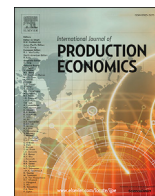


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## Socially responsible governance mechanisms for manufacturing firms in apparel supply chains

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## ABSTRACT

This research addresses the question of how social responsibility can be implemented at the manufacturing facilities of the apparel manufacturers in the context of global apparel supply chains. The research conceptualises supplier selection and supplier development as the governance mechanisms of social responsibility. Based on 267 responses from Bangladesh garment manufacturers and employing covariance-based partial least square structural equation modelling (PLS-SEM), this study tests the hypothesised relationship between socially responsible governance mechanisms and firm performance. The results reveal that both supplier-selection and supplier-development governance mechanisms have a positive effect on a firm's social and environmental performance.

## 1. Introduction

Over the past three decades, multinational retailers have been sourcing from the low-cost manufacturing firms<sup>1</sup> located in developing nations. This has provided retailers with the opportunity not only to maximise profit but also to offer superior-quality products and a speedy delivery by exploiting complex supply chains, and at times, abusing regulations and compromising standards of labour conditions (Ma et al., 2015). In particular, many well-known apparel and footwear retailers are known to have abused human rights by operating 'sweatshops' in developing countries (Park-Poaps and Rees, 2009). The apparel industry is one of the most labour-intensive industries and employs approximately 75 million people worldwide with an export value of \$483 billion in 2014 (Clean clothes, 2015; WTO, 2015). In particular, the Asian region has become the apparel factory of the world, with a 59.5 per cent share of global apparel exports, employing more than 40 million people (ILO, 2015). Bangladesh is the world leader in apparel exports after China, with an export share of 5.1 per cent of the global market (WTO, 2015), employing over 4 million workers (BGMEA, 2015). The apparel industry provides a single source of economic growth for Bangladesh's rapidly developing economy (BGMEA, 2015). However, recent incidents such as the collapse of Rana Plaza with a death toll of 1129 workers and the fire in the Tazreen factory with a death toll of 112 people (Kamal and Deegan, 2013) raised concerns not only about the Bangladesh apparel industry but also about global apparel supply chains. This crisis has negatively

affected many organisations in the industry and triggered a re-examination of current practices to either improve existing capabilities or develop new capabilities (Huq et al., 2016). One concept for improving current practices that has gained attention since the crisis is the implementation of policies of corporate social responsibility (CSR) in suppliers' manufacturing facilities (Eriksson and Svensson, 2015). An example of a CSR initiative is Bangladesh Accord on Fire and Building Safety (ACCORD) and Alliance for Bangladesh Worker Safety. Accord is a legal binding agreement between retailers (mostly European) and trade unions covering 1700 suppliers to build safer apparel manufacturing facilities in Bangladesh. Whereas, Alliance is a safety agreement between American retailers and trade bodies covering 700 suppliers (Huq et al., 2016).

Researchers have also examined CSR practices from the perspective of the supply chain (Maloni and Brown, 2006; Park-Poaps and Rees, 2009; Hoejmose and Kirby, 2012; Huq et al., 2016). Most of these studies identified code of conduct as a common indicator for the implementation of CSR supply chains (Pedersen and Andersen, 2006; Lund-Thomsen and Lindgreen, 2013). In the context of the Bangladesh apparel industry, researchers have also referred to the relevance of the code-of-conduct mechanism to CSR implementation (Huq et al., 2014; Rahim and Alam, 2014). However, the implementation of a code of conduct is not always easy due to factors such as cultural differences, inappropriate incentive structures, and supply-chain complexity (Awaysheh and Klassen, 2010). In addition, it has been suggested that the implementation of a code of

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conduct in silo provides an opportunity for manufacturers to become involved in fraudulent practices and mislead retailers (Pretious and Love, 2006). Some common dishonest practices observed during the implementation of a code of conduct by apparel manufacturers are mocking compliance to a code of conduct and bribing third-party auditors (Huq et al., 2016). To avoid opportunistic behaviours and overcome the disadvantages of the in-silo implementation of a code of conduct, research has emphasised the supplier-development governance mechanism, which is defined by management approaches such as supplier assessment and supplier collaboration (Sancha et al., 2016; Park et al., 2010). Further, some studies suggest that a supplier-selection mechanism must be implemented in conjunction with the supplier-development mechanism to implement social responsibility in supply chains (Gavronski et al., 2011; Soundararajan and Brown, 2016). In practice, Bangladesh apparel suppliers who have gone through Accord have their audit reports and action plans in the public domain. Easy access to these documents may influence prospective buyer's decisions on supplier selection. It is due to this pressure to gain orders from new buyers, suppliers are increasingly executing action plans to implement social responsibility (Huq et al., 2016).

Despite its importance, supplier selection as a mechanism for the implementation of social responsibility has not been widely explored (Akamp and Müller, 2013). To the best of our knowledge, no prior studies have examined supplier-selection and supplier-development mechanisms together in relation to the implementation of social responsibility. This constitutes a significant gap in the literature. Therefore, the objective of this research is to investigate supplier-selection and supplier-development governance mechanisms in relation to the implementation of social responsibility. By integrating supplier selection with the development mechanism, this study develops a conceptual framework, validates using data from the apparel industry in Bangladesh, and examines the relationships between these two governance mechanisms and firm performance.

The remainder of this article is organised as follows. The background of the Bangladesh apparel industry is described in Section 2. Section 3 reviews the relevant literature and Section 4 develops hypotheses for empirical testing. Section 5 provides the research methodology used in this study and Section 6 presents the results of the analysis. A discussion of the findings is provided in Section 7, followed by the implications and conclusions of the study in Section 8.

## 2. Background: Bangladesh apparel industry

Multinational corporations are 'racing to the bottom' for cheaper apparel and Bangladesh has always stood at the forefront of this race (Ahmed and Nathan, 2014). The apparel trade in Bangladesh has increased exponentially from \$643 million in 1990 to \$25,000 million in 2014 (WTO, 2015), accounting for 13.5 per cent of the nation's gross domestic profit (GDP) (BGMEA, 2015). Bangladesh has become the second largest exporter of apparel products after China, with an export share of 5.1 per cent (WTO, 2015). Currently, exports from the apparel industry constitute approximately 80.9 per cent of the total national exports and employ over 4 million workers, among whom 85 per cent are women (BGMEA, 2015).

The Bangladesh apparel industry has assisted the nation to be listed as a 'Frontier Five' economy for future investment (McKinsey, 2011) and to be identified as one of the 'Next-11' emerging markets. Chief purchasing officers of United States (US) and European retailers ranked Bangladesh as the top future sourcing destination (McKinsey, 2012). Features such as functionality (quality) of the products, price competitiveness, and value for money are considered the principal factors contributing to Bangladesh's massive export expansion to the US and European markets. Companies such as Wal-Mart, Nike, Gap, PVH, Tommy Hilfiger, Tesco, Inditex (Zara), H&M and Marks & Spencer are some of the US and European brands that source from Bangladesh (Kamal and Deegan, 2013). However, the market concentration of apparel exports to the US and

Europe poses a major expansion challenge for the industry (McKinsey, 2011). Recently, emphasis has been placed on diversifying apparel exports to other countries such as Canada and Australia.

Regardless of its economic contribution, the Bangladesh apparel industry is accused of human-rights abuses, non-payment of living wages, gender discrimination in payment, preventing unionisation, failure to provide minimum labour standards, lack of fire and safety regulations, and lack of infrastructural integrity (Ahamed and Skallerud, 2015). For example, issues of building safety such as lack of properly structured buildings, lack of maintenance, usage of substandard materials for construction and the violation of building codes are considered the main reasons for the collapse of the Rana Plaza (McKinsey, 2013). In addition, repeated incidents of factory fires are due to disorganised stacking of flammable materials, damaged and overloaded electrical systems, non-existence of fire evacuation plans, and blockage of windows with bars (Haque and Azmat, 2015). The frequent fire accidents in apparel factories in Bangladesh and the collapse of the Rana Plaza have led to Bangladesh being considered a country with unsafe workplaces and work practices. While recently, several vital measures in relation to building codes and practices have been implemented, these measures are not sufficient for Bangladesh to retain its position as the world's second leading apparel exporter. Studies suggest that the industry is required to implement social-responsibility practices at the manufacturing sites to address issues such as labour standards, human-rights abuses, non-payment of living wages, right to join union, and training (Rahim and Alam, 2014; Huq et al., 2016). Therefore, to mitigate the risks related to social responsibility and to promote a sustainable apparel industry in Bangladesh, this study investigates the appropriateness of various social-responsibility governance mechanisms and examines the relationships between these mechanisms and firm performance.

## 3. Literature review

Multinational organisations sourcing from low-cost countries have resulted in the transfer of social responsibility beyond their boundary of ownership and control (Gimenez and Tachizawa, 2012). CSR is no longer considered an issue 'within' an organisation, but is an aspect that requires monitoring and to be addressed at the level of the supply chain (Hsueh, 2014). In accordance with practitioner demands, researchers have begun to investigate CSR issues within the supply chain. Although examination of CSR in the supply chain date backs to the late 1980s, with the approach of total responsibility of the logistics manager (Murphy and Poist, 2002), researchers and practitioners considered investigating the adoption of CSR practices in supply chains only in the mid-1990s (Mares, 2010). However, in recent years, several incidents related to social responsibility in supply chains have demanded a shift in the research focus from merely acknowledging the need for social responsibility to understanding the complexities associated with the successful implementation of social responsibility (Soundararajan and Brown, 2016).

The concept and meaning of CSR have been continually changing with context and perspectives, so do the social responsibility in supply chains (Tian and Yuan, 2013; Sarkar and Searcy, 2016). In the literature, various terms are used to represent social responsibility in supply chains, for example, 'socially responsible purchasing' (Drumwright, 1994; Maignan et al., 2002), 'logistic social responsibility' (Carter and Jennings, 2002), 'purchasing social responsibility' (Carter, 2004), 'supply-chain responsibility' (Spence and Bourlakis, 2009), 'responsible supply chains' (Vaaland and Owusu, 2012), and 'socially responsible supply chains' (Andersen and Skjoett-Larsen, 2009; Awaysheh and Klassen, 2010; Wang and Sarkis, 2013). Having recognised the differences in the different terms, this study adopts the term provided by Vaaland and Owusu (2012) ('responsible supply chains'), which has been conceptualised based on consideration of the functions and actions required for the implementation of CSR in supply chains. This notion of CSR is line with the objectives of this research. Identifying and selecting supply-chain members, managing and developing the relationships with the supply-chain partners,

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