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Empirical Study on Social Initiatives of Small and Medium Enterprises (SMEs) in Indian Apparel Industry

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Abstract

SMEs have initiated social responsible activities for enhancing their competitiveness in the export trade. The study aims to recognise the influence of international standards (ISO 9000, ISO 14000, SA 8000 and WRAP) on the competitiveness of knitted apparel export organisations in India. The study visualises the commitment of business houses with internal and external social issues in their geo domain. Export organisations in the Indian apparel cluster, which exports products mainly to the USA and the European Union, have shown various contributions and are committed to social issues, especially workers' welfare, even during a lull in the financial period. International buyers are also collaborating with the business houses towards social initiatives. This research study was confined to the Tiruppur apparel cluster in India, which is the single largest cluster, exporting 40% of the total Indian knitted garments to the world market. The study attempted to understand the level of social initiatives undertaken by SME apparel exporters in the Indian apparel industry. The study result also highlights the need for and significance of social standards over other competitive factors like price and quality.

Key words: social initiatives, competitiveness, social standards, apparel cluster, SMEs.

■ Introduction

Social initiatives by business houses appear to be a norm of the Apparel trade universally. Social initiatives are connected to ethical sourcing, which covers the safety of employees, child labour, minimum wages, working hours, disciplinary practice, discrimination, and workers' benefits. Social standards are behavioural standards that represent a comprehensive, and potentially global, corporate social responsibility registration system and encourage organisations to develop, maintain and apply socially acceptable practices in the workplace. Keen observations are made by apparel buyers in the international market upon the requirements of social standards at manufacturing points. However, a few incidents have shocked the nerve root of the business and social welfare world due to negligence in adopting social standards: On 24 April 2013, Rana Plaza – an eight-storey complex containing several clothing factories in Dhaka, Bangladesh – collapsed due to insufficient safety measures, and around 1,135 apparel workers died and over 2,500 were injured in this biggest disaster of the apparel industry [i]. A fire at the Tazreen Fashions factory in Bangladesh killed 112 workers during September 2012 [ii]. These kinds of disasters have sent a serious message to people around the world, and global business giants such as Walt Disney co, Wal-Mart, Primark, Benetton and others are compelled to move away from those coun-

tries where factories run a high-risk of safety problems, including Bangladesh, Pakistan and Venezuela [iii]. The European Union, acting on behalf of Europe's retailers, issued a statement threatening to withdraw preferential trade access to EU markets for Bangladesh [iv]. These incidents have raised a valid question of whether companies pay attention to social issues such as providing better working conditions, safety, and social empowerment on a par with economic goals or they are only profit driven [1, 2].

To stay in businesses, companies are required to be aggressive and competitiveness lies in their ability to produce products consistently and profitably that meet the requirements of the open market [3]. By implementation of a Quality Management System (QMS) such as ISO 9000 [v], organisations experience a competitive edge that would lead to a greater market share and economic growth [4]. However, competitiveness is considered as the long-term aim of raising the standard of living [5], and the ability of an economy to secure a higher living standard than similar economies for the present and future [6]. Macroeconomic competitiveness related to the main goals of nations refers to the well-being of a nation or its citizens [7]. Recent research has established that successful knowledge management would provide a greater advantage for successful supply chain management [8]. In the global apparel market, though, competitiveness is primarily based on

pricing [9], with increased media attention, pressure from Non-governmental Organisations (NGOs), and rapid global information sharing, there is also a surge in demand from civil society, consumers, governments, and others to follow sustainable business practices [10, 11]. Even in the developed world, illegal labour and discriminatory practices are still usual [12, 13]. There is great awareness among European and the US consumers [14], despite the recession, and 91 per cent prefer firms that follow ethical business practices [15]. However, a United Nations Industrial Development Organisation (UNIDO) survey across countries highlighted the concern for the low level participation of Small and Medium Enterprises (SMEs) in developing countries with socially responsible activities [16]. Lately the US Department of Labour has listed many countries where child and forced labour are employed in the apparel, embellished textile and carpet industries with the intention of prevention of importing such products in violation of international social standards [vi].

This study was conducted across Tiruppur, which has an important place on the global knitwear map and can cater for everything in knitwear. The town is [17] in the southern part of India, where the textile industry is the second largest employment-generating sector [18] after agriculture, directly employing one million people. Most of the activities in the Tiruppur apparel cluster is customized and carried out individually [19]. In the global apparel market, the EU and USA are the major markets for apparel, accounting for 45 and 21 per cent, respectively, of world imports [vii]. In the order of global exports of textiles, India ranks third, trailing the EU-27 and China [viii]. Tiruppur, apart from catering for the domestic market of India, contributes most to the export. Exports have increased from a meager Rs. 100 million in 1985 to Rs. 130,000 million in 2012 - 13, accounting for more than 40 percent of the total knitwear exports from India [ix]. The number of SA 8000 certified textile units in Tiruppur is 182 (23% of the global) [x] and WRAP - 67 (4% of the global) [xi]. Many international brands such as Nike, Cutter & Buck, Adidas, GAP, Tommy Hilfiger, Katzenberg, Van Heusen, Fila, Arrow and leading chain stores such as C & A, Wal-Mart, Target, Sears, H & M and Mother Care, source knitted apparel from Tiruppur. A large part of the working population in the Tiruppur

apparel cluster is non-local and is pooled from different parts of the country such as central, north and north-east India [20]. Hence considering the value and volume of the exports, it was found appropriate to conduct a study in the Tiruppur apparel cluster to understand the level of social initiatives undertaken for growth by SME apparel exporters in the Indian apparel industry.

■ Review of literature

Basically literature in this research are grouped into three categories: Social standards - leveraging tools, Social Standards, Social standards in the name of CSR.

Social standards in the name of CSR

Since the mid- 1950s, the social responsibilities of business, referred to as corporate social responsibility (CSR) [21], have grown as an area of interest for academics, practitioners and entrepreneurs in terms of both theory and practice. It has become the latest management fad [22]. However, CSR is an uncertain and complex term of assorted meaning [23]. Although most of the studies attempted to define the unique features and rules of CSR [24], almost no consensus has emerged on the definition of CSR [25], due to the ongoing injection of new concepts [26, 27]. This has caused chaos and overlap, without improving the clarity of the CSR concept itself [28, 29]. Some of the theories [30] centred on the relationship between companies and their social context: society interacts with business at large, lending it legitimacy and prestige. Much of the literature on CSR to date has engaged in mitigating in economic/philanthropic terms and the various activities connected with CSR [31, 32]. CSR as a concept encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time [33, 34]. More specifically, it is focussed on the question to whom should business be socially responsible and whether it is “an organization’s obligation to maximise its positive impact and minimise its negative impact on society” [35, 36]. In India, the concept of “Social Responsibility” has also been started by corporations [37, 38].

Social standards

Global apparel buyers, apart from the cost, are also obliged to pressurise Indian textile firms to demonstrate ethi-

cal business practices and ensure ethical sourcing [39, 40]. Social standards are introduced as the outcome of multiple level discussions between industry stakeholders, such as global apparel buyers, NGOs and international brands. Social standards such as ISO 14000 [xii], the Occupational Health and Safety Assessment Series (OHSAS) 18000 [xiii], Social Accountability (SA) 8000 [xiv], Business Social Compliance Initiatives (BSCI)[xv], Worldwide Responsible Accredited Production (WRAP) [xvi], the Fair Trade Association (FTA) [xvii], the Fair Labor Association (FLA) [xviii], GOTZ[xix], OEKO Tex 100 [xx] and Socially Ethical Data Exchange (SEDEX) [xxi] are based on International Labour Organisation (ILO) conventions and concern national legal requirements. Social standards are compelled by many of the global apparel brands to meet the standards of ethical sourcing.

Social standard - leveraging tool

Among the social standards, SA 8000 is adopted in 72 countries and WRAP in 60 countries [xxii]. These are credible, comprehensive and efficient tools meant for workers’ welfare [41]. The requirements of these standards apply universally, especially with reference to the area of the location, industry sector and company size. These standards are used as a marketing tool [42]. Higher labour standards help to increase exports [43] and meet the various CSR issues. Social audit and labelling systems have induced positive changes in consumer behaviour [44], and pursuing social standards has become essential in business practices [45]. There are many studies where the existence of a positive relationship between corporate social performance and financial performance [46] is found. Indian apparel exporters are found to be increasingly adapting to this scenario, thanks to which India is one of the largest exporting countries where social standards have become part of business practice (Refer *Table 1* see page 10).

Rationale of the study

India on the global stage

In recent years there has been a tremendous amount of attention on China and India as these two countries together dominate the global exports of textiles. However, when comparing India and China, apart from their economic growth story, the difference between them lies in their institutional framework. China demonstrates a single overarching ap-

Table 1. Certified units of social standards; **Source:** Compiled by the researcher from <http://www.sa-intl.org/SA8000>, and <http://www.wrapcompliance.org/en/wrap-facilities-worldwide>.

Textile and apparel units only	SA 8000	WRAP
Countries represented globally	72	60
Number of units certified Globally	781	1768
Number of units certified in India out of the globally certified units	455 (58%)	183 (10%)
Number of units certified in Tiruppur out of the units certified in India	182 (40%)	67 (37%)
Number of units certified in Tiruppur out of the globally certified units	23%	4%

proach to all employment contracts in the country, whereas India’s approach of a segmented labour market is less centralised, covering different industries and sectors through different laws [47]. Though China has become a leader in the world economy with stunning success, in India the role of democratic participation provides trade opportunities, control over the business transactions and buyer-seller freedom in business. In addition, the democratic system supports the stakeholders’ demand on environmental and social issues and thereby showing the way towards superior sustainability in India.

Growing opportunity

Klein (2004) also stated that: “India is joining the high-growth club of nations, but in their own way, as a democratic nation” [48]. Many commentators on China and India have been arguing in favour of India’s sustainability of economic growth because of the democratic nature of the Indian political system. This identifies that the political institution of democracy can hold the key to the sustainability of development [49], which is a dominant deciding factor of industry competitiveness. Another study [50] recognizes that India’s performance is better than China’s in the growth of the health dimension of the development quality index, although China has grown three times faster at the national level. Polarisation assessments among different regions in China have shown a clear sign of divergence, while Indian states have shown a tendency of convergence. By looking at the long-term growth projections of the BRIC (Brazil, Russia, India and China) countries, India seems to be winning the race, [51] as they predict that while growth for the BRICs (Brazil, Russia and China) is likely to slow significantly over the next 50 years (upto 2050), India’s growth rate will remain above 5% throughout the period. with India’s GDP outstripping that of Japan by 2032.

Demographic setting

The Communist party leaders in China, it seems, have not done enough to spread

the fruits of economic successes to achieve social equality as well. The political pluralism in India appears to be significant for India’s success in increasing social development quality and reducing inter-regional polarisation, which may be attributable to the democratic setting of India [52]. India has a labour aristocracy of unionised workers and the organized workers are protected in large scale enterprises. This discourages Chinese-scale investment in labour-intensive industries (like garment), where high labour flexibility may be required because of fluctuating demand from overseas markets in different seasons.

Significance of SMEs

On the other hand, SMEs represent a major step towards an improved business environment and aim at promoting entrepreneurship, investments and growth [53]. They are an essential source of jobs, create an entrepreneurial spirit and innovation and are thus crucial for fostering competitiveness and employment (European commission, 2005) [54]. But, in the case of SMEs, where there is an overwhelming mass of unorganised workers, they are unable in practice to exercise even legal rights. At the same time, some of the SMEs’ in the apparel cluster have moved towards social initiatives. This research is intended to understand the social initiatives practiced by the Small and Medium enterprises (SMEs) of the Tiruppur apparel cluster in India, which comprises more than 40 percent of the country’s knitted apparel export market.

Research gap

Based on an extensive literature review made in the area of social initiatives, the following gaps have been identified.

- Most of the literature published on social issues are relevant to large scale global companies who operate either directly or through outsourced agents in different parts of the world.
- Very few attempts have been made to localise such social issues in the Indian apparel industry.

- In the literature no attempt has been made to explain the reason for adopting social initiatives by SMEs of the Indian knitwear sector.

Aim

- To understand the social initiatives carried out by SMEs of the apparel industry and to establish the reason for adopting the same through empirical study.

Scope

- The study covers the relationship between ethical practices in the form of social standards for improving society and companies’ growth through the export performance of the Tiruppur apparel cluster.

Objectives

- To study the influence of international social standards upon competitiveness in Tiruppur’s apparel industry.
- To identify the key driving factors and approach towards social issues among apparel exporters in Tiruppur.
- To observe the most recommended international standards by apparel buyers in Tiruppur’s apparel industry.

Methodology

The study is explorative in nature, involving both qualitative and quantitative data. Data for this research consisted of both primary data collected through a valid questionnaire and secondary data through literature. The sampling design was probability sampling and the sampling method adopted was simple random sampling. To collect primary data, structured questionnaires were issued to exporters who met the criteria, viz., the respondents are either direct exporters of knitted apparel from Tiruppur or Senior Managerial personnel in the apparel trade. The study was conducted across Tiruppur, in the south of India, and included everything in knitwear on the global knitwear map. Tiruppur is the single largest apparel cluster, which comprises more than 40 percent of the knitwear exports from India. The Tiruppur Exporters’ Association (TEA) is the single largest association of SMEs from the Tiruppur apparel cluster. The 29 companies included in the survey represent 8 percent of the total registered members from TEA and were approached on a simple random basis. As the survey was carried out within the cluster setting - the business

houses display homogeneous characteristics in their business, socio-cultural backgrounds and geographical situations - making many generalisations was feasible. The researcher used Excel for the purpose of data analysis.

■ Results and discussion

Objective 1: To study the influence of international social standards upon competitiveness in Tirupur's apparel industry.

Competitive factors and social standards

Data

This study identified that all the apparel exporters highlighted the following factors as influencing the competitiveness: social issues (100%), followed by quality of apparel (90%), cost of production (79%), environmental factors (38%), labour productivity (34%), timely delivery of goods (28%) and processing waste (10%) (see **Figure 1**). 48 per cent of the exporters have implemented only ISO 9000 (see **Figure 2**). Seventy-nine per cent of the exporters have implemented social standards in a combination of SA8000/WRAP/BSCI/ FairTrade/ ETI/Goetz/OekoTex/ ISO14000 / SEDEX /OHSAS 18000 and ISO 9000 standards. On the other hand, around 21 per cent of the exporters have not yet implemented any additional international standards.

Discussion

Exporters are under pressure by buyers to adhere to social issues and adopting Social standards for them means compliance to social issues. With the aim of enhancing buyer satisfaction and also for the better functioning of organisations, apparel exporters follow various international social standards as suggested by international buyers. All the standards on socialisation advocate the people's and planet's needs and then that of profit. All other preferences, especially the quality of garments, production costs, business environmental practices etc. are then followed.

Business scope

It is important to notice that exporters have begun adopting a combination of social standards like SA 8000, WRAP etc. to have better compliance of social issues with ISO 9000 standards for geographical market coverage. Any company certified with ISO 9000 or any other of the social standards is viewed as a better

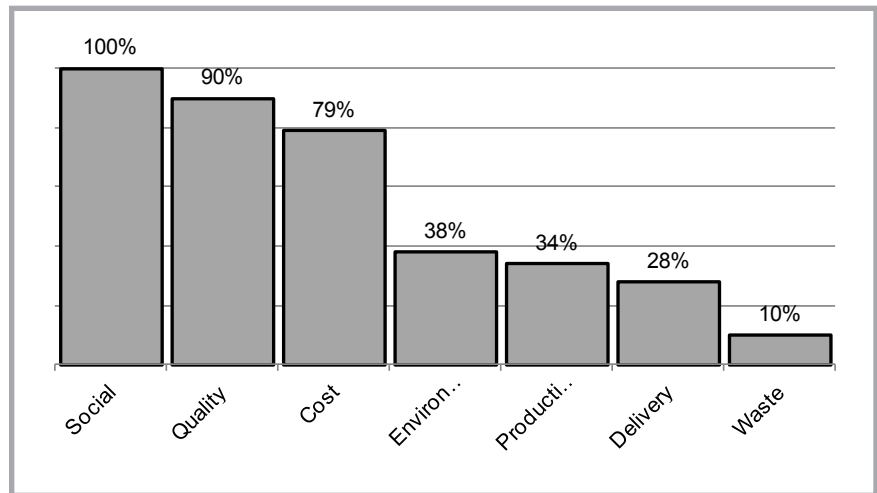


Figure 1. Competitiveness factors.

player, providing larger benefits to employees and society.

Objective 2: To identify the key driving factors and approach towards social issues among apparel exporters in Tirupur.

Factors motivating exporters to implement social standards and exporters approach towards social issues

Data

The study found that the implementation of any one of the international social standards by exporters highly depends on the global buyers' choice (97%), followed by the self-made choice of exporters (41%), then employee (7%), and community welfare (3%) (see **Figure 3**).

Discussion

The choice of global buyers adopted in Tirupur represents the long term relationship between the Tiruppur apparel cluster and the US as well as Euro buyers. Tirupur has converted itself into a global manufacturing hub with world class standards and technologies. Social standards at global benchmark are being practiced at Tiruppur industry.

Exporters approach to internal and external social activities

Data:

According to the study all the exporters (100%) are aware of Internal Social Activities (ISA), and as a result they contributed to ISA as a part of their business practices. However, 52 per cent of the exporters were identified as engaging in External Social Activities (ESA), with charities. The exporters who follow ISA, all stated that among all the ISA activi-

ties, labour welfare (100%) was the most important factor of ISA, followed by health care (93%), safety aspects (90%), training (79%), convenient work area (76%), system (management practices) (52%), disciplinary practice (17%) and a discrimination free environment (14%) as the least contributing factor of ISA (see **Figure 4**, page 12). Evidently all the exporters consistently follow the ISA, even during negative financial performance. The highest contributing factor in following ISA during negative financial performance was identified as scope for future orders (83%), followed

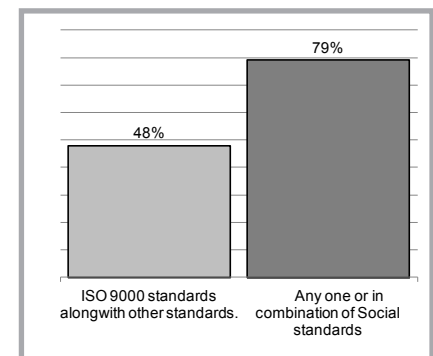


Figure 2. Standards implemented by exporters.

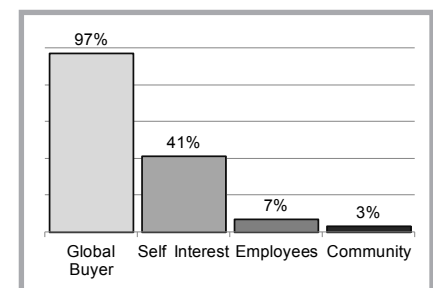


Figure 3. Drivers for Implementing Social Standards.

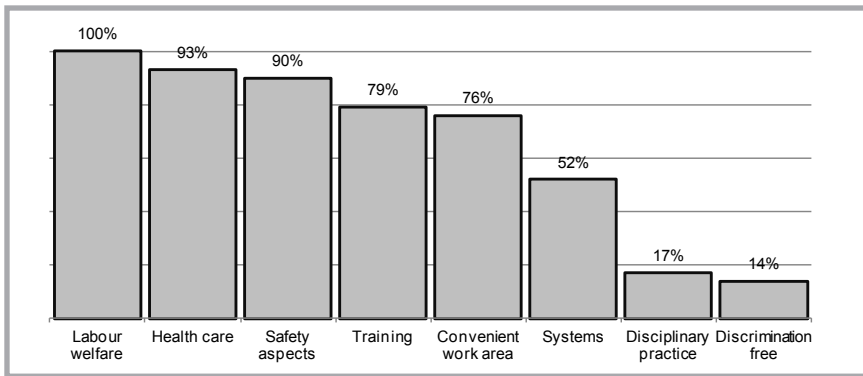


Figure 4. Important Internal Social Activities.

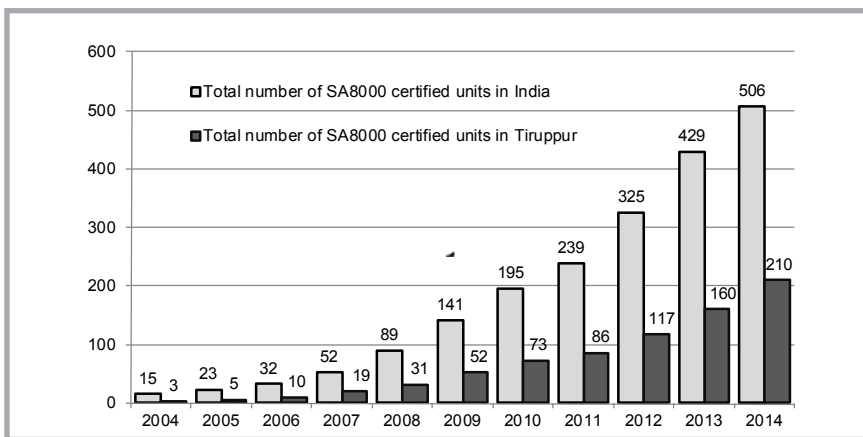


Figure 5. Number of SA 8000 certified textiles & clothing units in India and in the Tiruppur apparel cluster.

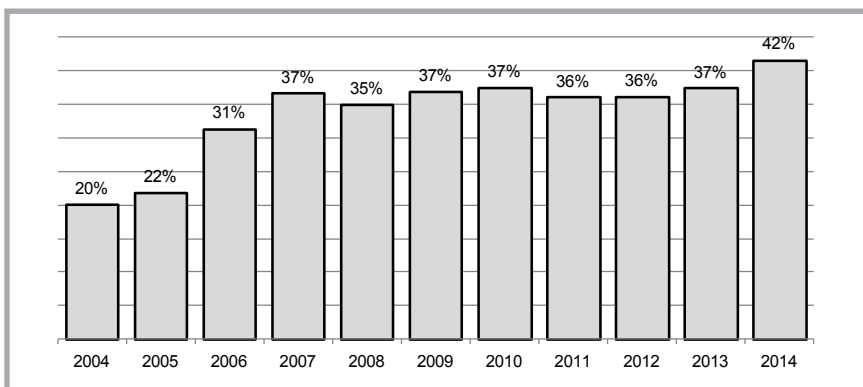


Figure 6. Percentage of SA 8000 certified units in the Tiruppur apparel cluster in relation to SA 8000 certified textiles & clothing units in India.

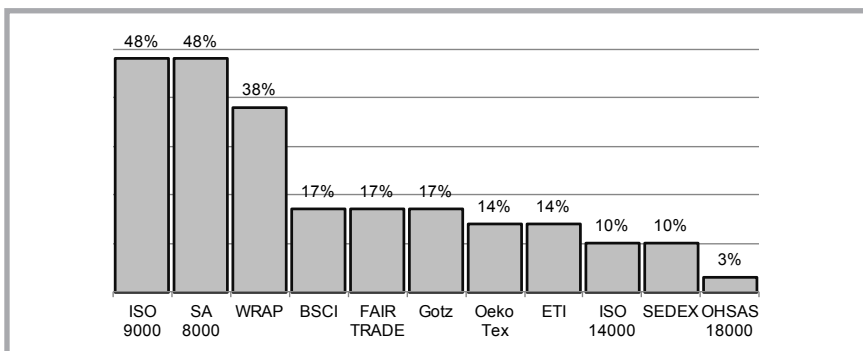


Figure 7. Details of ISO 9000 and Social Standards implemented by exporters.

by employee relationships (66%) and low wastage (59%). The personal value philosophy of exporters and buyer pressure contribute (38%), workers' welfare (34%) and ethical sourcing (31%). It was found that more than 50 per cent of the exporters did not follow ESA during negative financial performance, as there was no pressure from buyers.

Discussion

The exporters focussed on internal social activities with specific reference to labour welfare, where social standards were used for guidance. ISAs, by nature of implementation, have benefitted from improving the goodwill of firms. Since it is a labour-scarce industry, these ISAs go a long way in promoting labour support to exporters. Here the exporters have also used the certificate for social standards as a marketing tool even if global apparel buyers have shared the expenses incurred neither in the implementation of social standards nor in the frequent social audits by external agencies. ISA activities have been observed to be more consistent than ESA activities. Categorically the export organisations are showing no change in the importance of ISAs due to changes in the financial status of the organisation, and even in the case of incurring less profit or loss, exporters continue to spend on ISA as a business practice. At the same time, many organisations do not follow ESA in the case of less profit or loss.

Business scope

Adaption has been of double benefit to Tiruppur by satisfying global buyer pressure and also improving the living standards of the local labour force. This dynamism in approving the global condition and local welfare as well as earning remarkable profits are positive signs of Tiruppur becoming a model industrial town for other developing countries in the world

Objective 3: To observe the international standards most recommended by apparel buyers in Tiruppur's garment industry.

Data

The rate of increase in the number of SA 8000 certified units in the Tiruppur apparel cluster during the period 2004 to 2014 is comparatively high when comparing it with the number of SA 80000 certified units in the rest of India (Figure 5 and 6). While analysing the year-wise export performance and number of

Table 2. Details of the number of SA 8000 certified Units in relation to the export performance in Tiruppur (It is positively correlated); *Implies period upto March 2014, ** Implies period up to June 2014. (Data Source: Tiruppur exporters Association and SAAS - SA 8000).

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
SA 8000 certified units in Tiruppur	5	10	19	31	52	73	86	117	160	210**
Exports Value in Rs.(Crores)	6500	8500	11000	9950	11250	11500	12500	12500	13000	18000*
Correlation value = 0.911718										

SA 8000 certified units in the Tiruppur apparel cluster from 2005 to 2013-14, (**Table 2**), by applying the Pearson product-moment correlation coefficient (91 %), it was evidenced that both were positively correlated, 'that is, with an increase in the number of SA 8000 certified units the export performance tends to increase'. On global buyers' recommendation, they have implemented mainly SA 8000 and WRAP (48% and 38% respectively) among the available social standards (**Figure 7**).

Discussion

The adaption of SA8000 certification to a very large extent by Tiruppur exporters shows their keen interest in developing both people and profits. They have used SA 8000 standards as a competitive marketing tool among the other social standards and achieved significant growth for the past ten years. Export performance has also increased from Rs. 65000 millions in 2005 to Rs. 180000 million in 2014. This industry trend would not otherwise be possible if social standards had not become a benchmark for global buyers.

Business scope

Export values throughout the Tiruppur apparel cluster have been the feather in the cap of India's GDP. Progressing with better adaption of international standards for social welfare will create Tiruppur as the world's favourite manufacturing hub, bypassing cost or country differences.

Conclusions

The study set out to analyse social initiatives adopted by SMEs of the Tiruppur apparel cluster. The increasing adoption of social standards implies a nature of a conscious manufacturing attitude among garment exporters. In spite of the price based competitive market; social standards have gained a huge margin over commercialisation. The study confirms that ethical business practices in the form of social standards have become the major competitive factor, while quality and cost factors have been thoughtfully considered as important competitive

factors. Although doing the right thing is an important factor for the success of an organisation, it has to be coupled with the right way. The objectives of adopting social standards in a developing country like India is the right way provided it yields a good profit without exploiting people. In the case of Tiruppur this has moved to a further stage of not only improving society but also the performance competitively. Profits shared in the form of kindness towards the planet and good health for the people have proven to be the right choice for survival. The Tiruppur apparel cluster, since its inception in 1964 onwards, has been known for its dynamism and early adoption of people friendly techniques. This uniqueness of the culture has resulted in the growth of Tiruppur by leaps and bounds. This research is a pioneering step in understanding the role of social standards and their utility as a competitive tool for SMEs in developing countries like India.

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