Geoforum 47 (2013) 73–83

Contents lists available at SciVerse ScienceDirect

Geoforum

journal homepage: www.elsevier.com/locate/geoforum

The making of a 'business case' for environmental upgrading: Sri Lanka's eco-factories

Annelies Goger

Department of Geography, University of North Carolina at Chapel Hill, Saunders Hall, Campus Box 3220, Chapel Hill, NC 27599-3220, United States

ARTICLE INFO

Article history:
Received 10 August 2012
Received in revised form 13 March 2013
Available online 22 April 2013

Keywords:
Global value chains
Ethical trade
Environmental upgrading
Apparel
Sri Lanka

ABSTRACT

There is a growing emphasis on environmental sustainability and 'business case' approaches in corporate social responsibility programs. As part of an effort to become a world leader in sustainability, British retailer Marks and Spencer (M&S) piloted more environmentally friendly apparel factories. This paper examines the politics of environmental upgrading in Sri Lanka, where suppliers for M&S built three of 'the world's first' apparel eco-factories in 2008. Drawing on multi-sited, meso-level research in Sri Lanka and the United Kingdom, I investigate how and why these factories originated in Sri Lanka and how a business case for environmental upgrading was formulated. However, despite cost savings and exceptionally favorable circumstances for environmental upgrading in Sri Lanka, I found that suppliers were ambivalent about whether there was a sufficient business rationale for investing in environmental upgrading. Therefore, I argue that the business case for environmental upgrading is limited by the lack of mechanisms for ensuring that suppliers can obtain a return on investments. Contributing to debates about ethical trade and upgrading in global value chains (GVCs), this case suggests that power dynamics in GVCs shape the extent to which suppliers can capture a share of the gains from environmental upgrading that is proportional to their share of investment in upfront costs.

1. Introduction

> You might have heard about the paradigm shift: how companies have moved away from philanthropy into corporate social responsibility, and now it's about sustainability and it's about—it's just making a lot of business sense as well. And they see it not as a branch or as a thank you, give back to society, but it's an integral part of being a company operating in society.

The speaker above, a corporate social responsibility (CSR) manager in a large garment company in Sri Lanka, used the words 'paradigm shift' to convey how her job has changed over the last 5 years. The old paradigm emphasized philanthropy and achieving a basic level of compliance with international standards, while the new paradigm is about 'business case' CSR. Put simply, the business case perspective frames CSR as an opportunity to generate 'shared value' rather than seeing CSR as a burden or a cost (Porter and Van der Linde, 1995; Porter and Kramer, 2006). In other words, this business case perspective has become a strategy for ensuring that CSR is 'paying its own way' (Carroll and Shabana, 2010). Business case approaches to CSR have especially proliferated since the global economic crisis of 2008, which intensified competition and spurred buyers and retailers (hereafter referred to as 'buyers') to align CSR activities more with core business functions.

There is also a growing emphasis on environmental sustainability in CSR initiatives, in part because of its cost-saving potential in manufacturing processes (Dauvergne and Lister, 2012). British buyer Marks and Spencer (M&S) has staked out a leadership position in this shift, seeking to become, 'the world's most sustainable major retailer by 2015' (Grayson, 2011:1017). When M&S launched a CSR initiative called 'Plan A' in 2007, it used a business case logic. M&S staff broke Plan A down into specific measurable elements, targets, and results so that they could make a compelling business case for internal and external stakeholders (shareholders, employees, suppliers, and customers) that Plan A was saving, not costing the company money.

As one of the first Plan A projects in 2007, M&S employees decided to pilot four[1] model environmentally friendly factories for apparel, referred to herein as 'model eco-factories'. M&S employees sought a set of 'win–win' (environmentally friendly and cost saving) 'greening' practices that they could use as a benchmark for their entire apparel global value chain (GVC)—the global network of suppliers and intermediaries that produces clothing for M&S. So far, from the perspective of M&S, Plan A and the model eco-factories have been a great success. The company expanded Plan A in 2010, and

E-mail address: annelies@unc.edu

[1] This included two in Sri Lanka, one in China, and one in the United Kingdom.

0016-7185/$ - see front matter © 2013 Elsevier Ltd. All rights reserved.
http://dx.doi.org/10.1016/j.geoforum.2013.03.006

it now certifies eco-factories with protocols developed from the four model factories noted earlier. But what happens when you look beyond the buyer? For whom exactly is there a business case for environmental upgrading in the GVC?

Environmental upgrading appears to have delivered competitive advantages for the model eco-factory suppliers in Sri Lanka, boosting their reputation for sustainability leadership and establishing a baseline for green apparel manufacturing. However, the model eco-factories were built by firms that had substantial financial and managerial resources to invest in it, that were well positioned to benefit from early mover advantages, and that (at the time of research) had not yet recouped their investments. Because suppliers are disproportionately bearing the costs and risks of investments in environmental upgrading in an unstable and intensely competitive trade landscape, I argue that the broader business case for environmental upgrading is limited. Furthermore, there is a danger that environmental upgrading will contribute to further consolidation in domestic apparel sectors worldwide (Staritz, 2011), as buyers use environmental upgrading to get a lower price from suppliers and benefit from a 'green' image at the same time (Barrientos, 2013; Ruwanpura and Wrigley, 2011; Tokatli et al., 2008).

Using three model eco-factories in Sri Lanka as case studies, this paper analyzes the politics of environmental upgrading in the early stages of implementation in apparel GVCs. Two of these factories were built in partnership with M&S, and the third was built independently by another supplier. Given that these model eco-factories are among the first 'green' apparel factories in the world, this research sheds light on how and why they came about in Sri Lanka and for whom there was a business case for environmental upgrading. In doing so, it addresses significant gaps in the literature pertaining to recent shifts in CSR and ethical trade practices. There is a scarcity of research on how environmental upgrading in GVCs shapes buyer–supplier relations and supplier competitive advantage (exceptions include Jeppesen and Hansen, 2004; De Marchi et al., 2012, especially in the apparel industry. Moreover, the business case claims by buyers and ethical trade organizations remain largely unexamined in the ethical trade literature. This case suggests that supplier buy-in cannot be assumed *a priori* in business case approaches to CSR, even with the cost-saving potential of environmental upgrading. Contributing to a growing critical literature on upgrading in GVCs, I also suggest that the gains from environmental upgrading may not be adequately shared with suppliers and that the gains that are shared are likely to erode as the practice becomes more commonplace (Brewer, 2011; Schrank, 2004; Tokatli, 2012).

After situating the case in the ethical trade and upgrading literatures in sections two and three, section four examines how and why M&S and Sri Lankan suppliers invested in environmental upgrading. I show that a series of place-based factors, firm characteristics, a pre-crisis economic landscape, and early-mover advantages made it possible for the model eco-factories to make 'business sense' to the suppliers that built them. Section five steps back to take a broader look at sector-wide dynamics, examining a debate between buyers and Sri Lankan suppliers over 'who pays' for environmental upgrading. I show how M&S employees are trying to 'change the mindsets' of suppliers in order to promote environmental upgrading. However, suppliers in Sri Lanka are still ambivalent about environmental upgrading. Although they see the importance of environmental stewardship and reducing energy costs, many are concerned that the returns on investment in environmental upgrading are too uncertain for suppliers for it to make business sense. Overall, this research suggests that making a business case hold throughout a supply chain depends not only on the creation of a new surplus but also on how much the surplus is distributed throughout the chain—and what mechanisms are in place to do so.

This paper draws on fieldwork from a larger study, for which I conducted a total 9 months of field work in Sri Lanka and 4 months in the United States (US), European Union (EU), and United Kingdom (UK) from 2008 to 2011.[2] M&S and Sri Lanka were selected because they represent a revelatory, novel case of eco-friendly upgrading in apparel industry production networks (Yin, 2003). Using a meso-level analysis in the larger project, rooted in the global commodity chains frameworks (Gereffi et al., 1994), enabled me to understand how environmental upgrading was debated in the broader industry sector, rather than restricting the analysis to firms that built model eco-factories. In addition, multi-sited fieldwork in the UK with M&S staff and ethical trade organizations and in the US with globally active environmental organizations enabled me to analyze the global dynamics of environmental upgrading in geographically dispersed GVCs (Burawoy et al., 2000; Freidberg, 2001).

I conducted 131 key informant interviews (including 65 with apparel industry managers in Sri Lanka from nine different companies), factory visits of 1–5 days, and participant observation at five ethical trade conferences.[3] Participating in the Sri Lankan Design Festival was particularly useful for observing panels and debates in Sri Lanka that were specifically about environmental upgrading and ethical trade. The interviews ranged in length from 30 min to over an hour-and-a-half, and there were many opportunities for informal conversation with mid-level managers. I visited the three model eco-factories and six other factories in Sri Lanka to conduct interviews, observe manufacturing practices, and gather secondary materials. The factories and management participants were strategically selected to include a range of firm sizes, companies, and levels of seniority. To protect privacy and prevent harm, I have omitted all participants' names and refer to the model eco-factories as Plants A, B, and C.

2. Business case corporate social responsibility and the environmental turn

The growing emphasis on business case CSR is, in large part, a response to criticisms of the voluntary codes and monitoring ('compliance') systems that buyers implemented to address 'governance failures' in global supply chains such as child labor and hazardous working conditions (Esbenshade, 2004; O'Rourke, 2003; Pearson and Seyfang, 2001). Many activist groups and academics asserted that, even though compliance systems had become the dominant approach to re-regulating apparel GVCs in an era of globalization, monitoring alone is insufficiently effective to address the root causes of supplier non-compliance (Barrientos and Smith, 2007; Esbenshade, 2004; Hale, 2000; Nadvi, 2008; O'Rourke, 2003). These actors specifically criticized buyers because they frequently used fragmented and complex sourcing strategies to evade accountability, applied their market power to get lower prices while also demanding higher compliance, and failed to incentivize improved compliance (Barrientos, 2013; Esbenshade, 2004; O'Rourke, 2003; Oxfam, 2004).

In response to these criticisms and the recognition that compliance was moderately effective, at best, some buyers and third-party CSR organizations experimented with new approaches to CSR (Business for Social Responsibility, 2007; Impactt, 2012; Locke et al., 2007; Nike, 2004). Business case CSR has been one of the

[2] Field research in Sri Lanka took place in June/July 2008, October 2010 to March 2011, and August to October 2011. Field research in the UK and EU took place in November 2009, August to October 2010, and March/April 2011. Field research in the US took place in February 2008, May to August, 2011, and October to November 2011.

[3] Business for Social Responsibility 2011, International Labor Organization Better Work 2011, Sri Lankan Design Festival 2010, a social labeling conference at Northumbria University in 2010, and a Mulit-Fibre Arrangement (MFA) Forum workshop in 2009.