

Achieving ethical sourcing in the apparel industry



**ASSIGN
BUSTER**

Globalisation and price conscious consumers coupled with ample labour at a very cheap price have contributed towards apparel manufacturing moving in to less developed countries. As a result, developing countries involved in manufacturing gained the technological expertise, foreign investment, employment opportunities and economic growth whilst organisations enjoyed the benefits of cost advantage. However, with disclosure of labour exploitation in manufacturing plants led to the creation of various labour standards and codes of conducts with the intentions of enhancing the working conditions of apparel workers.

Nevertheless increasing costs, diminishing margins, cultural barriers, size and the financial status of companies made it hard to implement systems that would ensure ethical sourcing as a result according to perversity thesis the standards brought misery to the very people it had intended to help through unemployment and slow economic growth making good practices just a differentiation tool for organisations. This accepts the need for an ethical sourcing system, which facilitates the development of the industry and the labour standards hand in hand whilst creating a healthy working environment, and sees various levels of collaborating as the way forward.

This topic will be discussing issues related to ethical sourcing and implications on implementing an accurate monitoring system in order to reduce and stop the exploitation of labour in both developed and developing countries. In arriving at the conclusion, sub topics such as Ethical Sourcing, Sweetshops, attitudes and commitment of consumers, multinationals (retailers such as Nike and GAP) will be analysed in depth. Academic papers such as, the Journal of Business Ethics, Journal of Retail and Distribution

Management, Humanomics, South Asia Economics Journal, Clothing and Textile Research Journal has used. Therefore, the headings and sub headings discussed is derived from the collective research on the topic.

Introduction

The competitive advantage of any industry largely depends on the cost structure, which determines final price of the product. Competitive advantage of apparel manufacturing has moved from region to region, the silkworm crises in Europe in the 19th century contributed towards the development of Japanese textile industry and in turn the apparel industry. However, the development of the Japanese economy saw the increase in the labour cost and production costs which resulted in moving industries such as apparel manufacturing in to other Asian countries following the flying geese modal and at present countries such as China, India, Bangladesh, Sri Lanka, and Cambodia are main players; in apparel manufacturing.

According to the research conducted by Joergens (2006), it is evident that consumers are not willing to pay more for ethically manufactured products. “Sourcing garments ethically while providing good working standards’, and conditions to workers and to provide sustainable business modal in the cloths’ country of origin” can be defined as ethical sourcing whilst according to Webster’s online dictionary ethical consumer is defined as “ a person who conform to accepted standards of social or professional behaviour”;

Why Ethical Sourcing

Understanding the concept of a sweatshop is the best way to understand Ethical Sourcing. Therefore, “ producing garment whilst violating human

rights of the employees such as civil, economic, political, and social within the work place can be define as a sweatshop”,, child labour, unreasonable wages and overtime pay, lack of health and safety policies are some of the defining factors of a sweatshop.

2. 1 Sweatshops:

Increased globalisation in the retail business has contributed towards increase in demand for products and services. In order to facilitate the demand changes and to gain a competitive position in the industry buyers such as Nike, Reebok and GAP have depended on large number of suppliers making contracting, subcontracting and home worker a key part of the industry structure. Encouraging, the manufacturing plants to be move from unionised to non-unionist work sites, as in the case of Phillips Van Heusen and Kimi closing down factories in Guatemala and Honduras. Increased capital mobility coupled with programs such as NAFTA and GATT, which was design for a good cause, contributes towards surfacing sweatshops as companies tries to minimise cost in order to maximise profits and shareholder wealth, using developing countries with ample supply of cheap labour with limited opportunity. For example Indian textile and clothing industry provides employment for 35000 million 11% of the labour force. The textile and clothing industry in Sri Lanka contributes 6% to its GDP (Gross Domestic Production) and employs 6% of the labour force whilst making textile and clothing industry a major contributor for countries economic development.

2. 2 Key elements in identifying a Sweatshop:

Violation of health and safety, freedom of association policies and practices such as captive and child labour with low remuneration completes a sweatshop whilst lack of basic needs such as fire safety, clean drinking water, and sanitary requirements falls under inadequate health and safety facilities. According to Hobbs (1999) cited by Rivoli (2003) child labour is mostly visible in factories in Pakistan, India and Bangladesh. Referring to Kwong (1997) and Varley (1998) cited by Rivoli (2003) suggests practices such as bonding of employees to recover the debt or damages incurred, using under age children, forcing the employees to exceed the legal working hours in order to achieve the daily production plan are all aspects of child labour. In addition depriving the employees to being represent by independent unions in order to gain and attract foreign investors contributes towards differentiating ethical sourcing from unethical sourcing.

Unethical activities visible in the apparel industry can be categorize in to three main areas they are as follows employment/ human right, environment and product consumer safety.

Reports available to the public gives information about areas of concerns but does not give enough evidence of extreme cases and is largely due to the lack of reliable information. However, finding 70 Thai immigrants in a US based factory for only \$0. 70 cents per hour, GAP labelling products manufactured in the Island of Saipan under inappropriate working conditions and hours as made in USA in order to save 20% tariff. NIKE employing 8000 without an employment contract with an unhealthy men to women ratio using Chinese migrant workers in Korea whilst exceeding daily legal working

<https://assignbuster.com/achieving-ethical-sourcing-in-the-apparel-industry/>

hours, limiting holidays (2-3 days per month) with compulsory overtime and punishments for refusing overtime. REEBOK subcontractor violating Chinese labour laws by exceeding the maximum working hours per day with compulsory overtime and unpaid work for unfinished production targets, punishments for talking during work which can total up to 18 days pay whilst not meeting the minimum wage and overtime pay requirements gives enough evidence and fuel against multinationals and sweatshops.

Stakeholder attitudes towards Ethical Sourcing

3. 1 Public and Private Sector Initiatives:

Referring to Freeman (1984) Cited by Park and Rees (2008) organisations are liable to cater to the demands of various stakeholders. In early day the stakeholders included customers and shareholders and employees however referring to Freeman (1984) cited by Park (2008) in the present context stakeholders include any party who gets influenced due to the operational activities of the organisation which includes suppliers – workers and families apart from its own employees.

United States (US) and European Union (EU) being the two major export markets for South Asian and other countries coupled with the aggressive media coverage exposing inhuman operational activities which existed in the apparel industry during the 1990s saw the US department of labour pledging its commitment towards stopping unlawful activities in the US apparel industry, whilst motivating the suppliers to be more knowledgeable with regards to labour laws and practises and compliance and monitoring systems.

3. 2 Consumers Attitude towards Ethical Sourcing:

Research conducted in the United States (US) found more than 74% of the consumers would support the banning of products produced under weak working conditions. Supported by survey conducted in the United Kingdom (UK) where 86% of the consumers were in favour of garments manufactured in ethical condition with 66% willing to boycott the products manufactured under unethical conditions. In addition survey conducted suggest consumers are willing to pay 28% more for \$10 product and 15% more for a product which is worth \$100. In contrast although consumers are willing to pay more for ethical products and become ethical consumers according to Joergens (2006) they are seen as price sensitive and would want to buy more for the amount they spend rather than buying few ethically manufactured products.

Strategic Aspect of Ethical Sourcing

The external environment of an organisation will influence the way it operates concerning cost, quality, which in turn have an impact on how the suppliers are managed taking labour and ethical issues into consideration. Therefore well laid out strategic moves will enhance the performance of the organisation whilst Hambrick (1983) and Porter (1974) cited by Dess and Davis (1984) suggests by looking at how organisations use their resources the strategic intend of the organisations can be identify. According to Porter (1986) cited by Park and Dickson (2008) organisations can create a competitive advantage over the other player from the way the organisation handles its resources. However, Murray (1988) believes that organisational surrounding in which it operates will determine the value of the resources and making environmental aspects essential to the successful strategy

whether it is differentiation, cost leadership or both. According to Mintzberg (1988) cited by Park and Dickson (2008) the expanded version of porters generic strategies illustrates the strategy of being cost conscious whilst neglecting ethical issues in the apparel industry will fall under differentiation by price, provided products are sold at a cheaper price in the market gaining them a competitive advantage over the players similarly strategy related to ethical sourcing will be associated with differentiation by image which will lead to higher prices and creating an exclusive image in the buyers mind and contributing towards gaining a competitive edge over the other players. In addition with the increase in ethical issues related to apparel sourcing all major organisations are trying to differentiate by image using strategies and allocating resources according to market requirement and trends. Countries such as Cambodia, Sri Lanka and Bangladesh have invested in complying with the ethical standards and are using the better standards maintained in the industry as a unique selling point. In addition the “ Garments; without Guilt”; initiative developed by the government and the private sector of Sri Lanka in order to position the country as an ethical sourcing destination has contributed towards Sri Lanka becoming the only country with 39 International Labour Organisation Conventions gaining an advantage over the competitors as a manufacturer who can cater to the needs of global consumers. Competitive advantage gained by Sri Lanka was largely due to the timing of implementing the “ value creating” strategic initiative.

Advantages of having sweatshops and the Negative Aspects of Ethical Sourcing

Unskilled workers such as machine operators who are mostly women in the South Asian countries do not wish to pursue a career but they work in order to make some quick cash before they get married or to contribute towards the income of the household and raise the living standards. In addition, due to the development of the apparel industry, based on the unskilled cheap labour, South Asian and other developing countries were able to attract foreign investment and technology in turn lowering the unemployment levels, reducing the rural poverty. According to Heyward 1997 cited by Ponniah (1999) the 200 garment factory programme encouraged by the Sri Lankan government best illustrates the positive impact it had on the rural poverty and tapping in to the country's untapped cheap labour market.

However, ethical sourcing policies by the western governments and multinationals and the difference in thinking and circumstances that exists in the Asian region and developing countries have resulted higher labour costs encouraging buyers to move to another cheaper manufacturing destination for example: Nike moving in to Taiwan and Korea from Japan whilst creating unemployment.

Conclusion

According to Gere and Korzeniewiz (1994) cited by Park and Dickson, outsourcing have made organisations depend on an international supply chain which consists contractors, subcontractors, agents and distributors making it difficult to control, monitor and implement good working practices of the participants in the supply chain.

Both buyers and manufacturers are concentrating on ethical sourcing and production mainly because of the potential profitability, due to the intense pressure from government and private sector. The buyers need to choose between cost advantages and negative harmful publicity, which can have a long lasting effect on the profitability of the organisations. Therefore, at times a corporate social responsibility policy and well-documented codes of conduct can be use as a marketing tool. Similarly, in the case of manufacturers complying with the market requirements and being compliant will make them more attractive to the foreign and local investors again increasing the revenue by differentiating them from the rest of the competitors altering the purpose of Corporate Social Responsibility and Codes of Conduct.

Retailers work with many suppliers from different regions, therefore it is very hard to develop as well as adhere to Codes of Conduct because of difficulties faced when communicating the content due to cultural and language barriers, although some organisations have gone to the extent of working together with the suppliers aiding them financially when required, in implementing and monitoring compliance standard whilst showing commitment. The real purpose of the organisation remains a dilemma since retailers are working with supplier from countries that does not comply with these policies, without a clear cut answer to who is bearing the cost involved in implementing and monitoring these standards. Making the buyers the main cause of price wars and exploitation, of labour in the apparel industry.

In addition, implementation of codes and good working practices, supports the aspect of “ Perversity thesis where Anti-Sweat Movement risks leaving in <https://assignbuster.com/achieving-ethical-sourcing-in-the-apparel-industry/>

worse straits the very people allegedly being helped by the movement”.

Therefore especially in the developing countries where some employment is better than no employment ethical sourcing policies brings devastation to the very people it tried to help through higher unemployment, Lost income and slower economic development.

In a business environment where market and non-market forces are lobbying for an ethical behaviour, organisational leaders are stuck between two worlds due to the perversity thesis. Sweatshop conditions are hard to eliminate due to cultural barriers (language and beliefs), size of the firms, differences in the market segments retailers target, and governmental policies. Yet the organisations are moving towards maintaining a balance by taking up a collaborative stance with the suppliers to tackle the ethical sourcing problems prevailing in categories such as human rights, environment and consumer safety, to create a socially responsible buying and management system which provides firms with improved economic performance whilst minimising the negative impacts such as, loss of employment and slow economic growth. The emergence of the middle ground suggests the two groups for and against ethical labour standards to hope, that buyers would keep on outsourcing it's production to the countries with low salaries which will facilitate the economic growth coupled with the political support to encourage the “ race to the bottom” alongside ever-increasing demand for better standards and higher financial gains for all employees.