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Generation 2.5 Corporate Social Responsibility:  
Unlocking the Business Value in the Future of Corporate Citizenship

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By

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## ABSTRACT

### Generation 2.5 Corporate Social Responsibility: Unlocking the Business Value in the Future of Corporate Citizenship in the Apparel Industry

By

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This paper seeks to explore corporate social responsibility in the apparel industry taking into account the perspective of corporations active in the corporate social responsibility space. It also examines critiques of such commitments. The goal is to identify corporate strategies for social responsibility and how well they align with scholarly critiques and recommendations for the future. The first section of this paper will discuss the conceptualization of corporate social responsibility and the value of corporate social responsibility to corporations. The next section explains why the apparel industry is a particularly sensitive topic in relation to corporate social responsibility and also why it has a considerable amount of potential for significant positive impact. This section will involve the conceptual development of three generations of corporate social responsibility strategy, introducing the notion of a “Generation 2.5,” which I argue could provide the future focus of corporate social responsibility in the apparel industry. Finally, I will discuss three case studies of major apparel companies, Nike, Gap, and Patagonia, which have a reputation for being at the forefront of innovation for corporate social responsibility strategies. The goal is to discover the significance of corporate social responsibility in the apparel industry for companies, consumers, workers, and all people with a stake in the operations of these companies. Finally, this paper concludes by exploring the shortcomings of current practices and the future of corporate social responsibility.

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## LIST OF ACRONYMS

CoC—Code(s) of Conduct

CSR – Corporate Social Responsibility

FLA – Fair Labor Association

FoA — Freedom of Association

ILO – International Labor Organization

MDG(s)—Millennium Development Goals

MNC(s)—Multi-national Corporation

MSI – Multi-stakeholder Initiative

NGO – Non-governmental Organization

RSCM – Responsible Supply Chain Management

SRI—Socially Responsible Investing

SVI—Shared Value Initiative

## **INTRODUCTION**

According to the UN Global Compact in a study of CEOs across countries by Accenture, only 32% of 1,000 CEOs surveyed in 2013 believed that “the global economy [was] on track to meet the demands of a growing population within environmental and resource constraints” (UN Global Compact 2013, p. 7) and 80% of these CEOs saw sustainability as a competitive advantage in their industry (UN Global Compact 2013, p. 26). Further, as of 2010, the recent global downturn was not seen as a hindrance to social and environmental responsibility, but rather, 80% of the 766 CEOs surveyed believed that their commitments to responsibility increased after the 2008 Financial Crisis began (UN Global Compact, 2010). Finally, 84% of CEOs surveyed in 2013 believed that it was the responsibility of businesses to contribute to development and, yet, only 33% of CEOs thought that the business sector has been having an adequate positive impact (UN Global Compact 2013, p. 20).

Given the recent factory fire at Rana Plaza in Bangladesh and the subsequent increase in global awareness of exploitative labor practices, understanding the motives of social responsibility in the apparel industry in particular from companies that may or may not live up to positive commitments to their own supply chain impact is a complicated and significant step towards genuinely affecting the global impact of corporate decision making behavior. As Peter Goldmark states in his article “Before the Storm,” we are “living in the time before a storm of historic proportions, a period of searing difficulty for the peoples of the world and the planet itself” (Karoff 2008, p. 23). This sentiment reflects Goldmark’s



view that there is a dire need for humanity to work together towards altruistic goals in order to survive issues of overpopulation, environmental depletion and all levels of poverty around the globe.

This paper seeks to explore corporate social responsibility in the apparel industry taking into account the perspective of corporations active in the corporate social responsibility space. It also examines critiques of such commitments. The goal is to identify corporate strategies for social responsibility and how well they align with scholarly critiques and recommendations for the future. The first section of this paper will discuss the conceptualization of corporate social responsibility and the value of corporate social responsibility to corporations. The next section explains why the apparel industry is a particularly sensitive topic in relation to corporate social responsibility and also why it has a considerable amount of potential for significant positive impact. This section will involve the conceptual development of three generations of corporate social responsibility strategy, introducing the notion of a “Generation 2.5,” which I argue could provide the future focus of corporate social responsibility in the apparel industry. This literature review will end with a section critiquing current efforts of social responsibility in the U.S. apparel industry. Following the literature review will be three case studies: Nike, Inc., Gap, Inc., and Patagonia. These three companies will be reviewed based on their own sustainability reports, interviews with key decision makers, and critiques of their policies by the press and scholars in order to identify how well their history and strategies coalesce with scholarly observations, critiques, and recommendations. Finally, I will discuss the current trend in corporate social responsibility for these major companies as a nexus of strategies geared

toward optimizing business performance through the use of second and third generation corporate social responsibility.

## **I. Corporate Social Responsibility**

This section will be used to develop a conceptual understanding of the need for corporate social responsibility and the value that it may hold to firms that practice it. Critiques of corporate social responsibility can be found later in this document in Chapter III: Critiques of CSR in the Apparel Industry.

### ***A. The Conceptualization and Development of CSR***

Maslow's framework<sup>1</sup> organizes human needs into a ladder that places physiological needs, such as food, water, and shelter at the bottom of the hierarchy and human needs and psychological needs, such as love, motivation, and confidence at the top. Ethical behavior, according to Sidiropoulos, would fall higher in the hierarchy and would take less precedence in every day life choices than the basic physiological needs of an individual (Sidiropoulos 2013). Sidiropoulos discusses how authors Udo and Jansson expand this framework to analyze how different communities develop values and behaviors as a global hierarchy. For example, Sidiropoulos believes Udo and Jansson would say that among 132 nations, those that are less economically advanced and have many people struggling for survival are less concerned with environmental sustainability than advanced stable nations. This is arguably due to the fact that basic needs are not met and, therefore, people are forced to do what is necessary to protect the immediate future for themselves and their families rather than to develop sustainable relationships and practices (Sidiropoulos 2013, p. 1-3).

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<sup>1</sup> Maslow's framework is a psychological theory about basic human needs and motivations originally published by A. H. Maslow in the 1943 Psychological Review. (Maslow 1943)

A study done by Welford provides further support for the idea that economically advanced nations may have developed practices that fulfill needs placed higher on Maslow's hierarchy of human needs (Welford 2005). Welford surveyed large, influential companies located in Europe, Asia and North America about their own corporate social responsibility (CSR) commitments by asking respondents which types of commitments to social and environmental justice they had made through formal written policy in order to see how proliferated different forms of social responsibility were in different cultural contexts. The author separates 20 elements of CSR into four categories: Internal, such as staff development in own corporate workplace, External, such as labor rights adopted by suppliers, Accountability, such as commitments to reporting and to dialogue regarding CSR, and Citizenship, such as third-party social initiatives and external campaigns for development (Welford 2005 p. 35). In general, it seems that deeper economic development within a country correlates to higher instances of CSR policies in their businesses and there is a higher probability of CSR proliferation in areas with democratic traditions (Welford 2005, p. 52), such as the US and Europe. In sum, Welford discovered that ethical business behavior was more common in economically advanced areas and that strong democratic institutions were related to deeper CSR commitments—at least within the home country. This may be specifically due to the fact that democratic societies have more mechanisms to check and balance corporations than less socio-economically advanced countries, not necessarily that these corporations are themselves particularly ethically evolved.

Further, the poor working and living conditions in less economically advanced countries would partially support Sidiropoulos' interpretation of Udo and Jansson's view of a global hierarchy of nations and their needs. According to the World Bank, 2.4 billion people live

on less than \$2 per day (World Bank 2014). It would seem that the theory of a global hierarchy of nations is supported by the prevalence of sweatshops<sup>2</sup>, child labor, and slave labor in poor communities. For example, some may send their own children to work in sweatshops to make ends meet or sell their own bodies into prostitution in order to feed their families.

However, this is not necessarily because poor communities are any less ethical per se, but because global power dynamics and their socio-economic status forces them, in some cases, to sacrifice for survival. Kolk and Van Tulder discuss the role that multi-national corporations (MNCs) have in creating and perpetuating this life of poverty (Kolk & Van Tulder 2006). Foreign direct investment is coveted by developing areas and yet can actually crowd out any local competition due to the fact that MNCs have more resources, can meet higher standards, have more political power, and have access to more markets. Further, MNCs create low skilled, low wage jobs in these areas and, since there is no ownership of the production within the community, these are the only jobs available to local workers. MNCs tend to have negative environmental impacts on host communities that further reduce the opportunities for the poor while simultaneously increasing inequality (Kolk & Van Tulder 2006, p. 790).

In essence, MNCs are all but forcing vulnerable people to assimilate into the global economy in a position that perpetuates their marginalized status. This means that MNCs have in some cases exacerbated the inability of individuals in less economically advanced areas to establish a stable foundation of basic human needs necessary to move up to higher

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<sup>2</sup> “Sweatshops” as discussed by the United States General Accounting Office in 1988, are “establishments employing workers at low wages, for long hours, under poor conditions...typically located in small factories or crowded and dilapidated tenements where immigrant families lived and worked (U.S. General Accounting Office 8).”

levels of Maslow's hierarchy, such as being able to survive while also making socially and environmentally ethical decisions and demanding to be treated in an ethical manner by others in the global economic system. It would seem that more economically advanced countries, particularly democratic ones, are more likely to develop ethical codes and behavior in their home country, but not necessarily in foreign host countries that do not have the same level of enforcement for laws and regulations. Therefore, the concept of a superior moral code existing in economically advanced nations in a global hierarchy overlooks the actions of those so-called superior nations on a global scale that exacerbate social and environmental injustice and even prevent other, less economically advanced nations, from developing their own ethics. In other words, even when moral ethics are developed, the need for low cost labor keeps those ethics from being maintained throughout the globe, especially in the global operations of the same MNCs that claim to be advancing ethics in the first place. Ethics can be all but impossible when cutting costs becomes more important than a moral code.

According to Hopkins, the richest entities in the world are MNCs, such as EXXON, Google, Hewlett Packard, and WalMart (Hopkins 2009). In a world where about 40-50% of world trade is conducted within the walls of multinational corporations or is directly related to such business, the largest corporations control more capital than most countries (Hopkins 2009, p. 4). This means that while, as previously discussed, MNCs have been inconsistent with their ethics at home and abroad, they simultaneously have the wealth and power to significantly contribute to poverty alleviation. Through leveraging their resources and transnational supply chains, MNCs could influence not only those that they themselves

directly employ, but all stakeholders<sup>3</sup> in their business operations. In other words, there is not only potential for MNCs to have a negative impact on the developing world, but also major potential for MNCs to not only repair their own negative impacts but also to contribute to significant poverty alleviation.

Ethical monetary and business behavior has historic roots in the Catholic Church, which prohibited usury, and also in the religion of Islam. After World War II, Anner explains that businesses began to develop an ethical compass that encouraged value creation beyond simply generating profits for shareholders (Anner 2012, p. 4). For example, in the United States “corporations have increasingly turned to voluntary, multi-stakeholder governance programs” (Anner 2012, p. 1). Szwajkowski discusses the reputation of a firm and the stock market value of a firm as two aspects of stakeholder management from the perspective of a for-profit company (Szwajkowski 2000). The author states that while the main differences between the two is that shareholder returns are regularly reported and are done so in monetary units, both shareholder returns and the stock market value are the aggregate valuation of stakeholders and investors based on publically available information (Szwajkowski 2000, p. 384). The author makes a convincing argument that Adam Smith and Milton Friedman, who are both regularly credited for being market fundamentalists who promote the pursuit of profit as the principle imperative of firms, were actually stakeholder management theorists. As “stakeholders are in essence the market in all its forms,” meaning they determine appropriate price and quantity along side appropriate corporate behavior, and a positive reputation is necessary to maintain shareholder returns and therefore attract

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<sup>3</sup> Stakeholders are discussed further in the section on Generation 2.5 ethics on page 35 of this document and are defined as all individuals with a stake in the operations of a given enterprise, including but not limited to shareholders, consumers, employees, contractors, vendors, and communities in which the company operates.

investments, firms that act purely out of self-interest and fail to please stakeholders will lose consumers and investors and, thus, profits (Szwajkowski 2000, p. 385). In other words, for companies that value health and longevity, pleasing all stakeholders is imperative for maintaining stock value and, therefore, a company looking to please shareholders would effectively be aiming to please all stakeholders in the organization's operations.

One way to increase the positive impacts of MNCs could be through more ethical education in business schools. Sidiropoulos conducted a study using a pilot seminar for business undergraduate and graduate students that explained how ethical behavior could be integrated into business and that the focus of all business should be on value creation for all different types of stakeholders (Sidiropoulos 2013, p. 16). At the end of the seminar, Sidiropoulos surveyed the students and found that just increasing awareness of corporate impacts and CSR possibilities reinforced pro-ethical views for 30% of participants and increased pro-ethical sentiment for another 30% of students in the study (Sidiropoulos 2013, p. 15). While Sidiropoulos emphasizes that teaching methods must be altered to match individual audiences, for example from different cultures with different inherent beliefs, this study also showed that raising awareness of corporate misconduct and its impact on society can alter the perception of consumers and future business decision makers. Unfortunately, I am unaware of any follow-up studies that can show if these changes in perception genuinely affected the behavior of those surveyed in the long run. It would seem though, that altering the belief system of decision-makers in this way is a step, however small, towards ethical behavior.

While corporations have had mixed impacts on the planet and on various societies, their potential contribution to poverty alleviation is substantial. Not only do individuals



potentially possess ethics in the hierarchy of needs, but so might the societies and businesses in which these individuals operate. While a concern with ethics is not on the bottom of the hierarchy of human needs, it has recently developed in corporations controlled by individuals from more economically advanced and more democratic societies. These corporations develop CSR practices in order to meet the needs of all stakeholders, more recently including marginalized societies previously enjoying little, if any, of the benefits of modernity. In other words, corporate social responsibility is the act of corporate decision makers actively seeking to decrease or offset their negative impacts on society while increasing their positive impacts through ethical behavior. CSR is, however, controversial and critical analysis of such claims to enhance ethical behaviors will be developed in a later section.

### ***B. Why corporations benefit from CSR strategies***

Due to the fact that the main goal of a corporation is to maximize value for shareholders (Berle & Means 1991), CSR programs that require philanthropic giving and patient capital for long term programs that are not relevant to business operations are complicated to develop, execute, and maintain. However, successfully maximizing shareholder value in the long run is becoming increasingly more connected to socially responsible behavior. According to a survey conducted by the UN Global Compact, 93% of the over 1,000 CEOs surveyed believe that managing their social and environmental impact strategy is “critical to the future success of their firm” (UN Global Compact 2013, p. 18).

#### i. Attracting Investors

In terms of attracting investors, according to a study done by Puaschunder, there is evidence of a growing trend in North America and Europe towards socially responsible investing (SRI) and, as companies become more accountable to their investors for their social impacts, there is an increase in Corporate Social Responsibility (CSR) via philanthropy, development initiatives, and increased commitments to responsible supply chain management (Puaschunder 2012). Since the early 2000s, “a growing portion of investment firms and governmental agencies adopted a more socially conscientious investment philosophy” (Puaschunder 2012, p. 7), making corporations with good CSR reputations increasingly more popular to investors as “\$2.5 trillion in assets were attributed as socially responsible funds, which accounted for 20.7% of all U.S. investments” (Puaschunder 2012, p. 11). Further, in a study of 277 public companies in the Toronto Stock Exchange, there has been a correlation between social responsibility and high returns with low volatility, which makes social responsibility compatible with corporate business strategies for attracting responsible investors and minimizing risk (Puaschunder, 2012, p. 8).

#### ii. Protect Reputation

Grosvold, Joejmore, Roehrich and Jens conducted a study by interviewing decision makers in seven large companies in six different industries about drivers and benefits of CSR and Responsible Supply Chain Management (RSCM) (Grosvold et al., 2013, p. 5). These interviews found that many companies engaged in responsible activities insofar as it satisfied stakeholders in an effort to achieve competitive advantage through brand recognition and reputation protection (Grosvold et al., 2013, p. 11). This trend in CSR is supported by the fact that many corporations are developing responsible business codes of conduct. According to Stohl et al., all Global 500 and Fortune 500 companies surveyed, as

well as 81% of the total 164 surveyed companies, had written a code of ethics, which at the very least shows a concern within the company to publically address the issues within global supply chains verbally (Stohl et al.2009, p. 11). More critical analysis of how effective the Codes of Conduct (CoC) have been can be found in the critiques section of this document.

Beyond shareholders, according to Mefford in a survey of over 25,000 consumers in 26 countries conducted by Price-Waterhouse Coopers, more consumers base their impression of a company on their CSR practices than on their brand recognition or financial performance (Mefford 2011, p. 112). This type of thinking is augmented by the bad press associated with sweatshop disasters and is exemplified by the occupy movement and other forms of activism. The loyalty of customers increases brand equity due to the lower price sensitivity of patrons and the decreased need for extensive advertising and promotional spending to bring in new customers (Mefford 2011, p. 113). Moreover, Auger, Burke, Devinney and Jordan discuss how a study conducted by Elliott and Freeman in 2001 revealed that consumers were willing to pay “28% more for \$10 items, but 15% more for \$100 items” simply because they were made under good conditions (Auger et al. 2003, p. 5). Conversely, a study conducted by Kimeldorf, Meyer, Prasad, and Robison, found that while 68% of survey respondents claimed to be willing to spend up to 20% more for items made under good conditions, only 27% of lower-middle class test subjects purchased socks that were otherwise identical at a 20% mark up when distinguished as being a product made under sweat-free conditions<sup>4</sup> (Kimeldorf et al. 2006, 25-27). Therefore, while it seems that there is a moral consciousness connected to the purchase of ethical products, purchasing behavior is not completely dependant on those morals.

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<sup>4</sup> See Appendix II for more information about this study.

Finally, in the information age with improvements in social media and communication devices being constant, consumers have access to more information than ever before related to a company's social and environmental sustainability practices (David et al. 2012, p. 5). Therefore it is becoming increasingly more necessary to take into account CSR strategies when making business decisions in order to maintain sales, even if ethical behavior is lagging behind the proclaimed ethics of the consumer.

### iii. Mitigating Legal Risks

MNCs are exposed to various types of risk, including legal risks both domestically and internationally. Szwajkowski argues that "information is the currency in the stakeholder environment" and that "honest disclosure breeds control of information, control of behavior, empowerment on stakeholder issues, and, perhaps most important, trust" (Szwajkowski, 2000, p. 389). Corporate responsibility benefits corporations by granting easier access to markets that already have transparency regulations. For example, in California there is the California Transparency in Supply Chain Act, which requires companies doing business in California that bring in \$100 million in annual gross receipts to disclose all efforts to eliminate modern slavery within their global supply chains (David et al. 2012, p. 3). California, while only one of the 50 states in the republic of the United States of America, has the 9<sup>th</sup> largest economy in the world (Legislative Analyst Office 2013). Therefore, transparency and trust are not only key to meeting stakeholder demands but also to meeting legal requirements in places where transparency is mandated by law.

Further, for U.S. based firms, developing business strategies that incorporate basic rights and needs of employees foreign and domestic can protect against domestic lawsuits

and even lawsuits through the Alien Torts Claims Act, which have been brought to U.S. courts in recent history. Studies show that factories and their workers that believe that the brands they supply treat them in an “ethical way” are less likely to sue using the U.S. torts system (Mefford 2011, p. 124).

### ***C. Breaking it down into Generations of CSR***

Stohl, Stohl and Popova discuss CSR by splitting it into three generations of ethics. In first generation ethics, corporations work to comply with local and international laws associated with their operations. In second generation ethics, corporations focus on maintaining a responsible supply chain, such as paying living wages and promoting a safe, productive work environment (Stohl et al. 2009). Third generation ethics have a broader idea of responsibility beyond profit and law, and include efforts of philanthropy outside the areas directly affected by a company’s supply chain and bottom line (Stohl et al. 2009, p. 5). Hopkins refers to these same three generations of ethics as “types” of CSR and discusses similar ideas associated with the three distinct generations.

First generation ethics alone are not conducive to promoting development because local laws and regulations in developing areas may not be in existence or adequately enforced. For example, according to David, Viederman, Plant, McQuade, Batstone, Bales, and Costello, there are an estimated 20.9 million people still working under conditions of slavery (David et al. 2012, p. 2). While major corporations may not directly enslave these “employees”, the corporate supply chain indirectly employs them. Agricultural work and construction make up a good portion of those living in conditions of modern slavery, and those employing them get their business through corporate contracts for raw materials and

outsourced labor (David et al. 2012, p. 2). The existence of modern slavery can be directly attributed in part to the lack of adequate legal systems and enforcement for human rights within developing countries. Therefore, responsible corporations need to create and monitor their own standards of activity through responsible monitoring of all global activities and influence, or second-generation ethics.

Setbacks to second generation CSR involve a lack of will to fully implement, monitor and enforce socially responsible policies. Nova from the Worker's Rights Consortium<sup>5</sup> points out that audits of contracted factories in a supply chain, for example, are not always comprehensive and, particularly prior to the Rana Plaza disaster<sup>6</sup>, did not involve much, if any, attention to building safety (The Economist 2004). Many companies require suppliers to have a "check-up" audit only every so often (Mefford 2011, p. 116). If a company only requires an audit every several years, then there is no assurance that standards are being met regularly. A major reason for intermittent audits is that it would take a significant investment to monitor suppliers on a regular basis. Further, without community development, such as an increase in the rule of law and in empowerment within areas affected by corporate operations, the normative labor standards of suppliers would not be affected. In other words, higher wages and better working conditions would be difficult to sustain without significant investments in monitoring mechanisms, and would also be inadequate to improve the lives of individuals in their communities affected by corporate operations if there were no other types of socio-economic development.

While second generation CSR focuses on mitigating negative impacts associated

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<sup>5</sup> "The Worker Rights Consortium (WRC) is an independent labor rights monitoring organization, conducting investigations of working conditions in factories around the globe (Workers Rights Consortium 2007)."

<sup>6</sup> As mentioned on page 25 of this document, in 2013, the factory collapse at Rana Plaza was the deadliest garment factory disaster killing over 1,132 workers (Financial Times 2014).

with global supply chains, third generation ethics are interested in producing positive impacts around the globe. This type of responsibility is usually in the form of philanthropy that goes beyond dealing with a corporation's supply chain and operations to include the intention to provide relief for disasters and/or promote economic development unrelated to the corporation's area of direct influence. In a lot of cases this type of CSR is conducted as philanthropy, or direct donations to communities or non-governmental organizations working within less economically advanced communities. One example of a large mobilization of philanthropic funds attributed to corporate responsibility is the relief funds raised by private business in the wake of the 2004 tsunami in Asia. About \$400 million was donated by corporations in the US, and in the UK about \$15 million was likewise donated (Hopkins 2009, p. 4).

The major benefit to this type of CSR is an ability to focus on development and not just on one aspect of a community's economic well being, such as those within a supply chain's factory walls. This is possible because companies can donate money to independent programs, for example NGOs, and even create their own programs in areas unrelated to corporate operations and therefore have no affect on that corporation's bottom line. This approach to CSR allows for philanthropists to adopt the ideas of scholars such as Bernholz, who points out the necessity of including the poor and marginalized groups in the creation of solutions to the world's biggest problems, which predominantly affect those same groups (Karoff 2008). This same scholar also points out that each project should be localized in the sense that global goals should be set and then applied to individual situations holistically, instead of the conventional model of using "pilot programs" and then "scaling" them to meet the needs of other groups living in poverty (Karoff 2008, p. 37). In this way, third generation

CSR, or philanthropy, allows benefactors to focus on development as a whole without having to compromise their own business operations.

While the divorce of goals of corporate profits from development initiatives in this type of philanthropy can be more effective in terms of fostering inclusive development, there are also some serious setbacks. According to *The Economist* “the ineffectiveness of much philanthropy is actually the fault of the philanthropist...people too often let their philanthropy be guided by their hearts alone (The Economist 2011, p. 2).” So, while this type of CSR could potentially alleviate issues within poor communities attributed to lack of socio-economic development, it would require extensive research and continuous effort to make sure investments and/or donations were used effectively—which is not necessarily as likely to happen when the benefactor does not have a personal stake in the results of the investment.

## **II. U.S. Apparel Firms; Global Supply Chains**

The apparel industry is arguably one of the most engaged industries in the CSR world, as apparel companies tend to put a high premium on brand recognition and are also a major source of employment for low skilled labor across the continents. While the nature of the apparel industry places stress on the developing world and touches the lives of many marginalized individuals, it is this very connection that can be leveraged by companies within the apparel industry to significantly contribute to poverty alleviation around the globe. This section will discuss the corporate perspectives and goals of CSR and a later section will develop a critical analysis of such commitments to ethical behavior.



DeWinter argues that U.S. corporations in the apparel industry have used the increasing interconnectedness of the global economy to their advantage by setting up “decentralized global production networks characterized by a complex web of subcontractor relationships” (DeWinter 2001, p. 6, 7). This means that apparel companies and their supply chains directly and indirectly influence communities all over the world. The fact that apparel companies do not own their own factories removes them from any legal obligation to assume responsibility for violations of their CSR policies that occur in their contract factories. This also means that companies can easily change sourcing factories should costs associated with production become undesirable at a given location. The combination of the detached nature of apparel supply chains and the low skilled nature of garment production leads many companies to source from developing countries and attract the poorest workers.

Historically, the apparel industry’s connection with less economically advanced communities has a messy track record of serious disasters causing hundreds of deaths in the factories from which garments are sourced. Problems existed long before apparel supply chains went global. Hundreds were killed in the collapse of Pemberton Mills in Lawrence, Massachusetts in 1860 (NY Times 1860). In 1911, the Triangle Shirtwaist Factory fire claimed the lives of 146 garment workers in New York City (U.S. Department of Labor 2012). As the industrial centers of the world spread beyond the US and Europe, disasters began to occur in these new garment production locations. A garment factory in Karachi, Pakistan went up in flames killing nearly 300 workers who could not escape the fire, due to barred windows and a lack of proper escape routes (Hasan 2012). In 2013, the factory collapse at Rana Plaza was the deadliest garment factory disaster killing over 1,132 workers (Financial Times 2014). Authors Lichtig and Wilsey would argue that the transnational

movement of garment supply chains was a strategy not only to find competitive labor but also to circumvent the laws and regulations developed in the United States (Wilsey & Lichtig 2012).

Beyond the deaths associated with major disasters are reports of sweatshops, child labor, and poor working conditions. Reports involving major U.S. brands became commonplace beginning in the 1990s. For example, the Gap in 1995 was reported to have threatened workers and even fired them for attempting to become organized into a labor union (DeWinter 2001, p. 108). Likewise, Macy's and Filene's were found to have sourced from a factory in California that had basically enslaved 71 Thai immigrants behind barbed wire (DeWinter 2001, p. 108). Possibly one of the more visible scandals was the series of Nike sweatshop allegations in their Asian factories in the 1990s. Lichtig and Wilsey discuss how this opened the eyes of the public to the nature of apparel supply chain practices. These authors also quote the Nike co-founder, Phil Knight, saying that "what [Nike] primarily sells is image. For Nike to have its image associated with sweatshops in Asia was more than an embarrassment; the revelations threatened sales" (Wilsey & Lichtig 2012). While these scandals of the 1990s exemplified the exploitative practices of apparel companies, the quote by Phil Knight illustrates the extent to which image is perceived by these companies to be essential to sales and, therefore, profitability. In some words, these scandals not only opened the eyes of the public but also lit a fire under major apparel companies to start considering their global supply chain activities.

Today, there is still spotlight on apparel companies' practices. Unfortunately, as Locke argues, there are still a significant number of issues directly related to the lack of social responsibility in apparel supply chains. Nonetheless, I would argue that the

transnational context of apparel supply chain operations allows apparel MNCs to leverage their extended influence in the developing world for positive impacts through responsible corporate behavior. Setrini argues that “global brands play a key role in coordinating and organizing the value chain...international buyers often determine... particular technical, social and environmental requirements that local suppliers must abide by (Setrini 2005, p. 11). While there is a lot to be done in the way of developing a responsible culture in apparel supply chain operations, it is clear that brands of the most power to encourage the development of such a culture.

### ***A. Generation 2 CSR in the Apparel Industry***

Second generation CSR is highly discussed in relation to the apparel industry due to the press associated with negative impacts of garment supply chains. While, according to a study conducted by Kolk, consumers are willing to pay more for products made under good working conditions, the Rana Plaza collapse is a prime example of what can happen when labor standards are not adequate and workers’ rights are not in place and enforced.

According to Aklima Khanam, a Rana Plaza survivor, “if [garment workers] had unions Rana Plaza would not have happened (Akter & Khanam 2014).” Further, a union organizer from Bangladesh, Aleya Akter, spoke of the terrible working conditions, which she herself endured as a garment worker from the age of 9. Akter mentions working extended hours without pay in order to meet unreasonable quota targets, timed bathroom breaks, and no weekends off. These direct effects of the apparel industry and its demand for fast fashion at low prices are what second generation CSR is meant to address.

Auger et. al., conducted a study by surveying 1253 students in Hong Kong and Australia along with Amnesty International supporters across the globe (Auger et. al. 2003). These respondents were asked whether or not ethical features of consumer products affected their purchasing choices. Results suggest that providing information about ethical features of a product did directly influence the probability of a purchase. On average, those surveyed would pay \$10.29 more for athletic shoes as long as it was clear that child labor was not used in the production of those shoes, \$8.11 for the knowledge that an appropriate minimum wage was paid, and \$8.21 for acceptable living standards. Beyond the ethical priorities, the only other factor that attracted higher willingness to pay from respondents was the fit of the shoe, which respondents said was worth \$14.49 (Auger et al. 2003, p. 17). It is clear that second generation CSR in the apparel industry affects the purchasing choices of consumers, particularly in relation to willingness to pay for certain ethical features. Therefore, there is a demand from consumers for ethical products and a need within the industry for second generation CSR.

According to Davies and Vadlamannati, there is evidence that labor standards across countries are positively correlated as they decrease in quality (Davies & Vadlamannati 2013) . In other words, as competition becomes steeper and regulations become more lax in certain areas, other areas of operation follow suit in order to maintain low labor costs and remove incentives for brands to move to other, less regulated areas in which to operate (Davies & Vadlamannati 2013, p. 4). This could be evidence of what critiques call “a race to the bottom.”

One recent potential step toward achieving higher standards, which has been prevalent in the discourse surrounding second generation CSR in the apparel industry, is

H&M's commitment to providing a living wage<sup>7</sup> for all factory workers in the textile industry within their supply chain by 2018 (Reuters 2013). Due to the fact that H&M is the second-largest retailer in the world and has an associated 850,000 textile workers that would be affected should this commitment come to fruition, this could have significant impact. This could be a good chance to see if raising standards in one company's supply chain is positively correlated to raising standards across areas of operations effectively ending the race to the bottom.

Similarly, apparel company networks, such as the FLA, Clean Clothes Campaign, and the Ethical Trade Initiative started a program called JO-IN that involved the support of top apparel companies such as Puma and Patagonia. This meta-network was responsible for a pilot project in 2006 that attempted to provide a 'living wage' to factories in Turkey (Joint Initiative 2006). While Turkey implemented wage regulations in 2003 that specified that minimum wages should be a "fair wage" at about 2.18 YTL per hour (Lally 2005, p. 8), about \$1 US<sup>8</sup>, these wages were not being met for all garment workers in the nation state. The goal of the Jo-In project was to "improve conditions and observance of labour rights for garment workers and their families in a specified number of Turkish garment producing facilities" (Joint Initiative 2006, p. 2). These commitments to raising wages in MNC factories in the apparel industry are examples of second generation CSR activity.

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<sup>7</sup> More on defining and understanding the concept of a "living wage" can be found in Chapter III: Critiques of CSR in the Apparel Industry.

<sup>8</sup> Converted online using Google conversions in April 2014.

In relation to physical rights to safety, the Bangladesh Accord on Fire and Building Safety<sup>9</sup> was created to protect garment workers in Bangladesh. Due to the fact that the garment industry accounts for more than 78% of national export earnings in Bangladesh and employs about 3.6 million workers, this Accord affects the safety of a major source of apparel that is mainly shipped out to America and the European Union (Ahamed 2013, p. 2). This agreement establishes a five-year commitment to fire and building safety programs that include credible inspections of directly contracted suppliers, their contracted suppliers and some tier three suppliers as well (Accord on Fire and Building Safety in Bangladesh 2013, p. 1, 3). This Accord also stipulates a training aspect to the safety program that informs workers not only of their right to safety but also about recognizing threats to their safety and strategies to protect themselves (Accord on Fire and Building Safety in Bangladesh 2013, p. 4). With signatories from all over the world, including 14 U.S. apparel companies, the Bangladesh Accord is a step towards remediating safety issues directly involved with factories in apparel supply chains and is an example of second generation CSR. It also implies a legal obligation on the part of the brands to assure safe working conditions in their contract factories.

### ***B. Generation 3 in the Apparel Industry***

However, a significant amount of the hardships of life for those living in the communities related to the extended supply chains of apparel companies exist beyond the industry operations' walls. Many of these hardships are related to conditions identified by the Millennium Development Goals (MDGs) established by the U.N. as a benchmark for

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<sup>9</sup> The Bangladesh Accord for Fire and Building Safety has many European apparel brands in support of its mission along with 14 U.S. companies. The main focus of this accord is to respond to recent tragedies related to a lack of proper factory audits in Bangladesh, which is the “lowest end of a low-road industry” according to O’Rourke, an expert on factory monitoring at UC Berkley (Greenhouse & Harris 2014, p. 1, 2).

progress in international cooperation toward meeting the needs of humanity. These MDGs are gender equity, maternal health, child's health, education, the alleviation of poverty and hunger worldwide, the ability to combat HIV/AIDS, the response to issues of environmental depletion and the call for global partnership (United Nations 2013). While each and every one of these issues is inextricably connected to MNC behavior, they are not directly controlled by supply chain operations. However, many apparel companies try to address these problems through philanthropic commitments outside the scope of their supply chain management.

While all of the MDGs are interconnected and tend to predominantly disadvantageously affect the poor, some of the goals are more clearly related to apparel supply chains. First, the majority of garment workers are female. For a female garment worker in a developing country, the difficulties in life do not stop whilst leaving the factory walls and generally involve a lack of education, rights, and respect in their day-to-day lives. It is no secret that there is a severe gender gap in the developing world. However, the effects of this gap are quite hidden from the public eye in the more socio-economically advanced world.

One example of how the hardships of factory workers in apparel supply chains that go beyond the factory walls is in India. According to an article by the Clean Clothes Campaign,

Wages below poverty levels are a ongoing problem in the Indian garment industry, which exports €7284 million of clothing for European consumers each year. The monthly minimum wage for garment workers in Bangalore is Rs 4472, (around €64),

which is said to be only 43% of a living wage enough to support a family (Clean Clothes Campaign 2012).

But the pain of being a low skilled, female garment worker in India does not stop there. While many people have heard of “bride burning,” most are not aware that a woman is murdered this way in India, once every two hours (Kristof & WuDunn 2009, p. xiv). This is a clear situation in which factory conditions are not the only thing to fear for workers associated with apparel supply chains.

In total, it can be estimated that more than 100 million girls are missing from the world population due to issues of gender discrimination—sex trafficking, AIDS, infanticide, bride burnings etc (Kristof & WuDunn 2009, p. xiv). This type of social discrimination spills over into deeper forms of economic subjugation of women as well. Statistically, women perform 66% of work globally, produce 50% of the world’s food and only receive 10% of the total income and own 1% of the land (Women’s Economic Empowerment 2011). This is partly attributed to the fact that women tend to be viewed as ideal laborers for low-cost, low-skilled jobs, such as those involved in the production of garments, because supplier factories can pay less in wages and have less of a backlash from the workers.<sup>10</sup> In these cases, development issues are not directly controlled by corporate decisions but are intertwined with supply chain operations.

Second, issues related to child labor are prevalent in the garment industry, as is evident by the series of child labor scandals presented in the media. But the root causes of this go beyond simply the factories that hire children. As previously mentioned, the

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<sup>10</sup> This section draws heavily on information previously published by the author of this thesis in the *Global Societies Journal* (Adcock 2013).



globalization of supply chains led many apparel companies to source their garments from less economically advanced countries where poverty is the norm. This means that the immediate potential income of children is more desirable than providing them with an education in some cases. According to UNICEF, 16% of children around the world participate in child labor between the ages of 5 and 14 (UNICEF 2013). While this problem is not solely attributed to apparel supply chains, it is definitely an issue in the industry.

Third, global apparel supply chains contribute significantly to pollution and environmental degradation. For example, a study done by Levi Strauss & Co. in 2006 found that a simple pair of jeans emits the amount carbon dioxide equivalent to driving 78 miles, enough water to run a garden hose for 106 minutes, and enough energy to run a computer for 556 hours (Levi Strauss & Co. 2009, p. 12). While the apparel industry is clearly contributing the environmental crisis, it is not in control of all of the contributing factors to or effects of environmental degradation. More often than not, apparel companies try to deal with this global issue through second generation CSR. However, there are also some programs that are meant to conserve, recycle, and offset negative environmental impacts of a supply chain as opposed to simply not having that impact in the first place, which would be third generation CSR.

Finally, the concept of global partnerships is not new to apparel companies in terms of their own business dealings and attempts at collaboration for the planet. There are many networks of apparel companies, such as the Fair Labor Association, the Ethical Trade Initiative, the Worker Rights Consortium, and 1% for the Planet. While some of these associations are related to supply chain operations, or second generation CSR, they are also interested in working together to solve issues of poverty. For example, 1% for the Planet is

an organization with 116 apparel company affiliates that requires members to donate 1% of all sales to environmental causes worldwide.

The benefit to third generation CSR, or philanthropy, is that it can be more holistic and focus on development in a way that has the potential to fix problems at their source, as it is disconnected from supply chain operations and, thus, profit maximizing strategies.

Philanthropy can involve simply donating money instead of resources and time to a given cause. However, it is exactly this disconnect between business incentives and philanthropy that can lead to a lack of true investment as the profits of the company are not connected to the success of the programs. For example, many of these projects are not self-sustaining and end as soon as the funding has stopped. This means that while certain initiative may improve the quality of life for those that were involved in the program for a brief period of time, there is no guarantee that there will be long-term benefits. A lot of these programs' success hinges on the ability of participants to get jobs and become economically stable subsequent to their participation. However, training and empowerment are only one piece of the puzzle, and, therefore, more is needed to spur sustained development.

While it is clear that philanthropically contributing to the realization of MDGs has clear benefits to the apparel industry, for all of the reasons that CSR itself has intrinsic business value, creating business strategies that holistically incorporate ethical practices throughout all operations will combine second generation ethics with third generation ethics in a way that targets the root causes of problems in the communities in which supply chains operate while also contributing to the apparel industries bottom line. To do this, a company would have to leverage its connection to the communities in poverty and underdevelopment to not only deliver philanthropic strategies but to also incorporate the poor into their

business strategy and supply chain operations. This combination of generations of CSR and business strategy, or what I term “Generation 2.5” CSR, seems to be the future of CSR strategy in the apparel industry.

### ***C. Generation 2.5 CSR in the Apparel Industry***

As mentioned previously an article in the Economist states, “the ineffectiveness of much philanthropy is actually the fault of the philanthropist...people too often let their philanthropy be guided by their hearts alone” (The Economist 2011, p. 2). One of the reasons this can be an issue is that the industrial model on which the current economic system is based focuses on western ideals, such as individuality and mass consumption. Further, if left “unmodified, it leads to economic and environmental disaster...and does not command the allegiance of billions of people who live in either poverty or on the precarious lower rungs of the middle class” (Karoff 2004, p. 37). In other words, according to Goldmark, our very socio-economic institutions must be altered in order to further the development of the poor while also conserving the environment for future generations. That is not to say that public opinion in the form of reaching the hearts and minds of people is not important. For it is public consciousness that alters policy, institutions and markets. For example, “the market did not send signals ‘against’ lead based paint (Karoff 2004, p. 33)” — public awareness and activism sent those signals. Therefore, it is finding a balance between moving the hearts and minds of humanity, and changing public institutions and actions that leads to a more effective use of philanthropic will.

“Generation 2.5” CSR would use the philanthropic approach of third generation ethics to help foster development for an apparel company’s own workers and their communities by combining it with second generation ethics focused on leveraging

connections with the geographic areas of its own supply chain operations. The goal of this generation of ethics is to unlock value for all stakeholders using holistic approaches to CSR by overriding existing supply chain operations with socially responsible goals at the heart of sourcing and strategy. Generation 2.5 allows for there to be a longer-term symbiotic relationship between apparel companies and the communities in which they operate. In short, Generation 2.5 CSR would strategically integrate ethical passions with capitalist pursuit of profit by focusing on developing capabilities of workers within a company's own supply chain rather than just monitoring behavior or starting a piecemeal project outside the influence of the company.

#### i. Stakeholder Approach to Ethics

One of the major characteristics of a Generation 2.5 approach is a focus on stakeholder management. This means that companies hold themselves accountable to all stakeholders in their operations, including consumers, employees, affiliated workers in a global supply chain, communities in which the company and its affiliates operate, and with the shareholders. While social responsibility can apply to any and all stakeholders mentioned, the key to Generation 2.5 ethics is holistically meeting the needs of each of these stakeholders in a way that still cultivates a profitable business strategy.

Maltz and Schein discuss the circumstances under which social initiatives are likely to be successfully adopted by private enterprises in terms of meeting the needs of stakeholders while still maintaining appropriate profits (Maltz & Schein 2013). As 93% of CEOs believe that sustainability is “critical to the future success of their firm,” this article gives three preconditions for adequate commitments to social and environmental impacts in the framework of a competitive marketplace (Maltz & Schein 2013, p. 2). The authors give

three ‘C’s to explain these preconditions: the *capability* to commit to leveraging existing competitive advantages that a firm enjoys, the *consistency* between social value created by the initiative and shareholder value within the corporation—in order to make sure that the mechanisms used to create social value also help create profits for shareholders or, at the very least, do not compromise the existing profitability of the company (Maltz & Schein 2013, p. 5), and the ability for the social value to be *cultivated* beyond the efforts of the corporation. These authors use interviews with sustainability directors in influential organizations to see how proliferated commitments to shared value initiatives (SVIs) were (Maltz & Schein 2013, p. 7). The interviews supported the claim that many businesses found it necessary to make commitments to social responsibility and also implied that a firm’s ability to collaborate, innovate and influence modes of production in their industry directly impacted the cultivation of their initiatives and optimized the shared value created by the original social commitment (Maltz & Schein 2013, p. 12). Maltz and Schein conclude with the argument that SVIs are not about redistribution, but about the creation of new value that can lead to prosperity for both private investors and affected societies (Maltz & Schein 2013, p. 17).

Similarly, Sidiropoulos argues for integrating the business strategies for creating value for shareholders with strategies for creating value for all stakeholders (Sidiropoulos 2013, p. 16). Kolk and Van Tulder also argue in support of this finding by claiming that working to affect the institutions and norms within a host country and focusing on all stakeholders in a company’s operations is important when defining and establishing business ethics (Kolk & Van Tulder 2001, p. 280). With 83% of CEOs in the UN Global Compact study believing that government policymaking and regulation will be critical to the ethical

and financial progress of their company (UN Global Compact 2013, p. 22), it would seem that even major corporations are starting to see the value in creating Generation 2.5 ethics within their companies. In sum, these authors and many CEOs would agree that the most successful approach to CSR involves leveraging the connections and advantages that a company has in its own operations to reach goals related to their own stakeholders in a holistic way, which is Generation 2.5 CSR. Unfortunately, 37% of companies still see the lack of a substantial link between social and environmental sustainability and business value and see that as a barrier to true progress (UN Global Compact 2013, p. 12). It would seem that while authors and business leaders would agree that Generation 2.5 ethics create the most value, there is still a large upfront cost in terms of resources and man-hours to develop and implement effective strategies that has not been reconciled by all CEOs interviewed.

## ii. Lean Supply Chain Management

In 1996, Reebok's director of Human Rights, Doug Cahn, stated, "there's a correlation between factories producing good quality products and those with good working conditions" (Auger et al. 2003, p. 2). In support of this belief is an entire management system called "lean management"<sup>11</sup>, which focuses on long-term term strategies by picking higher cost, capable suppliers over the lowest bid factory (Mefford 2011, p. 117). Some companies, footwear more than apparel, require that workers be well-trained and motivated

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<sup>11</sup> Lean management/Toyotaism refers to a style of production that originated in Japan in the 1940s that focused on reducing waste of resources, such as materials, time, etc. with the goal of increasing productivity and reducing unnecessary expenditure. However, to fully maximize the value of lean, it can be necessary to integrate quality and capability goals into sourcing strategy. For example, Distelhorst et al. describes lean supply chain management to be "capability-building interventions that align supplier business practices with social compliance goals (Distelhorst et al. 20014, p. 3)" and include what I term Generation 2.5 ethics, as common aspects of a lean supply chain program involve improved working conditions and wages with a focus on developing a capable workforce in the communities in which a company operates while still pursuing long term profits. For the purposes of this discussion, the more comprehensive definition of lean management will be used.

to make quality merchandise. According to Mefford poor practices such as “minimal training and responsibility, strict supervision and rigid work rules, unpleasant and unsafe working conditions, low pay, and high turnover make it impossible to develop the type of workforce required in lean production systems” (Mefford 2011, p. 10). While choosing a factory based on low bid pricing for a job might seem beneficial in the short run, there is no chance of reduced costs or improved quality due to endogenous innovation (Mefford 2011, p. 118). In fact, because costs are unlikely to decrease and quality is unlikely to be adequate, companies have an incentive to further squeeze suppliers to reduce bid prices and, eventually, leave the host country and supplier altogether in search of cheaper production costs (Mefford 2011, p. 122).

On the other hand, Mefford discusses how lean supply chain management has shown to be effective in using patient capital to produce long-term gains in the apparel industry, particularly with regards to footwear related companies. For example, in a report compiled by Frenkel and Scott in 2002, it was found that in an Adidas factory where lean practices were implemented with an 11% higher pay, there were fewer supervisors required per worker, there was an endogenous development of higher quality products alongside improved productivity, there was reduced turnover of the workforce, and deliveries were more reliable than a comparable Adidas factory without lean supply chain strategies (Mefford 2011, p. 118, 121). Similarly, a Nike, Inc. factory in Mexico implemented lean production strategies, including job rotation training and team building. This factory increased productivity per worker from 80 to 150 T-shirts per day and decreased defects in

clothing by 40% (Mefford 2011, p. 118.)<sup>12</sup> Therefore, higher levels of training, responsibility, and respect translate into increased job satisfaction and subsequent increased productivity and value of work. In some cases, productivity increases in lean factories are 8 times that of non-lean managed factories, which largely offsets any increase in costs due to wage increases (Mefford 2011, p. 119).

While lean supply chain management would at first seem like a second generation commitment to ethics, it is, in fact, Generation 2.5 because it requires more commitment to holistic worker development than simple rules, regulations and monitoring. For example, many companies prefer to develop much deeper and symbiotic relationships with suppliers that can successfully commit to lean supply chain strategies and work to develop entirely new managerial practices within supplier factories. In order to develop such a holistic supply chain strategy, companies must go beyond the factory walls to collaborate with other stakeholders, such as the workers themselves, the communities in which they operate and the governments of the host country to ensure that workers are happy and healthy. In other words, it is necessary to address the root causes of supply chain deficiencies, rather than simply focusing on command and control policies to enforce corporate codes of conduct or ethics (Mefford 2011, p. 119).

The main way to create a symbiotic relationship with a factory in order to develop lean supply chain management strategies other than simply owning the factory outright is through the development of relationships with special suppliers, which several major apparel companies seem to claim to be doing. By reducing the number of factories utilized and

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<sup>12</sup> More on the business benefits and execution of lean supply chain management can be found in the case studies section of this paper, particularly related to Nike, Inc.



increasing communications and investments in the fewer factories a company can progressively implement lean supply chain strategies, such as those discussed in relation to Nike and Adidas. An added benefit to deeper relationships with suppliers is a more reliable supply chain and shorter lead times on products that allows for a quicker response to changes in the market and a lower necessary quantity of inventory (Mefford 2011, p. 119). Therefore, while lean production requires an extensive upfront investment in various types of strategic relationship and program development and assessment with patient capital, in the long run, the payoffs come in many different forms that benefit stakeholders as well as contribute to the bottom line. This is, in essence, the 2.5 concept of unlocking value for all stakeholders through CSR investments throughout the value chain.

### **III. Critiques of CSR in the Apparel Industry**

This section will develop scholarly critiques of the theory and praxis of corporate social responsibility in the apparel industry

#### ***A. The Irresponsibility of the U.S. Apparel Industry***

##### i. Workers' Rights in Garment Factories

With the combination of the increase in globalization of supply chains and the political difficulties associated with the potential advent of a global regulatory system, private, voluntary standards, such as codes of conduct, are becoming more proliferated among MNCs, particularly in the apparel industry. Since corporate reputation and sales are connected, some may question the motives and effectiveness of voluntary programs funded by corporations in the apparel industry. One way for a business to be held accountable for their impact on society other than through formal law and regulation is by consumers using their purchasing power to determine competitive business practices in a socially positive light. However, many labor right's activists, such as Wells and Seidman as discussed by Anner, believe that CSR is all meant to superficially please critics in order to maintain profitability without actually having to commit to social responsible action (Anner 2012, p. 5). Anner argues that corporate-influenced programs are more likely to emphasize detection of violations of minimal standards in the areas of wages, hours, and occupational safety and health because focusing on these issues provides corporations with legitimacy and reduces the risks of uncertainty created by activist campaigns (Anner 2012, p. 1, 6). This hypothesis was tested by the examination of 805 factory audits done by the Fair Labor Association (FLA), which is a large CSR organization in the global apparel industry that is corporate

funded (but claims not to be corporate controlled). Between 2002 and 2010 the FLA worked to discover which types of worker standards are more likely to be monitored and reported—Freedom of Association (FoA), such as the ability to participate in collective bargaining and the creation of unions, or minimal safety and health standards (Anner 2012, p. 6, 7).

The study found that 40% of detected violations were health and safety related, 31% were related to wages and hours of work, while merely 5% were related to FoA rights (Anner 2012, p. 12). An analysis of cross continent surveys conducted by Welford found a similar trend in CSR commitments, as commitments to all around citizenship, such as holistic initiatives for development, were the least proliferated across corporations around the world and there were quite a few more written policies related to child labor than to other types of labor standards (Welford 2005, p. 39). This illustrates a gap in adequate monitoring and enforcement of worker rights violations, as it is very unlikely that less FoA violations occur than more serious violations of health, safety, child labor, and minimal standards (Anner 2012, p. 14). Also, this type of violation is less likely to be successfully remediated, as the common recommendation to FoA violators is more training for managers to understand FoA rights.

However, it is likely that a lot of these violations are not connected to a lack of understanding but to intentional deprivation of FoA rights to workers (Anner 2012, p. 16). Anner argues that “these programs are less likely to emphasize workers’ rights to form democratic and independent unions, bargain, and strike because these rights are perceived as lessening managerial control without providing firms with significant reputational value” (Anner 2012, p. 1). In other words, the creators of the CSR framework along with the mechanisms for monitoring have an impact on the effectiveness of socially responsible

business. Further, in 2001, Kolk reviewed CSR commitments of sports apparel companies and found that 32% of companies do not even mention how they go about monitoring factories and Nike was the only company that mentioned using independent, third party monitors (Kolk & Van Tulder 2001, p. 274). In sum, with the validity of monitoring in question, the quality of reporting lackluster, and the promotion of workers' right to collectively bargain stifled, there is a serious disconnect between claims from corporate citizens of socially responsible behavior and the reality in the factories from which these companies source their garments.

Further, most major U.S. apparel companies have not signed on to agreements like the Bangladesh Accord<sup>13</sup>. For example, Gap, Inc., Nike, Inc, and Patagonia are not signatories of the Accord while the Accord is more popular with major European brands, such as H&M, Puma and Adidas. While these U.S. brands have extensive volunteer CSR programs that will be discussed in a later section, it is a significant setback to the Accord that U.S. companies refuse to sign this legally binding document (The Bangladesh Accord Foundation 2014). Moreover, while the Bangladesh Accord was created alongside other initiatives to help factory workers in Bangladesh in response to the Rana Plaza collapse in Dhaka, more than a year later victims and their families have yet to see compensation from Western brands and many of the survivors are back to work even though they have psychological distress (BBC News 2014).

While Bartley argues that voluntary standards are contested and that there is a gap between codes of conduct and performance, it may not be a lack of commitment from

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<sup>13</sup> 26 U.S. companies like the Gap, Inc. and Wal Mart have signed on to a similar agreement called the Alliance for Bangladesh Worker Safety, which is arguably less rigorous in its audits and is described in more detail on pages 68-70 of this document (Greenhouse & Harris 2014, p. 1).

corporations leading to inadequate labor rights and conditions but, rather, that there are “countervailing pressures—for speed and flexibility, for instance—that undermine the lengthy struggles and learning processes that generate durable, substantive change” (Bartley 2012, p. 7). This is particularly an issue with labor relations. Even though labor costs are not the only factor in determining where investments for factories go in mobile industries, it is definitely an important consideration for corporations—particularly the apparel industry, which has minimal skill requirements and relatively small fixed costs. Therefore, while there has been progress in the visibility and encouragement of CSR policies, there is a significant amount of room for improvement of second generation ethics within the apparel industry, whether it is in fact the fault of brands or other external factors.

## ii. Living Wage

According to Mefford, Moran discusses the inconsequential amount of money per article of clothing that ends up going to garment workers using Nicaragua labor as an example. For a pair of jeans that sell for \$21.99, only \$0.66 goes to low-skilled laborers (Mefford 2011, p. 11). Therefore, raising the wages of factory workers should not raise the price of a garment to a significant degree. However, determining and implementing a “living wage” can be very difficult.

Setrini, under the supervision of Locke at the MIT, discusses the difficulties in establishing an effective living wage for factory workers. First, a mandated minimum wage can actually harm workers by conflicting with the development goals that require economic growth and an increase in jobs available (Setrini 2005, p. 4). Particularly in the apparel industry, MNCs tend to enter developing areas for low-skilled, low-pay labor and are

generally mobile in terms of being able to cancel contracts in areas that are not desirable due to higher standards.

Second, once a minimum wage is established, there is also a chance that this will push some workers in the formal economy into the informal economy due to higher competition for jobs (Setrini 2005, p. 4). This could result in even worse conditions and lower pay for those that do not have status as a registered worker.<sup>14</sup> For example, the Jo-In project had to address these issues in Turkey, as there is a significant discrepancy between the pay of registered and unregistered workers (Lally 2005, p. 13). However, evidence from the ILO suggests a negative correlation between poverty and minimum wage levels (Setrini 2005, p. 5). This might suggest that the conflict between raising mandated wages and keeping jobs in the formal sector is not a definitive argument for reducing standards.

Third, minimum wages, while technically meant to demonstrate the appropriate wages needed to keep a worker in a stable living conditions, tend to make compromises in order to prevent the aforementioned conflicts with other national goals. Therefore, while almost all of the major garment exporting countries have a minimum wage requirement, this does not mean that workers are getting “fair” wages should the mandated minimum be met (Setrini 2005, p. 5).

Forth, while the prevailing wage in the formal manufacturing sector in many apparel exporting countries is above the minimum wage requirements and even above the poverty line in some cases, there is a very wide range between actual wages for many workers and the average, or prevailing, wage significantly overstates the true situation for many workers.

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<sup>14</sup> See Appendix III for a comparison minimum and prevailing wages in major apparel exporting countries.

In Indonesia, for example, garment workers only receive 4.72% of the amount of money that an American garment worker would make in the same position. This is particularly true for those working in the informal sector (Setrini 2005, p. 9).

Finally, just calculating a “living wage” can be very difficult as there is little consensus as to what constitutes an adequate lifestyle, particularly when deciding how many dependents a given worker may or may not have (Setrini 2005, p. 13, 15). These discrepancies in defining and implementing a living wage leave workers vulnerable, as they are likely to work overtime in unsafe conditions in order to make ends meet (Setrini 2005, p. 16). Therefore, any commitment to providing a “living wage” by apparel companies without a specific roadmap to determining such a wage and implementing appropriate safeguards against host countries losing business from other apparel companies is somewhat of an empty promise.

### iii. Projects versus programs

Hettne discusses the value in projects and programs geared toward development and explains that “development theory has from the start been closely related to development strategy, i.e. changes of economic structures and social institutions, undertaken in order to find consistent and enduring solutions to problems facing decision makers in society (Hettne 1990 p. 3).” In order to reach the objectives of development theory, Griesgraber and Gunter argue that international institutions, in particular the World Bank, have turned from “projects” to “programs” to make sure that not only were the “projects” that were being funded sound but also that local governments and institutions had the capacity and capabilities to adequately implement such strategies (Griesgraber & Gunter 1995 p. 5). However, many corporate commitments to CSR, like a lot of philanthropy, still take on the

piecemeal project agenda. While minor goals in specific settings may be met with this approach, actual economic development requires the program approach discussed by Griesgraber and Gunter.

## ***B. Recent Recommendations from Scholars***

### i. Workers' Rights in Garment Factories

While Kolk argues that consumers pick brands to which they remain loyal based on ethics above many other conditions, some studies also show that consumers are not willing to sacrifice performance of product for ethical activities (Auger et al. 2003) and some ethical activities are more effective at influencing buyer behavior than others.

Bartley and Anner both agree that one thing that can be done to help encourage brands to increase the standards of workers' rights within their supply chains would be a transnational movement of consumers. Anner argues that if the oversight of FoA and other rights is not dealt with and corporations do not start doing a better job of implementing CSR in their supply chains, then civil society should respond with a transnational activist campaign, which would put a huge dent in corporate profitability as consumers boycott irresponsible products and workers strike halting the production process altogether (Anner 2012, p. 26). Likewise, Bartley concludes his argument by saying that activists and NGOs should pressure companies to adopt a model of "patient sourcing," which "would need to involve commitments to socio-political contexts where meaningful collective action is possible, to stabilizing orders with well-performing suppliers in these settings, and to bearing temporary upswings in cost in order to reap future rewards in productivity or price premiums," as opposed to the current model of sourcing, which prefers locations with little



likelihood of improvement because those cases are seen as more volatile to strikes and interruptions in production. This line of reasoning tends to be the trend in much of CSR literature related to the apparel industry and it would seem that companies are also heading in the direction of adopting a stakeholder approach, or a generation 2.5 approach and unlocking the business value in adopting and executing effective CSR policies.

Fortunately, there has been an increase in activism against and media representations of socially irresponsible activities, particularly of major MNCs (Welford 2005, p. 2) and companies focus a lot of attention of ethical reputation risk mitigation, as discussed by Grosvold in relation to a study of 31 decision makers in 7 companies across 6 industries that showed that it was “vital...to align corporate strategy with supply chain strategies incorporating suppliers and customers alike (Grosvold et al. 2013, p. 8).” This holistic strategy is a stakeholder approach that moves away from simple ‘green washing’ or ‘window dressing’ to appease nose and active consumers. However, even this stakeholder approach has its set backs as it is a very resource consuming strategy that is currently being used by the average company only to the extent that it reaches reputational protection goals and does not seek to enhance the reputation of the company beyond that point, as CSR investments in a supply chain have decreasing returns (Grosvold et al. 2013, p. 10, 11).

## ii. Living Wage

While using the host government’s concept of a minimum or adequate wage takes a lot of the responsibility off of apparel companies, it may be more appropriate to use a “full market based approach” to determining the average family size, necessary budget for a healthy diet, and housing expenses for workers. However, determining exactly what is necessary can be difficult and ascertaining the appropriate data could be very costly (Setrini

2005, p. 18). All in all, it would seem that working with local governments and other local organizations within the host country could be an appropriate approach to creating a living wage that does not only take into account necessary monetary compensation but also manages the potential fall out of higher standards, such as a push of labor to the informal sector.

### iii. Projects versus Programs

While Griesgraber and Gunter discuss their recommendations for the International Monetary Fund and the World Bank, their prescriptions for future strategies for development also apply to corporate funded programs and CSR in the apparel industry. One major recommendation for the future of development strategy is the transformation from conditionality of funding to partnership with the goal of empowerment being a strategic and specific aim (Griesgraber & Gunter 1995 p. 24). Similar to Bernholz' recommendation to include the objects of development funding in the planning process, Griesgraber and Gunter would recommend that CSR commitments, projects and programs be negotiated and implemented with the continuous participation of peoples and communities affected by such strategies. Further, it would seem that programs are more successful in spurring real change than projects. Therefore a patch work of projects created and implemented by corporations would be more effective if instead corporations used Generation 2.5 ethics to re-design CSR goals and strategies to create development programs that incorporate the participants and all stakeholders in the planning and implementation of such programs.

It would seem that these recommendations for worker's rights, factory wages, and the transformation of projects into programs require some integration of Generation 2.5 ethics into a holistic response that encourages apparel companies to own their impact and to

leverage their power and connections in the developing world to genuinely cultivate positive change.

#### **IV. Methodology**

This next section will apply the three generations of ethics previously discussed, the Generation 2.5 ethics, and the critiques and recommendations of scholars to three case studies: Nike, Inc., Gap, Inc., and Patagonia. These three companies were chosen due to their large size, their extensive commitments to CSR, and access to interviews of decision-makers in the industry that are involved with these companies in some way. Nike has been particularly present in the media and is a major Fortune 500 company with influence in the industry and capital to be a leader in the CSR space; the Gap, Inc. is considered one of the best apparel companies in terms of their CSR strategies; and Patagonia, while an exemplary company in relation to its commitment to responsibility, also provides an example of a small, private apparel company.

In order to analyze these three companies, there will first be a brief history of each company's CSR development using company websites and reports as well as outside articles and scholarly critiques. Second, there will be a review of their current CSR commitments primarily found in their own most recent sustainability and responsibility reports and their own public statements, which will be analyzed and critiqued. Also outside sources, including scholarly articles and critiques, and interviews will be used to augment the illustration of CSR commitments within these companies and discover which commitments have room to grow. While these case studies are by no means exhaustive, they are meant to give a general picture of each company's CSR story. Throughout the case studies, there will be a discussion related to whether or not these companies are moving toward a Generation 2.5 commitment strategy and how far along that path they may or may not be.

Finally, after the development of each case study, an interview was conducted with stakeholders in each company's operations to respond to the critiques of CSR practices and to supplement existing data. While not all those interviewed would like to be named or quoted, one important person consulted was Sharla Settlemier, the Vice President of Sustainable Manufacturing and Sourcing at Nike, Inc. Settlemier has been quoted as she responded to questions about Nike's CSR and the critiques of Nike's efforts thus far. All other interviews will remain anonymous and are only reflected in this paper using outside, third party, or previously published sources.

## V. Case Studies: Corporate Perspectives on CSR in the Apparel Industry

### A. *Nike, Inc.*

#### i. History

Nike, Inc. is a high profile, public footwear and apparel corporation that sells merchandise all over the globe, contracts from 449 garment producers, employs over 37,000 workers, and operates in across 39 different countries (Distelhorst et al. 2014, p. 10). After intense pressure from protestors in the 1990s, this major corporation needed to change its image from the face of corporate irresponsibility into a leader in the apparel industry for ethical behavior and positive social impacts. Due to the fact that every aspect of production beyond the design phase of Nike products is outsourced, in 1992, Nike, Inc., became a pioneer in the apparel industry by creating its first Code of Conduct (CoC), which involved regulations, such as a zero tolerance policy for child labor within all production facilities (Wilsey and Lichtig 2012). According to Zadek, a couple years later Nike established an external auditing system in order to determine if the CoC was being upheld or simply ignored (Zadek 2004). One other important step for Nike, as discussed by Doorey, was a step towards transparency when it was one of the first apparel companies to agree to release a list of all of its contracted factory locations in 1999 as a response to pressure from the Workers Rights Consortium<sup>15</sup> and the United Students Against Sweatshops,<sup>16</sup> which are both supported by many universities in the U.S., including the University of California system (Doorey 2007, p. 20). By the year 2000 Nike had about 80 employees tasked to developing second generation CSR strategies through determining CoC compliance in

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<sup>15</sup> “The Worker Rights Consortium (WRC) is an independent labor rights monitoring organization, conducting investigations of working conditions in factories around the globe (Workers Rights Consortium 2007).”

<sup>16</sup> The United Students Against Sweatshops is a youth organization that campaigns for labor rights and safety with 150 campus affiliates (United Students Against Sweat Shops).

supplier factories. By this time, roughly 900 factories that supplied Nike products had been audited. However, this step in the right direction was plagued by consistent violations that were not only discovered by auditors but were also revealed to the public and, unfortunately, with so little time to find appropriate auditors, due to an inability to respond to the mounting pressure from protestors against the injustice of Nike's behavior, these auditors had little experience and audits were not executed with much success (Zadek 2004, p. 128).

Another setback to this new turn to CSR was the lack of integration of ethics into every element of Nike business. Those working at Nike in supply chain operations were systematically rewarded for finding low cost suppliers and, therefore, had incentives to circumvent CoC requirements in order to discover cheaper business practices (Zadek 2004, p. 129).

In 2005, Nike began to reduce the number of suppliers and concentrate its production into fewer factories with which Nike was able to develop stronger relationships (Zadek 2004, p. 131). According to Distelhorst, Hainmueller, and Locke, these stronger ties to suppliers allowed Nike to adopt lean supply chain<sup>17</sup> strategies, which are in line with Generation 2.5 ethics. Beginning in 2004, Nike collaborated with Toyota lean supply chain specialists and a lean supply chain training center for managers and workers of factories was established in Vietnam to “train both factory managers and Nike staff (Distelhorst et al. 2014). By May 2011, 80% of Nike's footwear manufacturers had committed to adopting the lean system and began to transform their production processes (Distelhorst et al. 2014, p. 9). Nike also began to use a public Manufacturing Index that incorporates sustainability as a

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<sup>17</sup> For more information related to lean supply chain management see the Generation 2.5 section of this paper on page 32.

key factor in determining sourcing strategies (Distelhorst et al. 2014, p. 8), which partially helps to mitigate the issue of conflicting incentives for those working in Nike supply chain operations. In a study done by Distelhorst et al., lean supply chain management enhances the level of compliance to CoCs by contracted factories, with better labor practices corresponding with higher adoption of lean supply chain management adoption (Distelhorst et al. 2014, 15). In this case, it would seem that the Generation 2.5 ethics of lean supply chain management, which Nike used by incorporating the “culture of empowerment” into a more holistic approach to second generation ethics of responsible supply chain management (Distelhorst, et al 2014, 13), has up to this point shown positive results in terms of reaching the goal of improving workers’ rights.

Nike also appears to have heeded the advice propagated by some scholars in relation to the historic development of their CSR strategies thus far. For example, the rhetoric of empowerment used to describe lean supply chain management as well as the extensive training provided by Nike, Inc to help professionally develop factory workers and managers is similar to what scholars Griesgraber and Gunter discuss as recommendations for developing programs that give participants a voice in the process and allow for the development of capabilities. This also addresses some issues brought forth by Anner, such as the lack of FoA rights for workers, as the approach by Nike thus far to build capabilities seems to respond, if only in spirit, to this need. However, up to this point it does not seem like the goal of implementing a “living wage” for factory workers has been seriously developed.



ii. Today: Nike, Inc. Sustainable Business Performance Summary for FY12/13

Today, Nike, Inc. is a \$25 billion company and, according to Hannah Jones, the VP of Sustainability at Nike, revenues in the past couple of years grew by nearly 26% (Nike, Inc. 2014 p. 8; H. Jones personal communication 7 May 2014). While Nike is a corporation responsible for bringing in profits for shareholders (4), it also aims to connect with various stakeholders from governments to communities to consumers and employees (Nike, Inc. 2014, p. 4, 86). Nike is therefore poised to not only deliver satisfactory returns to investors but also to invest in the development of significant CSR strategies.

In terms of second generation CSR commitments, Nike has made significant progress from the 1990s. According to Nike's Sustainable Business Performance Summary for fiscal year 2012 and 2013, Nike had 94% of all first tier factories producing Nike apparel and footwear were audited for compliance with the Nike CoC and 39% of these audits were conducted by third parties (Nike, Inc. 2014 p. 38, 70). These assessments, which apply to over one million workers, found that 93% of factories did not operate with excessive overtime for employees and that 83% of factories had a system in place for workers to voice their grievances in relation to a lack of CoC compliance (Nike, Inc. 2014, p. 35). While 16% of factories were reported to have had violations, including some overtime between 60 and 72 hours during the week, issues with proper paperwork, and inadequate wages<sup>18</sup>, factories reporting these CoC violations are 13% less than one year previous (Nike, Inc. 2014, p. 38).

Third generation CSR is likewise still prevalent at Nike, Inc. One major philanthropic campaign run by Nike is the "Designed to Move" framework that was created

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<sup>18</sup> See Appendix I for more information on CoC violations reported during these audits.

to pool relevant research and tools to help promote an active lifestyle for children as well as adults around the world. To date, over 100 organizations from NGOs to governments to private entities have joined forces with Nike on this project. The Nike Foundation, which is likewise dedicated to expanding global access to sport, as it has been projected that over a billion people will enjoy inadequate amounts of physical activity by 2030 in the US, UK, China and Brazil, is also a major contributor to Nike's third generation CSR commitments (Nike, Inc. 2014, p. 56). For example, the Nike Foundation invested \$31 million in adolescent girls through the Girl Effect, which is a movement that claims to promote the improvement of the situation for girls worldwide. In terms of employee engagement, Nike also has programs that incentivize employee philanthropic giving, including monetary donations as well as volunteered time (Nike, Inc. 2014, p. 54).

One of the major social programs being discussed in this sustainability summary is the implementation of lean supply chain practices and supplementary Generation 2.5 commitments. According to Hannah Jones of Nike, "[Nike's] approach to lean manufacturing continues to drive change, build management and workers' skills and gives them a stronger voice in how the work gets done, while increasing productivity through efficiency" (H. Jones personal communication, 7 May 2014). In order to implement this progressive type of supply chain management, Nike has begun to only source from suppliers that meet requirements related to not only cost, quality and delivery time, but also sustainability and a commitment to lean manufacturing. One way Nike works to ensure that there is no sourcing conflict between low costs and compliance to the CoC is by implementing a Manufacturing Index that weighs sustainability equal to costs and, therefore,

does not provide a disincentive for supply chain employees to pick socially responsible factories (Nike, Inc. 2014, p. 10).

This strategy has resulted in a reduced number of factory contracts and allows for the development of deeper relationships between Nike, Inc. and its suppliers (Nike, Inc. 2014, p. 38). With deeper relationships between Nike's contracted factories and the brand, Nike is attempting to influence factories in a way that benefits workers, builds capabilities, and systematically rewards progressive and innovative behavior through an auditing and rating system that, similar to the Manufacturing Index, values sustainability and social responsibility equal to other factors of performance. In other words, Nike is attempting to develop programs that challenge the normative behavior of factories in the developing world. This year, 68% of Nike's apparel factories rated bronze or better in terms of compliance with the CoC, meaning that all 227 requirements for health, safety, environment and labor rights were met (Nike, Inc. 2014, p. 37). Further, 91% of footwear and 44% of apparel sourced by Nike came from factories that have begun lean manufacturing training (Nike, Inc. 2014, p. 35).

In 2013, Nike added a new component for their programs geared toward transforming suppliers into lean manufactories. This new component was developed after consulting with workers via survey and was implemented as a human resources training program. Pilot projects of this new program were focused on finding new ways to engage workers and improve their livelihoods. These projects improved the overall stability of production lines, revealing the business value in investing in social responsibility, and increased the communication between workers and management (Nike, Inc. 2014, p. 35). This addition begins to address issues of incorporating the voices of workers into the

planning and implementation of socially responsible initiatives and also addresses some issues of empowerment, as the goal is to collaborate with workers and incentivize factories to take worker well being into consideration. One major potential business benefit to developing the capabilities of the workforce is the continuous move towards automation. With more automation, workers will need more training to be able to operate new technologies, and engagement becomes integral to minimizing worker turnover and lost capital due to repetitive extensive training (Nike, Inc. 2014, p. 70). In other words, the move towards lean manufacturing not only benefits workers and factories, but also Nike shareholders in the long run if the goal to increase worker engagement translates into increased productivity and reduced worker turnover as Nike projects. It remains unclear, however, how many jobs may or may not be lost due to a move towards automation, which could directly affect the employment levels in communities in which Nike operates.

Nike has several other commitments to Generation 2.5 ethics that engage stakeholders beyond factory workers and shareholders. For example, supplementing the move toward lean manufacturing is a new requirement that all factories that wish to remain Nike suppliers yet do not meet minimum standards, or Bronze status, to pay for their own remediation of violations and subsequent audits. This engages suppliers as stakeholders by placing pressure on them to become more sustainable in their social practices. Nike also engages a wider range of stakeholders through its participation in the Sustainable Apparel Coalition, Launch 2020, and the Fair Labor association (Nike, Inc. 2014, p. 79).

While Nike claims to strive to comply with international laws and regulations as well as local laws in host countries, future benchmarks for Nike, include significant commitments to second and third generations of CSR as well as to Generation 2.5 ethics. In

terms of second generation commitments, improving working conditions is a consistent goal mentioned throughout the Sustainable Business Performance Summary Report and Nike plans to continue its collaboration with other organizations, such as the Fair Labor Association (FLA)<sup>19</sup> and the Sustainable Compliance Initiative<sup>20</sup>, that aim to advance workers' rights and working conditions in factories around the world (Nike, Inc, 2014, p. 11). One goal related to workers' rights is the elimination of excessive overtime in factories by 2020, particularly in priority factories. Nike also plans to continue its participation in Launch<sup>21</sup>, which is a third generation commitment to advancing innovative technologies with the potential for alleviating poverty in various circumstances.

The Report also mentions a considerable amount of future commitments to Generation 2.5 ethics. By the end of 2015, Nike plans to require lean manufacturing commitments from all contract factories and to innovate new manufacturing strategies that improve the lives of workers not only in the factory but also in their daily lives (Nike, Inc., 2014, p. 11). Nike also claims to be focusing on improving FoA rights for workers', which seems to respond to Anner's<sup>22</sup> main criticisms of previous efforts to improve workers' rights in Nike contract factories (Nike, Inc., 2014, p. 38). This focus on empowerment for workers

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<sup>19</sup> The "FLA is a collaborative effort of universities, civil society organizations and socially responsible companies dedicated to protecting workers' rights around the world. We are an international organization with a dedicated staff and board, headquartered in Washington, DC, with offices in China, Switzerland and Turkey" (Fair Labor Association 2012). However, some major objections against the FLA have been made by labor unions and protestors, who call it "toothless and too cozy with its corporate members" (Greenhouse 2012). Therefore, it is unclear how effective the FLA is in terms of improving social justice along global supply chains.

<sup>20</sup> The Sustainable Compliance Initiative is a project created by the FLA in 2012 to standardize appropriate monitoring and internal assessments and analysis of labor conditions in the global supply chains of affiliated companies (Fair Labor Association 2007).

<sup>21</sup> In 2010, Nike partnered with USAID, NASA and the U.S. Department of State to create Launch "in an effort to identify, showcase and support innovative approaches to global challenges through a series of forums." This forum has been used to develop new ideas and technologies that, in theory, promote access, empowerment and sustainability in corporate operations and civil society (Launch 2010).

<sup>22</sup> Anner's argument about the importance of FoA rights is discussed in detail on pages 39 and 45.

is augmented by a goal to support workers in their community through investment in social services and through efforts incorporate workers into business operations (Nike, Inc., 2014, pp. 38, 39). This approach to CSR, which focuses incorporates the views of workers into strategies, seems to respond to the criticisms of Hettne<sup>23</sup>, Griesgraber and Gunter<sup>24</sup> in relation to the value of programs and empowerment over simple programs.

### iii. Critique

While the Sustainable Business Performance Summary Report seems to respond at least in lip service to many criticisms and recommendations from scholars, the most prominent gaping hole in this report is the lack of attention to the wage issue. While the report mentions that they are working on developing a strategy to implement a “living wage” (Nike, Inc. 2014, p. 40), there is no explanation as to how Nike plans to accomplish this or what a timeline for implementing such a strategy would be. Further, it seems that even basic CoC regulations are not being met in all factories. Distelhorst et al. explains that even with enhanced monitoring tools, increased CSR budgets and larger CSR teams, many factories do not comply with core labor standards and working conditions have only improved slightly in certain factories. After years of research, investment and auditing, some suppliers still do not meet CoC standards of “child labor, hazardous working conditions, excessive hours, and poor wages (Locke 2013)” and yet remain part of the Nike supply chain (Distelhorst et al. 2014, p. 6).

While lean manufacturing is meant to create a culture of responsibility in contract factories, results of lean implementation in Nike factories is mixed. For example, in

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<sup>23</sup> Hettne’s emphasis on empowerment is discussed in detail on page 44.

<sup>24</sup> Griesgraber and Gunter’s position on CSR projects versus programs is discussed in detail on pages 44 and 46.

more than 300 lean manufactories there was a 15% reduction in major breaches of the Nike CoC between 2009 and 2013 (Nike, Inc. 2014, p. 69). However, in the 41 pilots of human resource management training, which was meant to further the implementation of the lean program, there was no clear link between the training and increased motivation and empowerment (Nike, Inc., 2014, p, 41). This illustrates the complexities of empowerment and, fortunately, Nike claims to be working on re-designing this aspect of the lean program. Further, while there was a significant drop in major CoC violations in factories that already had relationships with Nike as key, long-term partners, there was little to no progress made in factories in Sri Lanka, China and other countries with smaller contracts (Distelhorst et al. 2014, pp. 15, 28).

Some major breaches in the CoC for Nike have been reported in recent years. For example, in a Taiwanese owned plant in Southeast Asia around 10,000 factory workers make about 50 cents per hour (Daily Mail 2011). Most of these workers are marginalized women. According to a Daily male reporter, some women claim to have even been physically injured for making mistakes in the factories. Some workers interviewed by the Associated Press claim to have had shoes thrown at them, have been growled at and slapped, forced to stand in the sun, and called highly offensive names. Major offenses such as these make the effectiveness of Nike's action to improve social justice along Nike's supply chain questionable at best (Daily Mail 2011). Therefore, while Nike makes plenty of promises related to their CSR efforts, it is hard to tell how many of these promises will ever be realized as successfully as Nike claims.

In sum, Nike seems to be poised to develop CSR programs due to public pressures and high current revenues. While there are clear attempts to respond to scholars'

recommendations, such as Hettne in relation to empowering workers, Distelhorst et al. with regards to lean supply chain strategies, and Gunter and Griesgraber's recommendation to develop programs over projects, there are some issues that have not been addressed with a specific game plan, such as the living wage issue and the development of adequate FoA rights as discussed by Setrini and Anner respectively. However, the Sustainable Business Performance Summary does portray a company that is looking to address these Generation 2.5 issues in the near future, which implies a commitment to move towards this type of CSR. Unfortunately, there is no way of knowing how effective this move will be, due to the egregious offenses still taking place in Nike contracted factories today.

#### iv. Response

In an interview Sharla Settlemier, the Vice President of Sustainable Manufacturing and Sourcing at Nike, Inc., responded to some of the critiques of Nike's CSR strategies and described some plans that Nike has for the future. Settlemier explained that:

“for about 5 years, [Nike has] been figuring out how to integrate sustainability throughout [their] organizations operations—not only in the countries where [they] operate but in terms of how [they] think about the decision making leading to the creation and support of [their] supply chain. For example, organizational structures inside a company to drive accountability not to a CR team but to drive it up stream to decision makers...” (Settlemier 2014).

This approach to CSR integrates all aspects of the business with CSR strategies and sets the stage for Nike to potentially respond to many criticisms of its current situation. For example, Settlemier mentioned that this approach helps develop the capabilities of workers, and even



address the issue of a living wage more holistically, as sourcing strategies include social responsibility as a key factor.

In terms of addressing the capabilities of workers and their FoA rights, Settlemier mentioned including workers and worker grievance systems in audits in order to develop a culture of empowerment for the workers that allows them to speak out against unfair treatment. Settlemier stated that “We make sure that the factories commit to reaching our code of conduct...and that includes things like posting the CoC in the local language, rights to FoA, and that they know they can report any issues to their union or their worker consortium, as well as to the factory management. Also, through the audit process we do worker interviews both on site and off site” (Settlemier 2014). Settlemier argues that including workers in the process of developing CSR strategies and in determining factory compliance also helps with increasing productivity through a pilot program that encourages equitable manufacturing for all stakeholders:

“Equitable manufacturing pilot is centered around how [you] understand the impact of the workers both inside the factory and outside the factory that can prevent them from being fully engaged, to show up to work on time, to work effectively, to collaborate with their supervisors, and how that might affect worker engagement and worker satisfaction. Part of this is measured through worker surveys. This is beyond compliance work” (Settlemier 2014).

This level of engagement not only encourages worker engagement through potentially improving their FoA rights and promoting worker empowerment, but also increases productivity and is therefore good for Nike’s bottom line.

Further, Settlemier responded to the criticism of not having a clear roadmap for implementing a living wage by explaining that a living wage is very difficult to determine due to a myriad of factors, such as living circumstances, family size, access to health care, access to financial services and even geographic location. According to Settlemier, “You have to look at how the workers receive their money, how much money they get, how they are incentivized through skill building multi-skilling to enable more efficient operations in the factory, how they translates into capabilities and higher wages, how they can make their money go farther” (Settlemier 2014).

In order to do all of these things, Nike is “trying to create ecosystems through external partnership with businesses and entrepreneurs and social entrepreneurs to provide services at low cost to low income communities that can leverage a supply base not just for nike and the apparel industry but also by any industry that comes into the area. Such as access to banking and loans, financial training for managing money...a lot of the time what happens in the communities where they do not have access to financial support, they get paid in cash, are vulnerable to theft, bad characters, and go to loan sharks that put them in debt. This is difficult for them and makes it difficult for them to come to work and engage. We are looking for a win, win, win...Quality of life goes beyond living wage” (Settlemier 2014).

In sum, it would seem that while Nike does not have any single roadmap to determining how to increase FoA rights or implement a living wage, Nike does seem to have an integrated, program based approach to increasing the quality of life for workers through worker engagement and community enhancement on a case by case basis. This strategy

echoes the Generation 2.5 strategy for the future, as it incorporates second generation supply chain ethics by improving the rights of the worker with third generation ethics of improving the lives of people through holistic programs, while also using these improved relations with communities in which Nike operates to increase the value created for all stakeholders through increased productivity.

### ***B. The Gap, Inc.***

#### i. History

According to Feyerherm, Knudsen, and Worley, Gap, Inc., one of the world's largest retailers, began in 1969 when Don Fisher envisioned being able to buy all types of jeans in one San Francisco location, near where he and his wife lived (Feyerherm et al. 2010, p. 6,7). The Gap is widely known as a pioneer in terms of child labor policies in their Code of Conduct, which they created in 1990 (Feyerherm et al. 2010, p. 2; Iwanow et al. 2005, p. 5). However, according to Iwanow, McEachern, and Jeffrey, the Gap endured human rights' activists protesting against the company throughout the 1990s (Iwanow et al. 2005, p. 7). Similar to the reputational issues that Nike faced through this time, Gap, Inc., dealt with 'sweatshop' accusations and responded by updating their ethical code in 1996 in order to focus on sourcing from vendors that met requirements beyond simply child labor regulations to also include other factors, such as worker rights and safety and environmental codes (Iwanow et al. 2005, p. 5).

In the early 2000s, the Gap moved towards implementing broad CSR goals. In 2001, Gap, Inc. was a co-founder of the International Labor Organization's Better Factories Cambodia program, which is geared toward helping vendors and governments meet core labor standards as set forth by the International Labor Organization (Gap, Inc. 2012, p. 36).

In 2003, the Gap joined SAI8000, which is an international standard for human rights and labor laws, as an explorer. In terms of second generation CSR, Gap, Inc. evaluated factories' social responsibility and continued to develop a role for a Global Compliance VP that was responsible for coordinating the monitoring of factories and the remediation of violations since 1996. Simultaneously, the Gap terminated contracts with over 130 factories for not meeting the standards put forth by Gap's code of vendor conduct (Iwanow et al. 2005, p. 6, 7).

In terms of third generation CSR, the Gap has committed to quite a few philanthropic initiatives and plans to assist communities in need. For example, the Gap Foundation has developed a project that is geared towards assisting youth in reaching educational and employment goals (Gap, Inc. 2012, p. 124). Further, in 2009 Gap, Inc Leadership Initiative was introduced as plan to invest in non-profit partners and their strategies to create a positive impact on communities and the eco-systems (Gap, Inc. 2012, p. 121). The Gap also has donated a considerable amount to disaster relief efforts, such as a \$200,000 grant to Japan for food, water medical supplies, and other support services in 2011 as well as significant contributions to rebuilding in the U.S. after Hurricane Sandy (Gap, Inc. 2012, p. 106).

As the Gap began to develop an understanding of their supply chain, they noticed that there was a connection between better factory compliance, higher quality production, and overall factory performance (Iwanow et al. 2005, p. 7). This led in 2001 to the Gap moving towards stakeholder collaboration, as the vice president found that "(1) stakeholders possessed information and experience that when combined with Gap Inc.'s knowledge could be used to generate better solutions for the factory and (2) without an alignment of interests, even the best compliance system in the world would not be enough to build Gap, Inc's

credibility as a voice for change” (Iwanow et al. 2005, p. 8). This marked a transformation from simple second generation CSR focused on compliance within the supply chain to a Generation 2.5 approach that included stakeholder collaboration.

Furthering Gap’s transition from second generation into Generation 2.5 ethics, was a movement towards building deeper relationships, partnerships, with vendors. Once Gap noticed that abruptly ending contracts with factories or laundries along the supply chains caused many to lose their jobs and also led the Gap to create quick and inadequately researched contracts, Gap decided to work with vendors to improve social and environmental standards before shutting them down (Feyerherm et al. 2010, p. 9).

ii. Today: Gap, Inc. 2011/2012 Social & Environmental Responsibility Report

By 2003, Gap’s sustainability report was viewed as the first in the industry to achieve a high level of transparency and honesty (Gap, Inc. 2012, p. 13). Since then, Gap has developed its CSR strategy to include many second and third generation policies, and has continually been moving towards a Generation 2.5 strategy that combines business operations goals with compliance and other second generation goals, as well as with philanthropy, community development and other third generation goals. This comprehensive strategy integrates all aspects of Gap’s global supply chain operations in order to incentivize the creation of shared value for the company and all stakeholders.

Today, Gap is continuing to address issues that affect their second generation commitments to CSR. As mentioned previously, rights to the Freedom of Association (FoA) for factory workers are a huge issue for the advancement of worker rights in global apparel

supply chains.<sup>25</sup> In terms of the Gap Code of Vendor Conduct, FoA rights of workers are supported through the explicit encouragement for vendors to “allow workers to find a common voice and provide them with a framework for engaging with management on fair wages, sufficient benefits and the right to do their work in fair and decent conditions” (Gap, Inc. 2012, p. 48). Gap even claims to partner with worker’s rights groups and trade unions to encourage the development of rights and capabilities of workers (Gap, Inc. 2012, p. 48). Further, Gap, Inc. meets with Brands Ethical Working Group members and Tirupur Exporters association, which establish guidelines for vendor conduct and focuses heavily on forced labor issues in apparel supply chains (Gap, Inc. 2012, p. 52).

In terms of monitoring the global supply chain in 2012, Gap had an in-house Social and Environmental Responsibility team, which also included 50 experts focused specifically on assessing the working conditions in factories that produce Gap apparel (Gap, Inc. 2012, p. 37). Further, Gap had their Social Responsibility Specialists review the level of compliance to their Code of Vendor Conduct in more than 923 year-round factories. While this alone is a continuation of second generation CSR, the fact that many Social Responsibility Specialists are locally-hired from the communities in which Gap’s vendors operate means that this is also consistent with Generation 2.5 strategies, as it continues the development of capabilities for local workers and integrates the perspective of those communities into reporting and analysis of vendor operations (Gap, Inc. 2012, p. 19).

Similarly, Gap has developed a program called PACE, which focuses on female garment workers in their professional and personal lives. PACE was launched in 2007 and claims to strive to develop the capabilities of female workers while also “provid[ing] a

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<sup>25</sup> For information related to FoA rights, see page 41 of this document.

sustainable pathway for women garment workers to advance in their personal...lives. P.A.C.E. is a comprehensive learning experience focused on helping female garment workers develop life skills and enhance technical skills”(Gap, Inc. 2012, p. 126). Further, this program is mean to improve foundational life skills that could impact their family life as well as financial well-being outside of the factory (Gap, Inc. 2012, p. 127). While this program clearly focuses on women employed by vendors, it incorporates business strategy through the development of technical skills for employees with third generation ethics through the focus on personal skills and community life.

This comprehensive mentality of Generation 2.5 ethics is echoed in Gap’s Root Cause Analysis<sup>26</sup> policy for the remediation of issues found in the supply chain. The Root Cause Analysis framework assists Gap in taking a program approach instead of a simple project approach.<sup>27</sup> By investigating the root cause of various health, safety, and productivity concerns through on site and off site interviews with workers and families, Gap qualitatively analyzes the quality of life for those in their supply chain. This approach can potentially lead to long-term solutions to various problems that can lead to set-backs in productivity as well as lead to the diminishing of the quality of life for workers.

This Root Cause Analysis policy is used to help enforce the Fire and Building Safety Action Plan and has supported the development of the Alliance for Bangladesh Worker Safety, which Gap co-founded in 2013. With more than 70 factories in Bangladesh producing Gap apparel, these initiatives are meant to implement “fire and building safety inspections conducted by qualified and independent inspectors. [Gap] retained the services

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<sup>26</sup> See Appendix IV for the Gap’s Root Cause Analysis Template.

<sup>27</sup> More information about the difference between Project and Program approaches can be found on page 45 of this document.

of Ranolph W. Tucker, an internationally renowned expert on fire safety, as [their] Chief Fire Safety Inspector...” (Gap, Inc. 2012, p. 45). The goal of these programs is to not only provide increased safety gear and awareness training for employees, but to also discover ways in which to encourage employees to speak up and determine their own safety practices in an informed manner.

Future goals outlined by Gap in their sustainability report emphasize Generation 2.5 CSR strategy by focusing on comprehensive improvement in supply chain responsibility and productivity. For example, in Bangladesh Gap plans to source only from factories that undergo comprehensive safety inspections and also plans to create and train a team that focuses solely on capacity building in factories by 2015 (Gap, Inc. 2012, p. 58). This capacity building is also part of a bigger program geared toward creating deeper relationships with vendors and seeking to understand how all decisions made by Gap can affect those directly and indirectly employed along the supply chain (Gap, Inc. 2012, p. 56).

### iii. Critique

As explored above, Gap has made many claims to genuine attempts at improving their impact across their supply chain with a comprehensive Generation 2.5 strategy alongside other, more traditional, second and third generation CSR strategies. However certain moves made by Gap in recent years have left many questioning the earnestness and effectiveness of several areas of Gap’s CSR scheme.

First, an article by Bhasin explains that Nova of the Workers Rights Consortium has publically criticized the Gap’s intentions to move into Myanmar as a new source of low cost labor after the lift of the U.S. trade embargo, which began in 2003 and ended in 2012



(Bhasin 2014). According to Nova, the Gap is moving in to take advantage of the poor labor regulations and lack of a government mandated minimum wage. Further, local labor rights groups in the area “liken worker conditions in Myanmar to ‘modern slavery,’” as many work 11 hours a day, six days a week for wages lower than any other area in the region (Bhasin 2014). Conditions in these factories are likewise appalling and have been described as “hazardous, hot and dirty.” Many workers claim to be physically and verbally abused and many women admit to fearing sexual abuse on a daily basis at work and on their way to and from work (Bhasin 2014). Clearly, these standards do not measure up to the improvements on supply chain operations boasted by Gap in their sustainability reports.

Second, Gap has not introduced any plans for implementing a living wage across their supply chain or even for just first tier suppliers. While the Gap acknowledges in its CSR report that the apparel industry as a whole needs to “[create] systems that guarantee workers are paid a sustainable living wage, (Gap, Inc. 2012, p. 136)” there is no mention as to how this system should be created or by whom. This is a gaping hole in their sustainability efforts, especially in light of the absence of minimum wage laws in Myanmar, where they intend to set up shop in the coming years.

Third, while Gap has a considerably public record of addressing issues of child labor in their supply chain, an investigative journalist, Jamieson, discovered that ladies as young as 12 were placing finished pieces, such as elastic bands, onto garments with the Gap logo on them in the past year (Jamieson 2013). These garments were barcoded and matched the tags of Gap clothing being sold in stores. This discovery directly contradicts Gap’s own zero tolerance policy for child labor and undermines the earnestness of Gap’s claim to a zero

tolerance policy for child labor and to ending forced child labor in Uzbekistan's cotton sector (Gap, Inc. 2012, p. 19, 53).

Finally, Greenhouse and Harris discuss that some have criticized Gap's co-founding of the Alliance for Bangladesh Worker Safety, claiming that it is less rigorous in its audits of factories and simply not as comprehensive as the Bangladesh Accord for Fire and Building safety, which is supported by over 150, mainly European, brands (Greenhouse & Harris 2014, p. 1). Members of the Accord claim that they work closely with local unions and worker rights groups and allow an extensive amount of input from local workers and their families. Further, 15 U.S. universities, including a few Ivy League schools, have pressured U.S. brands to join the Accord, which they see as a superior plan for responsible supply chain management, in order to continue producing garments sporting university logos (Greenhouse & Harris 2014, p. 1-2). According to Lamarque, one major reason the Accord may be more successful in dealing with social issues along the global supply chain is the fact that "under this pact, retailers would be subject to a binding arbitration that would be enforceable in the courts of the country where a company is domiciled" (Lamarque 2007). It would seem that the Alliance, which Gap co-founded, is not as comprehensive as some believe it should be.

It is clear that Gap, Inc. has made some success in terms of social responsibility along its global supply chain. However, there are major issues still present that call into question the effectiveness of Gap's CSR policies. For example, issues with child labor, providing a living wage, and the lack of legal enforcement for the Alliance for Bangladesh Worker Safety make it obvious that the Gap still has a long way to go to reach social justice in their global operations.

#### iv. Response

In terms of the criticism that Gap is entering Myanmar solely to take advantage of the vulnerable population of workers, Mahtani explains that Gap responds with high hopes for their potential positive impact on the quality of life in the area. For example, Gap claims that they will be creating 700 jobs with thousands of other jobs indirectly being created as well through this investment (Mahtani, 2014). Further, Gap enlisted the help of Verite, a labor right organizations, to investigate labor rights issues and to help educate the potential workforce. The Gap claims that Myanmar factories that produce Gap apparel pay an average of \$110 a month to workers, which is about four times the expected salary for garment workers in Myanmar (Mahtani, 2014). Therefore, it would seem that Gap is making a significant effort to maintain the supply chain sourcing standards that they have been claiming to strive for in the past two decades.

While Gap does not directly claim to have a plan to implement a living wage throughout their supply chain, Greenhouse explains that Gap has declared that it is raising its minimum wage for U.S. workers to \$9 an hour this year and \$10 an hour next year (Greenhouse 2014). Although this is only in effect for direct employees in the U.S., this is a huge financial commitment for Gap, as this raises the wages for up to 90,000 Gap employees (Greenhouse 2014).

In response to the discovery of child labor practices in Gap's apparel supply chain, Gap says that the finishing house where the young girls were found completing garments with Gap's label on them was not an approved part of the supply chain (Jamieson 2013). Gap allows its contractors to sell rejected clothing as long as all markings that connect that clothing to Gap are stripped prior to the sale (Jamieson 2013). However, Gap still should

not condone child labor practices, due to its zero-tolerance policy, and if Gap genuinely did not know about the children working for their contractor's finishing house, then Gap may not be vetting its vendors as well as it should.

Finally, in response to criticisms about the Alliance for Bangladesh Worker Safety, particularly through its comparison with the Accord for Fire and Building Safety, Gap and other members of the Alliance claim that they have completed more inspections than the Accord (Greenhouse & Harris 2014, p. 1). Alliance members also claim that the European dominated Accord does not take care of workers after an inspection leads to a factory shut-down. For example, a Softex factory was shut down after structural problems were reported and more than 2,500 workers went without any compensation (Greenhouse & Harris 2014, p. 3). Whether the Alliance itself is better or worse than the Accord, it would seem that these two commitments to improving social justice along the apparel supply chain are steps in the right direction in terms of improving the quality of life for workers.

In sum, it would seem that Gap has developed enormously in its CSR strategies throughout the past couple decades. While Gap still does not have a roadmap to address the lack of a living wage for workers along the global supply chain, particularly in low-income communities, Gap has addressed the wage issue in the U.S. and has started to address other issues related to social justice internationally. Specifically, Gap seems to be moving in the direction of developing Generation 2.5 strategies that combine responsible supply chain management, philanthropic initiatives geared towards improving the lives of workers and their communities, and lean practices for improving efficiency in all aspects of the business and increasing profits.

## *A. Patagonia*

### i. History

Patagonia, Inc. is a private outdoor gear and apparel company that Yvon Chouinard officially incorporated in California in 1984 as a subsidiary of Lost Arrow Corporation (Chouinard, p. 3). According to McSpirit, what began as a small-scale operation promoted to friends and family of the outdoor enthusiast, Chouinard, turned into a company worth over a hundred million dollars by the early 1990s. However, with outdoor apparel companies like L.L. Bean and Land's End reporting sales close to a billion dollars in the mid 1990s, Patagonia was and still is a relatively small company in the apparel industry (McSpirit 1998, p. 2, 3). While Patagonia is considered to be at the forefront of environmental and social responsibility in the apparel industry, the fact that it is a small, private company gives it a unique perspective in the CSR space.

One of the reasons that Patagonia has been so successful as a relatively small, privately owned company is its major focus on innovation and new product introduction (McSpirit 1998, p. 2). It also has had a reputation for high quality since its humble beginnings and, according to Chouinard and his nephew and first employee, Vincent Stanley, Patagonia has continued to take risks in the market to deliver quality, innovative goods for consumers (Chouinard & Stanley 2012, p. 4). The ability to take risks is inextricably connected to the fact that Patagonia is a private company, and, therefore, not legally bound to maximize value for shareholders. Further, Chouinard and Stanley both believe in the “moral capacity, compassion for life, and appetite for justice (Chouinard &

Stanley, 2012, p. 1)” within human nature, similar to the moral dimensions of human need discussed earlier in relation to Maslow’s hierarchy of human needs.<sup>28</sup>

However, while the company was working hard to make sure that its suppliers used quality fabrics and materials for their products through the early 1990s, Patagonia’s second generation ethics were lacking, as employees were reticent to investigating the working conditions of the workers and farmers along their supply chain (Chouinard & Stanley 2012, p. 47). Further, without much leverage with their suppliers, due to their small size, Patagonia has had much less influence over working conditions than companies such as Wal-Mart and even Nike, as discussed earlier. In terms of third generation ethics, Chouinard has publically donated to environmental causes and has been adamant about his intention to build a business culture around stewardship. For example, Patagonia established a policy called the Earth Tax, which donated about \$1.2 million of its sales and \$500,000 of its products in 1997 to various activists and environmental groups (McSpirit 1998, p. 3). However, not much mention has been made to philanthropy in the early 1990s related to social needs, such as empowerment, education and human rights.

In 1991, the company took a downturn as Patagonia endured capital constraints and lower than expected sales. Consequently, Patagonia had to lay off about 20% of its employees (Chouinard & Stanley 2012, p. 15). During this time, the Chouinard family looked to take the company in a new direction, as they found that they were becoming more passionate about their environmental goals while also needing to restructure or sell Patagonia, which was becoming an increasingly more risky company. Instead of selling the company and creating a foundation, Chouinard decided that turning his company into a best

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<sup>28</sup> Maslow’s hierarchy of human needs is discussed on pages 12-15.

practices showcase in terms of environmental and social concerns would be more meaningful work. Chouinard believed that, while he could not influence all areas of his supply chain directly and immediately, due to Patagonia's relatively low volume, restructuring his company to integrate environmental sustainability into all aspects of business would influence consumers and eventually governments to adopt more sustainable practices and regulations (Chouinard, p. 4). As Chouinard put it, "perhaps the real good that Patagonia could do [is] to show other companies that a company can do well by taking the long view and doing the right thing" (McSpirit 1998, p. 5).

By restructuring Patagonia in the 1990s, Chouinard became somewhat of a pioneer for Generation 2.5 CSR—at least in terms of environmental responsibility. Further, with quality control driving Patagonia buyers to source from well-lit, clean, safer factories that used experienced needleworkers and good machinery with the search for low cost production being only a secondary concern, Patagonia also had some basic lean supply chain<sup>29</sup> requirements in place without having to influence factories that they sourced from (Chouinard & Stanley 2012, p. 58).

However, these beginnings of Generation 2.5 CSR were minimal and required some trial and error. For example, into the early 2000s, Patagonia had spread itself too thin and began losing the depth of its relationships with suppliers, as it had over 100 factories. Realizing that this was too hard for such a small company to manage, Patagonia reduced the number of source factories by 30%. Patagonia began developing stronger ties with the factories that remained a source for Patagonia apparel and gear, which were not only able to

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<sup>29</sup> Lean supply chain management and its benefits for workers is explained and discussed in detail on pages 37-39 of this document

deliver higher quality goods, but also “these factories... [paid] better than prevailing wage, provide[d] a healthy subsidized lunch and low-cost child care, and [had] a nurse on staff” (Chouinard & Stanley 2012, p. 59). Patagonia also became more involved with the Fair Labor Association, which it joined in 1999 to start tackling labor issues within its supply chain (Chouinard & Stanley 2012, p. 59). At this point, the Patagonia mission statement included “cause no unnecessary harm” (Chouinard & Stanley 2012, p. 15), and the company continued to develop its Generation 2.5 strategies for social and environmental responsibility.

In 2005, Patagonia filed its first Corporate Social Responsibility Report, at which time they only had two employees designated specifically for environmental stewardship, as Chouinard wanted sustainability to continue to be the responsibility of every employee in every aspect of the company (Chouinard & Stanley 2012, p. 52). Shortly after this, in 2007, Patagonia decided to map out its supply chain in order to be more familiar with and transparent about its sourcing. This was called the Footprint Chronicles and was meant to contribute to Patagonia’s in house knowledge of product cycles in order to monitor social and environmental impacts as well as to better coordinate and implement innovative product strategies, as explained by Mike Brown, a CSR expert, quoted by McSpirit (McSpirit 1998, p. 8).

## ii. Today: Patagonia Social Responsibility

Historically, Patagonia has been a flagship company when it comes to Generation 2.5 CSR in the apparel industry. Today, Chouinard admits that being an activist company and engaging in third generation ethics was much easier than this new path of becoming a socially responsible business, even if it is more meaningful work (McSpirit



1998, p. 6). However, the company is still moving forward with many CSR strategies that continue with Generation 2.5 goals.

For example, Patagonia is continuing its Footprint Chronicles program with 500 people working on mapping the Patagonia supply chain in-house and has begun to “track the minimum and prevailing wage in each country from which [it sources] and to negotiate something closer to a living wage with each factory” (Chouinard & Stanley 2012, p. 54, 60). This is a huge step towards finding a way to implement a living wage across a supply chain, as it lays out a stepped process towards reaching the end goal of a living wage. In other words, Patagonia has not made an empty promise to implement a living wage by some arbitrary date but, rather, has taken steps to discover innovative ways to be able to pay appropriate wages in the future.

Another characteristic of the Patagonia business model that supports Generation 2.5 CSR strategies is the fact that Patagonia only has two full-time employees focused solely on environmental responsibility. The reason for this is that Patagonia wants responsibility integrated into every aspect of the business, including sourcing strategies, instead of leaving it as simply an afterthought (Chouinard & Stanley 2012, p. 52). Further, Patagonia claims to be a stakeholder manager and names four key stakeholders to the enterprise: Employees, customers, community, and nature (Chouinard & Stanley 2012, p. 28).

Future goals of Patagonia include ultimately changing the way that businesses do business and partner with governments to reach their goals (Chouinard & Stanley 2012, p.64 ). Patagonia is now a Benefit Corporation, which means that the company has the capability

of pursuing social and environmental standards that could potentially hurt short-term earnings in exchange for long –term benefits (Chouinard & Stanley 2012, p. 31). Also, Patagonia strives to define value for social and environmental costs in order to incorporate these values into accounting procedures for Patagonia and for all companies seeking to make a positive social and environmental impact (Chouinard & Stanley 2012, p. 72). Patagonia believes that developing deeper relationships with vendors is key to defining problems and remediating issues in partnership and allows for better quality product (Chouinard & Stanley 2012, p. 88, 89). In sum, Patagonia follows Generation 2.5 ethics when developing holistic strategies for the future of their CSR.

### iii. Critique

While Patagonia has been a leading example of CSR, including Generation 2.5 CSR, it is also still a relatively small company and cannot always be successful in its attempts to reach appropriate deals with vendors in terms of their environmental and social responsibility standards. Further, Patagonia’s reputation for quality makes it difficult to be socially and environmentally responsible when fashion trends do not support the most responsible sourcing options. Patagonia publically admits that being a socially responsible company is much more difficult than simply being a company full of activists with goals outside their own operations (McSpirit 1998, p. 6).

First, Patagonia has tracked wages across their supply chain but has not yet found a way to implement a living wage. Beyond the previously listed barriers to defining and implementing a living wage<sup>30</sup>, one reason for Patagonia’s inability to influence appropriate wages is that Patagonia is a small company and does not have the leverage to request major

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<sup>30</sup> Barriers to defining and implementing a living wage are discussed on pages 43 and 47.

changes in its vendor's business operations and policies. This extends to environmental regulations as well. According to Mike Brown, "U.S. suppliers often work hard and closely with [Patagonia] to reduce environmental impact, but [its] Asian partners more often throw up their hands in desperation. Environmental awakening is slower where money is harder to come by" (McSpirit 1998, p. 8). Further, beyond their vendors dyehouses, mills, agricultural workers and other extensions of the supply chain are even more difficult to reach, as Patagonia rarely even has direct contact with them (McSpirit 1998, p. 8). Therefore, while Patagonia may have strong values and clear CSR strategies, the fact that they are smaller than other companies that also source from their vendors as well as competing vendors, there are setbacks to the potential progress that Patagonia can make while acting alone.

Second, Patagonia is not immune to the fast paced changes in the fashion industry. If designers realize that they are designing a product that can potentially harm workers along the supply chain or the environment, they need to weigh the costs and benefits of that particular product. In some cases, products that are designed to require less than optimal materials in terms of social and environmental impact are mass-produced by Patagonia in order to meet the desires of the consumer (McSpirit 1998, p. 8).

#### iv. Response

While Patagonia representatives admit that there are major limitations to their ability to impact the operations of their extended supply chain, Patagonia does put forth other theories to solving social and environmental injustice in the world. Patagonia founder Chouinard believes that for every product the costs to society and the environment are greater than the price paid in the store. Therefore, it is nearly impossible to actually reach

optimal social and environmental justice through the supply chain. Further, the modern culture of consumerism has led to mass-consumption and fast fashion in the apparel industry that cannot be sustained (Chouinard & Stanley 2012, p. 27). According to Chouinard, all companies need to start reducing their output and increasing their quality in order to minimize negative impacts on society and the environment.

Moreover, being a small, private company clearly has setbacks in terms of reaching CSR goals. However, it also has certain benefits. For example, private companies, and Benefit Corporations like Patagonia have the right to fund groups that are not mainstream, may conflict with government policies and public opinion, and commit to reaching singular environmental and social goals (McSpirit 1998, p. 3). Also, Patagonia has joined some organizations, such as the FLA, in order to collaborate with larger companies that have more leverage with international vendors and extended apparel supply chains (Chouinard & Stanley 2012, p. 58).

Overall, Patagonia is a unique case in terms of an apparel company's development of social and environmental responsibility because it began its quest for CSR strategies early on, but is also still a relatively small company with a limited scope of influence with vendors along the global apparel supply chain. Patagonia is adamant about its Generation 2.5 strategies, particularly the integration of stakeholder management into every area of their business operations.

## **VI. Conclusion**

Throughout this CSR discussion, many strategies for companies to improve reputation, increase the positive impact of their business, and develop holistic practices for engaging stakeholders across supply chains have been explored. While it would seem that companies in the apparel industry are still pursuing many CSR strategies, those companies seen as innovators for CSR, such as Nike, Gap and Patagonia, all seem to be coalescing on a strategy that integrates all generations of CSR with every area of business operations. This is a more holistic, program-oriented strategy for CSR that has been developed and described throughout this paper as Generation 2.5 ethics, or Generation 2.5 CSR.

Today, there are still many barriers to effective CSR practices in the apparel industry. Fast fashion makes it difficult for apparel companies to keep up with their business goals while maintaining responsible supply chain management and environmentally and socially responsible practices. One important example of this is that there is still no definitive roadmap or timeline to implementing a living wage across global apparel supply chains. However, many companies are at least claiming to attempt to reach an effective strategy for defining and implementing a living wage while also improving the quality of life for stakeholders along extended apparel supply chains.

Further, while small and private companies may have a clearer path towards social responsibility than larger, public counterparts, due to their ability to determine their own values and the fact that their legal status allows them to pursue long term goals even with short-term losses in earnings, larger companies have much more capital and influence in the global apparel supply chain and therefore have a greater potential impact on the environment

and on communities in which they operate. Fortunately, small and large, private and public companies have come together to form organizations that encourage responsible behavior in order to combine the strengths of each member company to reach as many goals as possible.

Critiques discussed in this paper might suggest that apparel companies are merely developing strategies to appear to be addressing social responsibility issues. Instances of child labor and even slavery are still abundant in global supply chains. Factory disasters claim hundreds and even thousands of lives due to a lack of health and safety standards. However, the progress that has been made in the last two decades illustrates the potential to reach CSR goals and transform business practices to meet the needs of all stakeholders. Particularly, the move towards adopting Generation 2.5 ethics, which transforms operations across a company to include second generation and third generation ethics in every day business decisions, is a move in the direction of comprehensive CSR practices that address many of the current criticism of CSR today. With this in mind it is possible to remain hopeful that many social ills associated with apparel supply chains can be mitigated and are not inevitable.

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**APPENDIX I: Nike FY13 audits of 94% of contracted factories (Nike, Inc. 2012, p. 38)**

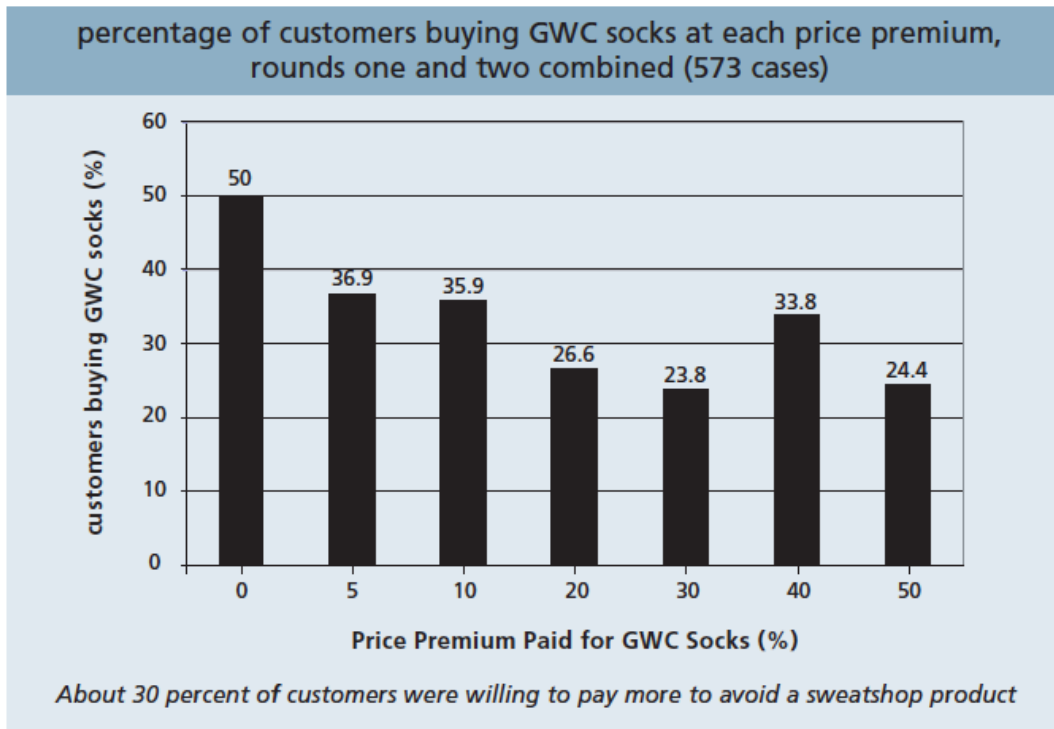
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**TOP ISSUES OF LABOR NONCOMPLIANCE  
IN CONTRACT FACTORIES**

	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>
Age	1%	<1%	2%
Freedom of Association and Collective Bargaining	2%	<1%	1%
Harassment	3%	4%	1%
Hiring	4%	2%	2%
Hours	41%	44%	42%
Other	13%	13%	8%
Wages	36%	37%	39%
<b>TOTALS</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

NOTE: More detailed discussion of factory performance trends is available in the "Manufacturing" section of this report and on-line. Contract factory count includes NIKE, Inc. contracted manufacturing. These figures include Affiliates, prior to divestiture, and NIKE Brand licensee. Percentages are used to show the relative rate of type of incident.

**Appendix II:** What are consumers willing to pay for sweat-free products? (Kimeldorf et al. 2006, p. 26)



Appendix III: Wages in Major Apparel Exporting Countries (Setrini 2005, p. 7).

Country	Minimum Wage for workers in footwear and Apparel	Poverty Line	Prevailing Apparel Industry Wage	Minimum wage below poverty line for family of four (or as specified)	Industry wage below national poverty line for family of 4 (or as specified)
Bangladesh	\$12.35-76.00/month	\$11.32/cap/month	\$36.51-42.51/month	X	X
Brazil	\$81/month	\$25/cap/month	\$160-270/month	X	
Cambodia	\$40/month	\$13.38-20.08/cap/month	\$40-70/month	X	X
China	\$12-39	\$20.50-26.50/cap/month	114.67-190.97/month	X	
Colombia	\$132.23/month	\$364.76/hld/month	\$194-216/month	X	X
Costa Rica	\$266/month	\$100/hld of 5/month	\$262-299/month		
Egypt	\$408/year	\$929-1231/cap/year	\$1312/year	X	X
Guatemala	\$3.16/day	\$11.07/hld of 5.38/day	\$6.11/day	X	X
India	\$6.26-54.51/month	\$5.41-6.24/cap/month	\$18.52-\$92.58/month	X	X
Indonesia	\$15.12-33.72/month	\$4.84-6.11/cap/month	\$15.12-42.06/month	X	X
Jamaica	\$1,377.20/year	\$3567/hld of 5/year	\$1800-5000/year	X	X
Mauritius	\$55.60/month	\$250/month	\$258-368/month	X	X
Mexico	\$3.02-3.24/day	\$3.71/cap/day	\$6.72-8.24/day	X	X
Nicaragua *(1)	\$52/month	\$400/hld/month	\$228/month	X	X
Pakistan	\$38/month	\$6.39/month	\$63/month	X	
Peru	\$100/month	\$47/month	\$100/month	X	X
Sri Lanka *(1)	\$21.70-37.30/month	\$14.50/hld/month	\$64.68/month		
South Korea	\$264.97/month	\$182/month	\$727-932/month		
Taiwan	\$476/month	\$213.66/cap/month	\$689.45-741.53/month		X
Turkey	\$291/month	\$820/hld of 4/month	\$522-528/month	X	X
United States	\$10,300/year	\$16,655/hld of 4/year	\$17,040-17,860	X	

\*(1)

prevailing wage is for all manufacturing and is likely to significantly overstate wages in apparel and garment industries

Appendix IV: Gap, Inc.'s Root Cause Analysis (Gap, Inc. 2012, p. 40).



## ROOT CAUSE ANALYSIS DIAGRAM

STEP BY STEP	CASE STUDY
<p><b>Step 1—Identify the problem.</b> Root cause analysis is especially suited to issues that have occurred more than once, suggesting the need to address underlying drivers. Issues related to health and safety should be priorities and may be uncovered by consulting past audit reports. Looking beneath the surface is valuable even with potential new problems, and it has become an integral part of our work with factories. Increasingly, we encourage factory management to undertake this process themselves.</p>	<p>Workers at one factory were not using filter masks at a spot cleaning station. This issue recurred and posed a potential health and safety risk to workers. The reason for not wearing masks was unclear, calling for a deeper inquiry.</p>
<p><b>Step 2—Decide who needs to be in the room.</b> One of the keys to productive analysis is making sure that the right people participate. For example, if the issue involves work hours, those responsible for a factory's production should be part of the discussion; if the issue concerns broken lights, then the maintenance manager is more appropriate.</p>	<p>In the case of workers not using filter masks, a range of people were brought together to look at the issue from different angles: the production manager, maintenance manager, controller, and representatives of compliance and human resources.</p>
<p><b>Step 3—Ask "why" along with open-ended questions.</b> A root cause analysis is a journey with no clear destination; questions often lead to more questions, and understanding is the ultimate goal. "Why?" is often the best route to success, as are open-ended questions that do not cast judgment or blame. What not to ask: questions that can be answered with a quick yes or no.</p>	<p>Why were workers not wearing filter masks? This initial question was broken down into a number of follow-ups: Why weren't health risks reviewed with workers? Why didn't they understand the need for masks? Why were spot cleaning stations located in places without ventilation? Why hadn't management taken disciplinary action?</p>
<p><b>Step 4—Get to the bottom of the problem.</b> Finding the cause of a problem requires persistence and open-mindedness. What lies beneath the surface can be unexpected or difficult to tease out, especially with sensitive issues. In addition, many issues have more than one driver, and it is critical to determine which drivers are most important.</p>	<p>Workers were not wearing their filter masks because they were uncomfortable and inconvenient to wear. But this was not the underlying problem. At root, workers did not understand the need to wear the masks. So they took what seemed like the easier path and chose not to wear them.</p>
<p><b>Step 5—Consider and select a solution.</b> Once the cause of a problem is unearthed, creating a solution becomes more straightforward. Is the issue lack of awareness? A lapse by factory management? A missing procedure or technical problem? Effective solutions address more than just symptoms and are thus more comprehensive.</p>	<p>The factory undertook a thorough health and safety assessment and introduced an incentive program, awareness campaign, and worker training about the use of masks. We sought to balance the need to inform workers of the risks without causing alarm, while taking clear steps to ensure safety. For example, certain work areas would start requiring the use of protective gear.</p>
<p><b>Step 6—Implement and communicate.</b> An improvement plan outlines who is responsible for taking action and when that action will be completed. In order to be most effective, such plans need to be specific and include buy-in from factory management. This is especially true because many issues include the need for cultural shifts within the factory.</p>	<p>The specific steps outlined above were documented in an improvement plan. The factory also implemented an awareness campaign for workers about filter masks, holding meetings and trainings. Corresponding health and safety signs were posted throughout the factory.</p>
<p><b>Step 7—Follow up.</b> Since the goal of root cause analysis is to prevent issues from recurring, it is essential to track whether that goal has been met. Continuous self-assessment is an ongoing part of the process, and it may yield new insights into refining an improvement plan and making it even more effective.</p>	<p>An assessment found that workers gained new understanding of the importance of wearing filter masks and learned how to use them. In addition, the factory's health and safety assessment uncovered the use of hazardous chemicals in certain areas, and these were removed in favor of safer substitutes.</p>