

# Corporate Social Responsibility in China Apparel Industry

Zhao Linfei, and Gu Qingliang

**Abstract**—China apparel industry, which is deeply embedded in the global production network (GPN), faces the dual pressures of social upgrading and economic upgrading. Based on the survey in Ningbo apparel cluster, the paper shows the state of corporate social responsibility (CSR) in China apparel industry is better than before. And the investigation indicates that the firms who practice CSR actively perform better both socially and economically than those who inactively. The research demonstrates that CSR can be an initial capital rather than cost, and “doing well by doing good” is also existed in labor intensive industry.

**Keywords**—Global production network, corporate social responsibility, China apparel industry.

## I. INTRODUCTION

SINCE the early 1990s on, corporate social responsibility (CSR) has become an issue of increasing importance in regard to outsourcing by developed countries of low-tech, labor intensive production to developing countries. Thus, CSR implies the claim that such outsourcing should not only be profitable, but also ethically accountable. Involvement in unethical business operations can be quite fatal to companies, and this is not least the case in relation to operations in China, “the workshop of the world” [1].

As the “workshop of the world”, China’s manufacture industry are deeply embedded in the global production networks (GPN), economic upgrading and social upgrading are two urgent issues that China’s industry should and must face. Especially, as the largest producer, exporter and a potential market, China’s garment industry plays a vital important role not only in the national economic reforming and development but also in the world’s. The MFA phased out (Jan.1st, 2005) enlarges the world trade and the room for the industry’s development, especial for developing countries and LDCs, therefore, accelerated the restructuring of GPN. However, the evolution of GPN and transition of the industry have led to disputes, conflicts and challenges as well.

As a prototypical buyer-driven commodity chain, the apparel GPN dynamic offers giant retailers and brands’ buyers more

choices, and maxes their powerful bargaining in sourcing, consequently shrinks the suppliers’ profits. In addition, the trend of fast fashion (eg. H&M, ZARA) demands shorter lead time, smaller order quantity and various product lines, which led to higher cost, transaction expenses and risk. On the other hand, increasing labor cost after New Labor Contract Law being valid in 2008, put garment firms into an embarrass situation. For most of them, it is difficult to recruit workers, especially in coastal areas. High work load, long working hours, low wages and high living expense obviously cause high labor turn over. Decent work is not only required by buyers and public, but also a realistic issue of garment firms.

The research is based on the questionnaire survey in 2008 in Ningbo city. The paper aims to explore the real situation of CSR in China apparel industry and the performance of CSR strategy, to demonstrate whether “do well by doing good” or not. Ningbo city, the biggest clothing industrial cluster in China, accounting approximately 1/9 of total domestic garment production, specializes in knitting wear, man’s suits and shirts,

TABLE I  
EVOLUTION OF THE CSR CONCEPT

| Reference Studies   | Main Topics  | CSR Concept   |
|---|--|---|
| Davis (1960, 1967)<br>McGuire (1963)<br>Walton (1967)   | Significant attempts to formalise the meaning of CSR.  | It supposes that organisations have not only economic and legal obligations, but also certain responsibilities relative to society.   |
| Johnson (1971)<br>Steiner (1971)<br>Davis (1973)<br>Sethi (1975)<br>Preston and Post (1975)<br>Carroll (1979) | Proliferation of CSR definitions and attempts to define distinctive features and rules of CSR. The analysis of the relationship between CSR and performance did start. | It is the pursuit of socioeconomic goals through the elaboration of social norms in prescribed business roles. The firms have the responsibility to produce goods and services that society wants and to obtain profit. |
| Jones (1980)<br>Carroll, (1983)<br>Drucker (1984)<br>Freeman (1984)<br>Frederick (1986)                       | Few definitions did appear. There are additional research and alternatives themes  | It involves the strategic conduct of firms and is composed by four parts: economic, legal, ethical and voluntary or philanthropic.  |
| Wood (1991)<br>Carroll (1991, 1994, 1999)<br>Donaldson and Preston (1995)                                     | CSR is integrated in alternative topics of research. The importance of stakeholders did increase.  | It was oriented to alternative themes, such as, business ethics, international social issues, and corporate social performance.   |

Source: Leitão, et al.(2007).

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kids' wear and casual wear. It has really a reflection on the industry in reforming and transition. Most products in Ningbo apparel firms are exported to EU, USA and Japan, so Ningbo clothing industry is a good case to reflect the current situation of China apparel industry in GPN and the status of CSR in China's garment industry and to investigate the performance of CSR. The questionnaire covers basic information and profile implementation and practice, strategies, and performances of CSR (mainly on employee). The survey was conducted during Feb-Apr. of 2008, and the number of sample is 93.

## II. THE EVOLUTION OF CSR—A SHIFT FROM OBLIGATION TO STRATEGY

Falck and Hebllich (2007) reviewed "CSR in the course of time": the term CSR was first formalized by Bowen as a "obligation", Drucker proposed a "new meaning" for CSR, with special focus in the role of the Third Sector: the Social [2]. Generally, CSR is a tortured concept within the academic literature [3]. For example, Carroll (1999) reviews and discusses over 25 different conceptual definitions of CSR [4], and Leitão, et al.(2007) reviewed the most important reference studies about the CSR concept on an evolutionary basis[5](Table I). Their review indicates the evolution of the CSR concept before 2000 had a shift from "obligations and certain responsibilities relative to society" to "international social issues, and corporate social performance".

However, since 21 century, the CSR concept is in further evolution into "strategy" and "competitive advantages". Falck and Hebllich (2007) show that by practicing CSR strategically, a company can 'do well by doing good'; in other words, it can make a profit and make the world a better place at the same time. CSR is regarded as voluntary corporate commitment to exceed the explicit and implicit obligations imposed on a company by society's expectations of conventional corporate behavior. Companies can support this procedure and in doing so, gain profits at the same time [2]. Porter and Kramer (2006) call this win-win situation strategic philanthropy. CSR can thus be considered an efficient management strategy, and can be a crucial factor in the company's success. The practice of CSR is an investment in the company's future [6]. Used well, it is a way of actively contributing to the society's basic order and, in doing so, enhancing the company's reputation. From a supply-side perspective, a good reputation is necessary to attract, retain, and motivate quality employees. From a demand-side perspective, a good reputation increases the value of the brand, which, in turn, increases the company's goodwill [2]. So, CSR can be much more than just a cost, constraint, or charitable deed. Approached strategically, it can be a source of opportunity, innovation, and competitive advantage [6]. Jiang and Gu (2008) indicate that CSR strategy has a significant impact on the competitiveness of the firm. CSR also have an impact on staff turnover and corporate reputation but not significant [7].

From above, we can see the CSR concept has "a shift from obligation to strategy": the traditional approach is passive, to

fulfill CSR as an obligation, while the new approach is positive, to make strategically, it can improve the competitiveness of the firm and support the corporate objects as well. Decision making now reflects an increased desire for "doing well and doing good" [8].

## III. THE SITUATION OF CSR IN CHINA APPAREL INDUSTRY

The clothing industry is labor intensive in nature and quite market oriented and privatized. The majority of the firms are SMEs, there are nearly no SOE in Zhejiang province. The industry is booming in decades as market reform progress in home and international market growing. It is true that majority are OEA & OEM firms and export oriented. The survey shows that the majority of the samples are engaging in processing, but more and more firms are involved in marketing and branding. A number of these manufacturers are integrating forward from specification contracting (the OEM or full-package role) to developing and selling their own brands (the OBM role). The majority of apparel firms in Ningbo city are export oriented. Nearly 2/3 firms' 90% production are exported, and the destination of export mostly concentrate on EU, USA & Japan. It verifies that as a typical buyer-driven chain, the leading companies in developed countries control the apparel chain (branding and marketing) and gain high value-added, and the apparel firms in developing countries stay in the low value-added processing and manufacturing segments.

Generally, the survey indicates the situations of CSR in garment industry are improving. Comparing with previous survey results<sup>1</sup>, salary is increasing and welfare are better. The average month salary of the samples in 2004 investigation is 1130 yuan and that in 2008 investigation is 1548 yuan, which has been increased by 9.2% annually. 62.4% firms have a labor union and most employees can complaint anonymously (in nearly 80% firms). Negotiation rights of the labor union are relatively easy to meet. Most of companies (nearly 90%) can connect security and health working environment with job description. There are 70% firms have the staff development training program. The situation of every kinds of welfare is listed in the Table II, which we can see most firms pay pension insurance, medical insurance and unemployment insurance for workers, and 60% firms provide living allowance and most firms give food subsidy. But over half firms have no women pregnant insurance and only a few give housing accumulation fund.

<sup>1</sup> We have two former studies based on the investigation of Ningbo apparel firms, which are: Phase I. April 2004 before MFA ending, 173 firms surveyed, aimed at: Competitiveness of garment industry after MFA phased out; Phase II. Nov.-Dec. 2005 after MFA phased out, 130 firms surveyed, aimed at: The choice of CSR strategies.

TABLE II  
WELFARE FOR WORKERS

| Welfare                   | Frequency* | %    |
|---------------------------|------------|------|
| Pension Insurance         | 85         | 91.4 |
| Medical Insurance         | 63         | 67.7 |
| Unemployment Insurance    | 57         | 61.3 |
| Housing Accumulation Fund | 13         | 14.0 |
| Living Allowance          | 56         | 60.2 |
| Food Subsidy              | 65         | 69.9 |

\* Multiple Choice

Data source (Table II-IX): Feb-April, 2008 Ningbo Survey

TABLE III  
CERTIFICATIONS

| The Kind of Certifications | Frequency <sup>a</sup> | %    |
|----------------------------|------------------------|------|
| ISO9000                    | 53                     | 58.2 |
| ISO14000                   | 23                     | 25.3 |
| OHSAS18000                 | 2                      | 2.2  |
| SA8000                     | 1                      | 1.1  |
| CSC9000 <sup>b</sup>       | 3                      | 3.3  |
| COC <sup>c</sup>           | 24                     | 26.4 |
| Others                     | 5                      | 5.5  |
| None                       | 30                     | 33.0 |

a Multiple Choice

b COC: Code of Conduct

c CSC9000T: China Social Compliance 9000 for Textile Industry

According to working hours, many firms think it is difficult to follow the legal provisions. So work overtime maybe a common phenomenon in clothing firms, perhaps it is closely linked with the tight delivery time in orders of majority processing firms. And half parts of firms think it is difficult to pay the overtime wages follow the standard by labor law. By contrast, most of the firms think it is easy to meet the legal minimum wage standard. There are almost no child labor and no sex discrimination in the firms.

Indeed, more and more firms pay attention to the management of quality, environment and social responsibility. The state of the samples gain the certifications of every kind of standards can be seen in Table III. According the survey, the pressure of certification also comes from the buyers, whose orders, more or less, force 80% firms of the samples to fulfill the social responsibility standard.

Although the situations of CSR in garment industry are getting better, however, considering the heavy work load, increasing living cost, and firm's financial difficulty caused by macro economic factors, the garment industry's decent work is still a big challenge. Half firms have encountered "hard-time of recruitment" each year in recent years.

TABLE IV  
STRATEGIC GROUP BY CLUSTER ANALYSIS

| The Attitudes to CSR   | Score   |         |
|--|---------|---------|
|  | GROUP 1 | Group 2 |
| Enterprises to fulfill their social responsibility and corporate profits are contradictions.   | 3.61    | 2.41    |
| If rising labor standards, the increased costs will threaten business survival   | 3.80    | 2.55    |
| Fulfilling corporate social responsibility in the future can enhance the competitiveness.  | 3.41    | 4.04    |
| It is ok that just achieving the minimum requirements of environmental and labor regulations and laws.   | 3.55    | 2.31    |
| If not conducive to the survival and development of enterprises, there is no necessary to fulfill their social responsibilities.                               | 3.05    | 1.78    |
| Under the premise of sustained operating, the enterprises hope to make the greatest efforts to fulfill their social responsibilities.                          | 3.89    | 3.98    |
| To perform environmental & Labor Standards, just because it's forced by buyers, industry associations and government departments, and other external pressure. | 3.11    | 2.20    |
| For long-term benefits to enterprises, they can give up some short profits, and commit to social responsibility positively.                                    | 3.48    | 4.10    |
| Commercial interests is the first, while environmental protection and social responsibility is the second.   | 3.34    | 2.16    |

Note: 1= strongly agree; 5=strongly disagree

TABLE V  
COMPARISON OF THE AVERAGE PROFIT MARGIN OF GROUPS

| Year | The Average Profit Margin |         |
|------|---------------------------|---------|
|      | GROUP 1                   | Group 2 |
| 2005 | 12.16%                    | 15.11%  |
| 2006 | 10.33%                    | 15.02%  |
| 2007 | 10.33%                    | 12.91%  |

TABLE VI  
COMPARISON OF THE BUSINESS TYPES OF GROUPS

| Business Type                           | Group 1 | Group 2 |
|---|---------|---------|
| Processing                              | 35      | 44      |
| Own brand with production capacities    | 12      | 24      |
| Own brand without production capacities | 3       | 1       |
| Franchising                             | 4       | 8       |

TABLE VII  
COMPARISON OF WELFARE FOR WORKERS OF GROUPS

| Welfare                   | Group 1 |      | Group 2 |      |
|---------------------------|---------|------|---------|------|
|                           | N       | %    | N       | %    |
| Pension Insurance         | 38      | 86.4 | 47      | 95.9 |
| Medical Insurance         | 25      | 56.8 | 38      | 77.6 |
| Unemployment Insurance    | 23      | 52.3 | 34      | 69.4 |
| Housing Accumulation Fund | 6       | 13.6 | 7       | 14.3 |
| Food Subsidy              | 30      | 68.2 | 35      | 71.4 |
| Holiday and Travel        | 6       | 13.6 | 14      | 28.6 |
| Women Pregnant Insurance  | 17      | 38.6 | 26      | 53.1 |

TABLE VIII  
COMPARISON ON CSR OF GROUPS

| CSR  | Group 1 |      | Group 2 |      |
|--|---------|------|---------|------|
|  | N       | %    | N       | %    |
| Working Position with Security and Health Connection | 39      | 84.8 | 43      | 93.5 |
| Worker's Development and Training Plan               | 27      | 58.7 | 38      | 82.6 |
| Special Environment Protect Department               | 5       | 10.9 | 17      | 37.0 |
| Labor Union  | 25      | 54.3 | 33      | 71.7 |
| Employees' Anonymous Complaints                      | 38      | 82.6 | 33      | 71.7 |
| Discharge of Waste or Emissions                      | 8       | 17.4 | 8       | 17.4 |

TABLE IX  
CORRELATIONS BETWEEN BUSINESS TYPE AND CSR

| CSR   | Business Type Classification |           |
|---|------------------------------|-----------|
| Pension Insurance   | Pearson Correlation          | .359(**)  |
|   | Sig. (2-tailed)              | .000      |
| Medical Insurance   | Pearson Correlation          | .332(**)  |
|   | Sig. (2-tailed)              | .001      |
| Companies Connect Security and Health with Working Position | Pearson Correlation          | -.212(*)  |
|   | Sig. (2-tailed)              | .041      |
| Staff Development and Training Plan                         | Pearson Correlation          | -.295(**) |
|   | Sig. (2-tailed)              | .004      |
| Labor Union   | Pearson Correlation          | -.210(*)  |
|   | Sig. (2-tailed)              | .043      |
| To Follow the Working Time of Labor Law                     | Pearson Correlation          | .298(**)  |
|   | Sig. (2-tailed)              | .004      |
| The Standard Calculation of Overtime by Labor Law           | Pearson Correlation          | .261(*)   |
|   | Sig. (2-tailed)              | .011      |
| No Sex Discrimination                                       | Pearson Correlation          | -.217(*)  |
|   | Sig. (2-tailed)              | .037      |
| Special Department for Environment Protection               | Pearson Correlation          | -.305(**) |
|   | Sig. (2-tailed)              | .003      |

\*Correlation is significant at the 0.05 level (2-tailed).

\*\*Correlation is significant at the 0.01 level (2-tailed).

#### IV. THE PERFORMANCE OF CSR

In order to indicate the performance of CSR, the samples are classified into two groups according their views on CSR and development (see Table IV). Group 1 is relatively inactive in CSR (44 cases), and Group 2 is relatively active in CSR and with positive attitudes towards long-term development (49 cases).

The performances of CSR between the two groups can be seen both financially and socially. The average profit margin of the groups is listed in Table V, which indicate the profit margins of group 2 are all higher than that of group 1 in recent 3 years. There are also differences in business types between the 2 groups (Table VI), and the differences of the type of own

brand with production capacities are very significant. It also can be investigated that there no significant differences in the type of processing, that is to say, processing doesn't just means inactive CSR strategy.

The worker's average salary and welfare of the two groups are different. The monthly salary of group 2 is higher than that of group 1 (RMB 1566 VS RMB 1536), and the welfare of group 2 is also better than that of group 1 (Table VII). Concerning other indicators, such as labor union, worker's development and training as well as the right of anonymous complaints, etc., group 2 also performs better than group 1 (Table VIII). Besides, there are significant correlations between business type and CSR (Table IX). In the questionnaire, we divide business types into four kinds: Processing, Own brand with production capacities, Own brand without production capacities and Franchising. According the survey, the type of 'Own brand with production capacities' fulfills CSR better than the other three.

#### V. CONCLUSION

Reviewed the academic research on CSR, there is an evolution of the concept of CSR from "obligation" to "strategy". Practiced successfully, CSR may become the competitiveness of the firms. That is demonstrated by the practice of CSR in China apparel industry. China apparel industry, which deeply embedded the GPN, as the largest producer in the world, faces the dual pressures—social upgrading and economic upgrading. Based on the survey in Ningbo apparel cluster, it shows that CSR in China apparel industry is better than before. Especially, the firms of "Own brand with a production capacity" business type fulfill CSR than other three business type: Processing, Own brand without a production capacity and Franchising. Investigated enterprises are divided into two types according to their attitudes towards CSR by cluster analysis. It shows that those who positively in CSR perform better socially and economically. The research demonstrates that CSR is "invisible capital rather than cost" [9]. Practicing CSR strategically, a firm can enhance its economic and social performance. So, "doing well by doing good" is also existed in labor intensive industry.

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