

The Evolution of Corporate Social Responsibility (CSR) in “Democratized Fashion Industry”

Proposal for a new CSR reorder

Professor and Attorney at Law

Mr. Beniamino Milioto

University of International Studies of Rome – Italy

Via Cristoforo Colombo 200

Rome Italy

I) Introduction: The evolution of the concept of corporate social responsibility (CSR) dates to the early 1950s, the beginning of the new industrial era of modern society. Bowen¹ provided the first definition “*Obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society*”. CSR definitions further developed during the 1960s, and then expanded during the 1970s with a variety of interpretations that included corporate citizenship, corporate philanthropy² and stakeholder theory³, but still without full recognition from the business community. Between the 1980s and 90s the new concept of CSR, supported by a new business model⁴, rule of law and ethical approach, has received real and legitimate attention among world business executives. For the first time, a real doctrine based on empirical research that allows a monitoring of business results with a pragmatic analysis of cost and benefits has resulted in

¹ Bowen, H.R. *Social Responsibilities of the Businessman*; Harper & Row: New York, NY, USA, 1953.

² Sethi, S.P. Dimensions of corporate social performance: An analytical framework. *Calif. Manag. Rev.* **1975**.

³ Maignan, I.; Ferrell, O.C.; Hult, T.G. Corporate citizenship: Cultural antecedents and business benefits. *J. Acad. Mark. Sci.* **1999**.

planning corporate social performances (CSP) activities. With the arrival of the new millennium, a more responsive attitude and a greater degree of values from major corporations and later also from small and mid size companies (SMSC)⁵ developed, heralding the new CSR era.

Nevertheless CSR has required a deeper attention among the business community with an allocation of human resources, economic funds and strategic decisions resulting in today's important question: does CSR pay off for the firms involved in such programs and activities, as well as for the society and organization's stakeholders, or does it simply assess centrality, proactivity, specificity, visibility without any mutual strategic benefits⁶?

The focus of the present paper is to examine a constant and rising interest perceived by major firms/brands and important financial groups operating in the sector of *fast fashion*, also called the "*democratized fashion industry*" or the "*fashionable sector industry*". Well known worldwide famous multinationals in the textile and ready to wear industry such as Benetton, Zara, H&M, Mango, GAP, Abercrombie and Fitch, Uniqlo, etc. have, in the last three decades, highly engaged themselves in CSR programs and forged, thanks to new CSR programs, new business models to promote their brand's proactivity as a result of successful CSR management plans.

II) Purpose, Methodology and Analysis Approach: This paper offers a preliminary exploration of the Corporate Social Responsibility (CSR) issues being explored among major fashionable brand's retailers worldwide. Empirical information is drawn from CSR reports, information posted on the world wide web, and academic researches. The study analysis is based on common ground in reporting on a wide range of labor legal compliance, environmental issues, sourcing, commitment to customers, employees, and on the communities in which the groups/retailers normally operate. It is the intent of this paper to show that CSR

⁴ Johnson, H.L. *Business in Contemporary Society: Framework and Issues*; Wadsworth: Belmont, CA, USA, 1971.

⁵ Carroll, A.B. Corporate social responsibility: Evolution of a definitional construct. *Bus. Soc.* **1999**.

⁶ Shallini, S.T.; Pawan, K.T.; Rajen, K.G. Research in corporate social responsibility: A review of shifting focus, paradigms and methodologies. *J. Bus. Ethics* **2011**.

is turning, currently, to be a core strategic element of the fast fashion business that requires proper and careful attention from the international community. Governments, international organizations, primary and secondary stakeholders, media and public opinion must all play a part in order to create a new path of CSR. The paper does not evaluate key performance indicators in an attempt to measure and benchmark CSR achievements.

III) The dynamic of CSR during the Democratization of Fashion: Since the early seventies, major groups supplying worldwide fashion products with brands as Benetton, GAP, Zara, H&M, etc. have increasingly diversified their business with the creation of a new “*affordable fashion style*”. The level of internationalization of those brands has grown incredibly in just a few decades, and while the marking line between the well-made and stylish fashion product remain reserved to an affluent society, a new fashion phenomenon appeared - “*Democratization of fashion*”, (M. Tungate first used the present definition in 2008)⁷. The third millennium fashionable consumers, as an ordinary side effect, have completely upset the business criteria and management tools with an increasing demand for ready to wear while, at the same time, looking to the fashion industry to change the retail chain as the most important and pivotal segment for all the commercial lines regarding the above-mentioned firms. Fashionable brands rapidly became globalized groups for affordable/mass fashion consumers whose purchases are characterized by short-life cycles, wide product variety, low predictability, moderate profit margins, and a high level of impulse purchasing. The rise of democratization of fast fashion apparel implies a variety of social interpretations: the past few decades has seen an increase in the number of women in the workforce along with a new role of family in modern society. Affordable brands have targeted the entire family, from women’s to men’s to children’s clothes while supplying their products with the same retail chain to middle-class consumers, the turnover impact has resulted in cost savings and ease of distribution.

IV) Delocalization of Fashion industry: Now, how does the fashion industry produce, supply and retail high commercial competitive products worldwide while taking into consideration micro and macro economic dynamics different from country to country combined with the pressure for shorter lead times and reduced costs? Due to the increasing worldwide demand for fashionable products, main groups/brands have outsourced production to developing and emerging economic countries, from China to India to Moldavia to Sri Lanka and on and on, where labor costs were infinitely low and production lines were ensured in due time. The Supply

⁷ Mark Tungate, *Fashion Brands. Branding Style from Armani to Zara*, 2008.

Chain Management (SCM) has exploded from a vertical production system into the creation of a worldwide horizontal outsourced production system led by an organized network of sub-contractors able to deliver, with the support of qualified workers who have a relevant degree of skills and competences, quality products at competitive prices.

V) The rising issue of CSR in the Fashion Industry: Over the past several decades, Non governmental organizations (NGO's), Non profit Organizations, academicians, scholars and journalists, improved labor standards and tighter legal compliance, have all pushed for greater CSR in the democratized fashion industry, with more intense scrutiny in the new millennium. With SCM's change, upsetting the traditional economic production apparatus, the above mentioned organizations have started to ask why, with increasing globalization, has the apparel industry now so often dispersed geographically, with manufacturing, distribution and retail operations split across several different regions and countries. NGO's and others, as secondary stakeholders, have definitely played a positive moderating role in the relationship between outsourced production and product diversification carried out by SCM. During the last decade SCM and many global retailers, worked hard to ensure their global corporate standards for safety, labor, sustainability, and quality of product, but to ensure and maintain those standards throughout the supply chain complicated by diversified products still remains a daily challenge. Different product's markets possess different sociopolitical environments and different economic issues. Manufacturing is definitely a unique process that requires elements of law, human resources, ethics, compliance and supply chain. To manage and balance different standards in different countries represents a permanent conflict between stakeholders and public opinion. Global brands should therefore maintain relationships with different secondary-stakeholders to manage their product diversification levels so as to enhance their financial performances. It is well understood that production processes are often taking place under different national governance, cultural differences, and language variations with the use of subcontractors. Maintaining not only the supervision on the different markets incomes and outcomes but also preserving the world strategic pulse of the entire global fast fashion production is most challenging. Therefore, any company standards which require adherence across the global organization, must be rolled-out carefully and monitored regularly with an integrated worldwide system.

VI) The overturn of CSR: from a business challenge to a great business opportunity:

The beginning of the third millennium definitely sets a new well-shared concept of CSR among fashion's top managers, scholars and academicians, as well as with public opinion and secondary stakeholders. From Smith⁸ to Miles⁹ there is common ground in believing that CSR, from an early concept as a "moral and/or ethic of business", has lately turned more to strategic corporate performance activities strictly related to financial aims and competitiveness standards to achieve. The worldwide business community, and not just the fashion business, has well understood how CSR could guarantee high rewards in the long-term business market. Consumer's behavior, especially among young consumers, with the instant information available through the internet, is more aware of the new modern concepts of "fair trade", "sustainability", "green friendly", "child labor free", "free work exploitation", etc., Smith claims that CSR activities in the form of equal employment opportunity (EEO) policies enhance long-term shareholder values. Several economic studies¹⁰ have shown how investments in CSR, with proper study analysis on management of natural resources and environmental impact, especially in textile and clothing business, leads to conflict avoidance within local communities, utilizes human resources with lower litigation issues, and saves high economic margins and expenditures with lower insurance costs¹¹. Cost and risk reductions may also be achieved through CSR activities aimed at the natural environment and improving community relations. Positive community relationships may contribute to attaining tax advantages for firms and to decreasing the level of regulation imposed on the firm, since the firm/brand/group is always perceived as

⁸ Smith, T. Institutional and social investors find common ground. *J. Invest.* **2005**

⁹ Miles, M.P.; Covin, J.G. Environmental marketing: A source of reputational, competitive, and financial advantage. *J. Bus. Ethics* **2000**,

¹⁰ Berman, S.L.; Wicks, A.C.; Kotha, S.; Jones, T.M. *Does stakeholder orientation matter? The relationship between stakeholder management models and firm financial performance.* *Acad. Manag. J.* **1999**.

¹¹ Carroll, A.B.; Shabana, K.M. The business case for corporate social responsibility: A review of concepts, research and practice. *Int. J. Manag. Rev.* **2010**

a sanctioned member of the society¹². These strategies have led, over the last two decades, to the creation of a new modern CSR focused on Corporate Strategic Performance Programs (CSPP), supported by new advertising and communication campaigns involving corporate engagement in CSR activities and the adoption of sophisticated plans. CSR will be no longer viewed as a mere ethical issue and instead be a challenge for the above mentioned groups leading to a great economic and social opportunity.

VII) CSR from customer's satisfaction to leading innovation in the Fast Fashion Industry: the new path of CSR in the apparel fashion, reporting important business cases.

The fashion business community is fully aware of the importance that CSR represents in marketing and in fulfilling customer satisfaction. It is clear that CSR plays a major role in promoting innovation among industrialized countries and allows a deeper connection among producers and buyers worldwide. Well-established brands have well publicized CSPP. Marks and Spencer created and promoted among the media and consumers "*CSR Plan A*"; initiated by Mike Barry, head of Sustainable Business with over 180 environmental and ethical commitments. The company is driving towards their aim to create "the world's most sustainable major retailer by 2015". Pillar 6 of Plan A is entitled, "*Fair Partner - General Merchandise Living Wage*", which pledges to "implement a process to ensure our clothing suppliers are able to pay workers a fair living wage in the least developed countries we source from, starting with Bangladesh, India and Sri Lanka by 2015". As Mr. Barry has stated, "we will achieve this by ensuring that the cost prices we pay to our suppliers are adequate to pay a fair living wage and by rolling out our ethical model factory programmes to ensure the cost price benefits are paid to workers".

¹² Berman, S.L.; Wicks, A.C.; Kotha, S.; Jones, T.M. Does stakeholder orientation matter? The relationship between stakeholder management models and firm financial performance. *Acad. Manag. J.* **1999**.

Gap Inc. has also strengthened their CSR commitment by developing a partnership with the International Labour Organization with the "*Better Work Program*", which supports improved labour standards and laws. The scheme, which was launched in Cambodia in 2004 and specifically targeted the retail industry, has now expanded to Haiti, Indonesia, Jordan, Lesotho, Nicaragua and Vietnam.

New companies are following a similar path. Rob Broggi, CEO and founding partner of Industrial Revolution II (IRII), has joined forces with actor Matt Damon to launch "*IRII, an ethical garment factory*", which aims to bring high-end apparel production, with a high level of social responsibility, to Haiti. IRII, launched in September 2013, was "born out of a frustration", Broggi states, "with the lack of efficacy of traditional philanthropic and international aid programmes in Haiti, and a desire to create sustainable change through economic development and higher-value job creation." "Consumers have the ability to demand that the brands they buy make responsible sourcing decisions, using their collective wallet as both the carrot and the stick. There is a lot of power at the top of the chain and as brands increasingly realize that consumers care deeply about this issue, real change will begin to happen".

Sustainability and commercial longevity go hand-in-hand, and it is also important for CSR and sustainability to have a keen understanding of the way the business operates. "Commercial acumen is key to the mix of skills a corporate employer will be looking for, within the apparel and wider retail sector. It is vital for sustainability to be joined up as part of the wider commercial strategy," Paul Gosling, MD of Allen and York Specialist CSR Recruitment Consultancy, has also commented, "CSR and social compliance

auditing is still evolving. The complexities are better understood, but many of the issues are still there. It should be the objective of each reputable brand and/or buyer to get buy in from his or her stakeholders to enforce compliance throughout their supply chains”.

“Overall there is more momentum, more resources and more collaboration, with increased sharing of information within the industry, which is positive. What more could we do to drive this forward? We need better business alignment, more worker empowerment, and governments that proactively enforce their local laws,” adds Gosling.

The increase demand for sustainability and CSR professionals to work within the apparel industry is due to the fact that brands are looking, not only to strengthen their health and safety teams, but also to invest in corporate social responsibility strategies to ensure their companies offer a fair wage and safe working conditions within their operations around the world.

VIII) Monitoring and auditing CSR and CSPP worldwide: a complex issue to solve.

Researchers have demonstrated that CSR can activate a positive impact in the quality of products and services offered. Nicholls¹³ comments on the relevance of a growing market for fair trade products in the U.K. Also, Manaktola and Jauhari¹⁴ have shown the relevance of increasing awareness among consumers regarding corporate engagement in CSR activities. In addition, Koszewska¹⁵ shows how CSR standards (and in particular, SA8000 certification) can be a significant factor in customers’ ability to differentiate textile and clothing goods.

¹³ Nicholls, A.J. Strategic options in fair trade retailing. *Int. J. Retail. Distrib. Manag.* **2002**.

¹⁴ Manaktola, K.; Jauhari, V. Exploring consumer attitude and behaviour towards green practices in the lodging industry in India. *Int. J. Contemp. Hosp. Manag.* **2007**.

¹⁵ Koszewska, M. CSR standards as a significant factor differentiating textile and clothing goods. *Fibres Text. East. Eur.* **2010**.

As a result of implementing the CSR programmes according to environmental, quality and safety standards, firms/brands have developed new classifications of products in fast fashion industries under label/categories such as “Ecolabel” and “Oecotex”. These labels require attaining certificates showing compliance with EMAS regulations, setting SA8000 international standards and submitting CSR reports such as sustainability reports, social reports and environmental reports in order to fulfill the mandatory regulations. The new CSPP standards have relied on policy-makers’ ability to develop a series of precise rules of law for the fulfillment of the above-mentioned standards. This implies the creation of a body to monitor and audit the above stated compulsory certified standards and sort out the alignment of CSR plans along with CSPP groups/firms. To understand how international standard compliance should be audited, IRCA, a leading professional body for management system auditors, has set qualified courses recognized globally within an international regulations framework. Although there is no auditable standard for CSR, IRCA can teach key performance techniques and allow for formal registration as a recognized certified auditor. Due to the increased demand for CSR and Sustainability professionals within the apparel industry, there is a very strong interest in engaging skilled specialists fitting present CSR and CSPP disciplines. How to overwhelm the lack of professionals and create auditable standards to certify international CSR auditors is today a real challenge to face. It is urgent, without further procrastination, to provide valuable guidance and formal qualifications for auditors who, nowadays, are the only ones entitled to go through legal scenarios, investigate business cases, audit business performances, check achievements and ensure business continuity. According to the above mentioned strategic measures adopted by the fashion supply chain market, and since the short season of fast fashion products are less price sensitive compared to the rest of the fashion industry or any other sector where commercial strategy apply vertically, it has been truly hard to monitor SCR’s activities *versus* requirements that are in demand in this challenging industry in many different countries of the world. Without any standard procedures applied to the different countries, and with a different range and system adopted by auditors worldwide, the success of the compliance is depending on the extent and value to which that standard is embraced across the company or group as

a whole. The most demanding and challenging role of the legal Standards Compliance Practitioner requires a number of different skills and abilities that need to be well settled and standardized in an international legal framework that should be adopted by major industrialized, emerging and and less developed countries. CSR today requires worldwide governments to specify the conditions under which corporations are likely to perform in a socially responsible manner, along with the oversight of secondary stakeholders and other independent organizations to set institutionalized norms regarding appropriate corporate behavior, associative behavior among themselves and with subcontractors. Those subcontractors will need official recognition and be identified by the SCM. Finally, the promotion of dialogue and confrontation among all stakeholders is paramount to success. The lack of codifications of CSR activities and/or strategies, normally founded on the discretionary relationship between corporations and stakeholders, is a disruptive system that misses consistency and long-term vision.

IX) Proposal for a new order of CSR.

Most developed and industrialized countries do not seem very interested in setting an international framework of regulations to enable SCM to fulfill legal and official guidelines and providing CSR to be attended regularly and fairly worldwide.

Furthermore, due to the lack of a well established supranational body empowered to monitor corporate responsible behaviors worldwide, it is definitely hazardous to set infringement rules with a related sanctioning system. Fashion lobbying is well developed to allow the industry to act freely and avoid any precise regulations that could be carefully applied and seriously effect their

business. Further, both primary and secondary stakeholders involved in the fast fashion business have restricted the actual CSR vision to competitiveness and customer satisfaction as per CSPP. It is time to move further to better establish a worldwide CSR with a proper attention from the international community.

X) Proposals and Conclusions: The controversial free liberalization of textile¹⁶, along with the Multifibre Agreement on Textile and Clothing within the World Trade Organization (WTO), has definitely shifted the new order of the whole fashion business in the world scenario, (for a deeper understanding, please refer to Nordas¹⁷). Fashion business has broadened worldwide and outsourced geographically to achieve high competitive results. Nevertheless, consequences of the changing SCM have brought about both positive and negative effects, and the negative effects need to be addressed. The present paper informs and argues for the international community to set an international legal framework, developed through a multilateral agreement, that would include CSR Guidelines to apply and implement worldwide. This could possibly be accomplished under the UNCTAD umbrella (United Nations Conference on Trade and Development) that would enable an international panel within the WTO to monitor the fulfillment, with related achievements or infringements, of the descending legal obligations. Possible infringements or violations of CSR standards and

¹⁶ Naumann, E. *The Multifibre Agreement-WTO Agreement on Textiles and Clothing*, 2005.

¹⁷ Nordås, H.K. *The Global Textile and Clothing Industry post the Agreement on Textiles and Clothing*; World Trade Organization: Geneva, Switzerland, 2004. Available on line: http://www.wto.org/english/res_e/booksp_e/discussion_papers5_e.pdf

regulations will be automatically settled within WTO jurisdictional and appellate bodies as a breach of a multilateral agreement between States.

Acknowledgements

I would like to thank Ho Chi Minh City University for the invitation to submit the paper/article during the CSR Conference that will be held in Hanoi on the 27th November 2015 at which the present work will be addressed and introduced for the first time. I also would like to thank UNINT, University of International Studies of Rome, and a special one to Prof. A. Magliulo, Dean of Faculty of Economic Studies, for the support received in preparing the present paper and where I am currently a professor of Economic Globalization and Fashion and Design Management. Last but not least, I also thank the authors M.Battaglia, F.Testa, L.Bianchi, F. Iraldi, M.Frey, Institute of Management, Sant'Anna School of Advanced Studies, Pisa, for having been an incredible source of inspiration after reading the survey carried out in 2010 within an EU co-financed research project ("COSMIC-CSR-oriented supply-chain management to improve competitiveness in the textile/clothing sector") promoted by the Directorate General "Enterprise and Industry" within the "Fostering Corporate Social Responsibility in European Industrial Sectors: SME in Italy and France".

The author declares that there is no conflict of interest in preparing and writing the present paper.