

# A review of gap inc management essay



**ASSIGN  
BUSTER**

Corporate responsibility refers to the obligations of the firm to society or, more specifically, the firms stakeholders – those affected by corporate policies and practices. (Smith, 2003)

(Dahlsrud, 2006) maintains that there are 37 different definitions of how Corporate Social Responsibility is defined, however the challenge for businesses is not so much to define CSR, as it is to understand how CSR is socially constructed in a specific context and how to take this into account while developing the business strategies.

The report undertakes a review of GAP INC., an American retailer brand, for its corporate strategies, operations, social responsibility values and related activities in order to determine a strategic importance of CSR activities for long term business sustainability objectives and brand empowerment. The report formulates a new CSR Strategy based on current CR operations, the industry drivers and future strategy considerations, and further recommends specific strategic steps the Company must follow in order to achieve sustained growth and lead the industry by example.

The report starts by undertaking a review of the Company's and industry operations and Value Chain and associated issues. The review involves analyzing the Value Chain of textile industry, identifying sources of issues in Environmental, Social and Economic aspects. The textile industry is extremely complex and competitive nature, constantly driving demand for reduced costs and wide range of products. The biggest challenge the Company has to manage the supply chain of more than 1, 255 contracting

companies in terms of their compliance, issues around poor working conditions and environmental footprints.

The critical review of the Company's efforts in CR is applaudable, however, there exists a substantial opportunity to create a genuine social welfare and economic benefits to the Company. This is with a reason that current CR practices in the four areas – Supply Chain, Environment, Employees and Community Commitment are not efficient to guarantee the success of efforts, seemingly disconnected from the Company strategy and are not maximizing the benefits to the society and the Company. The Company has a distinct approach – multi-stakeholder approach, that leverages upon the stakeholder knowledge in CR activities, however, enclose a risk of mismanagement of stakeholder expectations.

“ No business can solve all of society's problems or bear the cost of doing so” and therefore, instead, the “ company must select issues intersect with its particular business” and “ create an affirmative corporate social agenda [that] looks beyond community expectations to opportunities to achieve social and economic benefits”. (Porter & Kramer, 2006)

There exists a need for the Company to re-organize its efforts, identify & prioritize the most important social benefits to be focused, develop and implement a long term strategy. The report, thus develops a broad framework to assist the company re-align its CR strategies with that of the corporate strategy, consolidate and focus its efforts by prioritizing the most important sources of threats and mitigate proactively. The new developed

framework considers the concepts of Responsive and Strategic elements for its new CR vision.

## **A New Vision**

“ To exhibit social and environmental responsibility adopting the dual contemporary concepts of responsive and strategic Corporate Social Responsibility, that promotes good corporate citizenship, mitigates challenges proactively and yields distinctive social benefits.”

The new vision incorporates the ideas of responsive CSR in order to consider multi-stakeholder dimensions, mitigate and resolve the potential harm resulting from value chain activities, and also considers aspects beyond good citizenship to maximizing benefits to the business and the society.

## **A new CR Framework:**

Compliance & Transparency

Leverage & manage

Ethics & Conduct

Support & Development

Commitment & Involvement

The framework prioritizes the components and strategises a definite agenda to be accomplished in the order of their importance to the social welfare and economic benefits.

The report, in the final section, provides specific recommendations in each of the areas of strategy for the long term sustainability.

Methodologie crafts compelling social responsibility communications for Gap Inc. [http://www.methodologie.com/stuff/contentmgr/files/0/110366c27daab8f91a291f35ed20e9cf/files/gap\\_don\\_fisher\\_quote.gif](http://www.methodologie.com/stuff/contentmgr/files/0/110366c27daab8f91a291f35ed20e9cf/files/gap_don_fisher_quote.gif)

gap\_don\_fisher\_quote.gif

Gap\_Interactive Map

“ We’ll continue to engage in a collaborative, transparent dialogue about the issues that need to be addressed throughout the industry.” – Glenn Murphy, CEO, Gap Inc.

Table of Contents

## **INTRODUCTION**

Gap Inc., the leading global specialty retailer offering clothing, accessories and personal care products for men, women, children and babies operates with about 132, 000 employees. The company has a global presence in 39 countries, with its 3, 000 company-owned outlets across the USA, United Kingdom, Canada, China, France, Ireland, Japan and Italy, and 250 franchise-owned outlets across Asia, Australia, Eastern Europe, Latin America, the Middle East and Africa. (GAP Inc., 2012)

Gap’s brands include – Piperline, Gap, Banana Republic, and Old Navy and Athleta. Each of the brands offer different style of clothing and all co-existed under Gap Inc. Gap, in 2007, ceased to operate one of its brands – Forthe and Towne.

<https://assignbuster.com/a-review-of-gap-inc-management-essay/>

The company, through its product differentiation and cost leadership strategy, has been successful in delivering “ coolest” style clothings, and best products at relatively lower prices.

Despite its efforts in differentiating brand in the clothing industry, the annual report 2011 shows a 30% decline in net income as compared to the previous year. (Gap Inc, 2012)

(Bogenrief, 2012) in his article argues that the Company went in the wrong direction in its strategies from 2000 onwards as a result of – its narrowed focus on only profitable products, poor cost management, over-expansion and slow in taking advantage of web presence.

## **CORPORATE RESPONSIBILITY ISSUES AROUND THE VALUE CHAIN**

### **Overview of the Value Chain**

As with any other cloth retailer, this supplier chain is applicable for Gap.

The apparel industry’s value chain consists of designing apparel, manufacturing and distribution of garments, marketing and merchandising them.

C: UsersSomnathDesktopueaCoursesCSRMaterialvalue chain dig. JPG

Source: (UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION, 2003)

The supply chain refers complete chain from the firms where the raw materials are grown to the stores where the clothes are sold. The main

components of the value chain are – Raw Material networks, Component Networks, Production Networks, Export Networks and Marketing Networks.

The raw materials like wool, cotton, silk and synthetics are used to create yarns and woven fabrics. Petrochemicals cover basic chemicals like Ethylene, Propylene, Benzene and Xylene, The other components are MEG, PAN, LAB etc, with synthetic fibers like Nylon, Polymers like PVC, Polyester, and rubber. (Corporate Catalyst India, 2012)

The raw material in massive quantity, for example, cotton moves from Texas or developing countries to China, where it is processed into garments, exported back and distributed through trading and shipping networks.

Production networks are the industries that make fabrics and garments according to the patterns and specifications according to the apparel companies. The garments are sewn and transported to the distribution centers that ship it to the retailers and wholesalers.

The quest for competitive pricing continues to seek for low-cost labour from in developing countries, and as a result, companies require careful management of options – supply sources, shipping routes, and varying taxes and legal environments. (Deloitte, 2004)

Due to fragmented ownership of small firms, mills and factories, they are the place for a tremendous amount of malpractices in relation to social injustice and ecological tampering. There have been numerous issues related to social welfare of employees, lack of occupational health and safety, poor management practices, unethical nature of owners, non-payment of wages,

the support of child labour, denial of rights of freedom of association, pollution of air, land and water. (Worley, et al., 2010)

## **Environmental Impacts**

The following figure illustrates environmental aspects and impacts against each area of the value chain.

Input Sources: (Oecotextiles, 2012), (Fibre2fashion, 2011), (The Indian Textile Journal, 2009)

## **Social Issues**

Social issues around the company's operations have been the cause for significant reputation damage. Despite the Compliance measures, the incidents of labour abuse and child labour take place indicating the complex nature of the factories involved in making branded garments.

A recent example – BBC, on 28th Oct, 2007 showed a footage of child labour in Gap factories in India. As a damage control steps, the Company removed and destroyed the clothing in question, from its 3, 000 stores, stopped working with 23 suppliers, and deployed 90 personnels across the globe to supervise the compliance. (Mallenbaker, 2007)

## **Why Social issues are so important?**

Managing issues around the social web are extremely important to be able to operate without disruptions, exhibit strong ethical values and social care, responsible behaviour and lead the industry by example. Failure to manage issues such as child labour and health & safety issues damages the company brand image, may lead to closure of premises and face social scrutiny. And



therefore, a minimum threshold performance in each element must be maintained.

The following are key considerations as highlights in each of the areas.

## **Economic Issues**

Massive growth of textile industries in developing countries as a result of comparative advantage of cheap labour and low factory running costs have enabled a considerable import/export in textile industry, and have led to subsequent economic issues around manufacturing trading and distribution.

A review of various issues undertaken in these areas ascertains few considerations for the better management in future.

## **Bribery & Corruption**

## **Fair Trade & Wages**

## **Strategic philanthropy**

## **Farms**

1. Forms of bribery for contracting/subcontracting, exports 2. Corrupt practices including for tax & customs avoidance, getting government clearance and covering malpractices in contracting.

Considerations: Scrutiny of contracts at all stages,

Focus on worker code of conduct,

Bribery trainings and awareness of company laws,

encourage ethical behaviour.

1. Support fair wages for local workers, empowering textile workers by educating about their rights. 2. Use of national trade agreements such as NAFTA to be extended to fair trade agreements.

3. Will require full participation of local factories, retailers, managers and the beneficiaries to ensure development and empowerment of workers.

Collaborative approach with the business stakeholders.

### **Mills and Factories**

1. Infrastructure investment will help the development of the local area.

2. Community development through local workers' support.

### **Distribution/ Retail**

1. Profitable business through accountability and ethical business behaviour.

2. Development of the regions the the company operates in.

3. Pricing policies & cost containment.

Sources: (FairTrade Foundation, 2012), (Neyland, 2008)

## **REVIEW OF CORPORATE RESPONSIBILITY ACTIVITY**

### **Overview of Gap's Corporate Responsibility**

#### **Gap Inc. values –**

Integrity, respect, open-mindedness, quality and balance (GAP Inc, 2012)

At present, Gap's focus in Corporate Social Responsibility (CR) has been in four areas:

<https://assignbuster.com/a-review-of-gap-inc-management-essay/>

## **1. Supply Chain**

Goal: Partner with factory management, internal and external stakeholders to improve working conditions.

## **2. Environment**

Goal: Improve Gap Inc's Environmental Performance in the areas of efficient use of energy, waste management, reducing carbon footprint, water conservation and reduce greenhouse gas emissions.

## **3. Employees**

Goal: Continue to make Gap Inc. a globally effective organization and a great place to work through career advancement opportunities, workforce diversity and open dialogue.

## **4. Community Investment**

Goal: Leverage our assets to deepen our impact and continue to engage our employees by offering a range of programs.

(GAP Inc., 2012)

For more details on goals in each area, please refer to the appendices 1 through 4.

A key highlighting progress by Gap Inc in Corporate Responsibility can be quickly reviewed as below.

In the early 1990's, with increasing size and complexity of the company, the fragmented supply chain and increasing NGO's obsession for creating a

central role for civil society in addressing these issues led to create a wave of activism.

In response, Gap created a social responsibility function in the mid 1990s with a Compliance and Monitoring capability, and worked with factory management . However, the functions under the framework were reactive in nature with “ fix the problem” approach. This phase raised awareness of the industry’s practices established systems of measurements and helped improve the quality of the factories.

With the realization of inefficiencies in compliance approach, Gap, in early 2000, moved further to extend its efforts with multi-stakeholder collaboration approach where it could use information and experience from the stakeholders and align the interests for the Company’s credibility. The new collaboration strategy aimed to develop the responsible management capacity of the factories with the help and coordination of stakeholders.

(Worley, et al., 2010)

Initial internal collaborative efforts focused on the important department of the Company - Sourcing department and laundries in China. The issues with laundries in China - facing closure due to non-compliance issues - were resolved with vendor compliance, open communication and developing a true partnership.

The Company’s external collaborative efforts focused on building the capacity of factories to increase dependability, responsible behaviour, and included initiatives such as - the Ethical Trading Initiative (ETI), Social

Accountability International (SAI) and the Interfaith Center for Corporate Responsibility (ICCR). (Worley, et al., 2010)

In 2010, the Company's three working groups focused more closely on areas – Vendor performance, product lifecycle and “chase” or rush orders. Vendor performance includes – a factory's record of meeting the Gap's Code of Vendor Conduct and making factory's history of social performance more accessible, while product Lifecycle area included focusing on implication of inaccurate demand forecasts on labour over-time and contracting procedure compliance with sub-contractors. (GAP Inc, 2012)

The Company's efforts encompass the Better Work program in partnership with the International Labour Organization (ILO) and the International Finance Corporation (IFC) to help governments, workers and companies achieve compliance with labour standards and codes and national laws. (GAP Inc, 2012)

Post tragic-fire in the sportswear factory in 2011, the Company has implemented 4-part Fire Safety Action Plan for all its supplier companies in Bangladesh. (Gap Inc, 2012)

The Company, through its Community Investment mantra, has been focusing on creating opportunities for underserved youth in developed countries and women in developing countries.

## **Critical Evaluation of Gap’s Corporate Responsibility Functions**

### **What CR means to the company?**

“ It means going beyond the basics of ethical business practices to embrace a broader, deeper responsibility to people and the planet.” (GAP Inc., 2012)

After examining the major initiatives, it appears that the Company’s work in CR is confined and limited to the initiatives – environmental footprints assessment, Human Rights Policy Development, P. A. C. E. Program, and Vendor Development & Better Work Programs.

### **Transparency**

An evaluation of the Company’s reports, websites and additional resources indicate that though the company is running initiatives and programmes, there is limited transparency.

## **Environmental Performance**

### **1. U. S Energy Consumption**

The plot below shows reduction in yearly consumption of Energy.

DAT\_ENV\_USEnergyConsumption\_Charts

Source: (GAP Inc, 2012)

### **2. Water Quality Program**

The figures below show that the number of denim laundries in China complying to the program have been remarkable (90%).

DAT\_ENV\_DenimLaundry

<https://assignbuster.com/a-review-of-gap-inc-management-essay/>

The Company maintains that 100% jeans production is in compliance with Water Quality Programs. However, the Company does not produce only Jeans!

Moreover, the company focuses only on own consumption of energy and water and seeks to use efficiently. The Company must understand that carbon and water footprints of the supply chains are the biggest CSR challenges for the Company.

The efforts are confined to the Company's own premises, however, there is a large opportunity to extend its efforts, and therefore recommend to:

1. Focusing on enhancing its internal efficiencies.
2. Working with the supply chain factory's management to raise an awareness programs, seek potential opportunities of – waste reduction and management, recycling and rehabilitation of impacted.
3. Promoting textile-enabled environmental businesses, to operate through the community. It will lead to the development of community, as well as improved environment.

## **Social and Socioeconomic Performance**

### **1. Employee Participation in Community events**

DAT\_CI\_Volunteer\_hours\_2011

In 2011, the number of worker-hours spent in volunteering for community events were topped to 433, 000, and the total employee contribution reached \$32. 3million in 2011.

## 2. Factory Rating

The Company has 1, 255 contracting factories from across various parts of the world.

The company, through rating the factories on social performance, seeks to ensure safe and fair working conditions, with an aim of holding them responsible, and helping them improve.

DAT\_SC\_FactoryRatings\_Total2011

Source: (GAP Inc., 2012)

The year 2011 shows more percentage of factories moving in the green zone, however, it's also seen that percentage of red (action required) factories has not gone down considerably.

Though the Company has provided statistics of their assessment of the factories, it is not clear what drives the change in factories, and also what are the incentives/ benefits) for factories to achieve higher ratings. Also, the Company has not detailed consequences of non-compliance by the factories.

It appears from the goal statements of the company, that the company is “selectively” focusing on only few key sourcing factories for improved commitments, working conditions and true partnerships. This is particularly problematic when the Company has more than 1, 255 contracting factories. For instance, the goal of Vendor Development Program is to involve and evolve 20 key vendors, and that does not tell the share of (only) 20 vendors in the value chain.



It is also seen in the history, that the company undergoes media scrutiny and reputation damages as a result of bad practices in its sourcing countries such as Bangladesh and India.

It is therefore recommended that –

1. The Company should not completely rely on factory rating assessment, however, facilitate half-yearly external audits and inspections in at least 80% of the sourcing factories.

2. Collaborative trainings and awareness –

The Company, in collaboration with factory management, must conduct worker awareness and training programs, and ensure the factories allocate a 10% annual budget in this area.

3. In addition to Code of Vendor Conduct, the Company must exercise more control on the factories in terms of compliance.

4. Promoting mandatory social and environmental responsibility certifications.

## **DEVELOPING A NEW VISION OF RESPONSIBLE BUSINESS**

Businesses must understand that business strategies would not be efficient without social and environmental aspects. The Company's business strategy must have a corporate responsibility (CR) on its agenda, and long term sustainability enabled by CR will have a positive impact on competitive advantage in brand recognition and distinction.

(Porter & Kramer, 2006) highlights two important points about Company Strategy and CSR that –

1. The prevailing approaches to CSR are so disconnected from business as to obscure many of the opportunities for companies to benefit society.

This implies that the Company must align its CSR objectives, efforts and strategies in accordance with the business strategy, considering the nature of business and the environment the company operates in.

2. An affirmative corporate social agenda moves from mitigating harm to reinforcing corporate strategy through social progress.

This implies that, the Company, rather than reacting to outside pressure, sets an affirmative CSR agenda that produces maximum social benefits as well as gains for the business. Therefore, it will need better identification and prioritizing of the social issues to be addressed.

## **Understanding the Context and Drivers of CSR**

The company is operating in highly competitive environment, in which the Company has a constant pressure of price reductions and producing a range of designs and good quality garments.

The review of its finance also observed a considerable decline in income (, by 30% in 2011). There are environmental uncertainties such as tsunami, earthquake and floods, that are out of control of the Company, and they have significant impact on its supply capacity to market as the the business is highly dependent on a huge number of suppliers spread across various parts of the world.

The apparel industry's most challenges are to deal with uncertainty, pricing volatility of raw material and energy resources, rising manufacturing costs and supply chain transparency. (Barrie, 2012)

A strategy in multi-stakeholder approach must consider the following while managing and negotiating the stakeholder expectations:

The Company must adopt a strategic negotiation approach in which the strategy is focused on benefiting disadvantaged groups by working with "selective" stakeholder alliances, situating the legitimacy of all decisions and agreements, and improving preconditions for successful negotiations.

(Edmunds & Wollenberg, 2001)

### **A New Vision for Gap Inc.**

" To exhibit social and environmental responsibility adopting the dual contemporary concepts of responsive and strategic Corporate Social Responsibility, that promotes good corporate citizenship, mitigates challenges proactively and yields distinctive social benefits."

The new vision incorporates the ideas of responsive CSR in order to consider multi-stakeholder dimensions, mitigate and resolve the potential harm resulting from value chain activities, and also considers aspects beyond good citizenship to maximizing benefits to the business and the society.

# **DEVELOPING THE CORPORATE RESPONSIBILITY STRATEGY**

## **A CSR Framework**

With a deep understanding of the industry and operating business environment, stakeholders and drivers of sustainability, the new framework for CSR strategy is proposed.

Compliance & Transparency

Leverage & manage

Ethics & Conduct

Support & Development

Commitment & Involvement

The main components of the CSR strategy framework with priority of focus, are –

Supply Chain,

Environment,

Community Investment,

Employees and

Stakeholders.

The strategy must be aligned with the Company's corporate strategy, and therefore, CSR aspects must be on the agenda of business strategy.

<https://assignbuster.com/a-review-of-gap-inc-management-essay/>

The most important component supply chain has a vital role to play, and therefore strategies in relation to compliance and transparency are of extreme importance.

The Company must exhibit continued commitment to its Environment efforts, extending its efforts to involve supply chain.

With a strategic CSR approach, the Company must concentrate on supporting and developing community standards through the promotion of environmental and textile-enabled businesses.

The Company through its high ethical and moral values and business conduct, leverage on its best industry-practices, and lead by example.

Continuing the Company's multi-stakeholder approach in CSR, the company must focus on maximizing the social benefits with selective involvement and managing conflicting desires.

### **Strategy Formulation and recommended steps**

Developing the Corporate Responsibility Strategy is based on the review from earlier sections, newly devised corporate sustainability vision and analysis of the context of the Company's operating environment, in aligning to the new framework.

The aim of the new strategy is to use existing mechanisms of corporate strategy that is comprised of multi-stakeholder approach around four major areas – Supply Chain, Environment, Employees and Community Investment, and re-organize the efforts based on the new vision in order to maximize

benefits from appropriate focus by prioritizing the most important and large affective social and environmental aspects.

The recommended strategy steps in each of the areas are as below.

## **Areas**

### **Recommended Steps**

#### **Supply Chain**

1. To ensure compliance to Code of Vendor Conduct, the company must facilitate half-yearly External audits and inspections to at least 80% of its contracting factories.
2. In addition to Rating Assessment, the Company must enforce and exercise stringent non-compliance consequences, including penalties and contract termination.
3. Collaborative Trainings and awareness – Exhibiting responsive CSR, the Company, with factory management, must facilitate workers training programs to provide education about their rights, accountability, health & safety and ethical behaviours.
4. Formation of Factory Operations Review (FOR) teams – Exhibiting responsive CSR, the Company must form FOR teams in respective regions with an aim to review operations of contracting factories periodically, and assist improve their operations.
5. Formation of Factory Conditions Review (FCR) team – Exhibiting responsive CSR, the company must form FCR teams in respective regions

with an aim to particularly improve working conditions and ensure workers' safety.

6. Transparency and Engagement – Mandate the factories make their information – ethical standards, value for money and social responsibility works – available in the public interest.

## **Environmental**

7. Promote Ecotextiles such as use of Organic Fibers in factories.

8. Extend training and awareness programs to contracting factories, in collaboration with factory management.

9. Formation of regional Environmental Review teams (ERT) – The Company must form ERT aiming to provide environmental suggestions on waste management, recycling and re-use.

## **Community**

### **Businesses**

7. Workers Assistance Helplines – Open regional helpline services aiming to assist workers in the contracting factories with their work-related problems.

Two-fold benefits – help address workers' problems and improve practices in factories

Lead to employment of people in that region.

8. Schools and Charitable Institutions – Exhibiting a good corporate citizenship, by assisting local communities to open schools will help improve

standards of local community, and charities aiming towards disadvantaged and dependents of the factory workers.

9. Promoting Textile-enabled businesses – The company must start efforts toward raising awareness and assist in establishing environmental businesses such as bio-plants, waste management and recycling plants.

## **Employees**

10. Promote high ethical and moral standards in employees and encouraging increased participation for volunteering for social causes.

11. Ensure high compliance to Code of Business Standards of the Company.

## **Transparency**

12. Lead by example – The Company must demonstrate a higher level of transparency in its CR related activities, and publish accounts and documents in relation to its activities, provision of finances and reporting.

## **Stakeholder**

13. Adopt a strategic multi-stakeholder approach focusing selective stakeholder alliance for benefiting the most disadvantaged, and impacted from a value chain activities, dealing with conflicting stakeholder desires.

The initiatives above will demonstrate higher level accountability to society and value chain, and addresses the issues reviewed in the earlier sections. This will result in social benefits and also economic benefits by reducing factory costs and increasing awareness.