

1st International Joint Symposia on “Product Development and Innovation” and “Industrial Systems and Operations Management”

3-5 May 2016 Venue: Ain Shams University

THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY ON THE SUPPLY CHAIN PERFORMANCE OF LUXURY FASHION INDUSTRY

Neamat G. S. Ahmed ^{1, 2, *}

¹DIG, Politecnico DI Milano, Italy
Neamat.Gamal@mail.polimi.it

²Department of Industrial Engineering
Fayoum University, Egypt
ngs00@fayoum.edu.eg

ABSTRACT

The work presented in this paper focuses on investigating the Corporate Social Responsibility (CSR) practices in the luxury fashion industry and their impact on the Supply Chain (SC) performance of these companies. Recently, CSR is subjected to intensive investigations by academia. Meanwhile, the luxury fashion companies are paying attention to their sustainable society and environment by involving in the social activities, participating more in developing their communities, reducing energy consumption and emissions. In addition, the companies that are adopting CSR they are putting recognized efforts to implement CSR into their strategies. Global Reporting Initiative (GRI) is globally shared framework for CSR reporting and mentoring and it divides the CSR practices into categories (Social, Environmental, and Economic) and each category has some sub-categories and each sub-category contains a group of aspects. Furthermore, the data of 17 luxury fashion companies were investigated and submitted to content analysis according to the GRI framework. In addition, in-depth interviews with the CEO of a luxury fashion company were done to validate the findings of this exploratory research.

This research explores the most applied CSR practices by the worldwide luxury fashion companies in order to provide a new framework of the relationship between the CSR and the SC performance of the luxury fashion companies. Also this research triggers a different perspective for further research through underlining the implications on the Supply Chain Management (SCM) and its strategies.

Keywords: Luxury fashion industry, Corporate Social Responsibility, CSR, Supply Chain, SC, Supply chain performance, SCOR model, Sustainability, Global Report Initiative, and GRI.

1 INTRODUCTION

The last decades have witnessed a remarkable increase in the attention paid towards the luxury fashion industry. The globalization, the awareness of the climate change, and sustainability issues

3-5 May 2016 Venue: Ain Shams University

motivated the luxury fashion companies to be less wasteful and more helping people to express their deepest values. On one hand, sustainability is the development that meets the needs of the present without compromising the ability of future generations to meet their own needs [1]. On the other hand, luxury fashion companies started to pay more attention towards social sustainability and adopting CSR practices within their culture and strategies (e.g., labor working conditions, customer health and safety, human rights, society activities, and product responsibility) in compliance with the law, legalizations, and the customer demands.

2 THE LUXURY FASHION INDUSTRY

Luxury industry is one of the most attractive industrial division that people loves and wishes to be a part of it. Experts such as Coco Chanel defined as “luxury is a necessity that begins where necessity ends” [2]. Nevertheless, the key component of luxury is the human participation and small supply and recognition of value by others [3]. Moreover, luxury gives pleasure and praise of all the senses, its art and beauty[4]. Luxury fashion market is one of the largest markets [5]. The global luxury market contains nine different segments, including personal luxury goods, cars, luxury hospitality, luxury cruises, designer furniture, fine food, fine wines and spirits, yachts and private jets [6]. Cars, personal luxury goods, and luxury hospitality are the three biggest segments in order. During 2014, the global luxury market has exceeded €850 billion with an overall growth of 7%. The luxury market targeted to reach €223 billion at the end of 2014 which tripled its size 20 years ago [5].

The database in which this research is based upon is built from the data of different luxury fashion companies that produce e.g., Apparel, Leather goods, Jewelry, Beauty, Watches and Accessories.

3 CORPORATE SOCIAL RESPONSIBILITY

CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis ([7] and [8]). Consequently, it has become a dominant concept in business reporting and scientific research. CSR was divided into four areas of responsibility; economic, legal, ethical and discretionary [9]. Jamali [10] showed that, according to [9], the CSR did not include the environmental. Also, he stated that the economic responsibility seen by Carroll is the basic foundation since “the business institution is the basic economic unit of our society”, and also a mandatory concept.

Now, CSR has been gradually integrated with the environmental responsibility and sustainability. The attention paid for the different environmental concerns has grown, with the result of shifting the focuses on sustainable development in the field of CSR [8]. The company that is going to implement CSR and has commitments to it, the company must foster the sustainable practices not only within the company itself but also encourages its partners to enhance their sustainability practices by showing a greater transparency and sharing information. Also they are assessing and evaluating the sustainable practices of the company and its partners.

According to [11], The major CSR principles are 1) Sustainability: it a synonym for Sustainable development; 2) Accountability: it is concerned with an organization recognizing that its actions affect the external environment and therefore assuming responsibility for the consequences of its actions [12]; 3) Transparency principle: the external impact of the actions of the organization can be ascertained from that organization’s reporting and pertinent facts are not disguised within that reporting.

4 GLOBAL REPORTING INITIATIVE

3-5 May 2016 Venue: Ain Shams University

The Global Reporting Initiative (GRI) Guidelines is a globally shared sustainability framework that organizations can use to monitor the economic, environmental and social impacts and whose purpose is to place all relevant stakeholders of the supply chain in the limelight [13]. These guidelines divide the social performance into four distinct social sub-categories, which are; Labor practices and decent work, Human rights, Society, Product responsibility [14].

Furthermore, the different aspects defining each single sub-category has been identified and considered. The GRI was used because its structure of dividing the sustainability into categorizes, then sub-categories, and after that aspects ease the process of identifying the CSR aspects, which are required for implementing this study.

4.1 Sustainable Supply Chain Management

Supply chain management is the process oriented approach towards the management of material flows, and financial information from suppliers up to consumers [15]. Effective management of the supply chain has been identified as a key success factor in retailing, to the extent, that the competition in modern retailing is among the supply chains rather than companies [16]. After the sustainability concept was widely published in the organizations’ strategies, the concept of the Sustainable Supply Chain Management (SSCM) was emerged. SSCM is defined as the management of material, information and capital flows as well as cooperation among companies along the supply chain while taking goals from all three dimensions of sustainable development [17], i.e., economic, environmental and social [18] into account, which are derived from customer and stakeholder requirements [19]. SSCM has many drivers that affect its implementation such as; globalization, the proliferation of standards and legislative framework, increasing the awareness of sustainability, and furthermore, recently, consumers have become more aware and care about their choices ([20] and [21]).

4.2 SCOR Model

The supply chain operations reference (SCOR) model was developed by the supply chain council (SCC) to assist and help firms to increase the effectiveness of their SC’s performance [22]. SCOR model contains the decision areas, plan, source, make, deliver, and return. Each decision area contains three levels of process details [23]. Many researchers have introduced metrics for the supply chain performance ([24], [25], and [26]). The SCC has categorized the SC performance metrics in five performance attributes, i.e., Reliability, Responsiveness, Agility, Costs, and Asset management efficiency [27].

4.3 Traceability: The Starting Point

Traceability means going back to the past in order to understand where a product comes from, its components, the raw materials, and their extraction. The first step in that journey is that the company should meet their suppliers. While, the second step is more complicated, because the company has to go in depth to investigate the suppliers of the company’s suppliers, the latter step is a cloud of confusion in which companies routinely loose the trail. Therefore, traceability has become the most accurate approach to obtain and perform the sustainability [28].

5 SUPPLY CHAIN MANAGEMENT IN LUXURY FASHION INDUSTRY

In the fashion industry, apparel pipelines, for example have been notoriously long, complex and inflexible and Supply Chain Management (SCM) is an important factor for competing in the market

3-5 May 2016 Venue: Ain Shams University

[16]. Moreover, this road towards competitiveness should go far beyond the management of a single company or even a SC, but passes through the management of the whole supply network [29].

The concept of Sustainable Supply Chain Management (SSCM) was introduced to study this particular zone resulted from the intersection of the three dimensions of sustainability [30]. SSCM could be described as the management of material, information flow, and collaboration between companies along the entire SC.

The SC integration is a very crucial and strategic milestone, to hold a responsible and to endorse social and environmental sustainability among other members of the SC. On the one hand, manufacturing sustainable products is a difficult mission unless all involved companies adopt sustainable activities, it is not only the brand owners but all members of the SC are advised to undertake initiatives to move towards sustainability. When it comes to fashion industry, the situation gets even more complicated [31] as the industry are characterized by an extensive network of upstream suppliers and the fashion markets are characterized by high volatility [32], short life cycle [29], low predictability, and high impulse purchasing [33]. The signature brand image and what it represents to the customers are the fundamental piles for the luxury fashion industry, therefore sustainability could be established in corporate practices to demonstrate responsibility for the society as well as for the environment.

6 METHODOLOGY

The study of the CSR in the luxury fashion industry has received little attention [34]. Because of the nature of CSR and the reality that it contains a bunch of misunderstanding areas related to its relation with the SC, so the exploratory research was considered to be appropriate for use as the subject is little understood [16]. This research is set as a combination twofold-study. The former, the study exploited the data gathered from the sustainability reports of the 17 different worldwide luxury fashion companies and through their official websites. The latter, in-depth interviews with the owner and CEO of a luxury fashion company. The schema of this study could be fulfilled through 4 main steps (see, Figure 1).

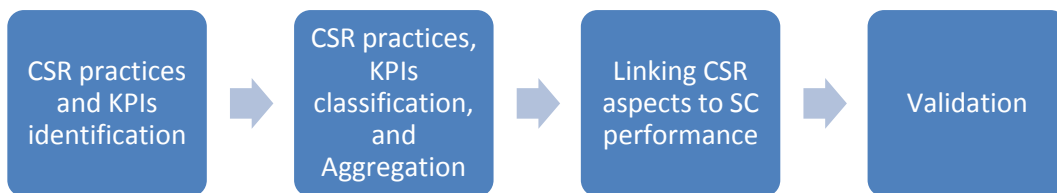


Figure 1: The study methodology main steps

- Step 1: CSR Practices and KPIs Identification

The study investigated the social activities, CSR practices and KPIs adapted by the luxury fashion companies along their SC (upstream and downstream) documented in their sustainability reports and official websites. The gathered data formed the database to be processed within the next phase.

1st International Joint Symposia on “Product Development and Innovation” and “Industrial Systems and Operations Management”

3-5 May 2016 Venue: Ain Shams University

- Step 2: CSR Practices, KPIs Classification, and Aggregation

The collected database in addition to the other different documentations were submitted to a content analysis, which enabled us to conduct a deeper descriptive analysis through screening the various implemented social KPIs. The CSR practices were arranged in social indicators database in an Excel spreadsheet. The practices included in the database (Step 1) were classified according to GRI.

- Step 3: Linking CSR Aspects to SC Performance

After defining the social aspects and CSR practices in luxury fashion companies, the SC performances according to the SCOR model are identified. By analyzing the database, the relationship between the CSR practices according to the GRI model and the SC performance according to the SCOR model was established.

- Step 4: Validation

Both the social impact categories and the framework of the impact of CSR on the SC performance were validated through a set of in-depth interviews with the founder and CEO of a luxury fashion company who is also in-charge of the sustainability practices.

7 RESULTS

7.1 The CSR Practices in the Luxury Fashion Companies

The established database of the CSR practices was classified and categorized according to the GRI guidelines into different categories, sub-categories, and aspects. On the one hand, the research found that, the most implemented practices in the luxury fashion industry are the practices related to the labor practices and decent work, human work, and society, which receive the major attention of the academia and the luxury fashion companies. On the other hand, the research showed that the practices of product responsibility sub-category are few and they do not get the same level of attention paid to the other CSR sub-categories.

7.2 The Impact of CSR on the SC Performance of the Luxury Fashion Companies

The study explored the relationship between the CSR aspects and the SC performance according to SCOR model (i.e., cost, asset management efficiency, flexibility, reliability and responsiveness). The results of are summarized below:

- The labor practices and decent work have a high impact on the SC cost. The reason is that providing good working conditions, following the health and safety regulations, and empowering labors through training and educations would consequently increase the cost of the companies and their SC;
- Human rights have a high impact on the asset management efficiency. Caring about the human rights (e.g., prohibiting child labor, discriminations, forced labors, and protecting indigenous rights) could help in better asset management efficiency;
- The labor practices and decent work have a high impact on the SC flexibility, SC reliability and SC responsiveness. The efficient employment procedures, good relationship between the labor and the management, ensuring equal remuneration, diversity in the working area, good health and safety conditions, good working conditions, providing training, and education courses for employees would positively affect the flexibility, reliability, and responsiveness. This positive behavior could be explained as with a good social environment, the labors are more able to do their assigned jobs perfectly and they become more reliable and flexible and this conflict on the SC performance.

3-5 May 2016 Venue: Ain Shams University

Also, we found that the most addressed CSR aspects by the investigated companies, which are directly linked to the SC performance are the local communities, employment, supplier assessment of labor practices and decent work, equal remuneration, occupational health and safety, training and education, supplier human rights assessment, labor/management relations, and diversity and equal opportunity.

7.3 The Difference between the Social Indicators Addressed by Luxury Fashion Companies and Academia

Luxury fashion companies are trying to integrate CSR in their SC by establishing sustainable strategies and create close relationships with their suppliers and customers. This exploratory phase of this research highlighted that the labor practices and decent work, society, and human rights sub-categories receive the major attention and widely studied by the academia and the companies, respectively. Moreover, the current study revealed that labor practices and society aspects are the most discussed, followed by the human rights, while product responsibility remains unattended to.

From the study, it can be noticed that the academia has distinct values, different interests, and different priorities in comparison with the organizations and that affect how the academia discuss the social sustainability and CSR issues. In addition, the study showed that luxury fashion companies focus on showing their labor practices and society activities in their reports. The human rights issues are easier to be addressed because they are already secured and enshrined in developed countries by regulations, but it is a hard job to secure them in developing countries where the suppliers are located. On the other hand, regarding to the product responsibility sub-category practices, there are not much legislation and enforcement measures to push companies to disclose them. The product responsibility issues can be discussed for how to track the impacts of products and services (e.g. Life Cycle Assessment LCA) [14].

It is hard to find a rigid framework for CSR and there is no wrong or right path to assess social sustainability in the SC [14]. The academia is paying more and more attention to investigate, discuss, and analyze how the companies manage their operations, treat labors, and empower them because this provides a strong basis for assessing the companies' commitments towards the improvement of the social sustainability performance. On the other hand, the sustainability reports evaluate what the companies' state and report to the general public not only what they really measure.

The interviewed company is a niche luxury fashion company, which produce leather goods such as “Shoes and other leather accessories”. This case study validated the impact of CSR on SC performance in the luxury fashion companies and enriched the research with the practical work for a better understanding of such impact. Moreover, the study showed that, the relationship between CSR aspects and SC performance is very complicated, and it is not easy to be detected. On the one hand, luxury fashion companies have to invest a lot of money to get engaged in many activities and aspects to perform and implement CSR practices, and consequently, elevate the cost. This study investigated these CSR activities, aspects, and practices in details and we found that providing a healthy and safe working conditions, ensuring good labor working conditions, and providing a good training and education for labors, do cost money. Besides, the luxury fashion companies investing a lot in protecting human rights and to build a better society by taking place in different social occasions. Furthermore, the policy of restricting using chemicals and compliance to the restricted material and substances, supposed to impact the customers' health and safety. As a result of these CSR aspects, the SC cost would increase, sensibly. On the other hand, the luxury companies benefit from adopting CSR practices through paying reduced taxes, improving their reputation that could increase the sales, and not paying fines of non-compliance to law and regulations. Hence, the cost could be decreased, so it is very hard to say that cost is decreasing or increasing without having real financial data.

8 CONCLUSION

This paper that is exploratory in nature has documented the initial findings of a new perspective and framework that studied the relationship of CSR and SC performance, which is a relatively new topic under research. Furthermore, the study found that the labor practices and decent work have the highest impact on the SC cost, SC flexibility, SC reliability and SC responsiveness while the human rights have the highest impact on the asset management efficiency. On the other hand the study realized that the product responsibility practices are left unattended to. Additionally, this study is considered a step forward for a better understanding of the relationship and the impact of CSR practices on the SC performance in order to optimize the implementation of the various CSR practices.

9 LIMITATION AND FUTURE RESEARCH DEVELOPMENT

One of the limitations faced while performing this study was the number of real case studies and their sizes. Consequently, future researches could overcome these limitations by investigating larger number of practical case studies with various small, medium, large companies. Moreover, further research is needed to study the impact of CSR on SC performance in other sectors of industry.

10 REFERENCES

- [1] **Brundtland, G.** 1987. Our Common Future: Report of the 1987 World Commission on Environment and Development, Oxford University Press, Oxford.
- [2] **Som, A. and Blanckaert, C.** 2015. The Road to Luxury: The Evolution, Markets, and Strategies of Luxury Brand Management, John Wiley & Sons Singapore Pte. Ltd.
- [3] **Cornell, A.** 2002. Cult of luxury: The new opiate of the masses, Australian Financial Review, vol. 47.
- [4] **Kapferer and Noël J.** 1997. Managing luxury brands, Journal of brand management, vol. 4, no. 4, pp. 251-259.
- [5] **Bain and Co.** 2014. luxury goods worldwide market: The rise of the borderless consumer, Bain & Co.
- [6] **Brun, A. and Castelli, C.** 2013. The nature of luxury: a consumer perspective, International Journal of Retail & Distribution Management, vol. 41, no. 11/12, p. 823-847.
- [7] **Hallbäck V.** 2012. Drivers and Barriers for Corporate Social Responsibility in Multinational Corporations A case study of Wärtsilä, Finland, www.diva-portal.org/smash/get/diva2:506281/FULLTEXT01.pdf.
- [8] **Blowfield, M. and Murray, A.** 2008. Corporate Responsibility - A Critical Introduction, New York: Oxford University Press.
- [9] **Carroll A.** 1979. A Three-Dimensional Conceptual Model of Corporate Performance, Academy of Management Review, vol. 4, no. 4, pp. 497-505.
- [10] **Jamali, D.** 2008. A Stakeholder Approach to Corporate Social Responsibility: A Fresh Perspective into Theory and Practice, Journal of Business Ethics, vol. 82, pp. 213-231.
- [11] **Crowther, D. and Aras, G.** 2008. Corporate Social Responsibility, Bookboon.
- [12] **Newell, P.** 2005. Citizenship, accountability and community: the limits of the CSR agenda, International affairs, vol. 81, no. 3, pp. 541-557.
- [13] **Reporting, S.** 2008. Global Reporting Initiative, Global Reporting.

1st International Joint Symposia on “Product Development and Innovation” and “Industrial Systems and Operations Management”

3-5 May 2016 Venue: Ain Shams University

- [14] **Simões, M.** 2014. Social Key Performance Indicators - Assessment in Supply Chains, <https://fenix.tecnico.ulisboa.pt/downloadFile/395146463038/resumo.pdf>.
- [15] **Cagliano, R., Caniato, F. and Spina, G.** 2006. The linkage between supply chain integration and manufacturing improvement programmes, *International Journal of Operations & Production Management*, vol. 26, no. 3, p. 282-299.
- [16] **Barnes, L. and Lea-Greenwood, G.** 2006. Fast fashioning the supply chain: shaping the research agenda, *Journal of Fashion Marketing and Management*, vol. 10, no. 3, pp. 259-271.
- [17] **Carter, C. R. and Rogers, D. S.** 2008. A framework of sustainable supply chain management: moving toward new theory, *International Journal of Physical Distribution & Logistics Management*, vol. 38, no. 5, pp. 360-387.
- [18] **Ageron, B.** 2012. A. Gunasekaran and A. Spalanzani, Sustainable supply management: An empirical study, *International Journal of Production Economics*, vol. 140, no. 1, p. 168-182, 2012.
- [19] **Seuring, S., Sarkis, J., Müller, M. and Rao, P.** 2008. Sustainability and supply chain management - An introduction to the special issue, *Journal of Cleaner Production*, vol. 16, no. 15, p. 1545-1551.
- [20] **Zhu, Q. and Sarkis, J.** 2006. An inter-sectoral comparison of green supply chain management in China: Drivers and practices, *Journal of Cleaner Production*, vol. 14, no. 5, p. 472-486.
- [21] **Walker, H., Di Sisto, L., and McBain, D.** 2008. Drivers and barriers to environmental supply chain management practices: Lessons from the public and private sectors, *Journal of Purchasing and Supply Management*, vol. 14, no. 1, p. 69-85.
- [22] **McCormack, A. L. I. K.** 2004. Linking SCOR planning practices to supply chain performance, *International Journal of Operations & Production Management*, vol. 24, no. 12, p. 1192-1218.
- [23] **Stewart, G.** 1997. Supply-chain operations reference model (SCOR): the first cross-industry framework for integrated supply-chain management, *Logistics Information Management*, vol. 10, no. 2, p. 62-67.
- [24] **Bongsug, C.** 2009. Developing key performance indicators for supply chain: an industry perspective, *Supply Chain Management*, vol. 14, no. 6, p. 422-428.
- [25] **Cai, J., Liu, X., Xiao, Z., and Liu, J.** 2009. Improving supply chain performance management: A systematic approach to analyzing iterative KPI accomplishment, *Decision Support Systems*, vol. 46, no. 2, p. 512-521.
- [26] **Samuel, H., HuanSunil, K., and SheoranGe, W.** 2004. A review and analysis of supply chain operations reference (SCOR) model, *Supply Chain Management*, vol. 9, no. 1, p. 23-29.
- [27] **Apics, W.** 2015. <http://www.apics.org/sites/apics-supply-chain-council/benchmarking/scor-Matrices>.
- [28] **Girón, M. E. and Gardetti, M. A.** 2014. Sustainable luxury:, Green leaf publishing, http://www.greenleaf-publishing.com/content/pdfs/sustlux_intro.pdf.
- [29] **Brun, A., Caniato, F., Caridi, M., Castelli, C., Miragliotta, G., Ronchi, S., Sianesi, A. and Spina, G.** 2008. Logistics and supply chain management in luxury fashion retail: Empirical investigation of Italian firms, *International Journal of Production Economics*, vol. 114, no. 2, pp. 554-570.

1st International Joint Symposia on “Product Development and Innovation” and “Industrial Systems and Operations Management”

3-5 May 2016 Venue: Ain Shams University

- [30] **Seuring, S. and Müller, M.** 2008. From a literature review to a conceptual framework for sustainable supply chain management, *Journal of Cleaner Production*, vol. 16, no. 15, p. 1699-1710.
- [31] **Choi and Tsan-Ming** 2008. The US fashion industry: A supply chain review, *International Journal of Production Economics*, vol. 114, no. 2, p. 571-593.
- [32] **Andersen, T. and Bollerslev, T.** 1997. Heterogeneous Information Arrivals and Return Volatility Dynamics: Uncovering the Long-Run in High Frequency Returns, *Journal of Finance*, vol. 52, no. 3, pp. 975-1005.
- [33] **Christopher, M., Lawson, R. and Peck, H.** 2004. Creating agile supply chains in the fashion industry, *International Journal of Retail & Distribution Management*, vol. 32, no. 8, p. 367-376.
- [34] **Achabou, M. A. and Dekhili, S.** 2013. Luxury and sustainable development: Is there a match?, *Journal of Business Research*, vol. 66, no. 10, p. 1896-1903.