sharing the gains of economic development) as well as minimising the negative impact of global operations on host countries, empirical data suggested that the introduction of Western managerial practices designed to progress sustainable development may in fact have a negative impact on traditional Asian societies. For example, female empowerment was seen as a contentious issue by Sri Lankan factory managers as it conflicted with traditional cultural expectations of women, hence there was a discord between adhering to CSR principles and adhering to cultural norms of behaviour. By championing female empowerment in the workplace and encouraging women to speak their mind for example (one of Company C's ground rules), women were supported and encouraged to take responsibility for career advancement, achieving work-life balance and improving their own standard of living as well as contributing to the nation. A similar programme in MAS Holdings, one of Sri Lanka's largest garment manufacturers, was heralded as a success as a result of the positive change in personal lives of the majority of women that took part (Jinadasa, 2007). However, female empowerment could also result in greater domestic problems, since traditional rural men folk tended to react negatively to their wives, daughters and sisters coming home from work and speaking their minds, as this went directly against cultural gender

expectations (Lynch, 2007). The result of introducing certain Western managerial practices therefore led to increased reports of verbal and physical abuse of women in the home. The Senior Operations Director in Company A explained therefore that factory policy was to encourage women to empower themselves in the workplace but to leave these new ideas at the factory gates and revert to traditional cultural role expectations at home. As retail buyers seek to apply successful Western managerial practices to Asian business contexts in order to improve factory efficiency and supply chain effectiveness, there is a need to consider the long-term impact of this on host communities. Future research to explore how Western managerial practices can be reconciled with traditional Asian cultural expectations would advance knowledge on minimising the negative impact of global business operations on host countries, thereby advancing sustainable development.

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APPENDIX I - Apparel industry production costs by country (2003-2004)

COUNTRY	HOURLY LABOUR COST (EUROS)	INDEX UK = 100	PRODUCTIVITY INDEX	SOURCING COST INDEX
Bangladesh	0.23	1.5	52	13
Belarus	0.62	4.1	45	27
Brazil	0.72	4.7	58	25
Bulgaria	0.68	4.5	45	37
Cambodia	0.18	1.2	40	14
China (mainland)	0.28	1.8	50	12
Costa Rica	1.23	8.1	80	22
Croatia	2.90	19.1	65	40
Czech Republic	2.48	16.3	65	30
Dominican Republic	0.43	2.8	65	13
Egypt	0.63	4.2	52	24
El Salvador	1.03	6.8	70	24
Estonia	2.00	13.2	70	33
France	18.46	121.7	114	107
Germany	25.14	165.7	100	160
Greece	9.41	62.0	78	87
Guatemala	0.85	5.6	70	18
Honduras	0.85	5.6	75	17
Hong Kong	6.34	41.8	84	54
Hungary	2.24	14.8	70	40
India	0.24	1.6	45	18
Irish Republic	11.93	78.6	105	76
Israel	8.92	58.8	90	73
Italy	15.68	103.4	101	99
Jamaica	1.54	10.2	65	35
Japan	20.11	132.6	89	144
Latvia	1.68	11.1	65	23
Lithuania	2.01	13.2	75	32
Malaysia	0.88	5.8	74	17
Malta	5.03	33.2	90	48
Mauritius	0.91	6.0	55	35
Mexico	1.39	9.2	75	22
Moldova	0.34	2.2	40	29
Morocco	1.90	12.5	52	47
Nicaragua	0.43	2.8	65	13
Pakistan	0.18	1.2	50	12
Philippines	1.05	6.9	51	28
Poland	1.75	11.5	60	38
Portugal	5.20	34.2	75	57
Romania	0.85	5.6	60	31
Russia	1.14	7.5	55	38
Slovakia	1.47	9.7	55	39
Slovenia	4.18	27.6	80	48
South Korea	6.51	42.9	85	55
Spain	12.05	79.4	87	95
Sri Lanka	0.38	2.5	48	20
Taiwan	4.55	11.4	74	51
Thailand	1.24	8.2	59	28
Tunisia	4.55	11.4	74	51
Turkey	2.44	16.1	65	53
UK	**15.17**	**100**	**95**	**100**
USA	8.82	58.1	106	59
Uzbekistan	0.18	1.2	70	11
Vietnam	0.34	2.2	65	12

Source: Jones (2006) citing Kurt Salmon Associates, *Global Sourcing Reference*, 7th ed.
Notes: Productivity index based on Germany, sourcing cost index based on UK and on a 90 SAM, medium-sized order

APPENDIX II - Institutionalisation of CSR: global standards and accreditations

Accreditation	**Description**
CSC900T – China Social Compliance standard	Chinese national CSR standard for the textile and apparel sector
C-TPAT – Customs-Trade Partnership Against Terrorism	A joint US-government and business initiative to build cooperative relationships that strengthen international supply chain and border security
ETI – Ethical Trading Initiative Base Code of Labour Practice	Promotes improvement of working conditions in global supply chains by implementation of corporate codes of conduct
ISO26000 (Social Responsibility)	International Standard providing guidelines for social responsibility
OHSAS 18001 – Occupational health and safety management systems	BS accredited certification of a firm's occupational health and safety management system
SA8000 (Social Accountability International)	A global and verifiable standard to make workplaces more humane. Combines key elements of ILO (International Labour Organisation) conventions with the management systems of ISO (International Organisation for Standardisation)
UNGC – United Nations Global Compact	The Global Compact asks companies to adopt ten principles in the areas of human rights, labour standards, the environment and anti-corruption
WRAP – Worldwide Responsible Apparel Production	A global and verifiable certification of lawful, humane and ethical manufacturing

APPENDIX III - Observational catalogue

	Space	Noise	Visuals	Smell	Temperature
	Evidence of over-crowding?	**Level of machinery noise? Radio or music? Evidence of verbal abuse?**	**Code of Conduct on display? Decorations? Protective equipment? Dangerous work practices? Child labour? Canteen, medical facilities, crèche?**	**Noxious fumes? Evidence of dangerous or unhealthy work practices?**	**Any air cooling?**
A	Green factory spacious, no overcrowding in other factories visited.	Some of the automated denim production machinery was loud. Washing and finishing plant noisy due to large washing drums / stonewashing process. No evidence of verbal abuse.	CoC on display in English and Sinhalese on factory gates, outside entrance and within factories and offices. No evidence of children. Factory workers in clean uniforms but little protective equipment seen, workers looked to be in good health and some of the older ladies were even overweight, most seemed content and some smiled at the visitor. Green factory had a planted feature in factory and windows. Large canteen and medical room.	No fumes detected.	Green factory had air conditioning throughout. In other factories visited, air conditioning was present in offices only, with fans on the factory floor.
B	No overcrowding, although purpose built facilities more spacious than converted textile factory buildings	No evidence of verbal abuse.	CoC displayed in English and Sinhalese at entrance to reception. No evidence of children. Factory workers in clean clothes, some with hair decorations and subtle jewellery. Office workers dressed in either traditional sari or Western-style blouse and skirt. All seemed to be in good health, with some even overweight, most seemed fairly content. Canteen and medical room present on all sites visited.	No fumes detected.	Air conditioning in offices only, fans on factory floor.
C	No overcrowding, workers able to see and talk to each other	No evidence of verbal abuse Radio playing local music in factory.	No evidence of children. Medical room and large open air canteen with roof, clean factory with some workers specifically employed to sweep factory floor. Workers looked clean, well dressed and content. CoC displayed in English and Sinhalese.	No fumes detected.	Air conditioning in offices only, fans on factory floor.

D	No overcrowding.	No evidence of verbal abuse.	No evidence of children. Factory workers in own clothes, looked clean and well dressed. No CoC on display. Medical room and canteen in newly-built separate building on site.	No fumes detected.	Air conditioning in head office only, fans on factory floor and factory offices.
E	No overcrowding.	No evidence of verbal abuse.	CoC on display in offices and in VNP offices, not on factory floor. No evidence of children.	No fumes detected.	Air conditioning in offices only.
F	Spacious	No evidence of verbal abuse.	No CoC. Xmas trees and New Year decorations in factory, workers appeared content. No evidence of children. Large clean toilets, large open air canteen with roof on first floor, medical room.	No fumes detected.	No air conditioning, fans throughout.
G	Spacious	No evidence of verbal abuse.	No evidence of children. Workers in own clothes, less well dressed than seen in other companies although appeared content. Workers able to talk with each other. From observation, factory efficiency did not appear to be very high.	No fumes detected.	No air conditioning, fans only in office and on factory floor.

APPENDIX IV - Example of colour-coded interview transcript

Red	Competitive advantage
Yellow	The effect of national culture on CSR – emerging theme
Green	SCM – effect of product nature on CSR implementation
Pink	Conceptualisation of CSR – over and above law and regulations
Light blue	Labour intensity of manufacture – CSR driver

PP: Now moving onto corporate social responsibility within your business, what is your stance on CSR, the idea that business should behave ethically and contribute to society rather than prioritising its own goals at the expense of society, what are your thoughts?
DV: Specially one challenge we have at the moment in this industry is scarcity of labour. You don't find enough good people. So it's a battle to attract good people to your business. We have a large workforce, it's over 25,000 people. If I take this zone, there are about 30 entities similar to us. So there is a lot of competition for good people, machine operators I would say and also the indirects. So for us to benchmark ourselves and highlight the differences between another company and us, our ethical practices have helped us a lot. They know basic conditions are met. And also we are going to a factory where you will not face any difficulty and your basic needs are looked after very well and also at the same time they will not violate the country law and country regulations and at the same time they will be doing more than that. So ordinary employees will understand the difference between a Company A plant and another average plant. So it's very easy for us to compare and show them that we are a different employer.
PP: Is the pay the same for the same position among the main companies?
DV: MAS, Hirdaramani, I don't think it's a big difference in terms of basic salaries. But having said that, our earning capacity I feel it's more especially in this plant because we are into VMI and it's a long-running order. We are giving them a good production incentive where they can earn more. So because of long runs, production bonus. So they achieve certain targets, they are earning more. If I take this plant, last month average incentive in production line it's 4.300. So on top of your basic salary, overtime and your attendance incentive, you get more than that, you get the production incentive. So basically if I take their gross salary, last month average is about 16,500 rupees. I would say to attract good people, for us to compare and establish ourselves as a different employer, social compliance, social ethics has helped us a lot.
PP: So would you say it's a benefit or a nuisance to your business?
DV: It's a benefit, to attract good talent. Because all the time we can claim that we are assuring you that … we are assuring you a balanced work life. We know we are not going to breach those good practices. Since we are ethical trader, we are adhering to that so we ourselves commit to them that if you join us, you will have a good family life and you will have a good personal life, not only the working life, so they really appreciate that. Especially in this area, if I take my 1300 employees, 90% are coming from their homes. We have about 30 buses which provide transport for our employees so they use those buses and they are coming from their homes.
PP: There's no dormitories on this estate?
DV: No. They are very keen on their working hours and their weekend Saturday Sunday off days, they are very keen on that.

APPENDIX V - Example of thematic tabulation for Company A

Yellow	Senior Operations Manager
Light blue	CEO of College of Clothing Technology
Green	Compliance Manager
Pink	Green Project Manager

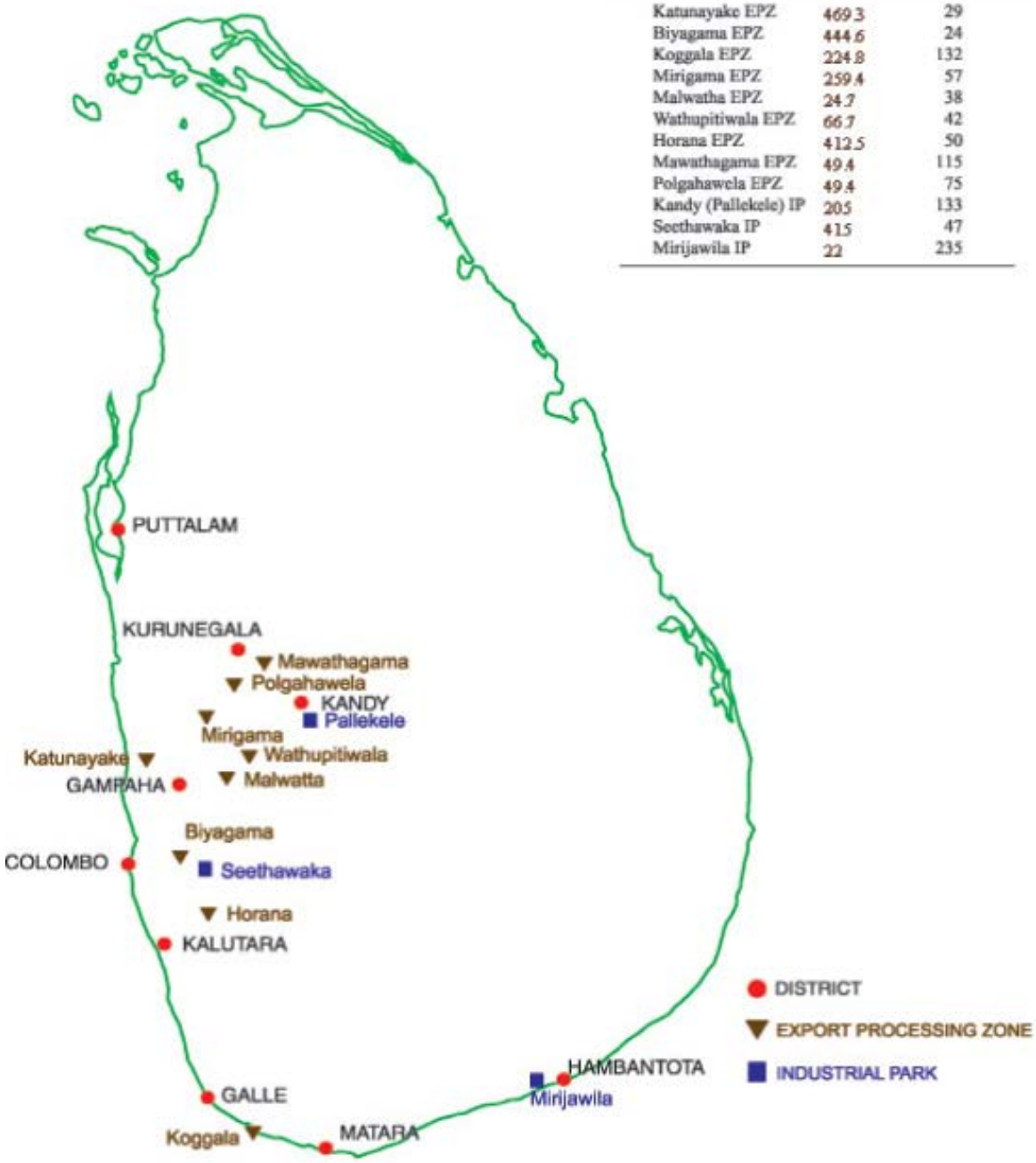
Construct	Corresponding interview data
Moral philosophy	"The mindset is that you can't exploit people who are under you and you can't just exploit the people and get the maximum out since you want to get large money out of your business … the Buddhist culture is demanding fairness and social justice and equity between all the people and so … it is a part of the culture" "They are basically very amendable and also they are very kind, that is the way of the Buddhist philosophy. They simply want to do better, they want to help. They think that if you can get your place nice and tidy and respect mankind, that's what Buddhism is all about, you know, help the people" "We believe that our corporate responsibilities in human rights is the most important so we do all our aspects even from our mission statement, we talk about people, inspired people, how we're going to make inspired people"
Competitive advantage	"For us to benchmark ourselves and highlight the differences between another company and us, our ethical practices have helped us a lot" "To attract good people, for us to compare and establish ourselves as a different employer, social compliance, social ethics has helped us a lot" "It's a benefit, to attract good talent" "We are using that as a weapon. We have clean factories, we have superb manufacturing management compared to other neighbours in this part of the world … But sure I think we are well ahead with the compliance. SO that's why we are using it as a weapon to get more orders" "When we are taking care of our employees, we are giving the required respect and dignity. So there will also be a return to the business, people are very committed, they are loyal to the company and they do whatever maximum they can contribute" "We are focussed on this image building as well" PP: Would you say it's a benefit or a nuisance, environmental compliance? MR: It's a benefit. PP: You've saved costs, increased efficiency, you said by 4%? MR: Yes. PP: Employees are happier? MR: Happy, yes, less health issues.
Sustainable development	"Most of the businesses especially in apparel they are looking for a sustainable business. They do understand that unless you pay enough and look after your employees enough then ultimately you will not have enough people to work in your business" "We do environmental projects, we do a lot of green carbon footprint"

APPENDIX VI - Location of Export Processing Zones (EPZs) and Industrial Parks in Sri Lanka

Board of Investment of Sri Lanka

Export Processing Zones (EPZs), Industrial Parks (IPs)

EPZ/IP	Land Extent (Acrs)	Distance from Colombo (km)
Katunayake EPZ	469.3	29
Biyagama EPZ	444.6	24
Koggala EPZ	224.8	132
Mirigama EPZ	259.4	57
Malwatha EPZ	24.7	38
Wathupitiwala EPZ	66.7	42
Horana EPZ	412.5	50
Mawathagama EPZ	49.4	115
Polgahawela EPZ	49.4	75
Kandy (Pallekele) IP	205	133
Seethawaka IP	415	47
Mirijawila IP	22	235



Research Department/BOI, February 2003

APPENDIX VII - Methods for collecting data on constructs of CSR

	DATA COLLECTION METHODS WITHIN COMPANIES	
CONSTRUCT	***Interview***	***Company records and documents***
CSR	Establish current stance on CSR – level of awareness and attitude towards CSR – benefit or nuisance? Use Spence and Rutherfoord (2000) 4-frame model of SME social perspective to identify firm's approach to CSR: profit maximisation, subsistence, enlightened self-interest, social priority.	Whether stakeholder satisfaction monitored e.g. employee satisfaction/turnover, dialogue with trade bodies/government
	Establish existence of CSR champion within organisation.	Whether attained CSR awards (Jenkins, 2006)
	Establish consideration of stakeholders in decision-making process – level of stakeholder engagement.	Level of philanthropic activity (Jenkins, 2006)
	Carter and Jennings (2002) subdivided LSR into 5 areas (plus environment): ethics, diversity, working conditions & human rights, safety, philanthropy and community involvement: establish awareness and commitment in each	Level of human capital development e.g. training and development programmes for employees, employment of disadvantaged groups e.g. old or disabled
	Establish transparency of supply chain (Welford & Frost, 2006)	Existence of IIP accreditation (Jenkins, 2006) or similar
		Code of conduct, monitoring & compliance auditing (Welford & Frost, 2006)
		Existence of supplier development scheme (Jenkins, 2006)
		Extent of social reporting (Norman and McDonald, 2004) <u>Diversity</u>: Existence of equal opportunities policies, % of senior executives who are women, % of staff who are members of visible minorities, % of staff with disabilities <u>Working conditions/human rights</u>: Evidence of substantial compliance with ILO Guidelines for Occupational Health Management Systems, Number of workplace deaths per year, % of employees surveyed who agree that their workplace is safe and comfortable, Number of children working, Whether subcontractors are screened for use of child labour and if so, give percentage), % of employees represented by independent trade union organisations or other bona fide employee representatives, % of employees covered by collective bargaining agreements, Number of grievances from unionised employees <u>Philanthropy and community involvement</u>: % of pre-tax earnings donated to the community, Involvement/contributions to projects with value to the greater community e.g. support of education/training/ humanitarian programs

APPENDIX VIII - Questionnaire

The aim of my research is to increase understanding of CSR/social compliance within global garment supply chains. Sri Lanka is known for high quality ethical garment manufacture and therefore serves as an example of how CSR can be successfully and profitably implemented within the supply chain. By investigating the factors that have helped Sri Lanka to achieve this reputation, it is hoped to advance our knowledge of CSR within the garment supply chain.

Can you describe your business for me? CMT or full package supply?___
What are your core activities?_____
How long have you been trading?_____
Number of employees_____
Production capacity e.g. weekly_____
Number and total size of factory premises_____
Product categories? e.g. menswear, schoolwear, ladieswear, jersey/wovens?____

CA

1. What is the nature of your main products – high fashion garments with a short shelf life or basic commodity-type items such as T-shirts? If both, specify proportion of each e.g. 50/50.

2. Do you make to order or make to stock? If both, specify proportion of each e.g. 50/50.
_____

3. What are your lead times for core products (long lead time) and for seasonal products (short lead time)? How long is your planning cycle?

	Core products	Seasonal	Lead time	Planning cycle
Category 1				
Category 2				
Category 3				
Category 4				
Category 5				

4. Number of buyers/agents and suppliers?_____

5. Who are your main buyers? (Do not have to name them, just describe their business e.g. UK sportswear brand or retailer with 30 shops…)_____
_____
_____

6. In which countries are your main buyers located?

Buyer 1	
Buyer 2	
Buyer 3	
Buyer 4	
Buyer 5	

I am now going to ask you about your relationships with your main buyers.

7. What is the duration of your trading relationships (with your buyers and your suppliers)? Answer for each main buyer/supplier in years or months.

Buyer 1		
Buyer 2		
Buyer 3		
Buyer 4		

Buyer 5		
Supplier 1		
Supplier 2		
Supplier 3		
Supplier 4		
Supplier 5		

8. How would you describe your relationship with your main buyers/customers? Do you have a partnership relationship where there is trust and commitment and or is it more arms-length with no commitment whatsoever?
   List options: arms length, close partnership, some degree of cooperative/collaborative etc

Buyer 1	
Buyer 2	
Buyer 3	
Buyer 4	
Buyer 5	

9. Which scenario best describes your relationship with your main buyers/customers? More A or B?
   A. They say: "these are the specifications for the goods – give me your best price". There is no guarantee of continuity of the relationship and the buyer/customer may act in a mean-spirited way.
   B. There is a spirit of cooperation and trust in the relationship between you and your buyer/customer. Your customer does not tend to take advantage of you and you feel fairly secure in the knowledge that if problems occur, you can work them out with your buyer/customer for mutual benefit, as the long-term survival of the relationship is important to both of you.

On a scale of 1 to 5, where A = 1 and B = 5, please indicate the best description of your relationships with your buyers:

Buyer 1	*A*	*1*	*2*	*3*	*4*	*5*	*B*
Buyer 2	*A*	*1*	*2*	*3*	*4*	*5*	*B*
Buyer 3	*A*	*1*	*2*	*3*	*4*	*5*	*B*
Buyer 4	*A*	*1*	*2*	*3*	*4*	*5*	*B*
Buyer 5	*A*	*1*	*2*	*3*	*4*	*5*	*B*

10. Are you sole/exclusive supplier, preferred supplier or are you one of many suppliers (if known)?

Buyer 1	
Buyer 2	
Buyer 3	
Buyer 4	
Buyer 5	

11. How do you manage the trading relationship? e.g. is a 'gentlemen's agreement' based on trust/industry norms/standard operating procedures sufficient or are extensive legal contracts drawn up? Answer for each main buyer.

Buyer 1	
Buyer 2	
Buyer 3	
Buyer 4	
Buyer 5	

12. Do you have a formal written contract with your buyers for each order?

	Yes	*No*	*Comments*

Buyer 1			
Buyer 2			
Buyer 3			
Buyer 4			
Buyer 5			

13. Do you have any formal written contract with your buyers for future work?

	Yes	*No*	*Comments*
Buyer 1			
Buyer 2			
Buyer 3			
Buyer 4			
Buyer 5			

14. Terms of payment from main buyers? 30/60/90 days?

15. What is the level of integration of operations in your supply chain between yourself, your customers and your suppliers? In terms of collaboration, sharing information, demand visibility etc. *Scale: high, medium, low, none.*

16. Do you share any information with your buyer (s) e.g. real time demand, open book accounting, future plans. If so, how do they access this information e.g. VMI where they just log onto your system or do you send specific info in response to buyer requests.

Buyer 1	
Buyer 2	
Buyer 3	
Buyer 4	
Buyer 5	

MP

Now moving on to CSR within your business.

17. What is your stance on Corporate Social Responsibility in your business? (*Explain term if necessary – "the idea that business should behave ethically and contribute to society rather than prioritising its own goals at the expense of workers and the environment*).

18. Do you think CSR represents a benefit or a nuisance to your daily business operations? Why?

19. What is the motivation for CSR within your business? *e.g. legal compliance, customer demand, moral/religious/cultural belief, to improve competitive advantage…*

Probe and choose one of the following categories – do not read out to respondent:

a. Profit maximisation – driving force is PMA. (No CSR)

b. Subsistence – primary motivation is the long-term survival of the business and/or maintenance of a certain standard of living. Social concerns are secondary to the survival of the business.
c. Enlightened self-interest – CSR implemented to enhance competitive advantage and shareholder value. Good business ethics are a form of PR and marketing.
d. Social priority – business is a lifestyle choice rather than a route to wealth maximisation. Social concerns are integrated into business activities and take precedence over PMA.

	Profit maximising	*Profit satisficing*
Socially inactive	**a. Profit maximisation priority**	**b. Subsistence priority**
Socially active	**c. Enlightened self-interest**	**d. Social priority**

20. Do you feel that Sri Lanka's labour laws support or discourage social compliance? Examples?

21. Is there any other governmental or industry support for garment factories to improve their social compliance? What is government policy on CSR, if known?_____

22. Do you feel that Sri Lanka's culture supports or discourages social compliance? Why?_____

23. What, if any, are your buyers' CSR requirements? *(Obtain company CSR documents).*

Buyer 1	
Buyer 2	
Buyer 3	
Buyer 4	
Buyer 5	

24. Do you have any CSR requirements of your fabric or trim suppliers or subcontractors?

25. Do your buyers offer you any support or encouragement to become more socially responsible?

Buyer 1	
Buyer 2	
Buyer 3	
Buyer 4	
Buyer 5	

26. Establish existence of:

CSR indicators	*Yes / No*	*Comments*
CSR champion within company		
CSR accreditation e.g. SA8000, SAI, ISO 14000, WRAP, ILO, CTPAT, ETI, SEDEX, OSHAS..		
CSR awards/prizes		
Social reporting within business e.g. analysis of working hours, labour standards audits		

Supplier development scheme instigated by buyer		
Philanthropic/charitable activity		
Employee satisfaction monitoring		
Employee turnover		
Staff training and development programmes		
Equal opportunities programmes or policies e.g. women, disabled, ethnic minorities		
Code of conduct		
Monitoring and auditing of code of conduct		
Provision of social benefits to staff e.g. healthcare, crèche, nutrition, transport etc. Anything else? Local community?		

Thank you very much for your time and your assistance!

APPENDIX IX - Initial conceptual framework of theoretical constructs for studying CSR in SMEs in garment supply chains