

Chapter 6

Apparel Manufacturers' Path to World Class Corporate Social Responsibility: Perspectives of CSR Professionals

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Abstract This study examined world class corporate social responsibility (CSR) as it is practiced by apparel manufacturers to provide an understanding of what world class practices in CSR include and who the manufacturers are that are performing them, and to provide guidance to encourage and support a broader range of manufacturers to embrace greater CSR. Interviews with CSR professionals with extensive experience in the practices of apparel manufacturers' world class CSR programs were described, with dominant practices involving a focus on workers, incorporation of management systems, and taking ownership for conditions in their factories. The interviews also provided information about the benefits that accrue to manufacturers pursuing world class CSR and how buying companies can support these efforts. The research is valuable because it provides buying companies criteria by which to assess their manufacturers' CSR programs and guidance for how they can support improved CSR.

6.1 Introduction

Corporate social responsibility (CSR) refers to business practices addressing the well-being of workers and the environment. It has been associated with human and workers' rights, health and safety of workers, environmental stewardship, consumer well-being, and product affordability and quality (Dickson and Eckman 2006), and contributes to sustainability (Dickson et al. 2009). When it comes to managing CSR in the apparel industry, most research has focused on Western brands and retailers with well-known brand name products rather than companies in their supply chains based in developing countries (Huq et al. 2014). However, based on experience working with the United Nations Global Compact, Hall (2007) stresses the need to understand the leading CSR practices of a small group of "world class" corporations based in emerging markets. These leading companies can have CSR programs as sophisticated as those of companies based in the West (Hall 2007). In the apparel

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industry, the world class CSR activities of apparel manufacturers can serve as a model for the many other companies globally that are currently unaware or uninterested in pursuing CSR but might be motivated to do so in the future. Furthermore, having defined criteria for world class CSR for apparel manufacturers would contribute to more sustainable supply chain management and assist sourcing professionals in distinguishing between prospective suppliers.

No research was found that focused on the world class CSR activities of apparel manufacturers. Huq et al. (2014) describes why four garment manufacturers have adopted social sustainability practices (i.e., social responsibility management), what barriers they face in adopting those, and how to facilitate adoption. Yet, the Bangladeshi firms were selected on convenience rather than their outstanding performance, and the managers interviewed admitted to cheating so that their factories appeared to be more compliant to their buyers' codes of conduct than in fact they were. Likewise, Welford and Frost (2006) provided an overview of CSR practices pursued by factories of apparel and other products in China and Southeast Asia and the benefits and obstacles they encountered. Interviews were conducted with CSR managers for brand name companies, factory managers, and other experts in CSR, but again the intent was to explain the *general* practices, not the *best* practices of leading companies. In many cases, awareness of CSR was limited; the most predominant view was that CSR was a nuisance involving costly minimum level compliance to buyers' codes of conduct. The CSR managers did note, however, that several factories had distinguished themselves with exemplary CSR practices including providing generous benefits and above minimum wages, premium overtime pay, and regular bonuses (Welford and Frost 2006). The authors did not investigate what management practices were followed to assure these improved conditions.

The purpose of this study was to examine world class CSR as it is practiced by apparel manufacturers. Four specific objectives were addressed:

1. Define the practices of world class CSR.
2. Profile apparel manufacturers practicing world class CSR and the extent they exist in the global supply base.
3. Determine whether there are business benefits and a competitive advantage for world class CSR.
4. Understand the role of buying companies in expanding world class CSR in their supply chains.

6.2 Review of Literature

This research drew upon two theories for examining world class CSR and how it can be progressively improved and expanded. Total responsibility management (TRM), developed by Waddock and Bodwell (2002), explains the various policies and practices companies carry out to manage CSR. Zadek's (2004) Path to corporate responsibility provides a model for how companies move through five phases of action on their way to increasing their social responsibility. The current research

used these theories as a starting point for defining world class CSR and how it expands and improves.

6.2.1 Total Responsibility Management

Companies that desire to become more responsible implement a variety of activities, all of which Waddock and Bodwell (2002) have proposed are part of TRM. TRM consists of three main components: inspiration, integration, and innovation. Inspiration encompasses vision-setting and leadership commitment, whereby commitment to CSR is evident at each level of management and throughout the entire company. This vision and commitment are influenced by engaging stakeholders and developing foundational values (Waddock and Bodwell 2002). Stakeholders include customers, suppliers, employees, nongovernmental organizations (NGOs), stockholders, media, activists, and governments among others (Dickson et al. 2009; Waddock and Bodwell 2002). While the TRM framework revolves around a variety of stakeholders, it is centered on the employees, "recognizing that investing in a workforce is an investment in the capacity of an organization and its suppliers to meet the social objectives it has established" (Waddock and Bodwell 2002, p. 118). Directly affected by labor practices, employees are the most knowledgeable of where improvement needs to be made and are responsible for enacting the company's vision. Broader stakeholder engagement allows companies and stakeholders to cultivate transparent relationships so that opinions and feedback can be given in a mutually responsive manner (Waddock and Bodwell 2002).

In addition to stakeholder engagement, establishing foundational values is also part of the inspiration process and guides companies in setting long-term goals and making ethical decisions (Waddock and Bodwell 2002). These values are usually expressed in the form of a code of conduct, which is commonly influenced by the Universal Declaration of Human Rights and the labor conventions of the International Labour Organization's Declaration on Fundamental Principles and Rights at Work (Dickson et al. 2009).

Integration occurs when a company begins to instill and implement its vision and values throughout the entire business, by building human resource capacity and integrating the vision and values into its management systems (Waddock and Bodwell 2002). Education and rewards are used to implement the vision, so companies train their employees on the need for social responsibility and continually reinforce the ways they can make a positive impact. In addition, in order to instill and implement the company's vision and values throughout the entire business strategy, companies create divisions or departments dedicated to supporting these values of social responsibility (Dickson et al. 2009).

Innovation encompasses the improvement systems and indicators companies use to continuously develop and advance their socially responsible practices (Waddock and Bodwell 2002). Some companies create performance assessment systems that measure the extent of compliance with their companies' codes of conduct. Once

companies have collected information about their progress, they use that data to evaluate and improve their CSR efforts.

A second aspect of innovation is that companies are transparent and accountable. While stakeholder engagement strives to increase transparency between the company and external stakeholders, initiatives such as annual social responsibility reports or detailed websites make the company more transparent and accountable for its actions. It also serves as a way for stakeholders to provide feedback on what they find to be successful or needs to improve (Dickson et al. 2009).

6.2.2 *Path to Corporate Responsibility*

In building the process to manage social responsibility, companies often progress along what Zadek (2004) calls a path to corporate responsibility, which consists of five stages: (1) defensive, (2) compliance, (3) managerial, (4) strategic, and (5) civil. In the defensive stage, the mindset of the company is generally, “It’s not our job to fix that” (Zadek 2004, p. 126). The company may have received unexpected criticism about its unethical operations from civil society activists, media, investors, or others. Public relations and legal teams work to devise public responses, which are usually either complete rejections of accusations or denials about the relationship between the company and the complaint (Zadek 2004).

A company in the second stage, compliance, recognizes that the criticism can affect its reputation and knows that a corporate policy must be created (Dickson et al. 2009). The company believes “We’ll do just as much as we have to” and gears its public statements toward critics in a form of “We ensure that we don’t do what we agreed not to do” (Zadek 2004, p. 126). During the 1990s’ wave of sweatshop accusations, companies created codes of conduct in response to stakeholders’ call for basic labor and environmental standards and required their suppliers be monitored against those codes (Dickson et al. 2009).

Companies realize that leadership systems are necessary to further their commitment to social responsibility in the third stage, the managerial stage. Zadek (2004) describes the mindset of this stage as “It’s the business, stupid” (p. 126). Managers are given the responsibility for focusing on compliance and are held accountable for resolving issues. Divisions, executive positions, and full-time positions are created to help a company better address social responsibility (Dickson et al. 2009).

In the strategic stage, companies begin to understand that aligning their business strategies with social responsibility can serve as a competitive edge, helping to overcome current issues and also assist with long-term success (Zadek 2004). For instance, companies taking innovative approaches to solving labor problems may choose to start publicly reporting their efforts to get credit from customers and investors for their work (Dickson et al. 2009).

Companies begin to think, “We need to make sure everybody does it,” in the final civil stage (Zadek 2004, p. 127). Apparel companies work together to help make social responsibility become an industry standard, from which companies can profit for

the long-term and from not experiencing “first-mover” disadvantages of conducting costly practices. With increased collaboration also comes an increased participation in multistakeholder initiatives, where companies and stakeholders engage with each other to further the cause and need for social responsibility (Dickson et al. 2009).

A major limitation of TRM and the path to corporate responsibility is that they were developed on the basis of large corporations headquartered in the United States and Europe. This research examines whether the path to and management of CSR applies to apparel manufacturers in the same way as their buyers.

6.2.3 Empirical Research on Apparel Manufacturers and CSR

A small body of literature has studied apparel manufacturers, providing initial insight into their CSR practices, the obstacles they face with CSR, what motivates their CSR actions, and the characteristics of those manufacturers that are better managing CSR. Well-known brands and retailers have subjected their large tier 1 manufacturers to social auditing, training and capacity building programs, and the requirements of multistakeholder initiatives such as the Fair Labor Association and Ethical Trading Initiative. In turn, Merk (2014) contends that some of these large manufacturers have reluctantly implemented CSR programs, others have actively engaged in behaviors to mislead buyers about their compliance, while others have taken more proactive and positive approaches, such as adopting their own CSR strategies and working in collaboration with their buyers for improved performance. Large tier 1 manufacturers have become increasingly competitive in the global garment industry by upgrading the services they offer and the quality of their outputs, which has resulted in long-term relationships with major brands and retailers. However, Merk (2014) argues that “Despite a wide range of CSR practices, working conditions remain substandard” (Merk 2014, p. 274).

CSR performance varies by company. Frenkel and Scott (2002) observed that two companies with strong and similar management practices differed in their approach to CSR, with one only reacting to their buyer's demands. Yet, Distelhorst et al. (2014) found that by adopting lean manufacturing methods, Nike suppliers were able to reduce serious violations of code of conduct by 15 %, although the reduction varied by countries/regions. Compliance was increased in Southeast Asia but in China compliance was not significantly improved. In a survey and interviews with apparel manufacturers based in China, 60 % reported having little or no understanding of CSR. The majority associated CSR with complying with laws, and did not have any policy or department focused on CSR (Cooke and He 2010).

The costs of engaging in CSR have been noted by Chinese and Indian apparel manufacturers (Cooke and He 2010; Huq et al. 2014; Stigzelius and Mark-Herbert 2009). Factories in India who were pursuing certification for CSR with SA8000 faced increased costs due to having to comply with higher wage standards and paying for audits required for certification (Stigzelius and Mark-Herbert 2009). Chinese manufacturers noted that compliance added costs and buyers were unwilling to share

in the costs of compliance (Huq et al. 2014). There were disincentives as well, including a lack of financial benefits from buyers (Cooke and He 2010; Stigzelius and Mark-Herbert 2009). Downward pressure on prices and shortened lead times from buyers presented further obstacles for apparel manufacturers attempting to implement greater social responsibility (Huq et al. 2014; Welford and Frost 2006). Chinese suppliers' commitment to buyer codes of conduct diminished with pressure to produce low-cost products coupled with transactional business relationships where suppliers were threatened that orders would be lost if they did not comply (Jiang 2009).

Additional obstacles preventing apparel manufacturers from implementing CSR related to managers and supervisors lacking skills for handling CSR issues (Welford and Frost 2006), inconsistent interpretation of standards by buyers and their auditors, lack of agreement with buyers on the standards they sought to impose (e.g., reduced overtime), cheating (mock compliance) of suppliers (Huq et al. 2014), and lack of government enforcement of regulations and support for CSR (Cooke and He 2010; Huq et al. 2014). Huq et al. (2014) noted higher prices and larger orders, as well as a harmonized code of conduct, focus on capacity building rather than auditing, a continuous improvement approach where buyers and suppliers work together, and enforcement of laws would assist manufacturers in facing these obstacles. This leads us to the motivations that apparel manufacturers have reported for implementing CSR.

While Hall (2007) asserts that emerging market TNCs operating world class CSR programs are often motivated by the difficulties endemic to their host developing countries, the motivation may be simply to gain competitive advantage (Cooke and He 2010; Porter and Kramer 2006). Empirical research has focused on a variety of possible business benefits from CSR. Improved working conditions helped Chinese and Bangladeshi manufacturers compete for workers by being a more attractive employer (Cooke and He 2010; Huq et al. 2014; Welford and Frost 2006), increased worker morale, and reduced absenteeism and employee turnover (Stigzelius and Mark-Herbert 2009; Welford and Frost 2006).

Improved productivity is a possible motivation for pursuing CSR (Huq et al. 2014; Stigzelius and Mark-Herbert 2009). In comparing two apparel manufacturers based in Mexico produced for Nike, Locke and Romis (2010) found that the factory implementing lean production involving worker participation and empowerment had better wages and working conditions, and was also more productive and profitable than the comparison factory. Additional possible business benefits noted in the literature involved hopes to receive more orders and fewer audits from their buyers (Stigzelius and Mark-Herbert 2009), and a better reputation with buyers (Cooke and He 2010).

Buying companies have an important role to play in motivating apparel manufacturers to implement CSR activities. Although Chinese manufacturers in one study did not report strong pressure from their buyers for them to engage in CSR (Cooke and He 2010), stakeholders based in Hong Kong and Mainland China believed CSR was carried out by apparel manufacturers because it was required of them by Western buyers (Tsoi 2010). Indian and Bangladeshi apparel manufacturers adopted CSR practices primarily because their buyers required it (Huq et al. 2014; Stigzelius and Mark-Herbert 2009).

How buying companies work with their suppliers reflects an emerging area of research aimed at improving CSR effectiveness (Dickson 2013). Buying companies work with their suppliers on CSR in two different ways. The traditional compliance model involves a top-down approach whereby powerful brands and retailers develop codes of conduct for their manufacturers and make heavy use of audit data to force their suppliers to improve their labor standards or lose their business (Locke et al. 2009); it has resulted in only slight and uneven improvements in factory working conditions (Frenkel and Scott 2002; Locke et al. 2009).

In contrast, a collaborative approach (also referred to as “commitment-oriented”) involves more of a partnership between buyers and supplier who use the code of conduct to benchmark continuous improvement of working conditions with factory auditors who conduct root-cause analysis and take part in joint problem solving, information sharing, and the distribution of best practices that mutually benefit workers, manufacturers, and their buyers (Frenkel and Scott 2002). Tsoi (2010) found that partnering with factories and increasing trainings offered were ways that stakeholders believed CSR would be improved. Research has demonstrated that as compared with traditional compliance approaches, collaborative/commitment-oriented approaches delivered more effective CSR results for Nike’s suppliers (Lim and Phillips 2008; Locke et al. 2009) and for Adidas’ suppliers (Frenkel and Scott 2002).

Working in partnership with manufacturers on CSR seems to have added positive benefits as well. Collaborative approaches to CSR have been connected with greater efficiency, better scheduling and planning, and improved product quality as well as improving worker turnover, and reduced monitoring costs (Frenkel and Scott 2002; Locke et al. 2007). Capacity building necessary for lean manufacturing aligned social compliance goals with core business goals (Distelhorst et al. 2014).

As a final theme, there are business characteristics that appear to be related to improved CSR. These characteristics include longer contracts (Jiang 2009), the attitudes of owners that had been educated overseas (Huq et al. 2014), and production for reputation conscious buyers (Oka 2010). There are inconsistent results on whether the size of the factory makes a difference. In comparing two apparel manufacturers based in Mexico that were producing for Nike, Locke and Romis (2010) found that the higher achieving of two factories was smaller. However, other research found that smaller companies had more difficulty complying with codes of conduct as compared with larger companies (Welford and Frost 2006) that were more likely to be professionally managed and generally more modern and safer than smaller companies (Merk 2014).

6.3 Methods

To define world class CSR and identify ways it can be supported, this study incorporated a qualitative approach involving interviews with a convenience sample of CSR professionals based in the USA, Europe, and Asia and leading CSR efforts for multinational apparel corporations and consultants/other professionals working collaboratively with companies to enhance CSR. CSR professionals’ perspectives on

world class CSR among apparel manufacturers were valuable because the scope of factories they work with provides them with deep knowledge of how manufacturers differently implement CSR, enabling them to make comparisons across numerous factories. Their views also matter because many are in the position to reward manufacturers practicing world class CSR.

Thirty CSR professionals were invited to participate and 18 accepted for a 60 % response rate. Interviews were conducted via face-to-face conversations, telephone, or Skype. Interviews ranged from 40 to 100 min, with most lasting approximately 45 min. The sessions were audio recorded and then transcribed verbatim for data analysis.

An interview schedule was created by the researchers to address the research objectives. Questions asked the CSR professionals to discuss world class CSR along broad topics related to managing social responsibility, the CSR-related interactions their companies have with world class manufacturers and the extent that world class CSR existed among manufacturers in their supply chain or base of clients. In cases where professionals did not believe that any apparel manufacturers were operating world class CSR, they were asked to express their views in terms of the ideal practices those companies would carry out. The interviews also explored the idea of competitive advantage and whether there were business benefits for world class CSR.

The qualitative data were coded using both deductive and inductive approaches. Using a deductive approach, examples of specific management practices associated with the two theories were coded (e.g., the presence of management systems and foundational values, a focus on workers, tracking performance data, publishing a public report on CSR performance). Additionally, an inductive approach identified additional common themes through multiple readings of the interview transcripts.

For each theme in the data, frequency of mentions throughout all 18 interviews were recorded in order to determine which were discussed more prevalently and were more indicative of a common definition of world class CSR and how it can be supported and expanded. However, to control for redundancy, if a theme was mentioned multiple times in one interview, that theme was counted only once. Due to space limitations, we present only findings that were cited by a majority of those interviewed.

6.4 Results

6.4.1 *The Practices of World Class CSR*

CSR professionals described a variety of business practices that reflected world class CSR as implemented by apparel manufacturers. In presenting those, each is related to the component of TRM (inspiration, implementation, or innovation) that it best reflects with broad topics associated with TRM listed in italics and bullets indicating subtopics that were coded during data analysis (see Table 6.1).

Table 6.1 CSR practices of “world class” apparel manufacturers

Practices	Frequency (<i>n</i> = 18)
<i>Inspiration: vision setting and leadership systems</i>	
Stakeholder engagement processes: Engaging and empowering workers	16
Foundational values: Aligned and compliant with international standards	14
Adhering to government legislation	12
Values/leadership commitments/responsibility vision: Owner and management commitment and values	14
Visionary and strategic	13
CSR—both social and environmental	13
Community focused	11
<i>Integration: changes in strategies and management practices</i>	
Integration into policies and practices: Management systems	18
CSR staff or committee	15
Building human resource capacity: Strong management	13
Training and capacity building	10
<i>Innovation: assessment, improvement and learning systems</i>	
Accountability for results and impacts: Taking ownership of CSR	18
Transparency: Open, transparent, trustworthy, and honest	16
Publishing CSR reports	11
Indicators of performance: Performance assessment	15
Profits and reinvestments into CSR activities	12
Improvement: innovation and learning External stakeholder engagement	12
Focus on continuous improvement	10

6.4.1.1 Inspiration

Engaging and empowering workers in the manufacturers' factories was the most frequently mentioned inspiration theme defining world class CSR. This theme focused on worker engagement, education on rights, respect for workers, provision of grievance procedures, and the creation and engagement of worker committees. As one professional stated, workers have to be “recognized as a huge piece” in CSR, going on to explain:

Management should really believe in worker-labor management relations. So that means . . . having a good grievance system in place, and really having opportunities for workers to express their positives and not-so-positives without any kind of negative retaliation. So it would be management acknowledging the value that the workers bring.

Having foundational values based on international standards and laws was also considered important for world class CSR. However, world class manufacturers were expected to go beyond compliance with a code of conduct. As one CSR professional asserted, "I'll emphasize I think that when you talk about the ideal factory, you're talking about something that is not envisioned by anybody's code of conduct."

Commitment of owners and top management contributed to the vision of world class apparel manufacturers and allowed CSR to be integrated into the company. One professional reminded that this commitment was important "to allocate resources and put pressure on middle management to build policies and systems and procedures." Several noted the changing management attitudes among younger generations of factory ownership. One professional had observed that:

The 35-year-old Taiwanese apparel manufacturer who got his MBA in Michigan and who comes home to take over the family business, has a very different attitude towards, for instance, interfacing with workers than the father who grew up in China, fled to Taiwan during the war, and went back to establish a factory when that was possible.

The responsibility vision of world class manufacturers was forward thinking and strategic. As one professional explained, "[in] the top group you have this executive vision. It's part of the company's values, part how the company does business. It's important to them. They're doing it for themselves." The vision of world class apparel manufactures extended to both social and environmental concerns, as well as to investing in the larger community beyond the factory walls.

6.4.1.2 Integration

Integration of CSR into the policies and practices of the company, particularly its management systems, was cited by all CSR professionals as essential to world class manufacturers' implementation of CSR. Such systems included those used in operating human resources departments, occupational health and safety and environmental management systems, manufacturing processes, and production management systems. A CSR professional described how the ideal manufacturer's management team would be central to such systems:

First and foremost, you know, CSR in these factories is actually good management. So, you know, we have socially responsible factories that have qualified health and safety engineers on staff and who have set up systems to make sure that safety standards that are issued from the head office actually kind of trace to the work floor. . . . I hesitate to even call this social responsibility. This is just basic common sense, good management.

Employing strong managers in CSR with accountability for achieving improvements and building their capacity to implement CSR was another practice believed to be important for world class apparel manufacturers, along with training workers. However, in addition to CSR staff, focus on capabilities of strong managers covered all

factory functions. In describing a world class manufacturer, one CSR professional explained “So they’ve got a highly invested, very sophisticated management team, quite articulate, very educated, very smart business people.” Another explained why building worker capabilities were also important, “The workers need to understand what their rights are.”

6.4.1.3 Innovation

The most significant innovation element of world class apparel manufacturers was the ownership and accountability they proactively take for CSR; it was cited by all those interviewed. Self-governance was a term used by many and an approach they took with their best factories. One CSR professional offered that “instead of this program and this process being driven by, you know, each of their respective customers, it’s being driven and owned by them.” It was also noted that world class apparel manufacturers were open and honest about the issues they discovered in their factories, rather than trying to hide them. Describing this, one CSR professional explained,

[The] world class manufacturer is open with its customers about its impacts and where it is along a continuum of meeting internationally recognized standards. So in other words if there are problems, they are aware of them and willing to discuss them openly with their customers first and foremost.

This openness was considered to facilitate trust between buyers and suppliers. For a majority of CSR professionals, the manufacturer would be so transparent as to publish public reports about their CSR efforts.

Performance assessment, involving internal audits and tracking effectiveness of the CSR work on key performance indicators (KPIs), was also a practice of world class manufacturers. One CSR professional stated,

Ultimately what you’d want to see is facilities that have the capability to report the positive impact of the implementation of the systems. Because of this we identified this series of problem, and we resolved them.

Reinvesting profits back into the company to improve its CSR performance was an example of one specific and important KPI.

Engaging external stakeholders was another approach to innovation. Engaging with a variety of stakeholders such as NGOs and government allows manufacturers to tap others’ perspectives and learn new strategies. Participating with multistakeholder initiatives, such as the Fair Labor Association that brings together companies, universities, and civil society to work toward improved working conditions, was a particular stakeholder engagement approach several CSR professionals mentioned.

Finally, a continuous improvement approach to CSR was pursued by world class apparel manufacturers. One CSR professional explained,

It’s very hard to ensure compliance. I think, you know, if you really get down in these codes of conduct, to really do everything all the time, is very difficult. So the key is not—to me

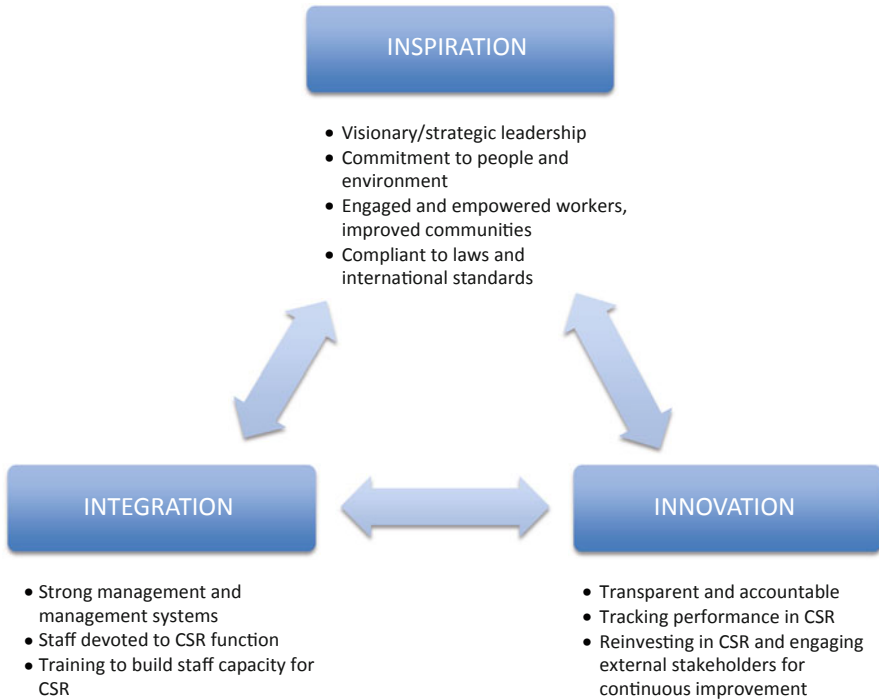


Fig. 6.1 Inspiration, integration, and innovation for world class CSR

it's not being perfect all the time, it's having this system that tracks how you're doing and gets you back on track when you're off.

6.4.2 Relationships Between Inspiration, Integration, and Innovation

Figure 6.1 illustrates the key components of inspiration, integration, and innovation as practiced by manufacturers in world class CSR. This research did not identify the component that serves as the starting point and it could be any of the three. For example, world class CSR could be spearheaded by the company leadership at the inspiration level. Alternatively, it could originate from a strong culture of management systems (integration) or in response to a workplace crisis (innovation). However, once world class CSR is part of the manufacturer's value proposition, feedback and change occurs across all three components.

Table 6.2 Competitive advantages and business benefits for implementing world class CSR

Theme	Frequency ($n = 18$)
Yes, there is a competitive advantage	14
No, there is not a competitive advantage	4
<i>What are the competitive advantages for the manufacturer?</i>	
More volume and greater profit	13
Decreased overtime and increased productivity	12
Improved efficiency and increased quality	12
Decreased employee turnover rate	11

6.4.3 Profile of Apparel Manufacturers Practicing World Class CSR

It is valuable for buying companies to be able to target world class manufacturers so they can support and assist in expanding the base of manufacturers that are considered world class. There were only two characteristics CSR professionals agreed described world class apparel manufacturers. World class manufacturers were large ($n = 11$), often operating multiple production facilities and were incentivized and supported by their governments ($n = 10$) through regulation and enforcement of laws, and broader initiatives in support of workers (e.g., ILO Better Work). CSR professionals believed that the manufacturers practicing world class CSR existed; however, we were unable to precisely pin down the extent they were found in their apparel supply or customer bases. The most common response (7 of 13 CSR professionals) was a very small number such as two manufacturers or 1–2 % and perhaps up to 5 % of the base. The largest numbers cited was from 10 to 20 % of factories, a range that captured an additional four responses.

6.4.4 Business Benefits and Competitive Advantage for World Class CSR

A competitive advantage was believed to exist for those manufacturers carrying out world class CSR (see Table 6.2). One advantage mentioned was increased order volumes or making more money on the business they do. One CSR professional explained,

And so there is a premium to be paid for this. It's a premium that's not just involved with social responsibility. It's involved with quality and workmanship and other things like that, but there is a premium to be paid.

Additional business benefits related to reducing the cost of business by reducing overtime and improving efficiency, productivity, and quality. These benefits were

Table 6.3 How brands can help manufacturers take the next step

Theme	Frequency ($n = 18$)
Buyers with high expectations	13
Develop stronger and equal relationships with manufacturers	13
Build capacity for CSR	13
Provide incentives or punishment	12

often discussed together, supporting the assertion that well-managed factories are managed well in all their functions. One CSR professional elaborated, stating, “A well-run factory cannot help but be an efficient factory and a compliant factory. I think they really go hand in hand.”

6.4.5 Role of Buying Companies in Expanding World Class CSR

Maintaining high CSR expectations of factories was a key role that buyers could play in supporting and expanding world class apparel manufacturers as was having good and long-term relationships with their manufacturers (see Table 6.3). While the need for reputation sensitive brands to choose the best manufacturers to conduct business with was mentioned, the bulk of the discussion referenced the brands lagging in CSR efforts by not compelling their suppliers to be leaders or in some cases even looking away when noncompliances were found. This inaction provides disincentives for improved CSR because manufacturers can more easily conduct business with lenient buyers. One CSR professional explained that,

You’ll find the better factories are the larger ones with all the good brands and the brands who want protection, you know, for the status of their brands. . . . So you’re going to find that factories that are making for the Nikes, the Levis, the Adidas, the Gaps, are going to be your leaders. The smaller they get and the more iffy your clientele base is, then the tougher it is for you to implement CSR.

Another CSR professional mentioned that “So as long as factories do have those kinds of customers saying I don’t care, they won’t change.”

A strong relationship between buyers and their manufacturers was also important to encouraging world class CSR and was described as long-term relationships with buyers providing significant orders to the manufacturer, maintaining good dialogue with each other giving space for manufacturers to talk about the challenges they face, and working together to address them. One CSR professional explained,

I think that the bottom line for most suppliers is knowing that there’s going to be long-term production with the brand. There’s going to be volume. It’s all financially driven—volume and a long-term commitment. A lot of suppliers aren’t going to bother if they know [you are] just going to be with them for a season or two and you’re only going to give them minimal orders. They can’t plan their business around that, so why should they even bother with anything else? They need to worry about getting more business.

Providing training, having supplier forums, and coaching manufacturers helped to build their capacity to address CSR issues. One CSR professional explained, "Show them how to do it, teach them how to do it, work with them to help them find the right tools."

Providing incentives, or if necessary punishment, was another form of support buyers could provide. Using CSR performance in making sourcing decisions was specifically mentioned as was providing more business. As noted earlier, much conversation focused on what needed to be done rather than what was being done by brands to support their manufacturers. As one professional explained,

There are some things that haven't found common adoption, and are not even really meaningful parts of the conversations between buyers and their suppliers and I think those include things like incentives, without which nothing will change in the long term.

6.5 Discussion

This study sought to examine world class CSR as it is practiced by apparel manufacturers. The first two objectives provided an understanding of what world class practices in CSR include and who the manufacturers are that are performing them. The third and fourth research objectives provided information that can be used to encourage and support a broader range of manufacturers to embrace greater CSR.

6.5.1 *World Class CSR*

Interviews with CSR professionals with extensive experience in the practices of a global base of apparel manufacturers, described CSR programs that contained many of the elements of TRM (Waddock and Bodwell 2002) and had similarities to previous research. World class manufacturers are inspired by the forward-thinking vision of top leadership and recognize the value of workers not just as employees, but also valuable resources in which to invest in, to support, and to respect. Laws and international standards are viewed as only minimum standards of performance. These manufacturers engage in considerable activity to implement the CSR vision by having highly qualified managers with the right skills implement the right systems to assure a consistent approach to the CSR work as well as all other aspects of the factories' work, including quality control and production efficiency. The emphasis on strongly qualified management aligns with previous research (Welford and Frost 2006). Also like previous literature, we noted the changing management style brought by those educated overseas (Huq et al. 2014). Through training, these apparel manufacturers also enlist the support of workers in implementing CSR.

In interacting with their buyers, apparel manufacturers pursuing world class levels of CSR take ownership of their work, tracking performance, being honest with their buyers about what they find, and being accountable for finding remedies, including

sometimes making costly investments into their companies. Their work is shared publicly so that stakeholders can know about the CSR work and make suggestions.

Unlike the practices assembled by Waddock and Bodwell (2002) in TRM, apparel manufacturers do not broadly engage external stakeholders when establishing foundational values. This is understandable given that one reason that CSR is pursued is because reputation-sensitive buyers require it (Cooke and He 2010; Oka 2010; Stigzelius and Mark-Herbert 2009; Tsoi 2010) and then enforce it through the traditional compliance approach (Frenkel and Scott 2002; Locke et al. 2009). In addition, since world class manufacturers are serving buyers with the highest expectations, the codes of conduct would be imposed on them as part of the business relationship. In addition, no mention was made of these manufacturers internally rewarding managers and workers for CSR implementation.

Unlike Merk (2014) who observed large manufacturers becoming increasingly competitive with the products and services they offer while offering substandard working conditions, CSR professionals observed that improvements in products and services correspond to improvements in CSR. This difference in perspective is likely due to the fact that CSR professionals understand the complexities involved with achieving better conditions, which requires a constant and continuous improvement approach to facilitate CSR.

Although the CSR professionals were asked to profile world class apparel manufacturers by business characteristics, geography, and other elements, beyond identifying them as larger companies that are supported by their governments there was no consensus on other characteristics or where they are located. The finding related to size corresponds with previous research (Welford and Frost 2006). The value of supportive governments is not surprising given that the lack of government support and enforcement of laws were reported as obstacles to CSR (Cooke and He 2010; Huq et al. 2014).

In discussing the practices of world class CSR, a much different type of apparel manufacturer was described than has been reported on in previous studies where apparel manufacturers were found to have little awareness of CSR, viewed it as a nuisance, and even cheated to avoid complying with buyers' expectations (Huq et al. 2014; Merk 2014; Welford and Frost 2006). Given the very small proportion of global apparel manufacturers viewed as carrying out world class CSR, the differences with previous literature are understandable—without purposefully studying manufacturers with the very best CSR practices, they are likely to be overlooked.

6.5.2 Encouraging and Supporting Broader Engagement with CSR

The CSR professionals interviewed believed there is a competitive advantage for apparel manufacturers practicing world class CSR, which parallels Porter and Kramer's (2006) argument for social responsibility. Several benefits related to internal business performance were mentioned that match previous research, including increased

productivity and quality and reduced employee turnover (Distelhorst et al. 2014; Frenkel and Scott 2002; Locke et al. 2007).

More volume and greater profits was the most frequently mentioned business benefit, like previous research that had found that apparel manufacturers hoped to receive more orders as a result of good CSR (Stigzelius and Mark-Herbert 2009). However, in discussing the role buying companies can play in supporting and expanding world class CSR, our findings indicate that buyers are infrequently delivering this much valued business benefit. Given that past research has raised concerns about the lack of financial benefits (Cooke and He 2010), pressure to produce products at low cost (Huq et al. 2014; Jiang 2009; Welford and Frost 2006), and the high costs of CSR (Cooke and He 2010; Huq et al. 2014; Stigzelius and Mark-Herbert 2009), this is an especially important finding. Apparel buying companies need to follow through and actually help make the competitive advantage tangible by giving those socially responsible manufacturers more orders.

Developing deeper and more equal partnerships with their manufacturers was another key step believed important for buyers to take to support world class CSR, which corresponds with the collaborative approach to working with manufacturers on CSR that is more effective in improving working conditions (Frenkel and Scott 2002; Locke et al. 2009). In contrast to Locke et al.'s (2009) suggestion that buyers use increased auditor presence at factories, this study suggests that world class factory actually should require *less* third-party interaction and more of its own ownership of CSR practices. While buyers may want to provide trainings to build capacity, as suggested by Tsoi (2010), when it comes to handling specific issues the more sustainable approach might be to trust those performing at high levels to identify and tackle the problems in their factories, and provide reports about their efforts and effectiveness.

6.5.3 A Proposed Path to World Class CSR

Zadek's (2004) path to corporate responsibility provided one theoretical perspective for considering how to support and expand progress toward world class CSR. That path placed heavy emphasis on external stakeholders (i.e., the media, activists) in moving brand name companies toward greater social responsibility. For instance, when transitioning from the managerial to the strategic stage, brands are able to easily feel competitive advantages from having fewer media reports on poor working conditions (Zadek 2004). In contrast, the path a manufacturer takes is much more heavily dependent on its buying customers and brand relationships. As brands increase their dedication to social responsibility and include social responsibility as a standard for responsible sourcing, we can expect that their manufacturers will also improve their policies and practices of social responsibility.

In considering the findings of this research and the body of literature on apparel manufacturers and CSR, we propose the "Apparel Manufacturers' Path to World Class CSR" (see Fig. 6.2). This path steps away from the heavy use of policing

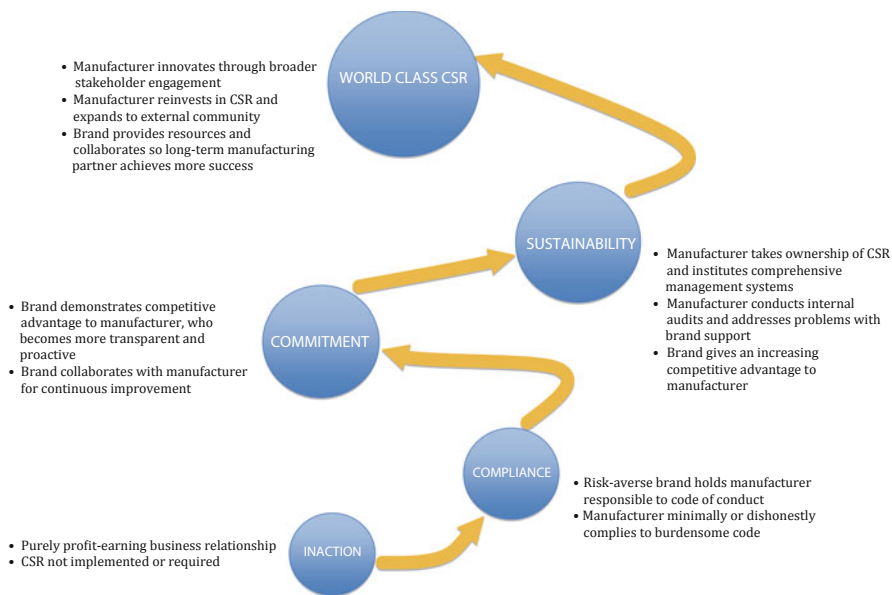


Fig. 6.2 Apparel manufacturer’s path to world class CSR: a brand-manufacturer collaboration

methods in the traditional compliance model to a more collaborative approach that is supported and expanded by buying companies through the relationships they have with their manufacturers. In the first stage of this path, “Inaction,” the manufacturer and brand have a purely profit-earning business relationship, whereby CSR plays no role in the condition of the business terms. The manufacturer is most likely not incorporating socially responsible policies and practices in its business activities. In deciding whether or not to source from a manufacturer, the brand does not consider the manufacturer’s level of compliance with labor standards. The brand does not acknowledge or penalize the manufacturer based on its social responsibility but implicitly rewards inaction with continued business.

In the second stage, “Compliance,” in attempts to reduce its risks and accountability should a problem arise, the brand begins to monitor the manufacturer and hold it responsible for upholding the brand’s code of conduct. The manufacturer does only what is minimally required, seeing this mandatory requirement as a burden that is costly and not worth the investment. In order to keep the business relationship with the brand, the manufacturer minimally complies or falsifies its compliance to the brand’s code of conduct.

For an apparel manufacturer to progress to the “Commitment,” stage, the brand needs to help educate the manufacturer that a competitive advantage exists for CSR and jointly works with them to achieve improved results. The manufacturer begins to move beyond dishonest or minimum practices, starting to become more transparent, honest, and trustworthy in order to demonstrate its commitment to social responsibility. The manufacturer is more proactive in implementing the policies and practices

that are required to comply with the brand's code of conduct. The brand responds by preferring this manufacturer over less socially responsible manufacturers.

In the fourth stage, "Sustainability," the manufacturer takes ownership of its CSR practices, realizing that conducting social responsibility is not solely for the short-term benefit of more orders from the brand; rather, it helps improve and develop the workers, community, and business as a whole. The manufacturer works to ensure that the right people and systems are in place. Management systems embed social responsibility throughout the entire manufacturing company's policies and practices. The manufacturer conducts internal assessments of its own factories' performance and brands work with them to overcome obstacles. The competitive advantage is tangible as brands place more orders at premium prices with the manufacturer, allowing the manufacturer to see the positive financial impacts from these orders, as well as the positive business benefits achieved in their manufacturing processes.

Finally, in the "World Class" stage, the manufacturer has already established its socially responsible policies and practices, and now begins to innovate. For example, it may carry out studies with external stakeholders to improve certain aspects of its performance or perhaps even join a multistakeholder initiative to interact with external stakeholders and learn how CSR efforts can be further improved. These profitable manufacturers will reinvest in CSR and expand their efforts beyond the factory walls to the broader community where they are located. The brand not only assists with providing resources to these long-term partners for the implementation of these projects, but it also collaborates with the manufacturer to evaluate, ameliorate, and innovate the results for more successful outcomes.

6.6 Future Research and Conclusion

As with any research, this study has limitations, which would be valuable to address in future research. It utilized the perspectives of CSR professionals, many of whom represent large and well-known apparel brands and retailers. Their definition of world class CSR could be different from those held by representatives of other groups, such as manufacturing companies or NGOs. Therefore, it would be helpful to replicate this study with both groups to understand the characteristics they believe define world class CSR. Surveys and case studies with apparel manufacturers practicing world class CSR could focus on validating the Path to World Class CSR. Furthermore, the study was limited because it did not allow us to know whether apparel manufacturers practicing world class CSR actually have better compliance records than those that are not. If a brand with manufacturers practicing world class CSR would allow it, the compliance records of those suppliers could be compared with those they believe are close to and far from achieving world class CSR.

Until buyers and manufacturers raise the bar to hold higher expectations about CSR and how it is carried out, world class manufacturers will face challenges realizing a full competitive advantage. The industry needs to develop a critical mass of like-minded companies that are serious about eliminating the poor labor practices

and working conditions in the global apparel industry. This research provides criteria that buying companies can use to aid in selecting manufacturers that are on the path to improved CSR. It also provides guidance for how buying companies can support their manufacturers' progress. We urge brands and retailers to follow this guidance and to, as described by one of the CSR professionals, "show them that there's a buck in it."

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