

Sustaining the rag trade

Social and environmental trends in the UK clothing retail sector

Over the last decade, the clothing sector has been at the forefront of efforts to raise the social and environmental standards of international trade. The challenge now facing the 'rag trade' is how these efforts can be transformed into a coordinated strategy for the sustainable development of the supply chain. Focusing on UK retailers, **Sustaining the rag trade** outlines the key market and sustainability challenges facing the sector, the corporate responses to them and their implications for developing country suppliers. The report contains case studies of leading clothing chains, including Marks and Spencer, Next, C&A, Bhs and Littlewoods.

Sustaining the rag trade is part of iied's Stimulating Sustainable Trade series, which examines the impacts of social and environmental requirements on trade between the North and South and looks at how to encourage trade in more sustainable goods and services.

For more information about iied's work on sustainable trade see the Sustainable Consumption and Trade Initiative website, www.iied.org/scati, or contact Nick Robins at iied, nick.robins@iied.org.

ISSN 1562-3319

iied

International
Institute for
Environment and
Development

Sustaining the rag trade

SUSTAINABLE
TRADE



Sustaining the rag trade

Nick Robins, Liz Humphrey

sustaining the rag trade

Nick Robins and Liz Humphrey
April 2000



Contact details

For more information about this report or the *Stimulating Sustainable Trade* project please contact:

Nick Robins, Director, Sustainable Markets
International Institute for Environment and Development
3 Endsleigh Street, London, WC1H 0DD, UK
Tel: +44 (0)20 7388 2117
Fax: + 44 (0)20 7388 2826
e-mail: nick.robins@iied.org
website: www.iied.org/scati

Copies of this report are available from:

Publications

International Institute for Environment and Development
3 Endsleigh Street
London WC1H 0DD, UK
Tel: +44 (0)20 7388 2117
Fax: +44 (0)20 7388 2826
e-mail: bookshop@iied.org
website: www.iied.org/bookshop

Liz Humphrey can now be contacted at:

Traidcraft Exchange
Unit 308, 16 Boldwin Gardens
London, EC1N 7RJ, UK
Tel: +44 (0)20 7242 3955
Fax: +44 (0)20 7242 6173
e-mail: lizh@traidcraft.co.uk

Cover photo: Joerg Boethling/Still Pictures

Designer: Eileen Higgins

Printer: uk**PRINT**online.com

Printed on Lumisilk 115gsm, awarded the Nordic eco-label

Contents

Executive summary	iii
Preface	vii
1. When two worlds collide: clothing and sustainability	1
2. Understanding the rag trade	3
The clothing chain	3
The clothing market	7
Strategic trends in clothing sourcing	10
Market forces and sustainability	15
3. The sustainability challenge	17
Critical sustainability issues	17
The pressures for change	23
4. The business of sustainability: case studies	31
Marks and Spencer	32
Next	36
C&A	38
Bhs	41
Littlewoods	44
Assessing progress	46
5. Inspiring change	51
Taking stock	51
Implications for suppliers	54
Making the transition	55
References	58

Executive summary

Over the last decade, the clothing sector in Europe has been at the forefront of efforts to raise the social and environmental standards of international trade. Whether it is child labour or toxic dyes, clothing retailers are under pressure to demonstrate responsible practice along their supply chains. This ethical imperative coincides with and is partly driven by the accelerating globalisation of sourcing, which is opening up new opportunities for textile and garment exporters in the developing world. The challenge now facing the 'rag trade' is whether its largely defensive efforts to minimise social and environmental risk can be transformed into a coordinated strategy for the sustainable development of the supply chain: improving performance, sharing benefits and broadening accountability.

Sustaining the rag trade attempts to answer this by looking in detail at the UK clothing retail sector. The report forms part of IIED's *Stimulating Sustainable Trade* project, whose aim is to provide practical guidance on how to expand exports of sustainable goods and services from the developing world to the European Union. It emerges out of a need expressed by IIED's partners in the South to better understand the demand-side factors that are driving social and environmental performance into the heart of trading realities.

A sector in transformation

Powerful forces are transforming clothing retail in the UK (Chapter 2). Fashion cycles are shortening, new entrants are shaking up established players at both the premium and value ends of the market and e-commerce promises to deliver further shocks.

But one of the overarching trends is the way in which supply chain management is becoming central to retail success. To bring down costs and improve quality, leading retailers are rationalising their supply base: C&A has halved its suppliers in recent years, for example. Cost pressures have also driven up imports threefold since the mid-1980s – leading to mounting job-losses in the domestic textile sector. Scheduled liberalisation of textile trade through the removal of the Multi-Fibre Arrangement by 2005 will further increase imports into the UK and Europe. The result is a 'buyers' market' where retailers set the terms of trade for price, quality and delivery within the supply chain. But the mature clothing market in the UK means mounting competition and ever-increasing attention to enhancing brand value as a way of attracting customers. And it is this concern for branding that is providing the opening for increasing integration of social and environmental factors.

The sustainability challenge

Traditionally, the social and environmental side-effects of clothing have been dealt with reactively and in parallel (Chapter 3). But there is now increasing recognition of the need to take an integrated life cycle approach that identifies the critical issues from fibre production through cloth making to garment assembly, use and disposal, and aims to incorporate social and environmental factors into mainstream decision-making. Looking across the breadth of the sustainable development agenda for clothing, four priorities emerge:

- Eliminating environmental hazards, such as pesticide use in cotton cultivation and toxic chemicals in textile manufacture.
- Improving water and energy efficiencies, particularly during textile processing and clothes' washing.
- Cutting pollution and waste, especially from dyeing and new concerns over 'genetic pollution' from genetically modified cotton.
- Establishing social justice, such as raising standards for workers, particularly women and children.

The direct social and environmental impacts of clothing retail are relatively minor. But three factors are pressing retailers to extend responsibility along the supply chain, including:

- **Government policy:** Regulation remains a powerful driver, particularly to control toxic chemicals and reduce packaging waste. Following the failure of the EU eco-label scheme, the UK government is rethinking its approach to product policy, and has launched an Ethical Trading Initiative to raise labour standards.
- **Public pressure:** Campaigns from environment and development organisations have proved a potent force for change, particularly to tackle 'sweatshop' conditions in garment production. Campaigns against GM cotton could arise in the future.
- **Market demand:** Consumer preferences for 'green' or 'ethical' clothing have been the weakest pressure, due to low awareness, lack of point of sale information, as well as perceptions of poor design and high prices for 'alternative' ranges. This contrasts with other countries, such as Germany, where company leadership has built up a green market for clothing.

The business response

The rag trade is fiercely individualistic and the UK's leading retailers are responding to these pressures in a range of different ways (Chapter 4). Market leader, Marks and Spencer, was the first to introduce environmental policies in the 1990s, and is currently exploring a common environmental standard with its major suppliers. M&S has recently adopted a set of Global Sourcing Principles and joined the ETI to tackle the social agenda. Faced with a downturn in consumer sales, the challenge for M&S will be to upgrade the sustainability dimension of its brand and communicate directly with customers as part of its recovery strategy. For Next, social issues have been to the fore and the company has worked with Oxfam to develop an internal Code of Practice; it has not yet adopted a formal environmental policy. The privately-owned Dutch-based C&A has been the focus of campaigning since the early 1990s. It now has a Code of Conduct for supply, and an arms-length agency, SOCAM, to monitor implementation. Environmentally, it has taken a leadership role, installing ISO14001 in its operations and adopting the Oeko-Tex 100 standard for its clothing. Part of the Storehouse group, Bhs has both an Environmental and an Ethical Sourcing Code of Practice, while Littlewoods also has an ethical code and is a member of the ETI.

For most clothing retailers, action on social and environmental responsibility is relatively new and in a state of flux. In some cases, there is clear commitment to change from chief executives, and a new willingness to engage in dialogue. However, the driving forces for change are largely defensive, with few examples of active attempts to win market position by bolstering social and environmental reputation. Here, other European companies such as Otto Versand in Germany show how environmental factors can become part of corporate strategy.

Recommendations for the future

The rag trade has seen a flurry of activity in recent years as companies act to install basic systems to give assurance on social and environmental performance in the supply chain. But these measures do not yet add up to a clear strategy for sustainable development—and the sector risks falling behind government strategy, public expectations and business best practice. Six priorities stand out for action:

- 1. Vision:** The rag trade needs to develop a strategic vision of its contribution to sustainable development, both nationally and globally along the supply chain.
- 2. Entrepreneurial leadership:** A virtuous cycle of innovation is required that rewards those who 'stick their heads above the parapet'.
- 3. Awareness raising:** New tools are needed to raise consumer awareness of the social and environmental issues that lie 'behind the label'.

4. Collective action: A common platform is required for clothing retailers to develop and project a strategy for sustainable development.

5. Transparency: A culture of transparency needs to be reinforced through the provision of clear, objective information on the social and environmental impacts of clothing products.

6. Supply chain partnerships: More could be done to build real partnerships with suppliers in developing countries, particularly to ensure that the distribution of the burden of change is fair.

Preface

Business has become increasingly conscious of the need to take an extended sense of responsibility for its social, economic and environmental impacts—not only within its own operations, but also upstream with suppliers and downstream with consumers. Accelerating globalisation means that the widening scope of corporate responsibility now has to encompass an increasing number of complex issues, often in far-off places.

Pressure for enhanced corporate performance has been particularly acute in the clothing retail sector. High-profile and dependent for profitability on the brand loyalty of its customers, the clothing retail sector has been under fire for the apparent gulf between the images of affluence it portrays and the often poor labour and environmental conditions in subcontractors along the supply chain. This pressure for change has been punctuated by media *exposés* of alleged malpractice, most notably of Nike, but also of the UK's market leader, Marks and Spencer. Increasingly, the issue facing the sector is not just one of remedying these negative social and environmental impacts, but of identifying a positive strategy for contributing to sustainable development, notably in its dealings with the developing world.

This report is a first attempt to assess both the challenge of sustainable development for the UK clothing retail sector and current progress being made by some of the market leaders. It takes an integrated approach, equally addressing the social, environmental and economic dimensions of sustainability. Traditionally, these dimensions have emerged and been managed separately. Now there is both pressure for and evidence of convergence. But given the broad scope of sustainable development, the report focuses on issues that impact upon suppliers in developing countries: it does not therefore dwell on questions of store location and management, for example.

Overall, the report has three main aims:

- to provide an insight into current trends and practices in order to identify progress and pinpoint issues for the future;
- to make information available to exporters in developing countries so that they can gauge their own strategies for improved social and environmental performance with market demands in mind; and
- to identify possible points of leverage for new business strategies, partnerships or campaigns that could help to accelerate the transition to sustainable practices.

This report has been made possible by the help and co-operation of a range of individuals and organisations, and we would like to thank the following for their time and assistance during the preparation of the report: Martin Ashby, Littlewoods Retail; Pam Batty, Next; Chantal Finney, Labour Behind the Label; Catherine Dolan; Caroline Bonning; Derek Bower, Bhs; Jo Heeley, Manchester Metropolitan University; Rowland Hill, Marks and Spencer; Trevor Humphrey, Charterhouse Holdings; Ritu Kumar, Commonwealth Science Council; Dorothy Myers, Pesticides Trust; Sarah Roberts, IIED; Richard Savage, Origo; Margreet Simon, Alternatieve Konsumenten Bond; George Tarvit, Oxfam; and Chris Williams, C&A.

This report forms part of the International Institute for Environment and Development's *Stimulating Sustainable Trade* project, which seeks to provide practical guidance on how to expand the export of sustainable goods and services from developing countries. IIED's *Stimulating Sustainable Trade* project is currently financed by the UK Department for International Development, Denmark's DANCED fund, the European Community and IIED's FIRST fund, which has contributions from Swedish SIDA, the Swiss Development Co-operation Agency, Danish DANIDA and the Ford Foundation.

The authors retain responsibility for the contents of the report.

1 When two worlds collide: clothing and sustainability

Over the past decade, the challenge of sustainable development has moved up the corporate agenda. Popularised at the 1992 Earth Summit, sustainable development aims to integrate the three goals of economic prosperity, social justice and environmental regeneration, to produce a high quality of life for all the world's people, now and into the future. Underlying this shift is a realisation that dramatic changes are required to achieve sustainability over the coming decades. At the five year review of the Earth Summit in 1997, the assembled governments of the world agreed that the industrialised world will need to improve its environmental performance by a factor of four over the next 20-30 years and by a factor of 10 over the longer-term.

First in the business world to be hit were the natural resource and manufacturing industries—notably mining, forestry, oil and chemicals—whose activities have often generated severe health hazards, environmental degradation and social disruption. A combination of forces has driven a growing number of leading companies in these sectors to go beyond regulatory compliance and seek out strategies that link sustainability with shareholder value.

Increasingly, businesses in service sectors have also started to rethink their operations in light of sustainable development, particularly banking, insurance and retail. Although their direct social and environmental impacts are relatively small, their role as market gatekeepers means that they can have substantial influence over processing, products and waste. Indeed, in the post-industrial economies of Europe and North America, consumption rather than production is now the focus for social and environmental improvement.

The garment business is a case in point. Clothing retailers have faced mounting regulatory, market and public pres-

“Sustainability will be the dominant business paradigm in the future. Investing in sustainable opportunities is low risk. Furthermore, this is an inevitable investment for the company that wishes to be still in business in 15-25 years’ time”

Sustainable strategies for value creation, Consortium report¹

sure to raise their social and environmental performance—to reduce water pollution from textile production, to phase out toxic substances, to improve labour conditions and to reduce packaging waste. These pressures have come at a time of increasing globalisation in the sourcing of clothing. As a result, any attempt to ensure sustainable development along the chain now has to involve an explicit focus on international trade, in particular the quality of goods supplied by developing country producers to industrialised country markets.

The UK clothing market has traditionally lagged behind developments in the rest of Europe (notably Germany, the Netherlands and Scandinavia) and the USA. But the increasing internationalisation of business and the growth of domestic public concern about retailer performance has resulted in a recent flurry of activity in the ‘rag trade’. The result has been the design of new codes of conduct and efforts to grapple with the complex issues of implementation. The launch by the UK government of the Ethical Trading Initiative, bringing together business, trade unions and development agencies to establish a common benchmark for good labour practice, has also acted as a new prompt for action.

Sustainability issues have certainly grown in importance in recent years. But the question now facing the sector is, how can these concerns be made part of the core commercial rationale of the ‘rag trade’, thereby integrating social and environmental values into the heart of the business? The rest of this report seeks to answer this question.

Section 2 sets the scene by exploring the critical factors shaping the international supply of clothing for the UK. This is followed in Section 3 by a review of the main sustainability issues along the clothing chain, from fibre production through manufacture to use and disposal, and a summary of the critical driving forces for change. Section 4 then presents case studies of current practice among leading retailers in the UK: Marks and Spencer, Next, C&A, Bhs and Littlewoods. The report closes with Section 5, which pulls out key conclusions, implications for developing country producers and suggests some possible ways forward.

2 Understanding the rag trade

Garments, clothing, apparel or the rag trade. Whatever the name, the clothing retail sector in the UK is intensely competitive and increasingly influenced by global factors in its business strategy. This section presents a profile of the key players in the sector and the strategic trends driving the sourcing of clothes for the British market.

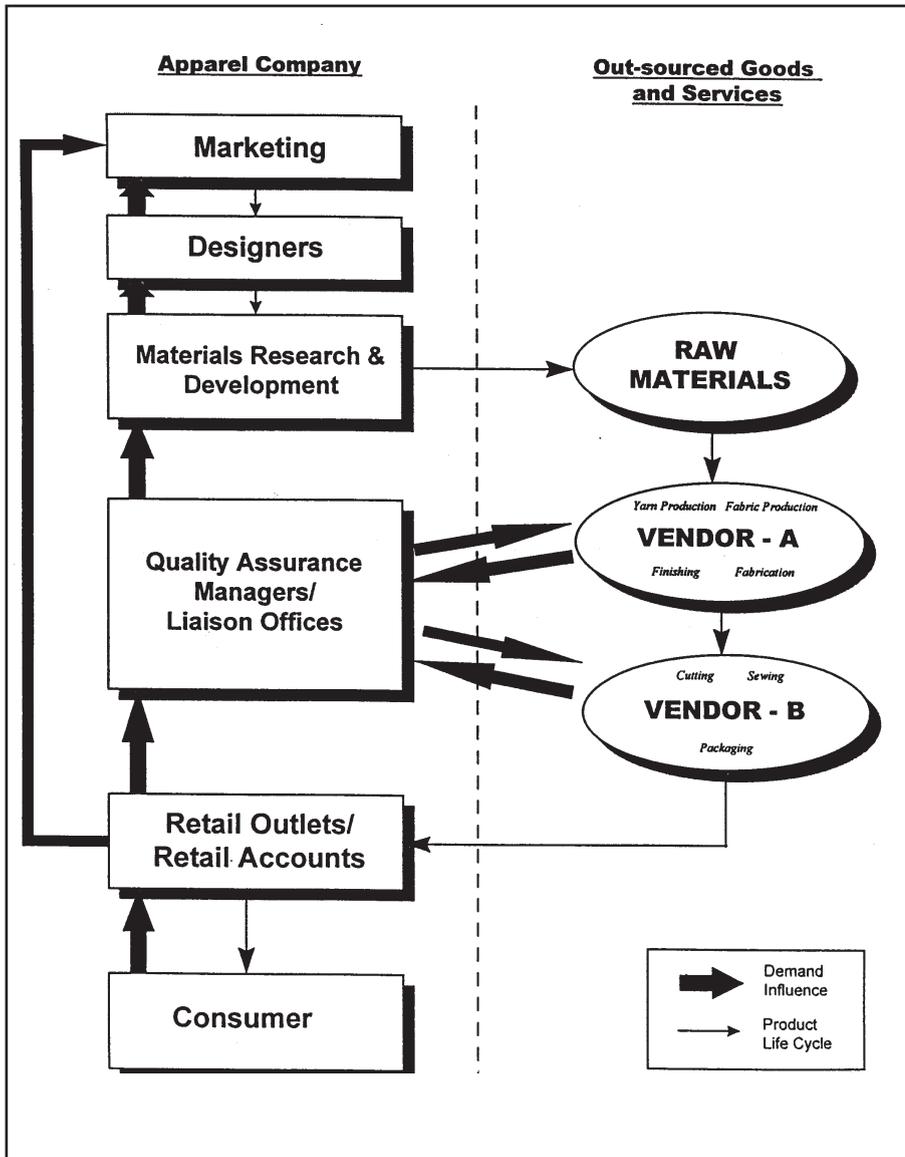
The clothing chain

The clothing chain is made up of a complex series of interlocking processes and enterprises, increasingly operating in different parts of the world. For clothing retailers, the chain starts with an assessment of market trends and development of new designs, which are then communicated to their vendors who supply the products for sale to the consumer (see Figure 1).

The actual life cycle of production and consumption is, of course, much longer, extending upstream to textile manufacture and fibre production and downstream to product use and disposal (see Figure 2). The links in the chain are not always as clear-cut, and many of the operations will be further sub-contracted. In addition, each stage of the chain is dependent on a variety of inputs, such as chemicals and technology, to perform its task. Each stage also generates a range of social and environmental impacts: these are discussed in Section 3.

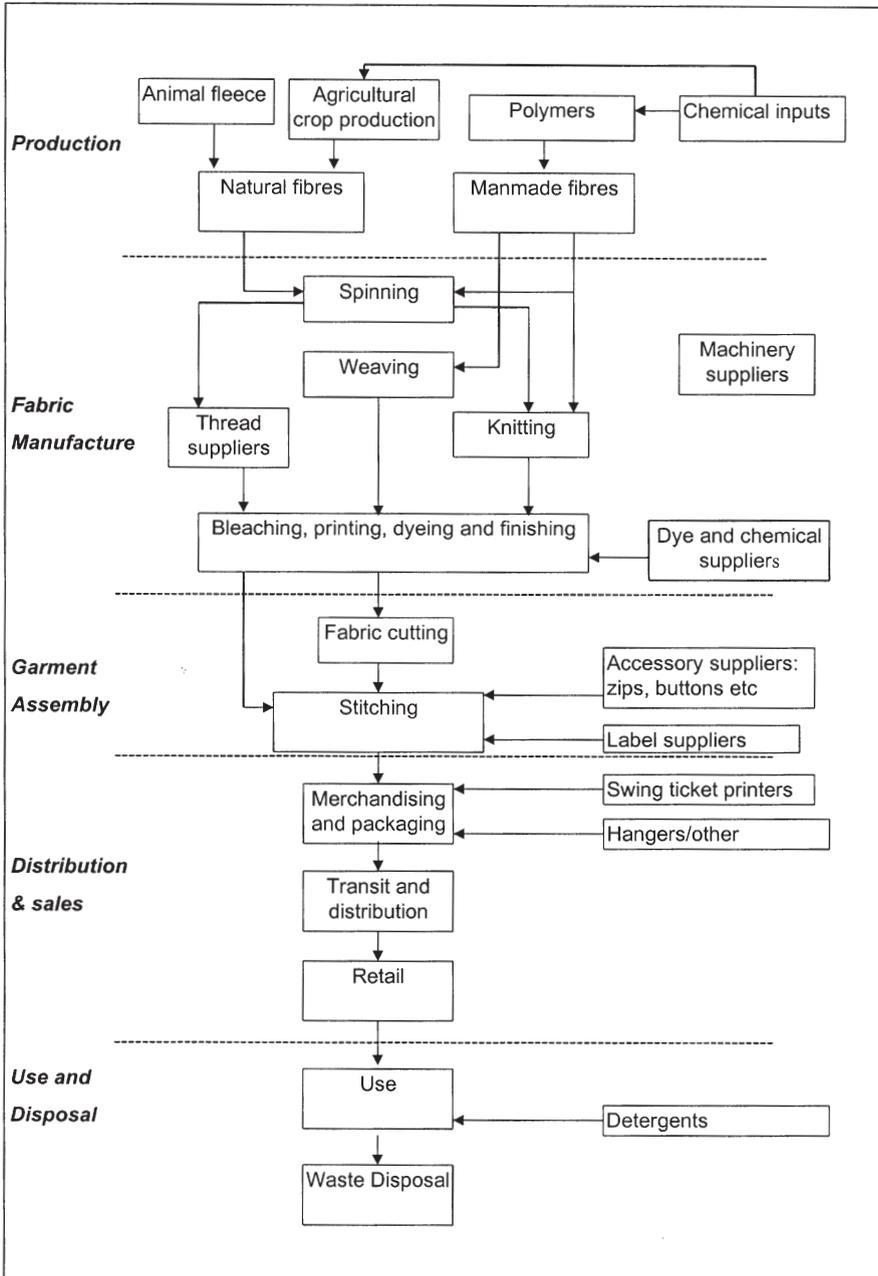
“A supply chain is defined as a network of business partners that participate in the production process in the life cycle of a product, from initial design to finished product”
N. Clare Meader²

Figure 1 Apparel supply chain



Source: N. Claire Meader, USETI, 1997³

Figure 2 The clothing life cycle



Source: Adapted from R. Kumar, 1998⁴

As for the consumer phase of the clothing chain, this can, in turn, be segmented along four main dimensions:

- **Consumer type:** men, women, unisex and children.
- **Seasonality:** summer, winter, midseason, non-seasonal.
- **Clothing characteristics:** outerwear, underwear, accessories etc.
- **Fabric type:** woven, knitted; natural, man-made, etc.

In general, the womenswear market is much more dynamic

than menswear since women tend to spend more on clothes and require more variety. In addition, women often buy clothes on behalf of men, making them the critical target group for retailers. Childrenswear is also becoming increasingly competitive and diverse in industrialised countries as families get smaller.⁵

Retailers have two main

buying seasons—autumn/winter and spring/summer—which are divided into sub-seasons depending on how the retailer works. Planning in the 'high street' stores and their supplier factories starts more than a year in advance, beginning with the identification of fashion trends, and following through a sequence of development and production processes at all stages from yarns to fabrics to garments. Figure 3 shows the time plan for a spring/summer season. Increasingly, trends are pointing towards the introduction of smaller batches, rather than a single range for the whole season.

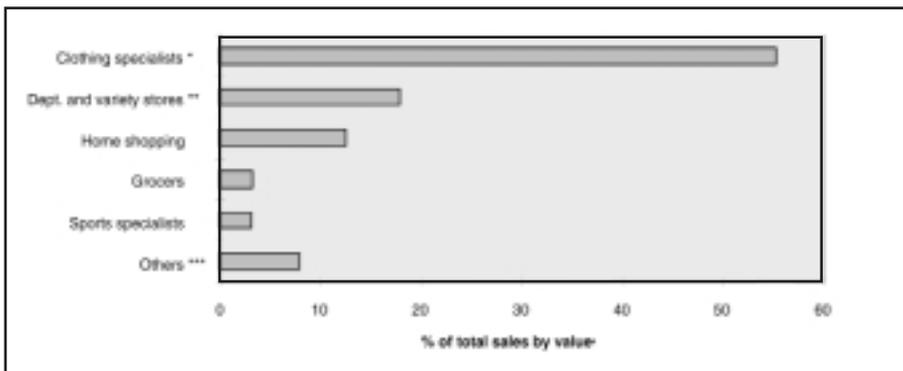
Photo: Marks & Spencer



Dynamic markets

- **Grocers:** Food supermarkets such as Tesco and Asda have also recently developed garment ranges and have achieved impressive market share: Asda have been particularly successful at capturing the childrenswear market under the George label, targeting mothers as they shop for groceries.
- **Sports specialists:** Sportswear is a significant market niche in its own right, with specialist shops, such as JJB Sports.
- **Other:** This last category covers market stalls, charity shops selling second-hand clothes and discount retailers.

Figure 4 Retail distribution channels in the UK clothing market 1997



Key: * inc. Marks & Spencer ** inc. Debenhams, Bhs and Littlewoods
 *** inc. market stalls, charity shops, discount retailers

Source: Corporate Intelligence, 1999

The retail clothing business in the UK is dominated by a few large corporations, with the top six companies accounting for over a third of market share (see Table 1). Marks and Spencer has long been the market leader, although its position has recently been dented by its first profits fall in 30 years, and the clothing market as a whole has been facing tough times during 1998 and 1999.

Table 1 The major players in UK garment retailing

Retailer	Market share 1997*	Features
Marks and Spencer	15.1	<ul style="list-style-type: none"> • Long term market leader known for quality and the St Michael brand. • Management reshuffle in February 1999 after poor trading in 1998; further restructuring announced in November 1999 as poor performance continues.
Arcadia Group	5.8	<ul style="list-style-type: none"> • Formally the Burton Group: Re-structured in 1997 to make Debenhams a separate company. • Arcadia includes Burton, Dorothy Perkins, Evans, Top Shop/Top Man, Principles. • Dial Home Shopping set up in 1998, a joint venture with Littlewoods.
Next	4.1	<ul style="list-style-type: none"> • Next Retail and Next Directory: Targeted at the top end of the mass market. • Steadily growing market share during the 1990s, and a significant recovery in sales and profits during 1999 after a difficult year in 1998.
C&A	3.9	<ul style="list-style-type: none"> • Privately owned Dutch company with stores in 13 European countries: 106 in the UK out of 550. • Centralised buying strategy, applying the same policies in all the countries. • Market share declining slowly from 4.4% in 1994.
Sears	2.6	<ul style="list-style-type: none"> • Miss Selfridge, Richards, Wallis, Warehouse and Adams (childrenswear). • Selfridges department store now separated from the group, and Freemans catalogue also to be demerged and sold to the German mail order company, Otto Versand.
Bhs	2.5	<ul style="list-style-type: none"> • Part of the Storehouse group, including Mothercare. • Bhs has 140 stores in the UK and 77 overseas. • Major fall in sales led to losses in 1999 and a major restructuring effort, splitting Bhs and Mothercare.
Littlewoods	1.6	<ul style="list-style-type: none"> • Privately-owned company with a high street retail chain, a mail order catalogue, TV home shopping and the internet.

Source: Corporate reports and web sites; * from Verdict on Clothing Retailers, 1998⁸

Strategic trends in clothing sourcing

Changing market conditions, increasing competition and globalisation are prompting a rethink in corporate strategy among many clothing retailers. This is reflected in five closely interlinked strategic trends:

- brand management
- supplier rationalisation
- increased international sourcing, especially from developing countries
- direct buying
- increasing retailer power.

Brand management

British retailers are aiming to win and sustain customer loyalty by placing greater emphasis on the brand value associated with their company's products. Table 2 presents statements from 1998 Annual Reports of leading companies, highlighting the importance of raising brand value. It is perhaps interesting to note that Marks & Spencer, traditionally known for its St Michael brand, is the only big clothing retailer that did not mention brand management in its 1998 annual report.

Supply base rationalisation

To drive down costs and improve quality, innovation and timing, clothing retailers are rationalising their supply base, giving more work to fewer suppliers. This enables the retailer to take advantage of economies of scale and strengthen relationships with trusted suppliers. In recent years, C&A has halved its supply base from 2,800 to 1,400, while Bhs has cut its number of suppliers by a third.

International sourcing

British clothing imports have grown threefold since the mid-1980s and now account for more than half of the clothes

Table 2 Top UK retailers on brand management

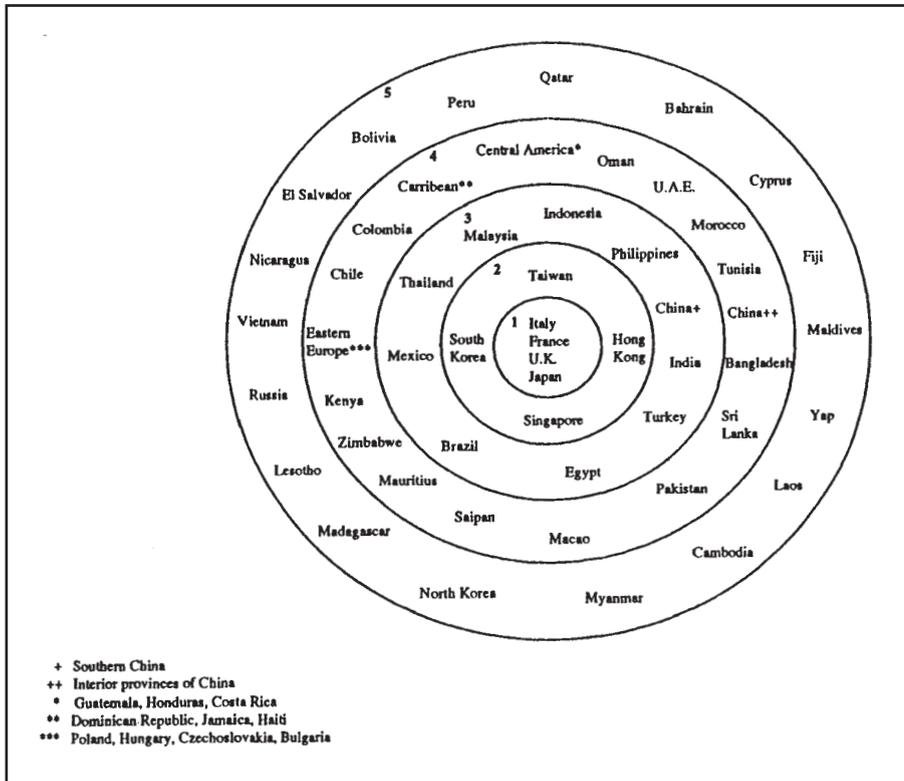
Retailer	Quotes from Annual Reports 1998
Arcadia Group	"...continued to concentrate management time and capital on the development of a strong portfolio of brands" (p. 3)
Debenhams	"Half our turnover is generated by brands exclusive to Debenhams...brands enable us to exploit opportunities in a moving market place..." (p. 5)
Storehouse	"By seeking to understand customers fully... Storehouse is building its core Bhs and Mothercare brands for the long term" (p. 2)
C&A	"C&A, as a retailer and a brand, has a long-standing reputation as a leader in providing value for money fashionable clothing...Each sub-brand has a key role in the overall C&A positioning..." (p. 16)
Sears	"For the past year, we have been concentrating on building the strength of the five brands and preparing them for future growth" (p. 9)

Sources: Annual Reports and Accounts 1998

sold in Britain, with a retail value of over £12 billion.⁹ This proportion is set to rise in the future as UK retailers increase their international sourcing, particularly from developing countries. Germany has already achieved 80-90% import penetration in its clothing market. Marks & Spencer traditionally bought almost entirely from British manufacturers, but because of cost, it is now shifting towards sourcing more than half of its merchandise from outside the UK within the next 3-5 years. Littlewoods already sources around 70% of its clothing from developing countries. Across its European operations, C&A sources 65% from the EU, 25% from the Far East and 10% from the rest of the world.

This shift reflects a longer term trend in the relocation of garment manufacturing over the last 25 years, largely in response to opportunities presented by low labour costs in developing countries. International sourcing has also been facilitated through rapid advances in transportation and communications technology. Figure 5 presents a historical view of the different 'waves' of countries and regions that

Figure 5 Production frontiers for global sourcing by US retailers in the apparel industry



Source: Gereffi, 1994¹⁰

have been predominant in the manufacture and supply of clothing. As each new wave of countries enters the global economy, production in countries of the previous wave must innovate to compete on a basis other than price. Although Figure 5 is based on experience with US retailers, the same pattern has generally emerged for the British market.

The trade in textiles has long been controlled through tariff, quota and other barriers, in particular to limit imports from developing countries and so help preserve employment in the industrialised world. In 1974, the Multi-Fibre Arrangement (MFA) was adopted, setting quotas for imports into the industrialised world in clear violation of the free trade spirit of the General Agreement on Tariffs and Trade

(GATT).¹¹ The Agreement on Textiles and Clothing, reached during the Uruguay Round of trade negotiations in the early 1990s, provides a timetable for the phased dismantling of the MFA by 2005. However, most of the changes have been end-loaded and will not materialise until 2005 itself. Furthermore, considerable barriers to imports will remain.¹²

The liberalisation of the textile trade will be further affected by the possible entry of China into the World Trade Organisation. China is already the world's largest exporter of garments and has a strong advantage in its low labour costs. While the MFA has served to protect garment industries in industrialised countries, it has also to some extent guaranteed markets for some developing countries. There is concern in some quarters that the relaxation of quotas could result in considerable pressure from Chinese garment exports on the market share of other developing countries.

The abolition of the General System of Preferences (GSP) in 2002 will also have an effect on trading patterns. The GSP currently allows favourable duty terms to certain least developed countries in order to encourage importers to source from these countries. Bangladesh has benefitted significantly from this arrangement and could suffer adverse effects when the policy is lifted.

One direct consequence of increased global sourcing is mounting employment cuts in the UK textile industry as suppliers are dropped or relocate production to developing countries. The GMB trade union is demanding the introduction of compulsory country of origin labelling and social codes of conduct as a way of slowing job cuts. It also launched a national campaign in November 1999 to highlight the 6,000 jobs lost as a result of changes to Marks & Spencer's sourcing policies.

Direct buying

Increasingly, retail groups are buying direct from suppliers rather than going through importers. This shortens the supply chain and complements the move towards closer

“Buyer driven chains refer to those industries in which large retailers, brand name merchandisers and trading companies play a pivotal role in setting up decentralised production networks in a variety of exporting countries, typically located in the Third World”

Gary Gereffi, 1994¹³

relationships with a smaller number of suppliers. Marks and Spencer has a long history of buying directly from manufacturers, while C&A has established Mondial as its own worldwide sourcing operation. Next and Littlewoods have established overseas buying offices in key production regions, and Bhs is currently experimenting with direct sourcing through a new division, 'Bhs Supply'.

Increasing retailer power

Globalisation is increasing the pool of producers from which retailers can source their products. This creates the potential for over-supply and thereby acts as a force to drive down prices. The result is a 'buyers' market', whereby retailers set the terms of production for suppliers, and reap the largest share of the rewards along the chain.¹⁴ Branding enables retailers to extract high levels of profit from consumers, while the abundance of alternative sources of supply allows them to force down costs at the same time as maintaining—or indeed raising—quality specifications.

Price is a basic pressure faced by suppliers when negotiating orders. Most problems between buyers and suppliers arise from price disputes where the buyers might put pressure on the manufacturers to trade at a loss so that they can maintain their margins. For the workers involved, the imbalance in the share of value added can be even more extreme. In one modern factory in Bangladesh investigated by the development charity CAFOD, the wages for women working on quilted ski jackets for Nike amounted to 51p per jacket. A similar jacket was on sale in the UK for £100: the workers were thus earning only 0.5% of the jacket's retail value.¹⁵ A similar assessment of jeans manufactured in Eastern Europe by the Dutch Clean Clothes Campaign found that about 1% of the final retail price was accounted for by labour costs in production, compared with 25% for brand profit, overheads and promotion.¹⁶ Table 3 shows an estimate of a cost calculation for a T-shirt sold in the low end of the market.

Yet, although it is crucial, price is not everything. Shifting to cheaper suppliers can involve teething problems and prob-

Table 3 Adding value to a T-Shirt?

Process	Approximate increase	Cumulative price
Freight on board cost	£1	£1
Freight	+5-10%	£1.10 - £1.15
Commission	+5%	
Clearance cost	+3%	£1.27 - £1.32
Duty	+12%	
Importer	max 20%	£1.52 - £1.58
Packaging, despatch other cost	+15%	£1.75 - £1.82
Retailer	double or treble the price	£3.50 - £5.46

Source: Personal communication

lems with quality. Arcadia and Bhs are reportedly exploring ways to measure buyer performance taking account of hidden costs. Some retailers keep league tables of good and bad suppliers in terms of price, quality and timely delivery.

Market forces and sustainability

All these trends in Britain's clothing retail market have powerful implications for pursuing sustainability down the supply chain:

- **Brand management:** The importance of brands to corporate strategies means that retailers cannot afford to suffer damage to their reputation that might come from allegations of poor labour and environmental practices along the supply chain.
- **Supplier rationalisation:** Strengthening relations with a smaller group of suppliers could form the basis for a more

“In effect, competition in the mass consumer goods sector is switching increasingly from product quality to the quality of the supply chain”

Permanent Peoples’ Tribunal, 1998¹⁸

effective approach to introducing social and environmental standards in the supply chain.

- **International sourcing:** This clearly opens up new opportunities for developing country producers—but is circumscribed by the ability to meet increasingly exacting standards.
- **Direct buying:** Good communications growing out of direct buying might also give a company definite advantages in implementing other types of standard such as those related to social and environmental responsibility.
- **Increasing retailer power:** For developing country suppliers, it is the retailer who not only sets the standards for production, but also determines who bears the burden of change. Critical to future competitiveness will be the capacity to respond and perhaps anticipate new requirements from the demand side.

Practical examples of how this works are described later in the corporate case studies (Section 4). But first, the next section presents the critical sustainability challenges along the clothing chain.

3 The sustainability challenge

The social and environmental impacts of producing and using textiles for the clothing sector have been the subject of mounting regulatory, corporate and consumer concern over the past decade. Traditionally, the approach has been ad hoc and reactive, addressing issues at different parts of the product chain as they arose without a broader strategic framework. There are now signs of efforts to develop a more integrated vision that explores the mounting economic, social and environmental challenges facing the clothing chain in a comprehensive way.

This section explores the four key aspects of sustainability along the clothing chain and then describes the main pressures for change in the UK.

Critical sustainability issues

The breadth of the sustainable development agenda is enormous. But looking along the clothing chain, four critical sustainability issues emerge at each stage:

- a. Eliminating environmental hazards to human health
- b. Improving the efficiency of natural resource use, notably energy and water
- c. Ensuring levels of pollution and waste remain within local and global carrying capacity for air, land and water
- d. Establishing social justice and equity in the distribution of costs and benefits.

A summary of the key issues is presented in Table 4.

The type of textile can have a major influence on social and environmental impacts. Globally, cotton accounted for 45% of textile production in 1994, synthetics made up about 40%, cellulose-based fibres a further 10%, and wool about

“Despite its ‘natural’ image, cotton production has become increasingly associated with severe negative environmental impacts”.
Dorothy Myers and Sue Stolton²⁰

Table 4 Key sustainability issues along the cotton clothing chain

	Environmental Hazards	Materials Efficiency	Pollution and Waste	Social Justice and Equity
Fibre Production	Damage to worker health from pesticides & herbicides	Extensive water use	Pesticide, herbicide & fertiliser run-off Threats to biodiversity Genetically modified cotton	Child labour, job security equal opportunity, wages working hours freedom of association & collective bargaining
Spinning, Weaving, Knitting	Noise, dust and fire	Water use	Biodegradation of spinning oils, sizes and biocides	Child labour, job security equal opportunity, wages working hours freedom of association & collective bargaining
Dyeing, Printing, Finishing	Carcinogenic (eg azo), toxic (eg ionic heavy metal) and allergenic dyes Use of PCPs and formaldehyde in finishing	High water consumption for dyeing High thermal energy use for dyeing and finishing	Biodegradation of pre-treatment surfactants, emissions from chlorine bleaching. Effluent from unfixed dyes (colour, COD, BOD, AOX, heavy metals)	Child labour, job security equal opportunity, wages working hours freedom of association & collective bargaining
Garment Make-up		Electricity consumption		Child labour, job security equal opportunity, wages working hours freedom of association & collective bargaining rights of home workers
Retail		Fashion and consumption Building and construction Energy use	Packaging waste	
Use and Disposal	Chemical residues, such as pesticides, dyes, PCP and formaldehyde	Heavy energy and water for clothes washing	Discarded clothes	
Transport	Traffic accidents	Energy use	Emissions of CO ₂ , NO _x , SO ₂ , VOCs	

4%; in Europe, the share of wool-based textiles rises to about 16%.¹⁹ Each of these has dramatically different social and environmental impacts, particularly at the fibre production stage, contrasting the agricultural crop of cotton, the petroleum-based synthetics and the forest-based cellulose materials. As synthetics take a growing share of textile consumption, so concerns may arise about the implications of increasing reliance on crude oil, a finite, non-renewable resource with extensive environmental impacts in the exploration, drilling and refining stages. The rest of this section focuses on the sustainability issues linked with cotton cultivation.

a. Environmental hazards in production

Many of the chemicals traditionally used in fibre production and textile manufacturing can cause serious damage to human health, not only for the workers directly involved, but also for consumers if these are retained as residues in the final product. Campaigns across Europe have focused on these 'poisons in the cupboard'.²¹ One estimate in Germany suggests that 30% of children suffer from textile-related allergies, most of which are triggered by dyes.²² Although public awareness of the health issues associated with clothing is relatively low, two major environmental hazards have achieved some prominence: the use of azo dyes and the effects of pesticides used in cotton growing.

Azo dyes make up about a fifth of dyestuffs used in textile production. About 300 of these dyes—notably benzidine—can split off to form 20 carcinogenic amines, which can harm both workers and consumers.²³ The use of other chemicals, such as formaldehyde, pentachlorophenol and heavy metal dyes, used in textile processing can also have adverse health effects. A range of regulatory and voluntary initiatives, such as labelling and codes of conduct, are being applied across Europe to reduce these hazards (see Box 1).

Cotton plants are susceptible to a large variety of pests and diseases, and cotton cultivation has been the focus of intensive use of chemical pesticides. Cultivated on just 3% of the

Box 1 Reducing hazards to health from azo dyes

During the 1990s, four main strategies were employed to reduce environmental hazards caused by dyestuffs:

1. **Government Regulation:** A range of legal restrictions are now in place controlling the types of dyes that can be used, notably German regulations introduced in 1994 to ban a range of azo dyes, which could leave harmful residues in the final product. Discussions are now underway for an EU-wide ban.²⁴
2. **Voluntary Action by Dyestuff Producers:** The Ecological and Toxicological Association of Dyes and Organic Pigment Manufacturers (ETAD) has been set up by a number of leading international dyestuff manufacturers, to ensure that their dyes do not contain banned or other harmful chemicals. Some retailers are specifying or encouraging their fabric suppliers to buy only from ETAD members.
3. **Independent Labelling:** A range of initiatives has emerged, again mostly originating in Germany, to certify that fabrics do not contain hazardous chemicals. Perhaps the best known scheme is the Oeko-Tex Standard 100, initiated by the Austrian Textile Research Institute in 1991. Oeko-Tex covers pesticide residues, pH values, the use of azo dyes, heavy metal content and formaldehyde. More than 5,900 certificates have now been awarded, 20% to German producers and about 10% to developing country enterprises.
4. **Retailer codes:** A growing number of retailers are introducing their own specifications for dyeing, printing and finishing to reduce hazards to human health: some of these are discussed in Section 3.

world's agricultural land, cotton production accounts for 11% of global pesticide use; these chemicals can account for more than 50% of the total cost of cotton production.²⁵ Poor management of these chemicals can cause considerable harm to the health of farmers and agricultural workers, particularly in developing countries. One study in Pakistan showed that out of 88 female cotton pickers, only one had acceptable levels of pesticide in her blood, and the rest had moderate or dangerous levels of blood poisoning.²⁶ Efforts are being made to encourage the take-up of integrated pest management techniques, and to promote the shift to organic production methods.

Although growing fast, organic cotton is a tiny proportion of total production, and represented 0.06% of the world crop in 1996.²⁷ Furthermore, organic is generally more expensive than conventional production due to yield reductions. But because production costs represent a small

proportion of the final retail price, this need not lead to significant price differentials.

At the processing stage, there are many other worker health and safety issues such as the correct use of harmful chemicals, good lighting and ventilation, provision of fire exits and extinguishers and training on the proper operation of machinery.

b. Resource efficiency

Efficient use of natural resources, notably water and energy, is a critical way of reducing environmental burdens and improving productivity. Textile processing is highly water intensive: about 100 litres of water are used to process one kilogramme of textiles. Initiatives to raise the quality and efficiency of textile production—for example through ‘right first time’ processing—have important environmental benefits by reducing water and chemical consumption. But looking at the life cycle of clothes used in Europe, over a third of water consumption occurs during the use phase.

High levels of energy consumption are also a concern, particularly during dyeing, finishing and home washing phases. Energy is also consumed during the transportation of goods throughout the chain.

c. Pollution and waste

Each stage of the clothing chain generates pollution and waste. Along with the longstanding problems of pollution due to the misuse of pesticides and fertilisers in cotton production, there are now new uncertainties over the potential for ‘genetic pollution’ caused by genetically modified cotton plants. Textile production itself can also involve considerable water pollution: 70% of textile auxiliaries and 20% of textile dyestuffs enter the waste water during the finishing process, leading to discolouration, as well as high levels of pollution measured in terms of chemical oxygen demand (COD), biological oxygen demand (BOD), AOX and heavy metals. Air pollution is mostly associated with the burning of fossil fuels

for energy and emissions of volatile organic compounds. As for solid waste, although most concern has been focused on packaging, about six million tons of post-consumer clothing is thrown away annually each year in Europe.²⁸ In the UK, about 10% of household waste is made up of discarded clothes and shoes, of which about 500,000 tonnes is burned or buried in landfill sites. Over 100,000 tonnes is recovered each year through a variety of recycling schemes, of which 80% is re-used. The vast bulk of this is sold onto developing countries as second-hand clothing—sometimes raising problems of undercutting local textile production.

Photo: Joerg Boethling/Still Pictures



**T-shirt production,
India**

Beyond these specific issues, there is the deeper and more contentious question of the sustainability of current patterns of clothing consumption. Clothing is far more than a basic need and consumption of clothing is driven by complex issues of identity and aspiration.

The fashion industry

clearly thrives on a rapid turnover of clothing through regular style changes. About three-quarters of clothes have a lifespan of 1-5 years, and although textiles can be designed to be durable, this is at odds with the demands of a high turnover business.²⁹ Some attempts have been made to tackle the issue of over-consumption, but without any noticeable impact. For example, in the early 1990s, the Women's Environmental Network recommended a six-step plan for consumers to reduce the environmental impacts of clothing:

- Buy less clothing
- Demand and buy well-made, quality clothes
- Shop for clothing that uses recycled fibres
- Ask for unbleached and 'green' cotton
- Mend and make your own clothes
- Recycle clothes.³⁰

d. Social justice and equity

As well as environmental improvements, sustainable development also requires tangible reductions in poverty and inequality, and priority being given to the needs of the poorest along the chain. A range of pressing social problems exist in textile production and garment making, such as low wages, long hours, dangerous working conditions, job insecurity, failure to recognise unions in collective bargaining, abusive treatment (especially of women, who make up 70% of the garment workforce) and the use of child labour.

Many of these issues are addressed in a series of conventions from the International Labour Organisation (ILO) on core working conditions, which are now being implemented through government action, corporate codes of conduct and new partnerships, such as the ETI. While most of the focus has been on working conditions in developing country suppliers, there is mounting concern about sweatshop conditions in the UK's garment sector.³¹

The pressures for change

The direct social and environmental impacts of clothing retail are relatively minor: the most serious impacts are upstream in the production phase and downstream in use and final disposal. But retailers are under increasing pressures to extend responsibility for their social and environmental impacts beyond the shop. Generally, there are four main driving forces that stimulate business to improve performance: government regulation, public pressure, market demand and corporate commitment—the last of which is examined in Section 4.

Government regulation

The policy framework remains a critical determinant of social and environmental performance at each stage of the chain. In recent years, retailers have been affected by more stringent environmental regulations on domestic textile production, increasing controls on the use of toxic chemicals

“Retailers occupy a powerful position in choosing what products they stock, for onward purchase and use by end-consumers. There is a positive trend among those retailers who are already tackling sustainable development as a business issue, to scrutinise their own supply chain for environmental factors.”

Department of the Environment, Transport and the Regions ³²

in textile production, take-back laws for packaging and eco-labelling initiatives. In all of these, the UK has generally lagged behind developments in front-runner economies such as Germany and been satisfied with adopting EU legislation as required.

For example, Germany has banned the use of the potentially harmful azo dyes both in domestic production and in imported textiles, introduced compulsory labelling for formaldehyde, restricted PCP residues and set limits on nickel and cadmium. The European Commission is now considering

an EU approach to regulating harmful azo dyes. The EU has also been running a voluntary eco-label scheme for seven years, which now includes labels for T-shirts, bed linen and other textile products. However, the scheme has performed poorly, and only nine companies

have been awarded the eco-label for T-shirts and bed linen, none of which are in the UK.

The new Labour Government has launched a new strategy for sustainable development in the UK, which stresses the importance of transforming market practices to deliver better goods and services with lower environmental impacts.³³ It has also carried out a review of its policy for consumer products and the environment, following the failure of the EU eco-label scheme to make headway.³⁴ The move reflects the development of Integrated Product Policy (IPP) at the EU level, which seeks to look in a more comprehensive way at the relationship between products and their burden on the environment throughout the life cycle. The Government has established a new Advisory Committee on Consumer Products and the Environment, and has made a number of

Photo: Joerg Boethling/Still Pictures



**The organic harvest,
Maikaal, India**

proposals to improve the environmental performance of products, including the development of:

- mandatory information labels (eg for energy consumption)
- negotiated agreements with sectors of industry (eg for VOCs in paint)
- good practice in corporate 'green claims'
- industry benchmarks
- a high-level award for innovation
- greener choice labelling

Although the Government's approach stresses the importance of voluntary action by business, there is also a recognition of the need for a regulatory framework to ensure a 'level playing field' and drive innovation. The need for regulatory action is underlined by the low level of environmental knowledge among many consumers, which acts as a major brake on pressures in the marketplace for improved performance. In its submission to the Government's consultation on consumer products and the environment, the National Consumer Council noted that while "most consumers want to help the environment in some way...but one of the main barriers to making their action effective is that they are so poorly informed about the key environmental issues".³⁵

The Government has also launched the Ethical Trading Initiative, which deals directly with labour standards in developing country exporters to Britain (see below Box 2). At the moment, these two initiatives are moving along parallel tracks, with no clear linkage between the environmental and ethical agendas.

Public pressure

In the clothing sector, public pressure for change has mostly been focused on tackling poor labour conditions in the garment assembly phase of the chain. High profile campaigning by a range of development organisations has raised public concern about 'sweatshop conditions' in developing country sub-contractors, especially those involving child

Box 2 The Ethical Trading Initiative

Launched in 1997, the Ethical Trading Initiative (ETI) is a British Government sponsored tripartite project involving development NGOs, trade unions and businesses. The ETI focuses on the social issues connected with production—that is, health, safety and labour standards. While general use of the word ethical can cover both social and environmental issues, the remit of the ETI has given 'ethical' a narrower association with labour standards.

The ETI developed a code of labour practice to reflect the most relevant aspects of international standards such as the International Labour Organisation conventions and the UN Convention on the rights of the child. The purpose of the ETI is to acquire experience in the implementation of the code, and members are not expected to implement all elements immediately and effectively. The base code includes the following principles:

- employment is freely chosen
- freedom of association and the right to collective bargaining are respected
- working conditions are safe and hygienic
- child labour shall not be used
- living wages are paid
- working hours are not excessive
- no discrimination is practiced
- regular employment is provided
- no harsh or inhumane treatment is allowed

Clothing is a high-profile sector for the ETI, and Littlewoods and Marks & Spencer are corporate members, along with Levi Strauss, Monsoon and the clothing supplier, Pentland. The ETI is currently running three pilot studies, one of which is examining the apparel industry in China.

labour. These campaigns fused with a series of media exposures of alleged poor performance in high-profile companies (including Nike and Marks and Spencer) to create a powerful force for change.

The Clean Clothes Campaign was first launched in the Netherlands in 1990 to alert the public to the conditions in garment factories and place responsibility for improvements with retailers who controlled the supply chain. Initially, the strategy targeted the Dutch market leader, C&A, but was then extended to cover other retailers. In the UK, Oxfam began their Clothes Code Campaign in May 1996 with a focus on the top five retailers: Marks and Spencer, Arcadia (Burton at the time), C&A, Next and Sears. This was followed

by a review of company progress in implementing codes of conduct carried out by CAFOD in 1997. Across Europe, a common 'Code of Labour Practices for the Apparel and Sportswear Industry' was finalised in 1998.

While the demands of different organisations vary, three core themes have emerged, summarised in the Labour Behind the Label campaign, a network of organisations supporting garment workers and the UK platform for the Clean Clothes Campaign. The campaign has called on retailers to:

- adopt codes of conduct covering the ILO's Conventions and guaranteeing good working conditions, a living wage and the right to join independent trade unions to all workers in the chain of production;
- accept independent verification of how codes are put into practice;
- make information available to consumers so that they are able to make better-informed choices.³⁶

Internationally, the Social Accountability standard, SA8000, launched in 1998 by the US-based Council for Economic Priorities Accreditation Agency (CEPAA) highlights an example of a new type of solutions-based campaigning.

Developed together with a range of experts drawn from the corporate sector, trade unions, NGOs and auditors, SA8000 provides a framework for third-party auditing of social performance, based on both ILO Conventions and ISO management systems. A number of clothing companies have committed to implement SA8000 in their supply chains, including Eileen Fisher in the USA and Otto Versand in Germany.

Labour conditions in garment production are now firmly on the public agenda. Clothing retailers are adopting codes of conduct and the Ethical Trading Initiative—a significant victory for campaigners—provides a forum for a joint approach amongst development agencies, trade unions and

“On environmental issues, corporations are out in front of consumer demand. Our challenge is to change customers’ perceptions of their purchase”

Yvon Chouinard,
founder,
Patagonia³⁷

business for moving forward. As a result, the level of confrontational campaigning has diminished, with the focus turned towards three critical issues of implementation:

- the *breadth* of corporate codes in terms of the coverage of issues;
- the *depth* of corporate codes in terms of their reach down the line of sub-contractors; and
- the *quality and independence* of systems for monitoring.

There are signs that organic cotton could be the next focus for public campaigning, building on the explosive growth in demand for organic food and public concerns about the risks of genetically modified (GM) crops. Following consumer concerns about ‘Frankenfoods’, many supermarkets have moved to ensure that no GM foods entered their supply chain: it remains an open question whether similar actions will become necessary for cotton clothing to deal with fears of ‘Frankenfashion’.

Market demand

Consumer demand has been by far the weakest of the three driving forces for change. The ‘green consumer’ phase in the early 1990s saw a number of clothing companies, such as Esprit and H&M, launch eco-collections that coincided with the trend towards a natural look. Like all fashions, the natural look was quickly superseded, and many of the eco-collections were eventually withdrawn. In the UK, there remain a number of small, niche enterprises selling organic and hemp clothing, such as the Natural Collection mailorder company; organic cotton clothing is also sold through some ‘fair trade’ channels, such as Traidcraft.

The reasons for this weakness in demand include:

- the low consumer awareness of social and environmental issues linked to clothing

- the small proportion of committed consumers, perhaps 5-10%
- a passive rather than active concern for social and environmental issues
- the lack of mainstream availability of eco-/fairly traded clothing
- the high prices of eco-/fairly traded clothing where it is available
- the poor design and quality of some alternative ranges
- a proliferation of corporate self-claim labels breeding distrust
- corporate resistance to promoting green or ethical lines due to fears of a negative spillover onto mainstream lines.

Thus, although two-thirds of UK consumers interviewed in a 1997 MORI poll would not buy a product which endangered the health of workers, this concern cannot be translated into action as there is currently no way for consumers to distinguish 'damaging' from 'safe' products.

The situation is different in other European markets. In Germany, the 'green' market niche accounts for about 1-2% of the clothing market, with annual growth rates of 15-60% a year for some of the mail order businesses, such as Hess Natur and OTTO Versand, which are leading the trend.³⁸ This growth is in spite of a price premium for green goods that can range from 100% for men's pyjamas to 380% for men's underwear. High levels of public awareness and demand have prompted companies to introduce labelling schemes to verify the environmental credentials of their mainstream products (notably the Oeko-tex initiative) as well as a number of corporate labels, such as OTTO's 'Future Collection' and Steilmann's 'It's one world' initiative.

Public confidence is also generated by the long-term commitment of some companies to environmental issues. Hess Natur, for example, has been promoting environmental standards in its business for over 20 years. With an annual turnover of DM123 million, its catalogues cover 1,800 products and are sent to four million households. Around 95% of its cotton clothing is now certified organic and since 1997,

“Our aim is to make the whole textile supply chain totally transparent to our customers”

**Ute auf der
Bruecken, Hess
Natur**

Hess Natur has provided a product declaration for all of its products stating the location and type of production. It has also launched a 'long life collection' with a three year replacement guarantee to challenge the trend towards throw-away fashion: interestingly, the collection was based on a survey of existing and potential customers, which highlighted a preference for durable garments that will stay in fashion for a long period of time. The company's most recent

initiative is a research programme to develop eco-efficient textile products that have an increased resource productivity by a 'factor of 4'.³⁹ (See Box 6 for a profile of Otto Versand).

Experience with organic clothing in other markets also shows ways in which companies can innovate to satisfy a latent consumer demand. In the USA, a

number of companies, such as Gap, Levi Strauss and Nike, are now blending organic with conventional cotton. Nike, for example, incorporates 3% of organic cotton into half of its US produced cotton T-shirts. The company aims to quadruple its use of organic cotton between 1997 and 2000. Other companies are promoting specific organic ranges. Co-op Suisse in Switzerland has established a Natura line of organic clothing and has kept its prices fixed at the level for conventional brands despite the premium paid to growers, and are now selling two million pieces of organic clothing a year. A few pioneers are making the full transition to organic, such as Patagonia—although inadequate supply of organic cotton means that this will not be an option for most large companies for many years.

These examples point to the importance of clothing companies moving ahead of consumer demand and starting to take direct responsibility for improving performance along the chain. The next section explores the degree to which leading companies in the UK retail market are making these moves.

Photo: Joerg Boething/Still Pictures



Production of the 'Natura Line' for COOP/Switzerland, in India

4 The business of sustainability: case studies

There is increasing evidence that corporate strategies for sustainability can help to increase shareholder value. The Consortium Group of companies, which recently gathered together to develop a better understanding of the business implications of sustainable development, identified five critical ingredients for linking sustainability to corporate success:

1. The importance of values and CEO commitment:

CEOs play an invaluable role in developing and spreading the values that support sustainability.

2. Transparency and dialogue: Leading companies have moved away from a limited market and public relations focus to one based on closer dialogue and partnership with a wider base of stakeholders.

3. Accountability and the wider picture: Companies working towards sustainability are accepting greater accountability for all their activities—both upstream and downstream—throughout the whole value chain.

4. Internal and external communications: Proactive communication of their strategies helps companies to optimise the benefits of sustainable strategies, ranging from internal pride to improved reputation and brand preference.

5. Innovation: Engaging in sustainable strategies has proved for many companies to be a profound source of innovations, providing both new challenges and a new strategic framework.⁴⁰

These ingredients are equally relevant for the rag trade and will be used to evaluate corporate progress at the end of this section. But first, this section presents case studies of five

CASE STUDY

leading clothing retailers in the UK to understand their current policies and practices: Marks and Spencer, Next, C&A, Bhs and Littlewoods. These five case studies represent different positions and entry points into the mass fashion market in the UK and at the same time, reveal different priorities and understanding of sustainability. Their choice does not mean that other high street chains have not taken action—for example, Monsoon is active within the Ethical Trading Initiative. The case studies are based on a mix of interviews, corporate literature and secondary sources.

Case 1 Marks and Spencer

In business for over a century, Marks and Spencer plc now encompasses its core St Michael brand of clothing—along with Brooks Brothers in the USA—as well as food retail, jewellery, furniture and a range of financial services. Long the bell-wether of the UK clothing market and one of Britain's most respected companies, M&S has recently suffered a blow to its position brought on by a marked downturn in UK sales and a setback to its overseas expansion efforts. As a result, in November 1998, the company announced its first fall in profits in 30 years. Many reasons have been given for the current downturn, but it is clear that poor communication with its customers has been an overriding factor, combined with high prices and a loss of the fashion edge. The company has now launched a promotional campaign to win back consumer confidence.

M&S's policy stance on social and environmental issues reflects its broader corporate culture and position in the marketplace. Since it only sells own brand clothes, it has a strong focus on the joint development of products and policies with its suppliers. In many senses, the company has been ahead of the pack over the past decade, setting the sector benchmark and earning a good reputation for environmental responsibility. But as market leader, M&S has generally been wary of external schemes that might be seen to drag it down to an industry average, even though it might technically meet the requirements. Its approach has been essentially

paternalistic, asking its customers and other stakeholders to take its performance on trust, with little information for consumers about its social and environmental performance. In the past two years, the pace of change has forced the company to review its activities, particularly to establish a clear position on labour standards. Now, as part of the wider corporate rethink to regain consumer confidence, profitability and market share, social and environment factors could play a prominent role in reinventing the M&S brand.

The role of suppliers looms large in company policy and practice. It sources primarily from large UK companies and producers in developing countries. About 70% of clothing is still British made, although this is currently being reduced.

Good environmental performance is regarded as a basic requirement for doing business with M&S. In the early 1990s, M&S experimented

MARKS & SPENCER

with clothing ranges using natural coloured cotton, but found the costs too high and quality poor. A corporate environmental policy was launched in 1997, and emphasises the importance of partnerships with suppliers.⁴¹ Key environmental priorities for the company include packaging and recycling, building and construction, energy conservation, transport, animal welfare, crop management and clothing practices.

One of its policy goals is to 'ensure products are manufactured with minimum environmental impact' and M&S was the first high street retailer to issue an environmental code of practice to its fabric and clothing suppliers on the use of chemicals in dyeing, printing and finishing. Introduced in 1993, the code was prompted by two factors: first, consumer health concerns linked to some azo dyes, formaldehyde and other chemicals, highlighted by the company's entrance into the more conscious German market; and second, increasing pressure from regulators and water companies in the UK to clean up effluents from its British textile suppliers. Currently in its third version, the code covers a range of basic issues such as the use of azo dyes, alkylphenol ethoxylates, pentachlorophenol and formaldehyde, and meets German and other regulatory requirements.

“We are determined to do what we can to ensure adherence to the principles we believe in. We enforce these standards firmly among direct suppliers and encourage their implementation further down the supply chain”

**Peter Salsbury,
Chief Executive,
Marks and
Spencer⁴³**

As well as dealing with these core environmental hazard issues for consumers, the code also includes measures for the treatment of water effluent, waste reduction and energy conservation. M&S is constantly reviewing and upgrading its specifications, and will ultimately cease doing business with suppliers that fail to meet its requirements.

The company is currently carrying out an internal environmental review as part of its wider strategic review. The aim is to put in place a robust environmental management framework, based on the International Organisation for Standardisation’s ISO14001 approach. However, M&S is not keen to move towards an independently-verified environmental management system (EMS) at this stage. With its major suppliers, the company is working to develop a common international standard for textile production, which will include a code of good practice and a commitment to continuous improvement.

In spite of its strong policy stance, the company has not to date sought to communicate its environmental performance to customers through the use of labelling or other point of sale information: this reflects a wider absence of consumer engagement by the company. M&S has not been convinced of the commercial advantage that using the EU eco-label might bring, viewing it as unwieldy and expensive, and does not specify Oeko-Tex certification from its suppliers—although its dyeing code meets its requirements. It is, however, interested in the market potential of organic cotton. In terms of wider transparency, M&S issued an environmental brochure describing its activities in 1997. But it has yet to produce a quantitative corporate environmental report, citing the immaturity of the environmental reporting field and the difficulty in selecting useful indicators. Looking ahead, M&S is considering the production of a single ‘Report to Society’ in place of separate ethical and environmental documents.⁴²

On the social front, M&S’s policies have been in the firing line. A 1997 TV documentary alleged the use of child labour in one of its suppliers. Although the allegations were shown

to be unproven, its reputation suffered and the incident prompted an internal rethink. In March 1999, the company launched a new set of Global Sourcing Principles, consolidating its existing material, and joined the Ethical Trading Initiative (see Box 3).

Box 3 Marks and Spencer Global Sourcing Principles

The Global Sourcing Principles establish a minimum acceptable entry standard.

- **Supplier's responsibility:** Specific standards will be set with each supplier, who is responsible for reaching the appropriate specifications.
- **Workforce rights:** Suppliers must ensure that employees are treated with respect, and that health, safety and human rights are protected. As a minimum, suppliers must comply with regulations, especially on working hours, conditions, rates of pay, terms of employment, minimum age and freedom of association.
- **Production sites and labelling:** These must be agreed in advance, and all goods must be labelled with the country of origin.
- **Regular assessment:** All production sites are to be regularly assessed by suppliers and M&S staff.
- **Environmental responsibility:** At a minimum, suppliers must meet all relevant local and national regulations, and move to steadily improve environmental performance to comply with international standards.
- **Dedicated production units for M&S orders:** Once there is a significant level of business, M&S expects its goods to be produced in units and by workers dedicated to M&S orders.
- **Commitment to extending principles through the supply chain:** Suppliers should adopt similar principles in dealing with those who supply them.

"Suppliers must apply these principles at all times, but must also be able to show they are doing so. We will take action against suppliers who do not comply, which may involve cancelling our orders and ceasing to trade"

Source: Marks and Spencer

Looking ahead, it is likely that corporate efforts to regain consumer loyalty will probably include a more explicit emphasis on the social and environmental dimensions of the brand, recognising that consumers are investing more importance in the values of what they buy. But difficult financial circumstances could act as a brake on far-reaching policy moves. In November 1999, the company reported that first half earnings had fallen by 43%, and announced a major restructuring package including the increased use of cheaper overseas suppliers to save £450 million. This push will reinforce the importance of high social and environmental performance in the supply chain.

CASE STUDY

Case 2 Next

Next plc is one of the leading high street and home shopping brands, selling a combination of clothing and interior furnishings. The Next brand is targeted at the top end of the mass market for customers primarily in the 25-34 age bracket. Market share figures show that Next account for 2.8% of womenswear, 4.2% of menswear and 4.1% of the childrenswear markets in the UK. Next has been gaining market share since the mid-1990s, with a strong growth in profits during the first half of 1999.

In Next's case, it is the ethical dimension of supply that achieved prominence first, prompted by the Oxfam Clothes Code Campaign in 1996. David Jones, Chief Executive for the past 11 years, initiated a review of the company ethical trading policy. Since then, Next have been enthusiastic in building a partnership with Oxfam to develop an internal Code of Practice, seeking to identify common ground. The Code of Practice was issued as an internal document in August 1998, and is not yet in the public domain. The Code is based on a strategy of positive engagement with suppliers and seeks to ensure that all products sold in Next stores are produced in a clean, safe environment. The primary focus of the Code is on labour standards and covers issues such as health and safety, working time, remuneration, equality of treatment and child labour. Next have not sought to publicise the introduction of the Code and have also decided not to join the Ethical Trading Initiative—on the grounds that the company feels it is not yet ready. This low profile approach is founded on the company's stress on encouraging internal learning at this stage.

Next deals with about 300 suppliers across the whole business, who manufacture a diversity of products ranging from children's shoes to furniture. All suppliers have to follow the code regardless of product but it is recognised that different sectors are at different stages, emphasising the long-term nature of the programme. Next has buying offices in Hong Kong, Thailand, Sri Lanka and Indonesia, which are responsible for managing suppliers directly and therefore are all

also involved in the implementation of the code. In all cases, entering into a dialogue with supplier factories has proved much more effective than reliance on a signed declaration. The company's biggest supplier is Next (Asia) in Hong Kong; Asia is the biggest single area of manufacture and the country with the most suppliers is China. Extensive quality departments ensure that there are regular visits to factories—for example the Hong Kong office has a quality team of 40 people, which means there is virtually a constant presence of Next personnel in nearby factories. In addition, in May 1999 Next recruited for a new full time post based at the Hong Kong office to work with factories on implementation of the Code of Practice. Although Next are not members of the Ethical Trading Initiative, their experience in China will feed indirectly into the ETI Clothing pilot through their work with Oxfam. Next appreciates the importance of independent auditing of codes of conduct, but judges that the time is not yet ripe and that the benefits of third party auditing are not yet quantifiable.

On the environmental front, the company has a range of initiatives, but still lacks an environmental policy. Environmental issues are increasingly converging with the social aspects of the business—for example, in the realm of packaging—but this is yet to be formalised and is not in the remit of the Code of Practice. The adoption of sourcing specification for the textile production phase was driven by Next's presence in the German market. Again, the company does not specify the use of Oeko-Tex standard, although it was felt that most fabrics would meet its requirements. During the 'eco-fashion' phase of the early 1990's, Next began to work with Novotex, a Danish-based company who manufacture organic and regular cotton fabrics to high environmental standards. Next Ladieswear still buy from Novotex but the fibre is not necessarily organic. The high price of organic fibre remains a potential barrier to entry.

Looking to the future, protecting and promoting brand integrity will remain the central driving force behind social and environmental initiatives at Next. Next is confident that the Code of Practice will develop momentum as the



CASE STUDY

company learns and opportunities evolve. The company has found that new factories are now aware of the issues, whereas only five years ago this was not the case. Suppliers are also starting to drive their own developments instead of the demands coming only from the buyers.

Case 3 C&A

C&A is a privately owned company, established by Clemens and August (C&A) Brenninkmeyer in the Netherlands in 1841. C&A has had retail outlets in the UK for 76 years and now has 106 stores across Britain. The company trades in 13 European countries, while buying decisions and policy making are now controlled centrally. In 1996, C&A centralised its buying operations and has radically reduced its supply base from 2,800 to about 1,200. Because of further sub-contracting, the company recognises that in practice, it is using about 6,000 production units worldwide, whose identity and locations are in a permanent state of flux. In the UK, its customer profile reflects the make-up of the country in terms of age and social class. C&A maintains a wide range of own brand labels targeted at specific consumer groups: Canda, Clockhouse, Yessica, Westbury and Baby Club.

The adoption of social and environmental measures in C&A's UK operations has largely been driven by pressures in its home country, the Netherlands. C&A was selected as the first target of the Clean Clothes Campaign when it was launched in 1990 and this helped to prompt the launch of its first Code of Conduct for the Supply of Merchandise. Continuing criticisms about the vagueness of the code and the weak enforcement mechanisms contributed to a far-reaching change in focus with the relaunch of the Code and the establishment of an arms-length monitoring agency, Service Organisation for Compliance Audit Management (SOCAM). SOCAM has two main roles: first, to promote awareness of the Code; and second, to audit compliance. Although part of the C&A group, SOCAM is independent of the commercial operations at C&A. A core part of the Code is the right of SOCAM to make unannounced visits to pro-

duction units that supply C&A. Since 1996, SOCAM has made 4,000 inspections in India, the Far East, Europe and North Africa. As a result, 100 suppliers and/or importers and about 400 of their sub-contractors have been barred from doing business with C&A. Forty of the 100 suppliers/importers were allowed to resume business after submitting acceptable corrective plans. Almost two-thirds of all inspected sites were asked to improve their performance. Although C&A has a reputation for secrecy, SOCAM publishes an annual report of its activities to encourage transparency⁴⁴ and, through its website, encourages citizens to submit evidence of any breach of the Code.⁴⁵

Implementation of the code is a difficult and expensive operation. SOCAM has an annual budget of approximately \$3 million, and the task of auditing the full supply chain is complicated by a range of problems, notably when suppliers fail to disclose all their production units or fail to inform the units of SOCAM's role. C&A is sceptical of the value of using outside auditors and also believes that the methodologies used by independent accreditation agencies are not sufficiently robust at present. Compared with the ETI base code, the C&A requirements cover a narrower range of criteria, and do not include free collective bargaining, equality or working hours, for example. C&A justifies its approach by arguing for the need to "move steadily to improve conditions without imposing unrealistic expectations".⁴⁶

C&A has also taken a pro-active stance on environmental strategy compared with other retailers in the UK market. The goal of the company's environmental policy is "to become recognised by our customers and by the wider community, as one of the top five European retailers for environmental standards in fashion retailing". C&A was the first fashion retailer to obtain ISO14001 certification for its environmental management system in eight European countries, including the UK. C&A is also the only high-street fashion retailer to adopt the Oeko-Tex 100 standard, ranging from 33% for trousers and skirts to 77% for jeans and 98% for socks. By the end of 1999, the company aimed to have the Oeko-Tex label on all of its babywear range and all other gar-



Box 5 The C&A Code of Conduct for the Supply of Merchandise

The C&A code describes standards of business conduct which are considered to be fundamental in dealings with suppliers and universally applicable. These are:

- Supplier relationships: seek to develop long-term business relationships.
- Legal aspects: compliance with legal requirements and respect for intellectual property rights.
- Employment conditions: to ensure no child labour, no forced labour, wages fully comparable with local norms, and proper regard for health and safety.
- Environmental protection: working with suppliers to meet joint obligations.
- Freedom of association: employees to choose whether or not to join a labour organisation.
- Disclosure & inspection: suppliers must disclose all circumstances of production and use of sub-contractors, and give authorisation for the entry of SOCAM inspectors.
- Monitoring: standards of compliance are an integral part of day-to-day management.
- Sanctions: to end relations with a supplier found in breach of requirements.
- Corrective plans: business can only be re-established after a corrective plan has been submitted by the supplier and approved by C&A.
- Awareness & training: taking steps to ensure that all employees and suppliers are aware of requirements.
- Development of the code: the Code will be reviewed on a regular basis.

Source: C&A 1998

ments worn directly on the skin (eg swimwear, lingerie, socks). In the UK, C&A has published two environmental reports—largely for internal consumption—and has made considerable progress on the packaging front. Despite all this, C&A feel that they have yet to see any business benefits from their active stance on environmental policy. In the case of Oeko-Tex labelling, the company is planning a campaign to raise public awareness of the label. For the future, C&A recognises that “it is still a long way to get recognisable changes in production ecology in many developing countries”.⁴⁷

Case 4 Bhs

Bhs—formerly British Home Stores—is part of Storehouse plc and is a leading UK-based retailer of clothing, homeware products and food services. The company aims to compete on the strength of product quality, fashion and price, and clothing ranges are targeted primarily at women in their mid 30s. Like Marks & Spencer, Bhs has suffered a downturn in profits, and in November 1999, the company announced that Storehouse would be split into its component parts—Bhs and Mothercare.

Corporate culture plays a strong role in determining Bhs' approach to social and environmental policies. Bhs has adopted the term 'corporate citizenship', which covers, amongst other aspects, its programmes on social standards and the environment. The company believes that its philosophy of corporate citizenship must pervade all operations and cannot just be an add on. Three main business reasons lie behind the emphasis on corporate citizenship:

- **Responsibility towards customers:** There is growing evidence of positive links between consumer choice and corporate social responsibility—it is an area of performance which customers would notice by its absence.
- **Responsibility towards employees:** To be a world class company, Bhs needs to be able to recruit and keep high calibre personnel who want to work with a reputable company.
- **Cost effectiveness:** Analysis of life cycle costs have shown that improved environmental performance can also bring savings, for example, by achieving high levels of right first time textile production.

The company has also gone through a far-reaching consolidation of its supply base, cutting the number of suppliers to around a third. Although strategically unconnected, this has put the company in a stronger position to implement both social and environmental initiatives, and enabled it to form stronger partnerships with its suppliers.



The company started exploring a co-ordinated environmental programme back in 1994. This was further developed into an environmental policy for the Storehouse group in 1996, covering both Bhs and Mothercare, and focusing on six major initiatives: packaging; distribution; energy efficiency; products and suppliers; stores; and general housekeeping. A new Environmental and Customer Health Code of Practice on dyeing, finishing and printing was launched in early 1999, and was developed in partnership with Bhs key fabric and dyestuff suppliers. The code lays out requirements for the use of approved dyestuffs, discharges of dangerous substances, as well as the use of formaldehyde, pentachlorophenol and chlorine. The code views regulatory compliance as a basic requirement and calls for suppliers to have systems in place to manage their environmental performance. Although Bhs encourages its suppliers to introduce an environmental management system, it does not require accreditation to ISO14001. Nine fabric supply routes are now working with Bhs in a closely monitored trial of the requirements and they will be involved in a review of its implementation. Progress in these areas is reported in the Storehouse Annual Report and Accounts.

The Code applies equally to all of Bhs' fabric sourcing and the company sees no commercial advantage in developing niche clothing ranges on environmental grounds. The company does not use the Oeko-Tex system, although most of its requirements are already met by the Code of Practice. Furthermore, Bhs believes that there would be scant commercial benefit as UK consumers have little or no awareness of the Oeko-Tex label. In order to eliminate the polluting dyeing process altogether, Bhs has been working with a supplier of pre-coloured cotton, but further developments are needed on the finishing and production side. Feedback from wearer trials suggested that the fabric was harsh by comparison with conventional cloth, tended to shrink and the colours were not as bright.

Packaging has also been a prominent issue in terms of supply chain management. The introduction of the UK packaging regulations has prompted a series of innovations. Suppliers

were required to provide data for the packaging audit needed to gain compliance. In addition, a reusable plastic transit seal for hanging garments has been introduced which has considerably reduced volumes of waste plastic. In addition, Bhs has reduced the number of plastic garment hangers in use, partly due to the increase in folded garments, while the proportion of recycled hangers has grown to 30% in 1998/9 from a base of just 3%. Working more closely with suppliers to improve distribution methods and transit packaging specifications have helped to cut the amount of damaged goods entering Bhs stores by 27%.

The Storehouse group has also recently updated its existing code of business ethics—covering such issues as gifts, entertainment, sourcing, employee relations—and produced an Ethical Sourcing Code of Practice, focusing on labour standards in the supply chain. The Code covers many of the core issues included in the ETI's base code (see Box 4).

Within the group, there have been discussions on integrating the social and environmental aspects of supply chain

Box 4 Storehouse plc Ethical Sourcing Code of Practice

"To ensure that we fulfill our corporate citizenship responsibilities and through them, protect our brands and commercial success, it is essential that the values and beliefs we hold internally be extended into all components of our supply chain"

1. Health and safety: suppliers must provide a safe place of work.
2. Equality of treatment: suppliers must treat employees fairly and without discrimination.
3. Employment of children: suppliers must not employ children under 15 and should support education for existing child workers.
4. Forced labour: No bonded or forced labour is allowed.
5. Disciplinary practices: suppliers must not use corporal punishment or any form of mental or physical abuse.
6. Freedom of association: suppliers shall provide rights of free association under national laws.
7. Working hours: hours of working must comply with national laws.
8. Compensation: wages and other benefits must meet or exceed national legal standards.
9. Bhs and Mothercare will monitor suppliers' performance, and adherence will form part of the evaluation process from which future business is determined.

Source: Storehouse plc⁴⁸

management, but at the moment the two dimensions have been kept separate. Nevertheless, Bhs does see many similarities between the social and environmental aspects of production and quality, notably on the need for clear guidelines on the standard required and the procedures required to reach that standard. Both social and environmental initiatives may also require technical support from Bhs and should involve a commitment to continuous improvement whatever the starting point.

To date, the bulk of Bhs' efforts have been focused internally. Neither the corporate environmental policy nor the ethical sourcing code contains commitments to public reporting or transparency. A short update of environmental issues was included in the 1999 Annual Report, but the company has not published a dedicated environmental report and there are currently no plans to acquire accredited management systems for environmental or social issues. In addition, the company does not have point of sale information for consumers on social and environmental issues. Although the company stresses the importance of 'corporate citizenship' in protecting and building its brands, it is cautious about taking a high-profile stance and creating hostages to fortune. In the future, the degree to which Bhs moves towards the value end of the market is likely to be a major determinant of the priority attached to social and environmental concerns. As part of the Bhs turnaround plan, prices will be cut by 15% in 2000 and a supply chain project will be put in place to increase direct buying and reduce costs.

CASE STUDY

Case 5 Littlewoods

The Littlewoods Organisation is a privately owned company made up of Littlewoods Leisure, a scratchcard and pools business, and Littlewoods Retail. The retailing business is perhaps best known for its catalogue, which was well established long before the recent surge in popularity of home shopping, and sells a broad range of its own branded goods—such as Definitions and Style Unlimited—as well as other brand names from the Arcadia group (Dorothy Perkins, Top Shop, Evans and Principles), Benetton and well known

jeanswear names. Core customers for the catalogue are women in the 25-50 age range.

Littlewoods' social and environmental programmes are of relatively recent origin. It issued a Code of Conduct for the Supply of Merchandise in January 1998, covering both ethical and environmental standards, with provisions for monitoring and sanctions, and the company is also a member of the Ethical Trading Initiative. Compliance with the Code is considered as a continuum, rather than in terms of pass or fail. Littlewoods believes the key in meeting the required standards is in the development of partnerships, where both parties work together to achieve improvements over a pre-determined timescale. Business will only cease with suppliers who refuse to plan and implement improvements, and so far there has only been one case of this. However, Littlewoods report that the supplier in question later agreed to comply with the retailer's requests and in the end business was continued. Over the next two years, the company is seeking to cut its supply base by half to about 1,000, and one of the criteria that will be used is ethical performance.⁴⁹

Littlewoods is seeking to evaluate compliance with the Code of Conduct through two routes: first, by conducting its own pilot studies in at least eight countries, and second, by working with the Ethical Trading Initiative on the China Clothing Pilot, which is co-ordinated by Littlewoods. Pilots have already been completed in India, Bangladesh, Thailand and the UK, and there are plans to add Indonesia, Singapore, Turkey, Malaysia, Dubai and Romania by the end of 1999. Wherever possible, Littlewoods plans to include hard goods suppliers in the pilots in addition to garment factories. The Littlewoods pilots have been carried out in conjunction with local NGOs in order to add local knowledge and credibility to the process; it also results in the local NGO being assigned improvement projects where major non-compliance is found. The actual audits involve interviews with employees—both from the factory floor and management—and an examination of factory licences and employee records. Action plans are drawn up following the audit. Feedback



from the suppliers so far suggests that the process can be non-intrusive, non-disruptive and lead to real improvements coming from the recommendations.

Although the Code of Conduct covers the environment, the development of environmental programmes is at an early stage compared to the activity on labour standards. An environmental policy statement has recently been published for the whole group. The environmental programme focuses on waste management, packaging, energy, transport, sourcing and procurement, where the sourcing element represents the overlap with the code of conduct. While Littlewoods is always impressed if a supplier has achieved standards such as ISO14001, this is not a requirement or a major driver, and it is felt that accreditation might be beyond the means of small companies because of the costs involved.

At present, Littlewoods is not communicating its social or environmental programmes to customers or the wider public: the catalogue for Spring/Summer 1999 made no reference to either. So far, an environmental report has been produced only for internal use, and there are also plans for a social report. According to the company, as the media continues to apply pressure, consumers are likely to become more, not less, aware of sustainability criteria in garments.

Assessing progress

From these five case studies, it is clear that action on social and environmental responsibilities is still relatively new in the clothing retail sector. But the situation is fluid and fast-moving, with evidence that some companies may be moving out of a reactive and into a more strategic mode. Table 5 summarises the progress to date in the five profiled companies.

Table 5 Comparing corporate programmes

	Marks & Spencer	Next	C&A	Bhs	Littlewoods
Social					
Code of conduct	Global sourcing principles (1999)	Code of practice (1998 - internal)	Code of conduct for the supply of merchandise (1996)	Ethical sourcing code (1999)	Code of conduct for the supply of merchandise (1998)
ETI Membership	Yes	No	No	No	Yes
External Monitoring	No	No	Yes–‘second party’ through SOCAM	No	No
Environmental					
Policy	1997	No	1996	1996	1999
EMS	Internal	No	ISO14001 (1996)	No	No
Sourcing	Dyeing, finishing and printing (1993)			Environmental and consumer health (1999)	
Reporting	Brochure (1997)	No	2nd Environmental report (1998)	Section in Annual report	No
Labelling	No	No	Yes–Oeko-Tex	No	No

Looking across the five critical success factors for corporate sustainability identified at the beginning of this section, a number of lessons emerge:

- **Commitment:** Social and environmental measures appear to be moving away from being viewed solely as technical or public relations issues. The commitment of chief executives is evident in a number of company initiatives, for example, at Marks and Spencer and Next. But there is little evidence as yet of board-level commitment to the philosophy of sustainable development as an integrated whole, or of the shift in corporate values that this involves.
- **Dialogue:** Clothing companies are starting to open up and engage in dialogue with development organisations and other NGOs—an example of this is Next's work with

Oxfam—and are also taking a prominent role in the Ethical Trading Initiative. There is also an almost unanimous emphasis on the importance of partnerships with suppliers. As with all partnerships, the test will be how conflicts of interest and trade-offs between competing objectives can be resolved effectively and equitably.

Photo: C&A



Raising consumer awareness is critical

- **Accountability:** Clothing retailers now accept some degree of responsibility for labour and environmental conditions along the supply chain. However, the breadth and depth of this commitment is less clear-cut. While some companies have adopted extensive environmental requirements for textile production—notably Marks and Spencer—most are focused on the direct consumer health issues raised by the use of hazardous substances from fabrics; none have yet accepted a share of responsibility for the impacts of fibre production. And in terms of labour

standards, there are important differences of approach and content in the various codes that have been adopted.

- **Communications:** This is perhaps one of the weakest areas in all the companies reviewed, with only C&A making a concerted effort to report publicly on the implementation of its Code. The stance remains defensive, fearing that greater openness could lead to a media or consumer backlash. This is also mirrored in the reluctance to consider independent verification or participate in labelling schemes.
- **Innovation:** There is a dawning awareness of the business case to be made for sustainable development—although the most assertive company, C&A, has yet to see financial benefits of its actions. Commercial caution is strongly present, and there is a reluctance to make social or environmental aspects an issue of competitive advantage.

Currently, two main forces are driving change towards sustainability in the British rag trade. The first is domestic public opinion, as expressed through NGO campaigning and media *exposés*. The second and more complex is the introduction into the UK of policies and approaches required in other markets. The UK is still generally a laggard on environmental policy, and it is perhaps no surprise that it is a Dutch-owned company, C&A, that has moved furthest here. An example of another continental European company that has a reputation as a pioneer is Otto Versand, one of Germany's leading mail-order houses (see Box 6).

Box 6 Otto Versand

A family-owned enterprise, Otto Versand is the world's largest mail-order business with a turnover of DM7 billion and a catalogue now running to 1,400 pages, containing more than 25,000 different products. Otto recognises that it shares responsibility for a range of environmental problems along the value chain, notably in the way it allocates contracts for the manufacture of products, the way it transports its goods, the production of its catalogues, as well as through its packaging and advertising. In the clothing sector, four key priority measures have been identified:

- **Product safety:** Here, the goal is to offer clothing optimised in terms of product safety (human ecology) by ensuring compliance with strict requirements on the use of hazardous substances, similar to the Oeko-Tex Standard. About 19% of its textile range now carry Otto's own label guaranteeing safety to consumers. The goal is for 50% of the whole range to be tested in the 1999 Autumn/Winter range. Critical to this has been the recent introduction of a Market Qualification scheme, which enables suppliers to become 'ecologically approved', thereby avoiding the need for the testing of individual products to receive the label. This saves costs and eases contract procedures.
- **Textile manufacture:** The target for textile manufacture (production ecology) is to enhance energy and water conservation, as well as to eliminate chlorine bleach, optical enhancers and heavy metal dyes. Otto launched its own label, the Future Collection, in 1993 to promote these measures. But by 1997, only 1.3% of clothing products were sold with this label—although about 6% of ladies' outerwear garments carry the label, and the company aims to expand this to 10% by the end of 1999. It now plans to extend the 'ecologically approved supplier' approach to this area as well.
- **Organic production:** Otto has also identified the need to offer its customers cotton clothing optimised throughout the chain, notably through organic production. From 1997, Otto has had organic clothing in its catalogue. Linking up with the Maikaal project in India, Otto provides additional 'fair trade' provision in terms of higher prices and quantity guarantees. Otto sold 200 tons of organic cotton in its spring/summer 1999 season, and aims to use 1,000 tons of organic cotton in the medium-term.
- **Recycled textiles:** Although Otto has identified the need to reduce waste when clothing is disposed of, it has not been able to develop any commercially viable concepts for the re-use of recycled textiles.

At a corporate level, Otto was the world's first mail-order firm to gain ISO14001 certification in 1997 and this has been supplemented by the award of the EU Environmental Audit certificate for the company headquarters in Hamburg. Otto has also adopted a code of conduct for labour issues, and is committed to implementing the SA8000 standard in its supply chain. Finally, Otto published an extensive environmental report in 1998, giving both targets and performance measures.⁵⁰ In the UK, Otto currently own the Grattan catalogue and have successfully bid for Freemans catalogue.

5 Inspiring change

Taking stock

Bringing the textile and clothing business into line with imperatives of sustainable development is a complex and long-term task. Leading clothing retailers have started to introduce a range of policies and programmes that address aspects of the sustainability imperative. Most of these initiatives have been installed in the past two years, and the situation is still in a state of some flux. Despite tough business conditions, most leading companies now recognise the need to press ahead with their existing social and environmental programmes as a core part of business strategy.

Looking back, the British market has been influenced by two main waves of pressure to improve its social and environmental credentials. The first 'green' wave grew around the time of the 1992 Earth Summit, and was characterised by the emergence of the 'natural fashion' trend. Like all fashions, this proved short-lived and the proportion of clothing now sold on environmental grounds in the UK is insignificant. But the drive to improve the environmental quality of the textile chain did not stop and many of the market leaders have introduced policies to reduce toxic hazards for consumers, in nearly all cases without communicating this in the marketplace. This green trend has proved more enduring elsewhere in Europe, notably Germany, where a combination of public awareness of the health and environmental problems and entrepreneurial initiative have led to a small, but growing, niche market.

In the mid-1990s, environmental concerns were superseded by the 'ethical wave', driven by NGO campaigns and media exposure of poor labour standards in garment assembly. A growing number of clothing retailers have now adopted

"All persons are caught in an inescapable net of mutuality tied to a single garment of destiny. What affects one directly, affects all indirectly."

Martin Luther-King

codes of conduct and the Ethical Trading Initiative has been established as a means to share experience on implementation of these codes. Pressure on retailers for ethical standards remains high and is likely to stay so for the foreseeable future.

But these twin pressures do not yet add up to a clear vision of how the textile and garments business should contribute to the broader goal of sustainable development—either at home or in its intensifying web of relations with suppliers in the developing world. Indeed, unlike other manufacturing and service sectors, the clothing market has yet to explicitly adopt sustainable development as its frame of reference for corporate responsibility, and so risks falling behind government strategy, public values and business best practice elsewhere. The extent to which the sector will shift in the future depends largely on four key trends:

a. Market dynamics: Competitive pressures are mounting in the rag trade, hitting market leaders and others. Globalisation and technological change are forcing a powerful downward pressure on costs. Recent entrants to the UK, such as Gap and Wal-Mart, challenge existing companies at both the quality and value end of the market. Equally, innovation on environmental issues is also coming from a combination of foreign-based firms and/or British firms operating in other markets. Looking ahead, electronic commerce could well transform existing relationships with both suppliers and customers. These pressing business issues heavily determine the ways in which companies tackle the sustainability agenda—notably by linking it to brand value and reputation.

b. Pressures for change: Rising public expectations of corporate responsibility are the primary force for corporate action. These have been mobilised with great effect by development organisations and the media to press for improvements in social conditions. Public policy plays a secondary role, except in the issues of toxics reduction and packaging. This could be a consequence of earlier ineffective efforts to stimulate demand for environmental goods through the EU eco-label, combined with the current pre-

sumption in favour of voluntary action by business. Nevertheless, government still has considerable convening power, and can help stimulate new partnerships, such as the ETI, for example.

c. Addressing the life cycle: Understandably, most retailers have so far focused on the issues closest to home which fall within the scope of 'due diligence' such as consumer health. However, there does appear to be a shift towards a more comprehensive approach taking in the garment assembly and textile production phases. Social and environmental dimensions are still managed in parallel in many companies. But there are some signs of a convergence in corporate programmes. As the programmes develop, such convergence may become more necessary to enhance effectiveness and efficiency. Some noticeable gaps remain, however. On the environmental front, the fibre production stage—particularly cotton cultivation—has yet to receive wide attention, while on the social side, only the labour conditions of garment workers have been addressed. Full life cycle responsibility is likely to emerge as a critical challenge in coming years, and will require an imaginative leap from many companies.



Photo: Joerg Boethling/Still Pictures

Organic realities, India

d. The business response: Leading clothing retailers have largely adopted a defensive strategy, introducing programmes to assure themselves and their brands against external critique. In addition, the response is company by company—reflecting corporate culture and market position—rather than sector-wide. In essence, it is through brands and not independent labels that companies wish to focus their attention. No company has yet sought to make social or environmental performance a factor in their marketing efforts, unlike food supermarkets on organic issues. Levels of consumer information are low, and the only company with point of sale labelling, C&A, has this because of a corporate level commitment reached in the Netherlands. However, the public may not always take company claims on

trust and may start to require, as in other sectors, proof of performance. And signs are emerging that environmental aspects could become a competitive issue in the future, particularly in the case of organic cotton.

Implications for suppliers

These shifts in the UK market have a number of important implications for suppliers in the developing world.

- 1. Deepening of international sourcing:** UK retailers are both increasing international sourcing and also concentrating their supplier base with a smaller number of larger, high quality producers. The drive to international sourcing will intensify with the phase-out of the Multi-Fibre Arrangement.
- 2. Centrality of reputation management:** Retailers are driven by the need to protect and enhance their brand reputation. As a result, social and environmental aspects are increasingly becoming essential elements in supplier selection.
- 3. Costs and benefits:** Supplier compliance with codes of conduct is a basic requirement for market access; there is no evidence of premium prices being paid for high social or environmental performance. As a result, suppliers will need to introduce improvement programmes in ways that deliver productivity gains, for example, through resource conservation.
- 4. Supply chain partnerships:** As companies increasingly compete on the effectiveness of their supply chains, so partnerships are becoming increasingly important. This is equally the case with the sustainable development agenda, particularly in the early stages, as companies seek to explore the boundaries of what is both desirable and deliverable. The nature of these partnerships is of critical importance for how the costs and benefits of change are distributed.

Making the transition

Experience in other retail sectors suggests that two key factors need to be present for serious action on sustainable development to take place: first, there needs to be an issue that resonates with both business and public concern; and second, there needs to be impetus within the sector, usually with a market leader willing to make sustainability a competitive issue. Both factors have been present in the UK 'do-it-yourself' market in the case of timber products, where high public awareness about deforestation, combined with the efforts of B&Q, have made forest certification increasingly common practice.

To date, labour standards in garment production is the closest the rag trade comes to an issue that has mobilised broad-based change. Environmentally, there is no comparable issue to deforestation as yet—although there are signs that organic cotton could emerge as an important market issue.

Building on the progress that has already been made, six priorities have emerged for action in the years ahead.

1. Vision: Achieving sustainability is a long-term task and the rag trade needs to develop a strategic vision of their contribution to sustainable development, both nationally and globally along the supply chain. Scenario planning and other tools, such as Future Search, can help to project alternative futures for businesses and assess the changes required in current practice. In the Netherlands, the Ministry of Environment has hosted a scenario workshop on the 'sustainable consumption of clothing', which identified critical life cycle environmental issues and key stakeholder priorities.⁵¹

2. Entrepreneurial leadership: Movement in the market requires leadership, and although companies operating in the UK are starting to move ahead of regulatory requirements, much of the action to date has been defensive. A virtuous cycle of innovation is required that rewards those who 'stick their heads above the parapet'. Globally, most of the pace-setting companies, such as Co-op Schweiz, Hess Natur and

Patagonia, are relatively small, and broad-based change will require action by a market leader. The way in which the high street retailers react to the challenge of organic clothing could provide an important signal.

3. Awareness raising: Raising consumer awareness of the social and environmental issues that lie 'behind the label' remains a priority. This will require new tools, using a range of media, to encourage consumers to make the imaginative leap that links their purchasing choices to social and environmental conditions on the other side of the planet. For companies, there is also a need to anticipate potential consumer concerns, such as genetically modified cotton. Again, other countries show what is possible, and in the Netherlands, the Alternative Consumers Association and the Dutch Foundation for Nature and the Environment have recently launched an initiative to promote organic cotton and establish a leadership group among retailers.

4. Collective action: To date, most efforts to improve performance have been taken by individual companies. But the issues are common, and the reputation of the sector can suffer from poor performance by one of its members. Although clothing companies participate in ventures such as the Ethical Trading Initiative, there is still no common platform for clothing retailers to develop and project a strategy for sustainable development. Models exist in the manufacturing sector of successful collective programmes, most notably the chemical industry's Responsible Care initiative, as well as the Assured Produce scheme for food supply. New opportunities for a collective approach could also emerge from the UK government's support for sectoral initiatives to tackle the sustainability issues of consumer products.

5. Transparency: Markets work best for sustainable development when flows of information on social, economic and environmental performance are transparent. But open access to information on corporate policies and performance on sustainable development is still a long way off in the 'rag trade'. Few companies report publicly on their actions in full, and little information is available to consumers at point of

sale. The details of supplier specifications are often confidential. A culture of transparency needs to be reinforced through the provision of clear, objective information on the social and environmental impacts of clothing products: here, the internet could be used more forcefully both to project company activities, and also to receive feedback on stakeholder concerns.

6. Supply chain partnerships: Globalisation has long been a reality in the 'rag trade' and competitive pressures are now forcing more and more production into the developing world. This process needs to be carefully managed to ensure that it is both environmentally sustainable and delivers social justice along the supply chain. Clothing retailers already stress the importance of partnerships with suppliers to deliver social and environmental improvements, but more could be done to ensure that the distribution of the burden of change is fair: many producers fear that social and environmental improvements are being demanded without any improvement in the terms of trade. Here, workshops with developing country producers could help to develop a shared agenda for change.

References

1. The Performance Group and Consortium Partners (Deutsche Bank, Electrolux, Gerling, ICI, Monsanto, Unilever and Volvo), *Sustainable Strategies for Value Creation: Reflections from a Learning Journey*, Oslo, 1999.
2. N. Claire Meader, *Greening the Textile Supply Chain*, speech to Pollution Control '97, Thailand, November 1997.
3. N. Claire Meader, *ibid.*
4. Ritu Kumar, *Responding to Global Standards*, UNIDO, Vienna, 1998.
5. *Drapers Record*, *Battle for the Playground*, October 1998.
6. T. Bhamra, J. Heeley and D. Tyler, *A Cross-Sectoral Approach to new product development in The Design Journal*, Vol 1., Issue 1, 1998.
7. *1999 Corporate Intelligence, Retail Rankings 1999*, London, 1999.
8. *Verdict on Clothing Retailers*, London, 1998.
9. CAFOD, *Fashion Victims*, London, 1998.
10. G. Gereffi, *The organisation of buyer driven global commodity chains: How US retailers shape overseas production networks*, in G. Gereffi & M. Korzeniewicz (eds), *Commodity Chains and Global Capitalism*, Praeger Publishers, Westport, 1994.
11. Institute for Development Studies, *Trade Protection in the Textil and Clothing Industries*, *Trade and Investment Background Briefing No 4*, University of Sussex, 1999.
12. K. Von Moltke et al, *Global Product Chains: Northern Consumers, Southern Producers and Sustainability*, UNEP, Geneva, 1998.
13. Gereffi, *ibid.*
14. Gereffi, *ibid.*
15. CAFOD, *ibid.*
16. From Clean Clothes Campaign website, <http://www.cleanclothes.org>
17. *Drapers Record*, *Realise hidden costs of overseas sourcing*, 10 April 1999.

18. Permanent Peoples' Tribunal, Session on Workers and Consumers Rights in the Garment Industry, Brussels, April-May 1998
19. DWI, Establishment of Ecological Criteria for Textile Products: Environmental Assessment, Aachen, 1998.
20. Dorothy Myers and Sue Stolton (eds), *Organic Cotton, Intermediate Technology*, London, 1999.
21. Enquete Commission of the German Bundestag, *Responsibility for the Future, Options for Sustainable Management of Substance Chains and Material Flows*, Economic Verlag, Bonn, 1994.
22. Stephen Cox, *Selling Eco-Textiles*, in *GATE*, September-November, March 1999.
23. Centre for the Promotion of Imports, *Environmental quick-scan of textiles*, Rotterdam, July 1998.
24. Commission of the European Communities, *Proposal for a Directive on the Marketing and Use of Certain Dangerous Substances: Azocolourants*, COM (1999) 620 final, Brussels, 1999.
25. Myers and Stolton, *ibid.*
26. Tariq Banuri, *Pakistan: Environmental Impacts of Cotton Production and Trade*, in Von Moltke, *ibid.*
27. Myers and Stolton, *ibid.*
28. DWI, *ibid.*
29. DWI, *ibid.*
30. Quoted in Nick Robins, *Citizens' Action to Lighten Britain's Ecological Footprint*, IIED, London, 1995.
31. Fran Adams, *£1.50 an hour wages in Britain's factories of fear*, *The Independent*, 27 September 1999.
32. Department of the Environment, Transport and the Regions, *Consumer Products and the Environment*, London, October 1998.
33. Department of the Environment, Transport and the Regions, *A Better Quality of Life: A Strategy for Sustainable Development for the UK*, London, 1999.
34. DETR, 1998.

35. DETR, Response to Consumer Products and Environment Consultation, August 1999 on <http://www.environment.detr.gov.uk/consult/consumerprod/response/>
36. Labour Behind the Label website, <http://www.traidcraft.co.uk/labour.htm>
37. Quoted in Nick Robins and Sarah Roberts, *Unlocking Trade Opportunities*, IIED, London, 1997.
38. UNCTAD, *Profiting from Green Consumerism in Germany: Opportunities for Developing Countries in Three Sectors: Leather and Footwear, Textiles and Clothing and Furniture*, Geneva, 1999.
39. Based on speeches by Roland Sturm, *Steps out of the Eco-Niche*, Berlin, October 1999, and Ute auf der Bruecken, *Why David succeeded over Goliath*, Florence, October 1999.
40. Consortium Group, *ibid.*
41. Marks & Spencer, *The Environment*, London, 1997.
42. Sustainability/UNEP, *The Non-Reporting Report*, London, 1998.
43. Marks and Spencer, *Global Sourcing Principles*, London 1999.
44. SOCAM, 1998 Annual Report, Vilvoorde, Belgium, May 1999.
45. www.fashion-lifestyle.com
46. SOCAM, *ibid.*
47. Jochen Overmeyer, *Ethical Sourcing*, speech to CDG International Business Forum, Berlin, October 1999.
48. Storehouse plc website, <http://www.storehouseplc.com>
49. Littlewoods steps up pressure on suppliers in *Ethical Performance*, May 1999.
50. Otto, *Environmental Report and Environmental Declaration*, Hamburg, 1998.
51. E.W.J.T Nijhuis and A.F.L Slob, *Scenarios and Environmental Strategies*, 8th International Greening of Industry Network Conference, June 1999.