Some challenges in product sourcing in global retail supply chains

Setting the scene

This case study looks at the management of the inter-firm relationships between several European retailers and one of their key Indian suppliers. It does so in the context of concerns regarding the treatment of stakeholders too often forgotten in the making of strategic supply chain decisions: the manufacturer's local employees.

Some of Europe's largest clothing retailers source significant quantities of garments from India. The huge buying power of these European companies allows them to negotiate extremely low wholesale prices and short production timescales. While this is financially beneficial for the retailers, it can have a detrimental effect on labour conditions for the workforce making the clothes. According to the European Coalition for Corporate Justice (ECCJ, 2011), investigations by local NGOs in Tirupur, India have revealed some highly questionable working practices in Tirupur's textile and garment factories that manufacture clothing for big European fashion retailers. Sadly, it appears that the employment practices of some Indian companies in the global supply chain create poor social and economic conditions for Indian workers and their communities.

The ECCJ is a non-profit organization that promotes corporate accountability by representing NGOs, trade unions, consumer groups and academic institutions from all over Europe, including national chapters of Oxfam, Greenpeace, Amnesty International and Friends of the Earth. Some of the information collated by the ECCJ in their report into the global retail supply chain was provided by the Campaign Against Sumangali Scheme. This is a coalition of organizations in India that works to raise awareness about the so-called 'Sumangali Scheme' and calls for an end to this system of recruitment (see below).

India is the second largest producer of textiles and garments in the world. It is one of the few countries that covers the whole value chain, from the production of cotton to the final stitching in a piece of apparel. India, together with China, Bangladesh and Vietnam, is a major exporter of finished garments to the US and EU. In 2009 India exported garments worth 4.06 billion Euros to the EU, accounting for 55% of the country's total garment exports (Apparel Export Promotion Council, 2010). Textiles and garments thus play a key role in the Indian economy. In order to attract foreign investment the Indian government attempts to create a business-friendly environment, such as setting up special economic zones where firms are offered financial incentives. At the same time, implementation and enforcement of labour laws can be slow. This is partly because the textiles and garment value chain is long and complex, with a high degree of subcontracting (ECCJ, 2011).

Investigating an Indian manufacturer

KPR Mill Limited is a leading textile producer and garment exporter located in the state of Tamil Nadu. It has integrated the whole value-adding process, from yarn manufacturing to clothing production. The company employs more than 10,000 workers, of which about 90%

are female. In the financial year 2010, the company made net profits of 8.21 million Euros. In 2009, KPR Mill produced 9.029 metric tons of fabric and 20.5 million pieces of clothing (ECCJ, 2011). All the clothing the company produces is exported, mainly to the European market, where 90% of its goods are sent. According to the firm's own website, buyers from a number of well-known European retailers (or global firms with outlets in Europe) have sourced from this supplier, such as H&M from Sweden, Decathlon, Kiabi and Carrefour from France, C&A from Belgium/Germany and Gap from the US (KPR Mill 2010a).

KPR Mill states that it has "one of the lowest employee cost of the industry .... At 3.3 % of sales, against an industry average of 8.3 %" (KPR Mill, 2010b). Contributing to its low labour cost is the fact that the company employs mainly young women. While factory management claims to only employ girls aged 18 years or older, ECCJ located girls aged as young as 13 working at one of the company's spinning mills. While the benefits of having as many members of the family in employment as possible should not be discounted by those of us blessed with a Western sense of relative economic security, the employment of child labourers is a violation of India's Child Labour (Prohibition and Abolition) Act 1986 and a breach of the International Labour Organisation's Convention Prohibiting Child Labour.

In fact, the company specifically targets young, unmarried girls mostly coming from socially and economically marginalised indigenous communities. These girls are offered a relatively large amount of money, Rs. 30.000 to Rs. 40.000 (approximately €500 to €650), after three years of employment, which can be used to pay for their dowry. Although legally prohibited, the payment of a dowry is still commonplace in India, where a girl often cannot get married without her family providing money to the groom. This labour recruitment system has, rather ironically, come to be known as the 'Sumangali scheme', where 'Sumangali' refers to a happy and contented married woman in Tamil.

Moreover, KPR Mill prohibits the formation of a trade union even though this contradicts Indian law and international treaties. According to the factory management, workers earn above the legally set minimum wage. Statements of workers and ex-workers, however, indicate that workers are paid less than this. A considerable amount is deducted from the workers' wages to pay for factory-provided meals and to save for the dowry. In addition to low wages, women have been subjected to excessive working hours: workers and ex-workers told ECCJ they have to work 12-hours shifts several times a week. The working week consists of six working days so, unsurprisingly, the workers are frequently exhausted. There are also many complaints of poor food quality. In March 2009, 24 girls working were admitted to hospital with food poisoning, and three later died (Kalai Kathir, 2009). The workers' health is furthermore compromised by work floor conditions. In the spinning area, humidity, heat and air-borne cotton fibres all contribute to ill-health and breathing difficulties.

Although India may have laws in place against these types of malpractice, ECCJ could not identify that any action had been taken against the manufacturer by the Indian Labour Department. This is a dilemma for the parents of the girls working in the garment factory, most of who are economically vulnerable and have not had access to education, since allowing their daughters to continue to work for KPR Mill means they will at least be fed three times a day. Thus local communities affected by the impacts of this key supplier to European retailers tend to feel powerless and often remain silent (ECCJ, 2011).

Responses from EU retailers

In 2010, after a fact-finding mission by journalists organised by the ECCJ, several newspapers reported on labour conditions at KPR Mill. Following these media articles, some of these retail brands announced they had terminated their trade with the supplier or that they were considering ending the relationship. Before publishing its findings, ECCJ sent their draft report to those companies mentioned in it. The responses of these retailers are provided below:

H&M responded that, following several audits, it has decided to end its business relationship with KPR Mill's garment division. H&M stated that it did not have “the needed trust for a continued relationship and has therefore decided to terminate the business relationship." H&M informed ECCJ that it works with other buying companies in the Brands Ethical Working Group. This group is discussing how buyers can work together to prevent the Sumangali Scheme among spinning mills. H&M has also addressed the issue with the Apparel Export Promotion Council in India and the Indian Minister of Textiles.

Carrefour explained that it has taken the decision to end its relationship with KPR Mill. It said no discussion had been possible with KPR Mill about their use of the Sumangali scheme. More broadly, Carrefour had teamed up with a local NGO, "to identify possible cases of Sumangali Scheme in its supply chain and avoid starting to work with suppliers using this scheme" (as reported by the ECCJ 2011).

C&A claimed to have already ended its cooperation with KPR Mill in 2007 when it discovered the use of the Sumangali Scheme. It subsequently placed a test order with a KPR subsidiary in 2010, not knowing that in fact it was dealing with KPR Mill. When this was discovered, C&A stated that the order was pulled. C&A informed ECCJ that it is currently conducting extensive auditing of its Tirupur supply base in order to be certain that similar practices do not occur in its supply chain.

Decathlon (now Oxylane) conducted an audit at KPR Mill following the press reports. During this audit some critical non-conformances with Decathlon’s code of practice were identified. Decathlon subsequently suspended its production, and KPR Mill was given the time to set up and implement a corrective action plan. Decathlon states that recent audits have confirmed a strong improvement. It has therefore decided to re-launch its production at KPR Mill.

Gap denied having any business relationship with KPR Mill.

Kiabi did not respond to ECCJ’s draft report at all.

Discussion

So what may we conclude about retailers' decision-making processes from this case study? The ECCJ believes that EU companies have a duty of care to ensure that human rights and environment are respected throughout their operations, including their supply chain. In order to be effective and increase leverage to address these problems, it asserts coordination amongst retail buyers is vital; for instance by mutual agreement, such as the Brands Ethical Working Group supported by H&M above, not to purchase goods from supply chains where questionable practice exist.

Admittedly, while some of the retailers in this case only appear to have responded following media revelations, there does seem to be a shift towards much closer examination of inter-firm relationships and the practices of partner firms within the retail supply chain. Moreover, in addition to retailers imposing their own codes of practice 'vertically' within the supply network, they are starting to collaborate 'horizontally' between themselves. This sort of agreement may be difficult to achieve across the sector, however, if retailers are caught in a 'race to the bottom' to lower their production costs – after all, what better way to gain a competitive advantage over your main high street rival than to be able to source your products more cheaply than they can?

The functional separation of departments (such as marketing and purchasing) inside retail companies may also have had some impact on buying decisions. Simply signing a contract to produce a new style of clothing in an export processing zone does not require an individual to think in great detail about the ramifications of this simple action (signing the form). A manager may have done what was expected from someone in a purchasing role by having sought out a low cost manufacturer. Indeed, despite the claims by several of the EU retailers regarding their Indian sourcing practices in this instance, in many day-to-day activities the "consideration of ethics…is somewhat forgotten in the…quest to achieve economic and financial goals" (Laczniak & Murphy, 2006, p155).

Taking this point even further, we might ponder the fact that criticisms of firms like Nike, Wal-Mart and other major companies accused of using 'sweatshop' labour (Knight & Greenberg, 2002) have kept supply chain sourcing issue in the news for some years. But, in all honesty, should a retailer or clothing manufacturer care about those producing its goods? Does such controversy surrounding the way garments are produced have much impact on total sales? Some of the retailers highlighted in ECCJ's report may have been concerned about their reputations, but what do consumers actually think? Is it the case that, as Holt et al (2004, p72) propose: "consumers vote with their checkbooks if they feel that transnational companies aren't acting as stewards of public health, worker rights, and the environment"? This seems rather a very strong assumption to make about the buying behaviours exhibited by consumers. Despite the efforts of organizations like the ECCJ, a hard-pressed retailer might not consider it a very compelling economic argument, regardless of its moral validity.

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