



# Sourcing ethics and the global market

## The case of the UK retail clothing sector

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### Abstract

**Purpose** – This paper investigates purchasing ethics within the UK clothing retail sector in the context of structural changes in the sector and the growth of international sourcing as a necessary strategic tool to maintain competitive advantage.

**Design/methodology/approach** – The paper discusses the background to retailer interest in sourcing ethics and the development of codes of conduct to guide retail purchasing professionals. The primary research is an exploratory examination of the experiences of UK retail buying personnel working in the global market for garments, who are required to make decisions “on the ground” that reflect the ethical codes of their companies, yet who are also constrained by the need to make profitable sourcing decisions.

**Findings** – The conclusions assess what can be learnt from these experiences and offer suggestions for future research.

**Originality/value** – The paper is of interest to any retail academics, personnel and employees.

**Keywords** Clothing, Sourcing, Ethics, United Kingdom

**Paper type** Viewpoint

### Introduction

The clothing retail sector in the UK has undergone substantial change over the last decade. The move into clothing categories by the major grocery chains Asda, Tesco and Sainsbury; the expansion into the UK of leading international players, including Gap, Hennes and Mauritz (H&M) and Zara; aggressive discounting by companies such as New Look and Matalan, plus the influence of the entrepreneur Philip Green, who now owns Bhs and the Arcadia group, have radically altered the structure of the UK clothing retail industry. The sector is extremely competitive (Whitefield, 2001; Freathy, 2003) and is currently experiencing price deflation and radical shifts in market share. Marks and Spencer, for so long the pre-eminent clothing retailer in the UK, now sells less than the Asda brand *George* across all garment categories (Rider, 2004) and has been forced to re-evaluate its merchandise strategy several times in recent years.

Coupled with structural changes in the industry has been an increasing focus on supply chain management (Christopher, 1998), facilitated by substantial investment by major retailers in IT infrastructure. Clothing retailers have sought to reduce their investment in inventory through faster replenishment and improved merchandise lead times, the latter assuming particular importance because of shorter clothing product life-cycles (Abernathy *et al.*, 1999).



The tension between the conflicting desire for leaner and faster supply chains and the pressure to be competitive on price has precipitated major changes in clothing retailer sourcing strategies. Many companies have drastically rationalised the supply base, enabling them to take advantage of economies of scale and strengthen relationships with trusted suppliers, with the aim of driving down costs and improving quality of service. In addition, the sourcing emphasis has markedly shifted to suppliers who produce goods overseas, primarily to take advantage of lower labour costs. Purchases from the top ten exporters of clothing items by country to the UK grew from €3.2 million in 1985 to €12.9 million in 2001 (Gibbon, 2001) and with the removal of the multi-fibre arrangement in January 2005, it is predicted there will be further increases of clothing imports into the EU, particularly from China (ITGLWF, 2004). However, if sources are distant, lead times are increased and some clothing retailers, such as Zara, prefer to buy as much product as possible close to their home markets in order to maximise flexibility. A further trend in clothing purchasing has been for retailers to increasingly move from using agents to sourcing from factories direct, thus saving on agency commission payments and improving margins. The Next Group, for example, now has buying offices in key production centres in both the Far East and the Near East (Next Retail Ltd, 2005). However, there remain some retailers, for example, Marks and Spencer, who continue to use third-party agents for at least some of their purchases, utilising their expertise and taking advantage of the willingness of some agents to hold stock that a retailer can “call off” thus reducing markdown costs if a line is a poor seller. The overall effect of these changes in clothing supply chain and sourcing practices has been to increase retailer power, allowing the largest companies to exert pressure at the top of global supply chains to force suppliers to deliver what is required on their terms (Barry, 2003; Oxfam, 2004).

Alongside the development of retailer power and influence across all sectors has been growing consumer interest in corporate social responsibility and fairness in trade practices (Price Waterhouse Coopers, 2001). This interest has gone through various phases, with the desire for environmentally friendly products, non-animal-tested cosmetics and organic food providing evidence that a growing segment of the UK population are prepared to spend on items that enhance their sense of well-being and assuage their social conscience. The fair trade movement (see Kunz, 1999 for a comprehensive overview), fostered by international charities and development agencies, has become the latest manifestation of consumer empowerment. Two magazines published in the UK, *New Consumer* (2005) and *Ethical Consumer* (2005), and also *Ethical Matters* (2005) feature fair trade and/or environmentally friendly products, including clothing. These publications also contain articles about fair trade and campaign against companies that are perceived to be acting unethically. Two brands of clothing have been also been developed that are sourced entirely from factories that meet the highest standards of ethical employment practices, No Sweat Apparel (2005) and Ethical Threads (2005).

### **Ethics: relevant literature**

The importance of ethics to the industrial purchasing function generally is widely acknowledged (Haynes and Helms, 1991; Kitson and Campbell, 1996). Global sourcing has markedly increased the array of ethical problems buyers are faced with (Wood, 1995) and though new opportunities have been generated by the growth in

international trade, these come with a range of responsibilities and obligations (Mellahi and Wood, 2003). Perceived ethical behaviour by companies, however, can have a positive effect on a firm's image and reputation (Carter, 2000). In terms of basic ethical theory, the key issue of relevance to this paper is the relationship between the rights of workers, especially when they work for suppliers in overseas markets where different cultural norms prevail, and the duties of purchasers (in this case retailers) to these suppliers and to their own companies.

Relatively little academic literature exists that examines ethics in a retail context. The series of papers by Whysall (1995, 1998, 2000) is a notable exception, largely tackling the subject from the perspective of stakeholder groups. However, whilst product sourcing is briefly discussed, it is not the main focus of Whysall's work. Ethical influences affecting retail buying are not discussed in the exhaustive review of the buying process literature produced by Holm-Hansen and Skytte (1998), nor are they mentioned in the empirical research on the retail buying function by Swindley (1992). There is a brief treatment of some of the issues involved in Varley (2001), but this is not comprehensive. Pretious (2003) attempts to construct a conceptual framework for retail buying ethics, but does not develop the international dimensions of the subject in any detail. Arbuthnot (1997) looks at some of the ethical issues confronted by textile retail buyers, but her data set is small-scale retailers, whose experience is not comparable to that of buyers for major multiples. Graafland (2002) examines sourcing ethics in a paper discussing C&A. In it the importance of international purchasing is acknowledged and C&A's code of conduct in dealing with suppliers and the mechanisms used to ensure their compliance are discussed.

The subject of ethical sourcing has featured in several recent press articles. Usborne (2004) discusses a report produced by Gap Inc. (2003) on its overseas factories, outlining the major ethical problems involved in retailers sourcing from international markets. These include child labour, minimum wages, excessive overtime and health and safety issues. The report highlights the effort Gap is making to give more information to its customers about conditions in its factories and the problems of ensuring supplier compliance, recognising that consumers are increasingly demanding this level of information. Foster and Harney (2005) highlight the falsification of factory records, especially in China, quoting extensively from Nike's (2005) 2004 corporate responsibility report. Many UK retailers of clothing have developed codes of conduct which cover purchasing and some, including Marks and Spencer (2004) and Next Retail Ltd (2004) have produced corporate social responsibility reports along similar lines to Gap and Nike that contain details of sourcing and supplier related policies. Both Marks and Spencer and Next, along with many other UK clothing retailers and some manufacturers, are heavily involved in the ethical trade initiative (ETI) ([www.ethicaltrade.org/](http://www.ethicaltrade.org/)). The ETI is an alliance of companies, non-governmental organisations (NGOs) and trade union organisations set up in 1998 to "promote and improve the implementation of corporate codes of practice which cover supply chain working conditions" and "to ensure that the working conditions of workers producing for the UK market meet or exceed international labour standards".

Various politically orientated pressure groups have agendas devoted wholly or partially to international trade issues. These include the Trade Justice Movement (2005), which promotes trade as a vehicle to achieve sustainable development and the eradication of poverty, Corporate Watch (2005), which researches the environmental

and social impact of large corporations and aims to expose their “detrimental effects” and The International Institute for Environment and Development (IIED, 2005). The IIED produced a notable report on the clothing sector in the UK and their purchasing and supply chain policies, linked to its sustainable trade philosophy, which highlighted many of the ethical issues (Robins and Humphrey, 2000). Two UK organisations focus specifically on clothing retailers and their suppliers: the Clean Clothes Campaign (2005) and No Sweat (2005). Each is concerned with improving working conditions in the textile industry, particularly in third-world countries. Clean Clothes Campaign (1997) has produced a number of publications criticising major garment retailers and manufacturers.

### **Primary research: objectives and method**

It is in the context of these changes in clothing retail buying strategies, especially the greater prevalence of international sourcing, plus the growing interest of consumers in the trade origins of garments and the reflection of this in retailer purchasing codes of conduct, that the primary research for this paper was conducted. The aim of this exploratory study was to identify the ethical issues confronted by retail buying personnel “in the field” in particular how purchasing codes of conduct affect management attitudes and the extent to which they offer solutions to ethical problems. Research of this type, investigating the ethical experiences of purchasing practitioners in a specific large-scale retailing sector, has not been previously published.

Senior managers in 20 major UK multiple and mail order retailers with large-scale clothing buying departments were approached to ascertain whether their companies were willing to take part in the research. A semi-structured questionnaire, designed to elicit primarily qualitative data, was then administered by post to a total of 32 managers in roles associated with merchandise sourcing, employed by those companies that agreed to participate. There was a 50 per cent response rate to the questionnaire, with contributions from retailers representing approximately 30 per cent of the UK clothing market by value. Thirteen of the 16 respondents also agreed to be interviewed subsequent to completing the questionnaire. The results presented below summarise findings from the questionnaire and illuminate these with quotations extracted from the interviews.

### **Primary research: results**

#### *Base data*

Of the 16 responses to the questionnaire, seven were from specialist clothing retailers, six were from variety chains, two were from major grocery retailers with fast-growing clothing operations and one was from a mail order specialist. With regard to the job functions of personnel involved, nine responses were from buyers or buying managers, four from buying or other directors, two from other senior managers involved in sourcing and one from a merchandiser. All participants in the survey had over five years experience in the retail industry with most having considerably more, often having held buying roles in a variety of companies.

Respondents were asked to identify the type of suppliers they mainly used, distinguishing between sourcing direct from overseas factories and using UK or foreign-based agents. In common with the industry trend noted above, 11 of the respondents (69 per cent) sourced direct from overseas factories. Of those respondents

who sometimes or always bought through agents, the main reason cited was the avoidance of commercial risk.

#### *Attitudes towards codes of conduct*

A number of questions tested the attitude of respondents towards purchasing codes of conduct. Of the respondents 11 (69 per cent) felt that their company's code of conduct, where one existed, was adequate to deal with ethical issues that were encountered when sourcing from overseas, but almost all added riders to their answers:

Yes, but some issues are too ambiguous and . . . must be taken in context, i.e. if an issue will be solved next month, why should an order be cancelled now? (Clothing Specialist: Buyer).

It was regarded as extremely important that if a code of conduct existed, it should be adhered to by all personnel associated with the retailer, both in the UK and in overseas markets:

. . . if a code of conduct is in place it is an individual's professional responsibility to adhere to it, otherwise it is useless (Clothing Specialist: Director).

We rely heavily on our Hong Kong office to ensure that the code of conduct is adhered to. If we were not committed to [it] then nor would our Hong Kong team be. It is important that everyone adheres to the code of conduct in place and believes in its importance within the company (Supermarket: Director).

Nine (56 per cent) of the respondents felt that the ethical guidelines they had within their own organisations were clear, though this was not a substantial majority and there were occasional circumstances that had arisen where a code of conduct would be tacitly ignored:

On some occasions if there are clear violations of our code of conduct, we will disengage from the factory. But, if the value of business lost by this decision is large, then we will take a different stance – working with the factory to ensure that they comply (Clothing Specialist: Buyer).

Of the respondents 12 (75 per cent) were confident to whom they should refer ethical problems in their organisation, either the reporting of non-compliance by a supplier or soliciting guidance if they were unsure what to do in a particular situation, half of the respondents' companies had dedicated corporate ethical standards teams, whilst most of the remainder would seek advice from their immediate line manager.

Three respondents worked for companies that had no formal code of conduct in place, with a further two indicating that their company's code was not adequate to deal with ethical issues that arose when sourcing overseas. The prevailing opinion amongst this group was that ethical problems were often "hidden" from the retailer, especially where agents were used.

#### **Attitudes to ethical sourcing**

The most important decisions made by buying personnel on international sourcing trips concern the allocation of business to suppliers. This will depend largely on the suppliers' abilities to meet the parameters of price, quality and delivery date required by the retailer, but increasingly the final decision might involve an ethical as well as a physical audit of manufacturing units. Such audits might take place prior to orders

being placed, subsequent to the placing of orders but prior to production commencing, or during production. Several questions sought to probe the respondents' views on the importance of ethical audits in relation to other purchasing factors.

Of the respondents 12 (75 per cent) considered that it was not acceptable to place an order with a factory knowing that it might not pass an ethical audit. The four (25 per cent) individuals who considered this practice to be acceptable believed that factories should be given the opportunity to address ethical problems:

By walking away from a factory just because it doesn't meet our ... requirements it is just putting employees back in the paddy fields: it is far better to have a long-term action plan in place to bring them up to our exacting standards (Clothing Specialist: Buying Manager).

[I would only place an order] ... if an action plan is in place with clear steps for the factory to achieve, with given deadlines (Grocery Retailer: Clothing Buyer).

Respondents were even more concerned about possible violations of their company's ethical code of conduct when visiting a factory personally. About 13 (82 per cent) stated that they would not place an order with a factory until satisfied that all audit issues had been resolved. This appeared in some cases to be professional self-interest:

If it came out in the newspapers that I had placed an order I would have a lot of explaining to do and probably no job at the end of it: I much prefer to visit all factories that I am using just to get a feel for the management style involved (Clothing Specialist: Buyer).

Of the respondents 11 (68 per cent) indicated that they would, however, accept goods from a factory that retrospectively failed an audit, a rather more generous attitude than might have been expected given the position held with regard to placing orders. However, factory conditions would be expected to improve over time:

A demonstration that the shortfall was recognised and agreed by the supplier as unacceptable with a credible commitment to change in a reasonable period of time would be required; without a business relationship in place we could not influence change (Clothing Specialist – Buying Manager).

The remaining five respondents (32 per cent) were adamant that they would not accept merchandise from a factory that had failed an audit and did not meet the standards set down by their company:

... we may make recommendations for improvement and regularly check that they are adhering to them before placing another order ... If a second chance is granted no margin of error will be tolerated (Grocery Retailer: Director).

Respondents were asked specifically if they would continue to place business with a factory that was below the acceptable ethical audit level, if it was particularly advantageous in terms of price. Somewhat surprisingly, the number of respondents who would place orders in such circumstances was lower than in the previous situation at seven (44 per cent). Some interesting comments were made by these respondents:

Possibly, depends on why the audit failed, remember margins and sales are the final word in retailing, not ethics (Clothing Specialist: Buying Manager).

Probably, after all a cost saving is important for the bottom line (Grocery Retailer: Director).



However, many of remaining respondents, who would not place even a financially beneficial order under these conditions, echoed the following statement:

No, even losing sales would be better than the bad publicity that this could attract if it got into the media ... (Grocery Retailer: Clothing Buyer).

*Specific ethical sourcing issues*

Respondents were asked to list which specific ethical sourcing problems they had faced during their retailing careers. The most frequently encountered issues are discussed below.

*Child labour.* Seven (43 per cent) of the respondents had encountered factories where child labour was being used. India, China, Thailand and Bangladesh were cited as the worst offenders in this regard, partly because of the absence or unreliability of birth certificates, but also because of the difficulty that Westerners have in assessing the age of workers in these countries. Buyers relied on the management of the factory to check on documents supplied by the employee. Some said that auditing had revealed that records had been changed to make children appear older than they really were:

Factories are aware of their responsibility regarding under age workers but most blatantly cook the books to hide this ... (Clothing Specialist: Buyer).

When I summoned the UK supplier he said that if he had known we were going to carry out an audit on that day he could have assured us they [the under-age workers] wouldn't have been there and therefore the factory wouldn't have failed. Needless to say the supplier is no longer supplying us, with an attitude like that it makes a mockery of our code of conduct (Clothing Specialist: Buyer).

*Dangerous working conditions/health and safety issues.* Seven (43 per cent) of the respondents had encountered dangerous working conditions in factories. These included unsafe machinery (for example, machine guards having been removed to speed up production), workers failing to use safety equipment such as cutting gloves and the use and storage of hazardous chemicals (such as those used for dyeing and printing). Fire regulations were also sometimes inadequate, both in factories and in the dormitory accommodation often provided for workers who live away from their home regions. Sometimes fire exits were locked and fire extinguishers were missing.

*Bribery and corruption.* Bribery and corruption had been experienced by five (31 per cent) of the respondents. One blatantly fraudulent practice mentioned was for suppliers to mislead the buyer over the true source of production:

Many suppliers claim that goods are made in one factory, then transfer the production elsewhere, making it difficult for the retailer to audit (Grocery Retailer: Clothing Buyer).

The issue of bribery caused some difficulty amongst respondents. When does supplier hospitality, for example, become excessive? Even more problematic is the tradition in some source markets for gifts to be proffered to important business contacts at festivals, for example, Lai See in China at Chinese New Year. However, the general feeling was that such payments should be minimal to be legitimate:

In some countries bribes are common and it would appear rude not to accept them ... [they] should however be of nominal value and appropriate under the circumstances. [They] should

also be in conjunction with the business interest of my organisation and I would inform my buying director of [any] payment (Clothing Specialist: Buyer).

*Exploitation of the workforce.* Exploitation of the workforce encompasses the issues of child labour and health and safety already discussed. However, it can also cover low wages being paid to workers and excessive overtime being expected by employers. Four (25 per cent) of the respondents specifically mentioned that they had encountered worker exploitation. Many spoke of long working hours in factories, especially at peak periods, with employees often working over 70 hours per week. Attitudes towards such practices were at best ambivalent, with concern expressed that “exploitation” in UK terms might be perfectly acceptable in other cultures:

What would individuals class as excessive overtime? What may appear as excessive to us may not be in other cultures (Clothing Specialist: Director).

I have often been in factories late at night auditing production lines, and I would not want to work those hours in the UK but they all seem quite happy doing this. The alternative is for them to sit in their dormitories all evening. After dinner they quite often go back to the machines for a few hours overtime. I think that the issue should be more about how much they are being paid for the overtime and whether it is forced or not (Clothing Specialist: Buying Manager).

The issue of exploitation was also raised in discussions over the extent to which retailer codes of conduct should supersede labour laws in developing countries, with the general opinion that local labour laws were culturally specific and should not be overridden by ethical codes of conduct imposed by companies or suggested by pressure groups:

That is the trouble with these do good organisations, do they really think that UK consumers are willing to pay more, because the worker didn't want to work these hours. How dare they impose our working culture on that of one in China? They would be the first to complain if something was late (Clothing Specialist: Merchandiser).

### **Concluding remarks**

The existence of formal ethical purchasing guidelines in a large majority of the retailers surveyed in the research indicates that UK clothing retailers are committed to ensuring the welfare of individuals who are engaged in the manufacture of products supplied to them from international markets. To ensure that this is achieved, their policy is to source products from suppliers and factories that share their commitment. In this regard the rights of workers should be protected and the retailer has accepted a duty to observe these rights.

In reality, adherence to purchasing guidelines, even where they are detailed in codes of conduct, shows variation between retailers and amongst individuals, sometimes within the same retail organisation. Retail purchasing professionals “in the field” are required to consider the extent to which standards written in ethical purchasing codes are achievable within a reasonable time frame, and to what extent they can benefit the quality of life of the workers making their products, by working with factories to improve standards where there is a genuine desire to do so.

The research shows that some retail purchasing managers in the clothing sector take the rules in codes of conduct literally, whilst others allow greater flexibility in



allowing factories to improve themselves even after a poor ethical audit. In such instances the rights of workers are overridden by a more pragmatic utilitarian ethical philosophy that considers welfare issues in developing markets more generally.

Despite the potentially competing demands of profitability and compliance with ethical purchasing codes when sourcing internationally, there was little evidence that purchasing professionals in the retail sector would seek cost advantage to the total exclusion of a company's code. The message appears to have got through that a retailer's reputation might be seriously damaged if it was caught flouting an important element of its code. Here, again, utilitarian considerations prevail, in that the potential negative effect of an organisation reneging on its publicly avowed stance outweighs any short-term gains.

One source of conflict identified by the research is the role of agents and intermediary suppliers in the application and interpretation of retailer codes of conduct. It was apparent that some retailers "hide" behind agents who take direct responsibility for factory conditions, thereby allowing the retailer to maintain the high moral ground of having a purchasing code of conduct in place, yet allowing them to source from factories that do not comply with it who may give them a cost advantage. Various campaigning groups, for example clean clothes, have also identified this as an issue:

The responsibility [for a code of conduct] is shared between the retailer and the supplier, but the problem is that unless standards are universal in the industry the retailer must run the risk of losing competitive advantage (Grocery Retailer: Director).

However, as another respondent stated:

It's no use shifting the blame onto the agent: at the end of the day it is your brand that is at risk, not the factory's. Look what happened to Gap and Nike (Clothing Specialist: Buying Manager).

Ideally, there needs to be consistency in the way codes of conduct are applied across the whole clothing sector, including suppliers. However, even if this was achievable on a UK-wide basis it would still be likely that retailers and suppliers in other country markets would step into use factories that were judged to be unacceptable by UK buyers. Strong leadership, both within companies to ensure that values are transmitted through the buying hierarchy, and at industry level, perhaps through the ETI, is one factor that will assist in the fostering of best ethical practice.

### **Future research**

A number of possibilities exist to take forward research on retail buying ethics. Some of these are indicated below.

Firstly, and already underway, is more detailed secondary research examining UK retailers in the clothing and other product sectors regarding the content and development of their corporate codes of conduct, with particular reference to the elements that relate to product purchasing.

Secondly, there are considerable opportunities to replicate a similar investigation to this paper for additional countries, in terms of looking at sourcing patterns for retailers and the relevance of ethics and ethical codes to the purchasing process there. Similar scope exists for a rigorous examination of particular source markets, to determine where there are most problems in terms of particular ethical problems

affecting retail purchasing. This may be of particular interest in the textile and clothing industries because of the dismantling of the MFA.

Thirdly, more work is necessary to investigate the role of agents and intermediate suppliers to retailers in terms of their adherence or otherwise to retailer codes of conduct and their interest in and responsibility for maintaining high ethical sourcing standards.

Lastly, it would be of value to look in more detail at the influences on specific individuals involved in the retail buying function in terms of their personal ethical attitudes. Some evidence from the present research indicated that this is affected by personal and cultural factors as much as by the code of conduct and values of the organisation for which they work.

There are obvious difficulties in researching business ethics empirically because of the commercial sensitivity if a company or an individual is judged not to be ethical. Consequently, the risk exists that answers to primary research questions may not always be truthfully given. However, within the retail industry ethics represents a research topic that is both under-researched and increasingly relevant, because of its capacity to influence consumer behaviour.

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