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DETERMINING THE ANTECEDENTS FOR A STRATEGY OF CORPORATE SOCIAL RESPONSIBILITY BY SMALL AND MEDIUM-SIZED ENTERPRISES IN THE UK FASHION APPAREL INDUSTRY

Patsy Perry
George Davies Centre for Retail Excellence
School of Management & Languages
Heriot-Watt University
Edinburgh
EH14 4AS
(Corresponding Author)

Email: pp71@hw.ac.uk
Tel: 00 44 (0)131 451 4069

and

Dr Neil Towers
George Davies Centre for Retail Excellence
School of Management & Languages
Heriot-Watt University
Edinburgh
EH14 4AS

ABSTRACT

This paper seeks to increase the understanding of the antecedents of Corporate Social Responsibility (CSR) in small UK fashion garment manufacturing firms. A review of CSR practice is used to inform the theoretical development of the wider aspects of small business competitive advantage. A causal map of the antecedents of CSR in the context of small and medium-sized enterprises (SMEs) is presented which will help guide the selection of the constructs to be used for measuring the existence of CSR in SMEs in the UK fashion garment manufacturing industry. Future research will gain a greater understanding of this phenomenon through evaluating the obstacles and drivers for the implementation of a CSR strategy in small garment manufacturing businesses.

Introduction

Against a competitive environment of downward price pressure, shorter product life cycles, fragmentation and globalisation of production, consumer-led demand and buyer-driven supply chains (Bruce *et al.*, 2004; Barnes and Lea-Greenwood, 2006), a further dimension in the UK fashion apparel industry has been the recent focus on corporate social responsibility (CSR) and increasing demand for ethically sourced garments. As CSR becomes embedded in the global business operations of large retailers, there is a risk that their smaller manufacturing supplier firms may struggle to comply with their large retail buyers' CSR requirements (Jenkins, 2006; Spence *et al.*, 2003; Tilley, 2000). Small and medium-sized enterprises (SMEs) possess unique behavioural characteristics and experience resource limitations (Towers & Burnes, 2008). Consequently they could find themselves eliminated from their supply chains altogether as the concepts and arguments relating to the implementation of CSR in large corporations cannot be easily transferred to SMEs (Welford and Frost, 2006).

Understanding the issues and drivers of CSR implementation in SMEs is the basis for the research. This paper presents a conceptual model of CSR in SMEs which was developed according to findings which emerged from a detailed literature review of CSR, supply chain management (SCM) and SMEs. This exploratory research aims to determine whether CSR implementation is justifiable in SMEs supplying the UK fashion retail apparel industry.

Background to Corporate Social Responsibility

The fashion apparel industry has long been characterised by adversarial trading relationships (Jones, 2006) as well as complex, inflexible and uncooperative supply chains (Barnes and Lea-Greenwood, 2006). In recent times it has been recognised that supply chain management (SCM) initiatives can present strategic and operational solutions to these new challenges (Towers and Burnes, 2008). A further dimension of SCM research and practice has been the recent focus on CSR.

The concept of CSR centres on the accountability of firms to society for the negative consequences of their wealth-creating activities (Sethi, 2003). Hemingway and Maclagan (2004) quote a Confederation of British Industry definition of CSR, which advocates the public accountability of firms for their social and environmental record as well as their financial performance. In specific terms CSR "should promote human rights, democracy, community improvement and sustainable development objectives throughout the world" (p.33). The World Business Council for Sustainable Development (WBCSD, 1999, p.3) summarises CSR as:

> "the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large".

Ethical behaviour is further interpreted by the WBCSD as "management acting responsibly in its relationships with other stakeholders who have a legitimate interest in the business" (p.3). In any definition of CSR, it should be stressed that actions must go beyond the immediate profit maximisation interest of the firm and beyond merely obeying the law or other regulations (McWilliams and Siegel, 2001; Davis, 1973). CSR requires a responsible firm to take into full consideration its impact on all stakeholders prior to making any business decisions which may affect them. A socially responsible firm should balance the needs of all stakeholders with its need to make a profit and reward shareholders adequately. CSR has gained much prominence in recent times, with an exponential increase in attention from a wide variety of sources including scholars, business practitioners, the media and the public (Perrini, 2006). It is no longer perceived as an oxymoron or contradiction in terms and is widely accepted by the business community as key to reputation and stakeholder management (Lee, 2008). For example, by the end of the 1990s in the United States, almost 90% of Fortune 500 firms publicly embraced CSR as an important element of their organisational goals by actively promoting it in their annual reports (Lee, 2008, citing Boli and Hartsuiker, 2001).

The CSR challenge to globalisation centres on balancing the acceptance that developing nations need low-tech industries which employ large numbers of workers. Low wages are necessary to create more jobs and fuel income growth with the promotion of human dignity, individual choice and a democratic form of capitalism (Sethi, 2003). There is evidence of a rising demand for products which are ethically sourced and "untainted by exploitative labour or environmental practices" (Frenkel and Scott, 2002, p.29). In the UK high street retail apparel market ethical trading is a strong emotive issue with growing concern about ethical issues from consumers in the womenswear sector in particular (Mintel, 2008a; Mintel, 2008b). According to Mintel's (2008b) survey of UK women, 43% worry that cheap clothes were made in sweatshops. CSR represents a means of addressing these issues to ensure that business practices are sustainable over the long term while also maintaining competitive advantage.

Global Fashion Supply Chain

In the fashion apparel industry, the increasing use of complex global supply chains in order to meet the challenges of the new competitive environment has also increased focus on issues of human resource exploitation (New, 1997). The problem of ethical conduct in the apparel industry is compounded by the high level of complex global subcontracting relationships (Lobel, 2006). Commonly spread across more than one continent, a typical UK retailer's garment supply chain is shown in Figure 1 below.

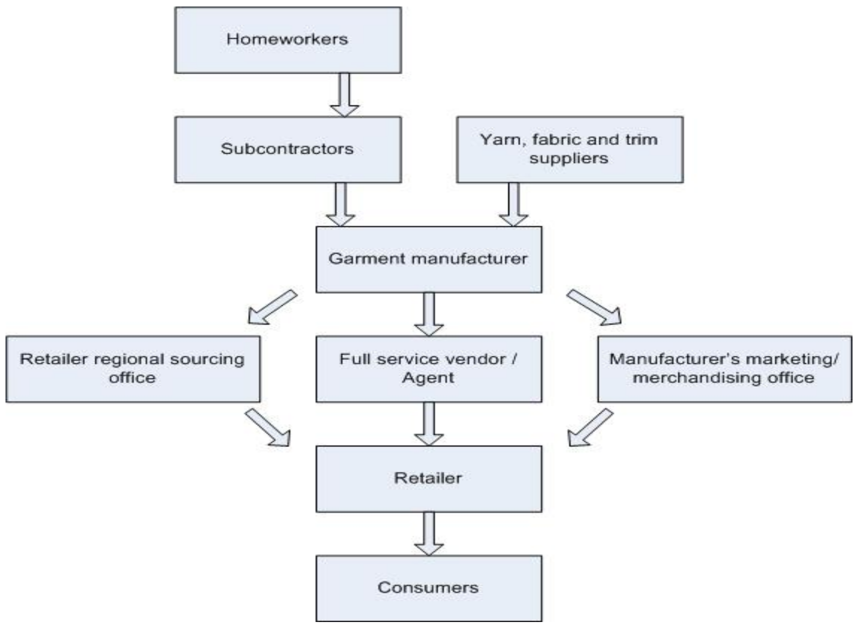

Figure 1: Typical UK fashion retailer's garment supply chain

With the highly complex global supply chains which characterise much of the fashion apparel industry, it is a significant challenge to ensure good CSR practices are present throughout the whole supply chain.

In response to a BBC media expose that found evidence of child labour in the outer tiers of its supply chain, Primark (2008) recognised that the complexity of and consequent lack of visibility within its supply chain increased the risk of supplier non-compliance and decided to implement a supply chain mapping project to facilitate visibility beyond the first tier of manufacturers. It is often the case that the larger the retailer, the greater the complexity of the supply chain. The French hypermarket chain Carrefour, which is the world's second largest retailer after Wal-Mart and has produced its own-label clothing range Tex since 1982, has a highly complex supply chain spanning its own global sourcing offices and regional hubs as well as indirect importers and their network of agents. Carrefour's buying function is decentralised through a global network of sourcing offices. Its sourcing strategy and coordination is primarily run from Madrid and Paris, and there are three additional regional hubs in Sao Paolo, Paris and Hong Kong which manage merchandising and CSR issues. Beneath the regional hubs are 13 sourcing offices located in the main production countries such as China, India and Bangladesh which have responsibility for managing suppliers in terms of buying and technology functions, price negotiation and quality control. In addition, Carrefour also sources indirectly via European and US based importers, who in turn use a network of in-country agents (Hearson, 2009).

Social issues of CSR

The social issues of CSR are elaborated upon by Maitland (1997, p.593), who cites some of the accusations levied against firms as "chasing cheap labour around the globe, failing to pay their workers a living wage, using child labour, turning a blind eye to abuses of human rights, being complicit with repressive regimes in denying workers the right to join unions and failing to enforce minimum labour standards in the workplace". Larger firms are better positioned to implement CSR than smaller firms, who are less able to overcome obstacles such as lack of resources and skills, lack of awareness of stakeholders' demands and inefficient production techniques (Welford and Frost, 2006).

The trend for CSR is set to continue. At their 2008 conference, the Ethical Trading Initiative (ETI) predicted that the principles of ethical trade which include demand transparency and accountability and are based on collaborative improvement within the supply chain would increase in importance on the corporate agenda. However, since the fashion apparel industry typifies the archetypal buyer-controlled supply chain, there is a risk that smaller garment manufacturing firms who struggle to comply with large retail buyers' CSR requirements may find themselves eliminated from their supply chains altogether (Welford and Frost, 2006). The EU-funded Responsible Purchasing Initiative report found evidence that repeated failure to comply with buyers' ethical standards may result in reduced orders or delisting for suppliers (Impactt and Traidcraft Exchange, 2008). With the growing institutionalisation of CSR, including the launch of ISO26000 in 2010, further supply chain rationalisation is predicted to take place whereby super-suppliers and super-agents that take CSR seriously and are able to implement retailers' CSR requirements throughout their supply networks take on greater shares of orders (CSR Asia, 2009). In terms of environmental responsibility, Miles *et al.* (1999) questioned whether an SME's corporate reputation was of sufficient magnitude to enable credible self-certification or self-declaration. Zutshi *et al.* (2009) questioned whether increased globalisation and calls for greater accountability of multi-national corporations (MNCs) might result in a situation where MNCs would longer be willing to take on trust that their suppliers and subcontractors abide by ethical codes of conduct and may instead stipulate that suppliers must be certified with global standards such as SA8000 and the ETI base code. Miles *et al.* (1999) anticipated that the increasing focus on environmental performance in industrial markets would result in multi-national firms selecting their suppliers on the basis of supplier environmental performance.

Trading relationships and CSR

Emmelhainz and Adams' (1999) study analysed the codes of conduct of several of the largest US apparel industry firms that had taken steps to address CSR in their supply chains. In cases of supplier non-compliance, they found that the most common means of enforcement was to notify the supplier of the transgression and give them the opportunity to make corrective action. However, any further transgressions following notification would most commonly result in cancellation of the order in question, closely followed by termination of the relationship. The ETI (2009) recommends terminating trading relationships with suppliers who persistently make serious breaches of its code of labour practice. Anecdotal evidence suggests that being delisted from a retailer's supplier base is a very real threat, especially to SMEs with a relative lack of resources to address CSR issues in their business and a relative lack of bargaining power compared to their large retail buyers. Gap, with over 3000 stores worldwide and approximately 2000 global suppliers, ceased trading with 23 of its suppliers in 2006 following violations of its code of conduct. Primark, a discount retailer with over 180 shops, terminated trading in the same year with three Indian suppliers after a BBC media expose found child homeworkers were used to carry out intricate embroidery and sequin work. In 2009 another BBC media expose on Primark found illegal workers being paid less than the UK minimum wage at an SME Manchester-based knitwear supplier and at its subcontractor (Dhariwal, 2009). This time, Primark vowed to continue working with the supplier to help improve standards but warned that it reserved its right to terminate future contracts with the company should the supplier fail to demonstrate commitment to achieving required ethical standards (Primark, 2009). Likewise, Gap pledges to work with its suppliers to address issues of non-compliance; however, it reserves the right to cease trading with any suppliers who either consistently or severely violate its code of conduct. Gap's reasoning for this is to impress upon the suppliers the importance of abiding by its CSR standards (Gap, 2009). In 2008, Zara forced the closure of one of its supplier's factories in Bangladesh, but agreed to redeploy staff within the business, after a BBC news exposé found evidence of forced labour and verbal and physical abuse against workers (Berwin, 2008). In 2009, German retail giant Metro AG terminated trading relations with a Bangladeshi supplier following publication of a report by the National Labor Committee detailing worker mistreatment in the factory and the death of a worker in 2008 (Sydney Morning Herald, 2009).

Existing CSR literature tends to be oriented towards large corporations (Spence *et al.*, 2003; Tilley, 2000) and there is a relative lack of academic research focusing on CSR and SMEs (Worthington *et al.*, 2006). Since SMEs are not merely scaled-down versions of large corporations (Welsh and White, 1981), concepts relating to CSR in large corporations are not directly transferable to SMEs (Tilley, 2000; Spence *et al.*, 2003). It follows that there is a need for research focusing on how CSR relates to SMEs (Lepoutre and Heene, 2006; Worthington *et al*., 2006).

Benefits of CSR

Traditionally, economic and social objectives were perceived to conflict with each other (Friedman, 1970). It is now accepted that since firms do not function in isolation but as part of their local environment and society, then social and economic goals are fundamentally connected (Porter and Kramer, 2002). In certain circumstances social benefits can be achieved in conjunction with competitive goals (Porter and Kramer, 2002; Martin, 2002; Perrini, 2006). Werther and Chandler (2005) contended that the concepts of CSR and profit maximisation in business strategy will become increasingly inseparable as we approach the twenty-first century. Markley and Davis' (2007) conceptual exploration of the viability of developing competitive advantage based on sustainable supply chains concluded that there was a positive relationship between the presence of a sustainable supply chain and firm profitability.

CSR "can be a source of opportunity, innovation and competitive advantage" (Porter and Kramer, 2006, p.80). Wright *et al.* (2008) note the strategic importance of global sourcing decisions, evidenced by the potentially catastrophic impact of stakeholder awareness of poor social standards in key suppliers which may result in business disruption or even failure. Their case study investigation of the athletic apparel sourcing practices of five universities in the United States concluded that poor public reputation and unacceptable business practices of suppliers represent a risk to business continuity for the sourcing organisation. This suggests that CSR has a role in supporting business strategy. As well as the potential of increased profitability, there are many other strategic benefits supporting the business case for CSR which are intangible and therefore do not appear on a firm's balance sheet, such as employee motivation and retention, reputation management and management of investor relations and access to capital. Good CSR can help establish good industrial relations which leads to higher productivity levels (Melrose-Woodman and Kverndal, 1976) and higher employee morale (Jenkins, 2006), which in turn leads to less absenteeism and turnover as well as attracting better quality labour and lowering recruitment costs (Davis, 1973; Jenkins, 2006). A resentful or fearful employee is less efficient and loyal than one who feels recognised and fairly treated in a firm (Solomon, 1992). Burke and Logsdon (1996, p.496) define strategic CSR as an activity which "yields substantial business-related benefits to the firm … by supporting core business activities". Hemingway and Maclagan (2004, p.41) give examples of "image and reputation management, the manipulation of stakeholders and the integration of the organisation into its host community" as benefits of CSR which also serve the firm's strategic commercial interest. Porter and Kramer (2006, p.89) describe strategic CSR as "strategic philanthropy that leverages capabilities to improve salient areas of competitive context". In accordance with Burke and Logsdon's (1996) definition of strategic CSR, Porter and Kramer (2002) note that the enhancement of competitive advantage is more likely to happen when corporate philanthropy relates directly to the firm's core business activities. In these circumstances, it is possible for shareholder interests and societal interests to converge and produce gains for both.

Having reviewed the evolution of CSR practice in global retail supply chains, the next section explores the theoretical development of the antecedents leading to the five pillars of CSR in garment manufacturing SMEs supplying the UK fashion industry. Figure 2 below shows the causal map of CSR in SMEs which anchors the five pillars representing the antecedents of CSR. The pillars are divided into two converging strands with the wider environmental issues of transaction cost economics (TCE) and globalisation on one side and more industry-specific concepts of supply chain management (SCM), demand chain management (DCM) and trust on the other.

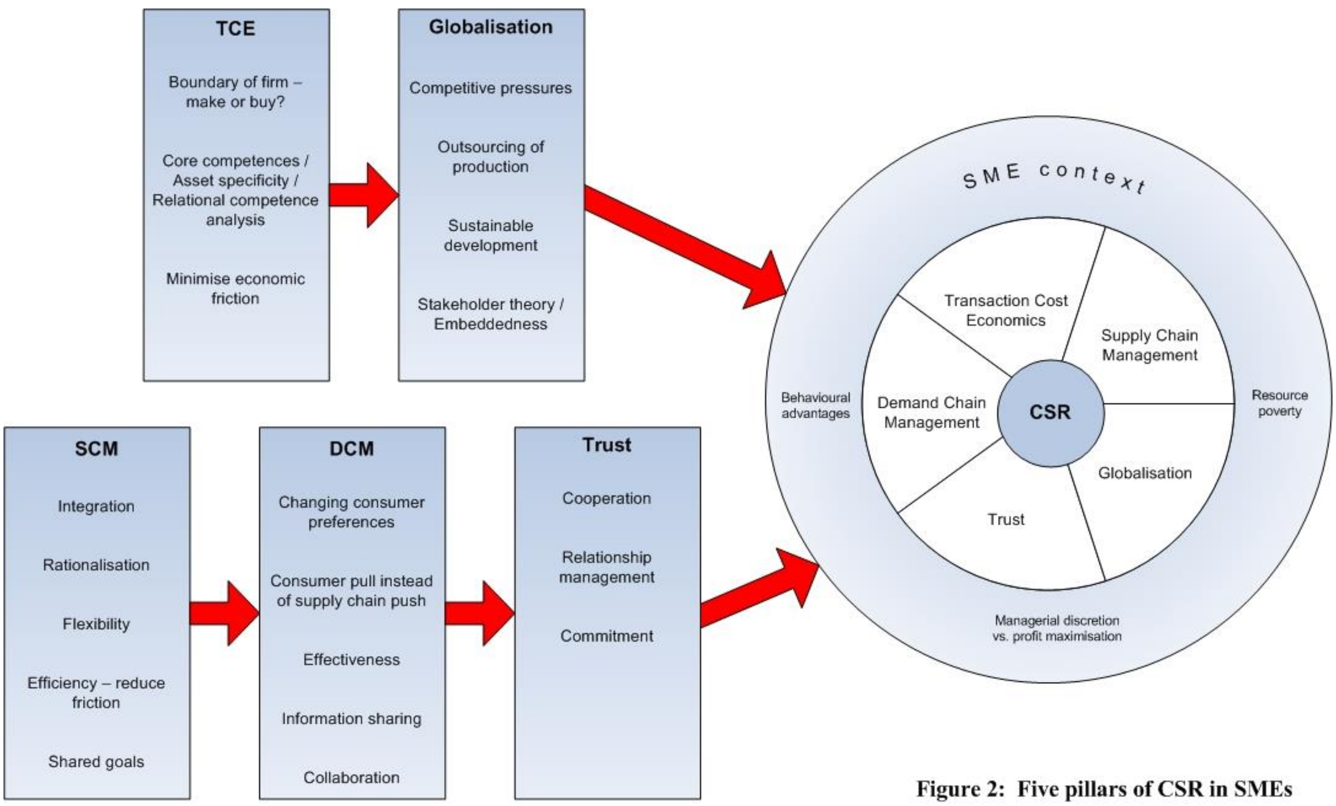

Figure 2: Five pillars of CSR in SMEs

TCE (Transaction Cost Economics)

TCE is founded on the premise that governance structures are important in the organisation of economic activity and therefore that a firm's choice of governance structure can affect its competitive advantage (Williamson, 1975; Williamson, 1985). The fundamental principles of TCE raise the question of whether it is more favourable for a firm to internalise or outsource various functions of its business. Since the key transaction in TCE is the 'make or buy' decision (Williamson, 2008), TCE is an appropriate approach to explaining outsourcing and globalisation of the garment industry. The efficient boundary of the firm is that which economises on the transaction costs of doing business; however, this may change over time according to prevailing competitive conditions (Reve, 1990; Cox, 1996).

The concept of core competences guides the 'make or buy' decision, on the basis that the strategic core of the firm must remain integral while non-core operations are often more effectively outsourced to lower labour-cost locations (Cox, 1996). Asset specificity is a key transaction characteristic which increases transaction costs (Williamson, 1985) and thus affects the 'make or buy' decision. It refers to the loss of value of an investment when a transaction-specific asset is redeployed in its next best use rather than its original use. Where assets are highly specific to a particular transaction, the transaction is better governed within the boundaries of the firm. However, it may be preferable to define asset specificity in terms of the firm's core competences rather than in terms of the sunk costs of past transactions. Relational competence analysis recognises that the firm's core competences are its means of sustaining competitive advantage and these should therefore be classed as assets of high specificity (Cox, 1996).

Transaction costs are the equivalent of economic friction at the buyer-supplier interface. By identifying where these costs occur in the supply chain, this friction can be reduced. The reduction of transaction costs in the supply chain is the rationale for the phenomenon of globalisation: Williamson (2008) contends that due to the added transaction costs, vertical integration is commonly viewed as a last resort form of organising economic trade to be employed only when arms-length market contracting and partnership arrangements have failed.

Globalisation

Traditionally, companies have employed global sourcing strategies in order to take advantage of lower production costs (Ettlie and Sethuraman, 2002). Globalisation describes the large-scale shift of labour-intensive manufacturing operations of Western apparel companies to countries with lower labour costs. The phenomenon of globalisation is built on the assumption that it is more advantageous to outsource non-core functions, such as garment manufacturing, in order to maintain competitive advantage in challenging commercial environments where time-based and global forms of competition are becoming new competitive threats (Singleton, 1997; Soliman and Youssef, 2001). However, globalisation has resulted in a situation where business is conducted in countries characterised by corruption, discrimination and human rights violations (Porritt, 2005).

The pursuit of sustainable development objectives represents a key driver of CSR (Panapanaan *et al.*, 2003). Sustainable development focuses on preserving resources to ensure future generations are able to meet their own resource needs, leading to the idea of considering a variety of stakeholders and not just shareholders in economic activity. This links to the concept of 'Triple Bottom Line', which advocates that firms should measure performance in social and environmental terms in addition to financial ones (Norman and Macdonald, 2004).

The renewed focus on stakeholder theory, in contrast to shareholder theory (Enderle and Tavis, 1998; Jones *et al.*, 2007; Solomon, 1992), can be linked to the greater awareness of the negative consequences of globalisation, such as environmental degradation and exploitation of workers (New, 1997). Stakeholder theory is based on the premise that firms have responsibilities and obligations to other parties as well as their shareholders (Coase, 1937). CSR is built on the notion that firms should assume social and environmental responsibilities to stakeholders such as employees and local communities, in addition to their financial responsibilities to shareholders (McWilliams and Siegel, 2001; Davis, 1973). Stakeholder theory assumes acceptance of embeddedness, which describes the idea that business does not exist in a vacuum but is embedded in society, and consequently has certain responsibilities and obligations to the society in which it exists in return for society's permission of its continuing existence.

SCM (Supply Chain Management)

The rationale for the SCM view of commercial enterprise is based on the understanding that different firm structures and types of trading relationship affect firm performance and competitive advantage. SCM essentially refers to the integration of activities, actors and resources associated with the flow and transformation of goods from raw material to end user (Svensson, 2007) that is achieved through improved supply chain relationships for the shared goal of sustainable competitive advantage. Competition now occurs between networks of supply chains, not between individual companies (Lambert *et al.*, 1998). According to SCM theory, these networks strive to achieve improved performance for the supply chain as a whole, rather than for themselves at the expense of their supply chain partners (Croom *et al.*, 2000). Working towards shared goals necessitates the development of long-term cooperative trading relationships between firms, which enable the efficient and effective flow of goods and information and which are crucial to the success of any supply chain network (Croom *et al.*, 2000). The SCM pursuit of efficiency and effectiveness (Cox, 1999) via rationalisation and integration in the supply chain aims to reduce economic friction and thus economise on costs at the buyer-supplier interface.

Supply chain costs can impact severely upon product profitability (Jüttner *et al.*, 2007). In today's volatile and demanding markets, competing on the basis of low cost no longer generates sustainable competitive advantage. Flexibility and responsiveness have assumed greater value in responding to the unpredictable demand levels and ever-shorter product life cycles which characterise the fashion apparel industry. A customer-focused corporate vision has been instrumental in driving the evolution of SCM (Tan, 2001).

It is recognised that SCM initiatives such as integration and rationalisation of the supply chain can result in increased responsiveness and reduced supply chain costs (Holweg *et al.*, 2005; Frohlich and Westbrook, 2001). In particular, supply chain integration and supply base rationalisation are directly linked to CSR. Supply chain integration and the requisite development of closer trading relationships reduce the need for excessive monitoring of activities and can thus reduce the cost of CSR implementation (Vachon and Klassen, 2006). Rationalisation of the supply chain by removing unnecessary tiers of suppliers can increase visibility and enable better management of CSR initiatives. This is especially important in complex global fashion apparel supply chains where visibility beyond the first or second tier suppliers is poor (Welford and Frost, 2006). Figure 3 below shows a typical seasonal fashion garment global supply chain spanning several continents and using Far East manufacturing to take advantage of lower labour costs.

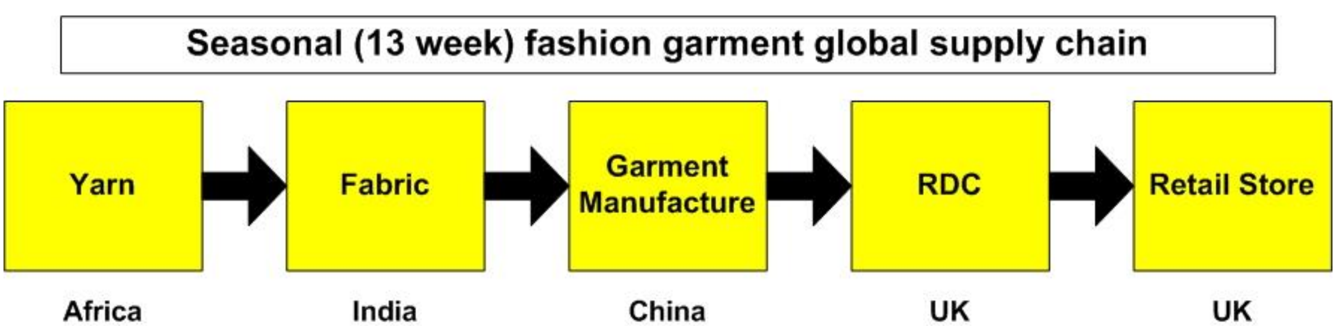

Figure 3: Typical fashion garment global supply chain

DCM (Demand Chain Management)

Demand chain management, as an extension of supply chain management, connects the consumer orientation to the supply network and enables the flow of information from the marketplace upstream to suppliers, for example the demand for ethically sourced fashion apparel.

There is some disparity between authors on whether the concepts of SCM and DCM are separate, one and the same or sit one within the other. Traditionally, they were perceived to be distinct concepts, with SCM positioned within operations/logistics and DCM being the domain of marketing. DCM focuses on achieving effectiveness in meeting consumers' needs rather than efficiency in terms of cost reduction, and represents a shift in the balance power from suppliers to customers (Selen and Soliman, 2002). It incorporates customer-led concepts such as Just In Time (JIT) production, postponement, mass customisation (Williams *et al.*, 2002) as well as Quick Response (QR). In 1998, Christopher argued for using the term SCM instead of DCM to reflect the idea that the overall value chain should be pulled or driven by customers, not pushed by suppliers. A truly integrated supply chain is characterised by final consumers pulling inventory through the chain rather than manufacturers pushing it through (Tan, 2001). Volmann *et al.* (2000) similarly proposed that the term 'demand chain' should replace 'supply chain' to highlight the shift in focus from efficient supply to meeting consumer needs, with the end consumer rather than the supplier as the starting point of the chain. Heikkilä (2002) proposed that supply chain improvement should start from the customer end and hence the concept of SCM should be replaced by DCM. Jüttner *et al.* (2006) defined the 'demand chain' as the integration of supply chain processes (demand fulfilment) to marketing information (demand creation). However, de Treville *et al.* (2004) disagreed with broader definitions of DCM which aim to replace the concept of SCM. Instead, they proposed a narrower definition which perceives the demand chain as a type of supply chain that prioritises market mediation or effectiveness over efficiency in physical supply of the product. Walters and Rainbird (2004) conceptualised supply chains and demand chains as separate and distinct components within the firm's overall value chain which, though independent, were perceived as necessary in tandem to generate value.

DCM is an important part of SCM as manufacturers require accurate and timely flows of demand information in order to achieve the flexibility and responsiveness needed for competitive advantage in today's challenging markets (de Treville *et al.*, 2004). The argument for implementing CSR in the supply chain is based on the demand chain concept and the movement of end consumer feedback upstream via retailers to suppliers. DCM understands the importance of good customer–supplier relationships and effective flows of information (Heikkilä, 2002). In challenging market conditions the ability to identify emerging and changing customer needs as they occur and utilise this insight to develop value-added marketable products while reducing time-to-market can result in a strong competitive advantage (Walters and Rainbird, 2004). The demand for ethically sourced fashion clothing is an example of an emerging consumer need which can be satisfied by implementing CSR in the supply chain.

Speed and agility in time to market as well as responsiveness in relation to new product development necessitate effective and efficient transfer of information (Danskin *et al.*, 2005). Sharing timely and meaningful information can be viewed as a major antecedent of trust and commitment in a buyer-supplier relationship, however there is also a reciprocal flow whereby the establishment of trust leads to greater information exchange (Lewin and Johnston, 1997). The focus on intellectual capital as opposed to physical assets, in terms of leveraging knowledge and information across supply chain networks, demands a shift away from arms-length adversarial relationships towards cooperation and collaboration between supply chain partners.

Trust

The creation of a seamless, synchronised supply chain based on information sharing requires the development of a high level of trust between supply chain partners. The term has been interpreted as "the willingness to be vulnerable under conditions of risk and interdependence", where vulnerability is based on "positive expectations of the intentions or behaviour of another" (Rousseau *et al.*, 1998, p.395). Trust enables supply chain partners to fully realise the potential of collaborative relationships, in terms of both flexibility and creativity of response to competitive pressures (Doney and Cannon, 1997). As asset specificity increases, so does the requirement for long-term commitment, and it then becomes more worthwhile for trading partners to invest in trust in their relationship (Sako, 1992). Trust reduces transactional uncertainty and has the effect of mitigating opportunism in long-term trading relationships and economising on transaction costs (Ganesan, 1994; Williamson, 1985).

Trust and cooperation between supply chain partners creates strong collaborative networks which leverage the capabilities of the whole supply chain and lead to competitive advantage. It enables buyers and suppliers to share confidential information, invest in understanding each others business and customise their products and processes. This helps them to realise the full potential of the relationship and achieve success in turbulent markets (Kumar, 1996). Cooperation reduces transaction costs at the buyer-supplier interface (Burnes and New, 1996). Effective cooperation requires the existence of relationships which are characterised by commitment and trust (Morgan and Hunt, 1994). As trust develops, the need for highly structured control mechanisms and monitoring decreases (Rousseau *et al.*, 1996), and the resulting trading environment fosters flexibility and agility. Trust in the supply chain reduces the likelihood of opportunistic behaviour, economises on transaction costs and increases the probability of a long-term orientation towards the trading relationship (Ganesan, 1994). This supports supply chain partners in their move away from traditional adversarial, short-term trading relationships and in turn supports the goal of sustainability in the supply chain.

The creation and maintenance of effective relationships is essential in maximising supply chain performance (Croom *et al.*, 2000). Trust also plays a key role in relationship marketing (Wang, 2007), which has become more important due to the changing requirements of the global marketplace and the changing nature of competition (Morgan and Hunt, 1994). Relationship marketing represents the realisation that strategic buyer-supplier relationships can create a sustainable competitive advantage (Lewin and Johnston, 1997; Ganesan, 1994), thus supporting the notion of supply chain sustainability.

SME context

SMEs in the UK are legally defined as businesses with less than 250 employees. In number terms, such businesses dominate both the economy in general and the fashion apparel manufacturing industry in particular (Jenkins, 2006; Jones, 2006): 99.9% of total UK business as well as over 50% of total employment and revenue in 2004 were accounted for by SMEs. Worldwide, SMEs constitute over 90% of total global enterprise and over 50% of total employment (Jenkins, 2006). The SME sector is regarded as an important contributor to innovative activity in the economy, a source of competition and also a provider of employment and labour flexibility in markets (Stanworth and Gray, 1991). For large corporations, the establishment of flexible subcontracting relationships with SMEs provides them with an economic buffer against market fluctuations, since they can be initiated as well as terminated quickly and easily according to market conditions (Goss, 1991).

In the fashion apparel industry, the typical UK manufacturing SME is now a sourcing operation with manufacturing facilities based overseas in lower labour cost countries rather than in the UK. The apparel industry is characterised by powerful global retail buyers and relatively weak suppliers (Gereffi *et al*., 2005; Jones, 2006). Few retailers or brand names remain vertically integrated, but instead tend to form flexible subcontracting relationships with garment manufacturers in lower labour cost countries (Welford and Frost, 1997). However, although SMEs are prevalent in number terms, the lack of supplier concentration compared with the high degree of buyer concentration results in an unequal power distribution in apparel supply chains and the consequent dominance by large retail buyers over manufacturing or sourcing SMEs (Jones, 2006).

Existing CSR literature tends to be oriented towards large corporations (Spence *et al*., 2003; Tilley, 2000), and there is a relative lack of academic research focusing on CSR and SMEs (Jenkins, 2006; Worthington *et al*., 2006). However, due to the resource limitations and unique behavioural characteristics possessed by SMEs (Tilley, 2000; Nooteboom, 1993), concepts and arguments relating to the implementation of CSR in large corporations cannot be easily transferred to SMEs (Tilley, 2000; Spence *et al.*, 2003).

SMEs' inherent resource poverty stems from their limited investment capability due to lack of finances as well as their limitations in terms of human resources (Mezgár *et al.*, 2000; Jones, 2006). However, although SMEs differ from large corporations in terms of their comparative resource disadvantages, they also differ in terms of their behavioural advantages, which Nooteboom (1993, p.287) lists as "entrepreneurial drive and risk taking, motivation and perseverance, motivated labour due to lack of bureaucracy and specialisation, flexibility, proximity of management to customers, proximity of management to the shop floor". SMEs are considered to be comparatively more innovative than large corporations as well as being more amenable to undergoing evolution and change (Storey, 1994). The cultural differences between large corporations and SMEs mean that the motivational pressures which engage large firms in CSR are likely to be different to those of SMEs (Spence *et al.*, 2003; Jenkins, 2006). Managerial discretion is an important component of CSR since this expresses managers' personal values (Hemingway and Maclagan, 2004). While CSR in large corporations may be institutionalised in organisational structures, cultures and policies, CSR in SMEs is predominantly dependent upon the values and commitment of the current owner-manager and thus can be comparatively erratic in its implementation (Jones, 1999). Furthermore, studies have shown that for SMEs, unlike large corporations, the rational economic objective of profit maximisation is often not the prime motivator of the business (Spence and Rutherfoord, 2001; Jenkins, 2006; Storey, 1994), and therefore the assumption of enlightened self-interest, which forms the business case motivating large corporations to engage in CSR (Smith, 2003), may not equally apply to SMEs. Although some studies have concluded that the nature of SMEs means they are better placed to become socially responsible than large firms (Wennekers and Thurik, 1999; Lee, 2008), there is also evidence that SMEs experience greater difficulties implementing formalised CSR strategies than larger firms due to SMEs' relative lack of awareness, expertise and long term strategic vision, as well as resources and ability to divert skilled personnel from their normal day-to-day tasks (Welford and Frost, 2006; Tilley, 2000; Welsh and White, 1981). With respect to environmental responsibility, Miles *et al.* (1999) stated that while large firms could utilise in-house skills and human resources to develop the environmental management processes and systems required by ISO14000, SMEs lacking similar internal resources would require the assistance of outside consultants.

Welford and Frost (2006) found that downward price pressure, shorter product life cycles and shorter lead times in the apparel industry have all increased pressure on the supply chain and influence CSR standards for garment manufacturing SMEs, who often struggle to balance their buyers' requirements for faster deliveries and lower prices alongside CSR requirements. It has been argued that the commercial realities of the buyer-supplier trading relationship do not provide an environment which supports CSR and despite the best efforts of social compliance programs, retail buying practices focussed on supplier timeliness, cost and flexibility actually exacerbate CSR problems in the supply chain (Impactt and Traidcraft Exchange, 2008; Gilbert, 2006). Tighter margins impel smaller supplier firms to focus more on "problem solving and 'fire-fighting' than the building of good systems and procedures" (Welford and Frost, 2006, p.174) and consequently CSR does not feature as a high priority on their business agenda. Murillo and Lozano's (2006) qualitative multiple case study of socially responsible Spanish SMEs found difficulties were experienced in comprehending the meaning of the term 'CSR' as well as in communicating their CSR best practices to internal and external stakeholders. Ciliberti *et al.*'s (2008) multiple case study of socially responsible Italian SMEs included one apparel manufacturer that outsourced its production to China. This company cited cultural differences, a lack of knowledge of local laws and a belief in consumer price orientation whereby CSR could lead to increased profits for companies selling luxury goods only as obstacles to diffusing CSR practices throughout its global supply chain. Miles *et al.* (1999) found that SMEs struggled to implement ISO14000 environmental management standards. However, ignorance or lack of resources are not acceptable excuses for persistent failure to comply with retail buyers' CSR standards, since the threat of being delisted applies equally to SME garment manufacturers as well as to larger manufacturers (Gap, 2009; Primark, 2009).

CSR (Corporate Social Responsibility)

Situated within the SME context, CSR is the focal point of the causal map. It comprises the utilitarian and deontological concepts of moral philosophy, as well as issues surrounding social sustainability, economic development and the reduction of the negative impacts of global operations in the fashion apparel industry.

The two main philosophical antecedents of CSR are utilitarianism and deontology. CSR derives from the purely altruistic desire to do good, which is rooted in moral philosophy and is commonly known as the normative case for CSR. The business case relates to the economic profit-maximisation argument. In recent years, CSR has become associated with strategic organisational goals such as stakeholder and reputation management (Lee, 2008). In reality, a blend of both the business case and the normative case often constitutes the basis for a firm's justification of CSR implementation. However, Lee (2008, p.53) notes the shift in research focus, in terms of theoretical orientation, from "explicitly normative and ethics-oriented arguments to implicitly normative and performance-oriented managerial studies", which suggests that CSR is now increasingly associated with enlightened self-interest rather than philanthropy for its own sake.

Utilitarianism advocates that ethical actions are those which achieve the greatest good for the greatest number of people (Sethi and Sama, 1998) or a greater balance of favourable consequences over unfavourable consequences for all people than any other alternative (Hunt and Vitell, 1986). Utility normally refers to the collective well-being of society. In CSR terms, applying the utilitarian philosophical perspective means that a firm should consider the concerns of *all* its stakeholders and act in a manner which results in the greatest long-term benefit for the greatest number. This encourages a democratic approach to decision-making. Utilitarianism represents enlightened self-interest, which follows the economic argument of profit maximisation and is known as the business case (Smith, 2003). Thus, firms engage in CSR in the belief that a source of competitive advantage will result (Vogel, 2005). In practical terms, this may be demonstrated by multinational corporations who defend their use of exploitative low-cost labour facilities in developing countries as the inevitable price of economic progress which will eventually result in better conditions for all (Sethi, 2003; Adams, 2002).

The main criticism of this school of thought is its lack of inviolable human rights and disregard of the intrinsic value of human life, due to the prioritisation of end results over the means required to achieve them. Accurate prediction of end results can also be problematic.

In contrast, deontological theories focus on whether the action itself is morally right, regardless of its outcome (Beauchamp and Bowie, 2001). They prescribe that the rights of others as well as one's own duties and obligations should be considered prior to making a decision. A deontological view of CSR focuses on means to the exclusion of ends and assumes a comparatively over-socialised notion of human action, whereby social or kinship relations take precedence over calculated rational choice (Granovetter, 1985). The humanitarian aspect of deontological theories considers that all people possess intrinsic rather than merely instrumental value, and are equally worthy of protection. It is predicted that CSR will move from a utilitarian focus to a deontological one, where labour rights will be perceived as human rights and workers are no longer perceived as merely factors of production (CSR Asia, 2009).

Summary

CSR may be perceived as a potential source of competitive advantage (Porter and Kramer, 2006) as well as a possible threat to garment manufacturing SMEs lacking sufficient resources to comply with the escalating CSR demands of large UK retail buyers such as Marks and Spencer, Arcadia and Primark (Welford and Frost, 2006). As well as complying with retail buyers' demands, the implementation of CSR within a supplier's business can help reduce labour turnover, attract better quality workers and increase productivity. Implementing retailers' standards enables suppliers to enter into long-term strategic alliances with their customers (Miles *et al.*, 1999). However, for SME suppliers who lack financial and human resources and struggle to balance the day-to-day commercial and ethical demands of their buyers, the implementation of CSR is more likely to be problematic than for a large firm with dedicated staff and financial resources for the task. The additional burden of meeting external CSR requirements would lead to an increase in cost which some SMEs would be unable to absorb (Miles *et al.*, 1999).

This paper presented a framework for exploring CSR in SMEs supplying the UK fashion garment industry. Future research will be aimed at gaining a greater understanding of this phenomenon through evaluating the obstacles and drivers for the implementation of a CSR strategy. It is hoped that this knowledge will underpin their competitive advantage and produce managerial insights to inform CSR implementation in SMEs.

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