

# **Fashionable and Sustainable?**

**Implementing Sustainability Aspects into Supply Chain Management  
in the Japanese Apparel Industry**



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## **Abstract**

The global fashion industry has grown in the last couple of decades and is expected to continue growing. Accelerated by globalization of production and the trend for fast fashion, the large portion of production has been outsourced to developing countries. Their weak environmental and social regulations exacerbates sustainability problems caused by mass production, including air pollution, water contamination, waste treatment, abuse of human and labour rights and child labour. The apparel industry in Japan, where most of the production is outsourced, also leaves un-ignorable impacts; however, sustainability aspects are rarely integrated into their supply chain management. The problems are interconnected in the dynamics of the commodity supply chain, thus mitigating them requires efforts in an integrated manner. This study aims at examining supply chain management of the Japanese apparel industry and identifying ways to move their management system towards a more sustainable future using qualitative research methods.

The traditional structure in addressing the sustainability issues is considered to be unable to maximize the potential to solve the persistent problems. This study proposes a base framework to create a supply chain with corporate sustainability aspects integrated into the management practice. By applying the framework, the current supply chain management practices of Japanese apparel companies, their barriers and potentials, and possible solutions are examined. It was found that Japanese apparel companies are still at the initial stage of establishing their sustainable supply chain management, struggling with the industry structure and barriers caused by the gap between theories and practices. It is concluded with suggestions to include more stakeholders in the management system, make the most of the existing system, and more integration of sustainability concepts.

***Keywords:*** *Sustainable Supply Chain Management, Apparel Industry, Sustainable Fashion, Japanese Companies, Corporate Sustainability, Corporate Social Responsibility*

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Special thanks to my family for understanding me and for always preparing an “emotional retreat” for me.

And of course, to my friends at LUMES. Thank you for not giving up on me even when I was having least social moments. Your smiles are my only colorful memories of the gray winter. To the “business girls (+1)”, thank you for sharing your ideas and for allowing me to let out my worries and frustrations.

In the morning of March 11, I was in Geocentrum. That is when I heard the news about the earthquake. Fortunately, my family was safe and none of my close friends was severely affected. Yet, during the thesis period, I think I lost 5 years’ worth of tears. Yet, from the very next day of the event, many of my friends started making an action. Joining a volunteer support team, going to the devastated site as a translator, starting a relief project, or having decided not to move back to their countries from the area hoping to be of help. I was truly helped by seeing them look forward. I can’t thank enough for having them as friends.

The disaster also took away my motivation. I couldn’t, or even became hesitant, to think of the fashion business while knowing there were people suffering from not meeting the basic needs. It left us thinking “what is happiness?” and “what was that we were trying to achieve?” But then, I began to think, maybe the topic is meaningful because it’s “now”. People came to think of the value that was invisible before.

In the past 10 years, I have always looked at a tag every time I shopped to see where they were made, making it one of the criteria for my choices. I know that does not change or mean anything. But that’s my little resistance.

Lastly, I would like to thank for this opportunity to look into what I had always been wondering and make my little resistance light up.

## Acronyms

CoC	Code of Conduct
CSR	Corporate Social Responsibility
ETI	Ethical Trading Initiative
ILO	International Labour Organization
ISO	International Organization for Standardization
MSI	Multi Stakeholder Initiative
NGO	Non Governmental Organization
SCM	Supply Chain Management
SSCM	Sustainable Supply Chain Management
WTO	World Trade Organization

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# 1 INTRODUCTION

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## 1.1 Apparel Industry and Supply Chain

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Fashion has played an important role in our society. It is not only to satisfy human needs, but has allowed us to express our identity, culture and creativity (Cataldi, Dickson, & Grover, 2010). Fashion industry has shown constant changes over the history according to our societal change. Now, as a result of increasing demands for fashion items accelerated by population growth and economic development, a significant volume of apparel products are sold these days.

The trend for consumption pattern has also rapidly evolved in the past 20 years. The current trend gave rise to “fast fashion” taking over the industry and production pattern (Bhardwaj & Fairhurst, 2010). Fast fashion refers to the cheaply made and sold clothes whose market cycle is faster than the conventional apparel industry which was dominant until the 80’s (Bhardwaj & Fairhurst, 2010). Fashion trends rapidly change nowadays and the industry has been required to respond to the speed of the turn-over, making profits by selling in quantity with low prices. With the need to quickly respond to the market demand and severe competition, apparel companies need to try to keep the production cost low.

The concept of race to the bottom supports the idea that looser environmental and social regulations give developing countries the competitive advantage (Elliott, 2004). As in the concept, pursuing the benefits of low cost, apparel production lines have been largely globalized and most of the production has been placed in developing countries (Claudio, 2007). Many developing countries depend on the apparel manufacturing industry for their economy and it has become one of the major sources of development. For instance, in Bangladesh, 40% increase in export was mainly fuelled by ladies garment manufacturing in the past seven months as of February 2011 (Chowdhury, 2011). In January 2005, WTO, World Trade Organization, eliminated any kind of quota in textile and clothing trading, which is expected to further accelerate trading and competition in the apparel industry in near future, resulting in more potential for economic growth as well as in social and environmental threats (Ernst, Ferrer, & Zult, 2005)

As a result of mass production in developing countries where there are looser environmental and social regulations, lower cost, severe market competition,

increasing demand, and production chain complexity in time and scale, the apparel industry continues creating challenges to sustainability both at the regional and global level (Claudio, 2007)

## 1.2 Problem Background

### 1.2.1 Environmental Problems

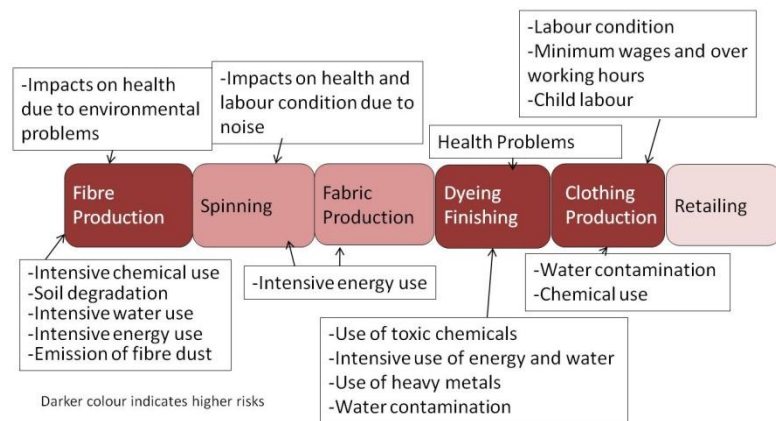
The environmental impacts of apparel production vary depending on the commodity and how items are made. For instance, cotton production consumes a quarter of pesticides used in the U.S., a major export in the world, while man-made fibres are rather oil intensive (Claudio, 2007, p. A450). But one thing in common is that, no matter what commodities are made or which method used, there is always a risk of environmental degradation in each phase of production. The example of the impacts in a cotton

production chain is shown in Figure 1 .

Water use and pollution can be considered one of the most significant environmental impacts throughout the production process (Allwood, et al., 2006). The apparel

production is highly water intensive. About 60kg of water is consumed and 45kg of waste water is discharged per kg of output (Allwood, et al., 2006). Chemical use during the production harms both the natural environment and workers handling them.

In addition to the chemicals, various heavy metal ions could go into the textile itself (Guner & Yucel, 2005). These chemicals may remain in the textile and cause allergic reactions to end consumers when wearing the products and pollute soil and ground water when disposed (Guner & Yucel, 2005). The whole process is also energy intensive. Because the current energy generation is mostly from



**Figure 1.** Major Environmental and Social Impacts of Apparel Production (Allwood, Laursen, Rodríguez, & Bocken, 2006; Goldbach, Back, & Seuring, 2003)

non-renewable sources, its contribution to climate change is also unavoidable. Thus environmental degradation caused by apparel production goes beyond borders if seen from a life cycle perspective, though the impacts are not visible when items are purchased.

Although environment is an important component for achieving sustainability, literature suggests that environmental issues are not generally addressed as much as human rights issues in apparel supply chain management schemes (Jørgensen & Pruzan-Jørgensen, 2003). Especially in the apparel sector, priorities are often given to human rights issues. This seems to have been influenced by consumerism movements which largely focused on sweatshops (Pollin, Burns, & Heintz, 2004).

### 1.2.2 Social Problems

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Besides the risk of unsafe working conditions such as working in a room with an insufficient ventilation system, which could also be considered an environmental issue, workers in the clothing and textile industry face numerous social risks. Some of the most frequently identified problems are low wages and long working hours. Although labour costs only consist of 15% of the total costs in the apparel industry (UN ESCAP, 2005, p.17), the labour costs are often affected when reduction in production costs are considered (ILO, 2000). In addition, though minimum wages are usually set by national or regional law, it is sometimes well below the living wage<sup>1</sup> (Miller & Williams, 2009).

Because much of the clothing production does not require high skill, workers tend to be young, not highly educated people of whom 70% are female (Allwood, et al., 2006). They may lack knowledge in regards to labour rights and benefits. As a result, they could be vulnerable to unreasonable termination of contracts, discrimination and harassment. Child labour is also often detected by media and Non-Governmental Organizations (NGO).

Although measures are taken to mitigate these social problems, compared to environmental regulations, it is more difficult to set the quantitative targets for

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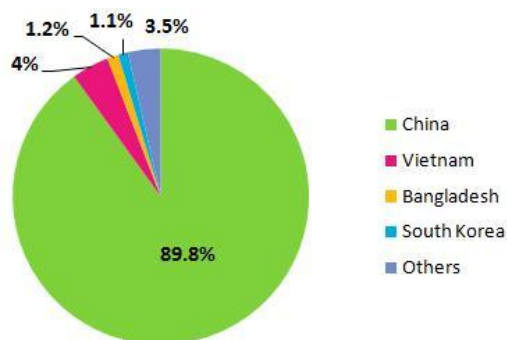
<sup>1</sup> Living wage refers to wage providing employees enough to meet basic needs and some discretionary income (Ethical Trading Initiative, 2010)



social issues. This makes it challenging to assess the current situation accordingly, leading to the necessity of closer examination.

### 1.2.3 Japanese Apparel Industry and its Supply Chain Management

Although the apparel industry in Japan has been downscaled since 1991 when the bubble economy collapsed, it is still said to be one of the largest and most progressive markets in the world (JETRO, 2004). In the global market, Japan's contribution accounts for more than 40% of the total luxury brand consumption (Chang, Ling, & Razzetta)



**Figure 2.** Leading exporters of clothing to Japan in 2010 in terms of volume (JTIA, 2010)

supported by the fact that more than one third of Japanese women own Louis

Vuitton products (Fernie & Azuma, 2004). On the other hand, the fast fashion trend has entered Japan, similar to many other countries. Since 2005, the price decreased in every category of apparel products consumed in Japan (MIC, 2009). The inclination for fashion is prominent, especially among young female professionals who spend more than 10% of their total expenditure on apparel products (MIC, 2004). The number of apparel retail shops in Japan is about 440,000, excluding textile retailers, and their total sales turnover is about 10 trillion yen (approximately 88 billion Euro<sup>2</sup>) annually (METI, 2008). Among such large-scale consumption, 95% of clothing in terms of volume in Japan depends on imports (METI, n.d.).

With the concept of “race to the bottom”, the vast majority of them are produced in developing countries (Figure 2)

In Western countries, urged by a relatively long history of peoples’ awareness and social movements, it is not unusual that apparel brands have already begun dealing with their supply chain management issues. However, in Japan, the apparel industry is not addressing sustainability issues in its supply chain, leaving its customers no choice when it comes to green consumerism. Comparing the top

<sup>2</sup> The calculation is based on the mid-market rate of May 15, 2011 (1 EUR = 113.884 JPY)

selling 25 apparel companies, only seven of them issue Corporate Social Responsibility (CSR) reports (see Appendix 1). The number of companies which clearly declare that they work on sustainability issues in their supply chain is five; two of them are sport wear manufacturers which are more prone to external pressure due to their products supply to the Olympic Games (Fujii, 2006, p.96-97). Considering the size of the market and the social and environmental impacts caused by the apparel production from a sustainable point of view, urgent commitment is necessary.

On the Japanese apparel companies' side, besides aiming at the value creation by addressing environmental and social problems and contributing to sustainable development, they also have one important reason for taking initiative. Many of the companies are considering expanding their market abroad, as they are now seeing that domestic consumption has already hit its peak (JETRO, 2004). They have not faced legal restrictions or strong demand from their consumers yet in Japan. However, when they plan to enter the outside market, the situation will be different. For example, in Europe, the European Commission delivers legislation encouraging companies to work on their CSR (European Union, 2006). In the United States, the state of California has passed Supply Chain Transparency Act, a bill to demand companies operating businesses in California with the revenue of 100 million US dollars or more to clarify their supply chain and take an appropriate measure if they find any human rights violation, forced labour or slavish acts by January 1<sup>st</sup>, 2011 (Altschuller, 2010). Because it involves businesses with retail shops located in California, even without their headquarters being there, it is likely that Japanese companies will also be affected. To play on the same field, it is imperative that Japanese apparel companies learn from the experiences of western companies to pursue corporate sustainability (Fujii, 2006). In addition, it is also noted that western corporate customers of Japanese companies have started auditing the supplying factories in countries including China in 2008 (Fujii, 2009) Japanese companies are facing increasing demand for sustainable production, not only by direct consumers but also by law and indirect stakeholders.

### 1.3 Research Objectives and Questions

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The overall aim of this research is to analyze how the Japanese apparel industry can manage their supply chain in a more sustainable manner. “More sustainable” indicates that the global trend of sustainable supply chain management (SSCM) has been transforming along with the understanding of the results of implementation and changing social values that companies are expected to achieve. Therefore, this research examines how the management schemes to address sustainability issues could be improved rather than how the issues are addressed directly.

#### **Research Question:**

How can a Japanese apparel company increase the implementation of sustainability aspects into its supply chain management?

#### **Sub-Research Questions:**

- What are characteristics of sustainable supply chain management?
- What are challenges that the Japanese apparel industry faces in terms of implementation of sustainable supply chain management?

### 1.4 System Boundaries and Limitations

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Although I do acknowledge that considering the entire supply chains is necessary to grasp the true impacts on environment and society, this study focuses on the relationship between focal companies and 1<sup>st</sup> tier suppliers. I define a focal company in this study as a company in the apparel supply chain, which orders production of clothing to suppliers. The phase focused in this study is only a very small part of vast supply chains. However, because focal companies are generally the starter of SSCM establishment and possess the decision making power in the current scheme, the study is aimed at suggesting better starting points.

It is difficult to say the study successfully presents a generalized view of apparel SSCM in Japan by just focusing on two companies. Because the number of companies working on SSCM is low and each business model is quite complex, it was nearly impossible to generalize as “a Japanese apparel SSCM” while paying attention to details at the same time. Therefore, I tried to understand the bigger

picture of the environment surrounding the supply chain management (SCM) and underlying causes.

To have a better understanding of the real condition of the system, it is certainly better to collect information from all the actors and stakeholders. However, this study relies on information mainly coming from focal companies. Although interviews with consultants and a former auditor were helpful to fill the gap, the actual impacts of the focal companies' behaviour and actions on their suppliers are not understood fully.

## 2 METHODOLOGY

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### 2.1 Overview

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This study takes an ontological position as a constructionist. While objectivism sees the social phenomenon as external facts that are not within the range of our reach, constructionists see social phenomenon and their meaning as not pre-fixed, but formed as a result of interactions between various levels of actors in the society (Bryman, 2008, p. 19). Likewise, the order in the society is also the product of the interaction among parties and it is subject to constant change; being established, revised and altered (Bryman, 2008, p. 19). In the case of this research, the society refers to the system and sub-system of an apparel industry and its parties include the enterprises, NGOs, suppliers, customers (end users), local communities and even the government. To what extent SSCM is adopted, if adopted at all, highly depends on the relationship, agreement and legal conditions among the parties and it could largely vary from one case to another (Cramer, 2006, pp. 70-85). CSR and SCM also change overtime, along with the attitudes and behaviour of parties, the market and legal condition (Lakunze, 2007, p. 14). This study sees its social phenomenon as an ever-changing condition that is a consequence of the involvement of parties, regarded as a constructionist. As for epistemological consideration, this study takes an interpretivist position which gives meaning to the behaviour and actions of parties (Bryman, 2008, p. 16). Also, the research will take qualitative approaches. The research will focus on close examination of SCM of selected companies. This is a case study with the use of multiple sources of evidence as Yin

(2009, pp. 115-117) argues that it allows finding or conclusion to be more convincing.

## 2.2 Research Process

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For theoretical framework and analytical model making, the study is largely based on literature review. To fill the gap of the knowledge, interviews with professionals on SSCM took place in Sweden. The interviews were semi-structured (see Appendix 4). Considering the dynamic of the structure, I wanted to leave some space for non-structured answers and new questions.

To understand a case of Japanese SSCM, because not many relevant literatures are available, I placed emphasis on interviews and CSR report review. Companies were initially screened according to their size and CSR transparency. Among 25 apparel companies with top sales with a few exceptions<sup>3</sup>, 10 companies with any possible SSCM related activities that are stated on their publication including websites were selected for correspondence. Emails were sent to ask for interview or to clarify their activities if their statements found on their publications were vague. As the research proceeded, I noticed *shosha*, a trading company in Japanese, plays a major role in SSCM. Therefore, I started to include *shosha* in my list for correspondence and contacted three *shosha*. I also contacted one consultant agency and two NGOs, but did not receive any replies.

Most of the companies that I contacted have replied, however, there were only a couple of positive responses. Reasons for declining the interview request included the lack of confidence in their SSCM, lack of time, and their confidentiality policy. In addition, the devastating earthquake occurred in Japan on March 11, 2011, during the process of contacting companies. It made it more difficult for them to spare time for interviews. Eventually, two companies, Mizuno, a sport apparel and products manufacturer and Itochu, a general trading company with an apparel division, accepted to be interviewed in Japan. The interviews were semi-structured (see Appendix 3 for interview questions) and none of the questions were sent in advance though I informed them of my research objectives and field.

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<sup>3</sup> I contacted a few companies not in the top 25 list because they were known for their CSR activities, however, they are not in the appendix upon their request.

## 2.3 Outline

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Chapter 1 introduces the problem context and the definition of this research, justifying research questions and the objective of the research. Chapter 2 presents the methodology to explain the research process and boundaries of the focus of this study. Chapter 3 introduces theories supporting principles of SSCM and a framework to analyze the Japanese SSCM. The analytical framework is formulated based on literature review and interview materials. Using the framework, data on SSCM of the Japanese apparel industry is presented in the first part and analyzed in the second part, and the analysis is discussed in the third part in chapter 4. The analysis is further discussed with presentation of suggestions in chapter 5.

## 3 Theories and Analytical Framework

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Theories to support SSCM are introduced in this section. As a corporate conceptual vision, corporate sustainability theory is suggested. On the other hand, Corporate Social Responsibility presents core concepts of SSCM.

### 3.1 Corporate Sustainability and Corporate Social Responsibility (CSR)

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Although there are a number of definitions for the term “Sustainable Development”, the most widely recognized is “meeting the needs of the present without compromising the ability of future generations to meet their own needs” by the World Commission on Environment and Development (Brundtland Commission)(United Nations General Assembly, 1987) emphasizing three main pillars of sustainability; social, environmental and economic. Since this definition appeared, numerous concepts, theories and practices have been discussed in various parts of society. The business sector is not an exception. Dillick and Hockerts (2002) define corporate sustainability as the concept of sustainable development incorporated in the level of the business sector, which translates to “meeting the needs of a firm’s direct and indirect stakeholders without compromising its ability to meet the needs of future stakeholders as well” (Dyllick & Hockerts, 2002, p. 131) taking into consideration that there are three capitals that need to be addressed in

an integrated manner. Dyllick and Hockerts (2002; p132-134) also examine these three capitals in a business context.

First, natural capital refers to the biosphere, including renewable and non-renewable resources and ecosystem services such as climate stabilization and the water cycle. Companies achieving sustainability in natural capital in the sphere of corporate sustainability can be translated as those whose use of natural resources does not exceed the rate of regeneration with the output level not disrupting the natural system and services.

Second, social capital consists of two dimensions, human and societal capital. The former includes skills, ability and motivation of employees while the latter includes the health of the community such as social welfare systems and quality of life. Hence, companies achieving sustainability in social capital are those that continue to add value to the society, emphasizing the reinforcement of both human and societal capital.

Lastly, companies achieving sustainability in economic capital are those that ensure continuous financial benefits at micro and macro levels by understanding various kinds of wealth and property. At micro level, it refers to common corporate profit, such as above average turnover and sales. At the macro level, companies' contributions include an increase in Gross Domestic Product and employment opportunities (Azapagic, 2003; Dyllick & Hockerts, 2002).

Sustainability includes two aspects; weak sustainability and strong sustainability. The main difference between them is the substitutability of constituting capitals. The spectrum of weak sustainability does allow natural capital to be duplicated by manufactured capital of the same value (Málovics, Csigéné, & Kraus, 2008). On the other hand, strong sustainability recognizes the non-substitutability of these capitals since they are complements, at least above a certain level (Harris, 2001). Dyllick & Hockerts (2002) argue that capitals are intertwined and one cannot easily be substituted or replaced by another. This argument takes the stance of the strong sustainability concept. Natural and social capitals cannot easily be measured by economic terms. Furthermore, should the time-scale and intergenerational equity in the concept of sustainability be considered, rights of future generations on decision making will be taken into account (Anand & Sen, 2000, p. 2034). Thus, all the choices, for example what is to

remain or what is important, shall be determined by the future generations as the current generation has no way to acknowledge them. Complementarity is another factor supporting non-substitutability. Since production depends on natural resource availability and labour; environmental degradation and unethical treatment of the community could lead to the loss of license to operate. Therefore, corporate sustainability as a principle should pursue strong sustainability, ensuring all the three capitals are protected and enhanced.

Traditionally, the business sector has placed its value only on the economic capital. For that reason, addressing environmental and social challenges had been considered a burden contradicting the business sector's responsibility to satisfy their shareholders.

Azapagic (2003) argues that there are two main driving forces for pursuing corporate sustainability. One is governmental regulation and the other is the benefits that corporations can achieve by embracing the sustainability perspective. The second perspective is especially supported by numerous corporate sustainability frameworks. One of the most agreed frameworks is the Triple Bottom Line concept (Elkington, 2004). According to the concept, the business sector gains by practicing their social responsibilities based on corporate sustainability principles on a win-win basis rather than trade-offs (Willard, 2002).

Although CSR has Triple Bottom Line concepts as a commonality, it does not have a globally unified definition; it is interpreted differently depending on regions, companies and organizations (Marrewijk, 2003). Among various definitions, this paper takes the European Commission's definition on CSR:

“Corporate social responsibility (CSR) is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. It is about enterprises deciding to go beyond minimum legal requirements and obligations stemming from collective agreements in order to address societal needs.” (Commission of the European Communities, 2006).

In other words, **CSR activities and the company's core business operation have to be interconnected and they have to be beyond the compliance level.** On the other

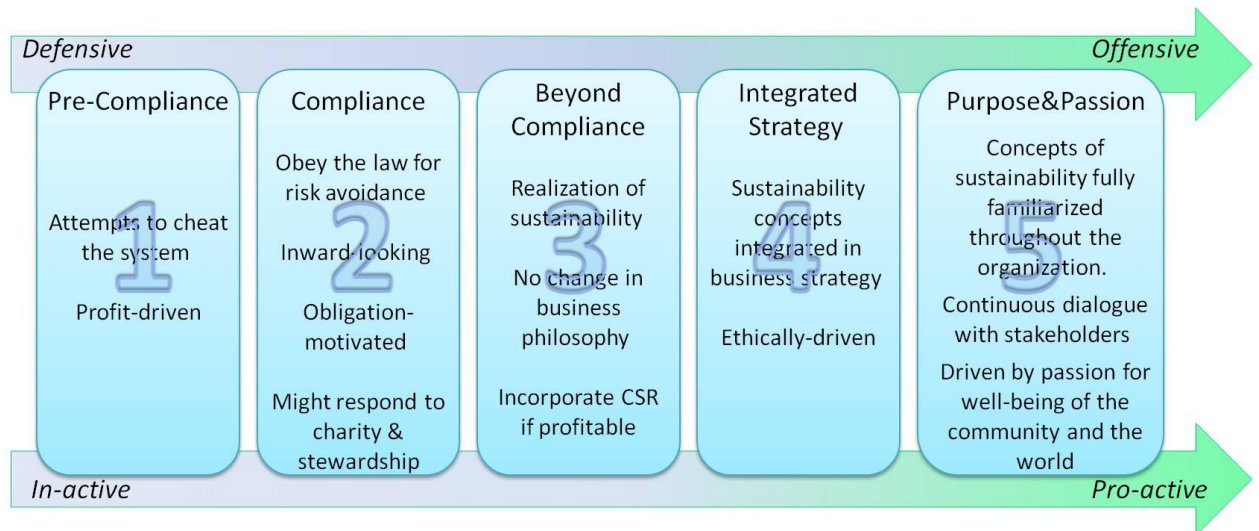


hand, it is common that industries in Japan take the definition of CSR as compliance and corporate philanthropy (Fujii, 2005, p. 45). The former definition used by European Commissions is adopted in this research because it is more along the line with corporate sustainability theory. It is about maximizing the potential of business to improve the society by how the business operates, not by what contribution the consequence of business activities can make.

### 3.1.1 Corporate Sustainability Framework

Corporate Sustainability Framework shows different stages towards sustainability. The framework indicates which stage a company is in and which direction companies could take to go forward.

To suggest a framework, Sustainability Stages (Willard, 2005), European Corporate Sustainability Framework (Hardjono & Klein, 2004), five interpretations of corporate sustainability/CSR (Marrewijk, 2003), and four CSR approaches (Tulder, Wijk, & Kolk, 2008) are consulted. All four models are similar in structure, creating a motivation matrix categorized into stages starting from the ground zero to welfare-oriented interpretation of corporate sustainability. Those are characterized by points in Figure 3 below.



**Figure 3.** Corporate Sustainability Framework (Hardjono & Klein, 2004; Marrewijk, 2003; Tulder, et al., 2008; Willard, 2005)

Stage 1: This is the starting point of sustainability transformation. At this stage, categorized companies are those complying with regulations when it is absolutely necessary and occasionally cheat. The companies only pursue economic interest.

Stage 2: The companies are still motivated by profits; however, they obey the law in order to avoid associated risks. They incur costs; therefore, they are duty driven.

Stage 3: The companies pay for sustainability with the realization of the importance for value addition to their companies leading to financial benefits. But sustainability concepts are a business only in the specific section/department.

Stage 4: The companies integrate sustainability in their management strategy; CSR is not costs but opportunities. They work towards sustainability with stakeholders recognizing it as part of their responsibility.

Stage 5: At the final stage, every employee of the companies feels responsible towards achievement of sustainability. The management style is mutually proactive among stakeholders, recognizing that all of them are interdependent.

### **3.2 Supply Chain Management in Apparel Industry**

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Supply chain refers to all the activities associated with material and information flow of goods from the raw material stage through to the end user and SCM is the integration of these activities (Handfield & Nichols, 1999, p. 2). As for the apparel industry, expansion of production has accelerated the dynamic of the supply chain. Apparel production lines have become complicated and it is not unusual that the production line of one product consists of more than a thousand suppliers (Kogg, 2009, p. 9). Although price structure varies depending on type of product and supply chain structure, Allwood, et al. shows the rough tendency that the price becomes double at each production stage towards downstream (2006, p.27). This means that 50% of the total profit of a product goes to its retailer or brand. Sustainability issues

fuelled by the complexity of supply chain and socio-economic factors were introduced in Chapter 1.

To address these issues, focal companies have taken measures. Although the level and types of commitment largely depend on focal companies, there are the two most common practices; Code of Conduct and auditing.

### Code of Conduct

To implement sustainability perspectives in SCM, Code of Conduct (CoC) is most common. It is the voluntary standard set by a focal company either alone or with other actors such as consultancies and/or NGOs to demand their supplier(s) to comply. CoC usually serves as a basis for companies already progressively working on their SSCM and a starting point for companies which decide to begin establishing a SSCM. As a result of setting CoC, focal companies are able to build a framework, share their minimum criteria for SSCM with their suppliers and prioritize issues to be addressed.

To address social problems, a number of corporations adopt principles from international labour standards set by International Labour Organization (ILO) as a base of their CoC. In the case of the apparel industry, NGOs have been active in providing similar codes, but more specific to the industry. One of the famous institutes is Ethical Trading Initiative (ETI) whose base codes are categorized into nine areas: prohibition of coercive labour, freedom of association, safe working conditions, prohibition of child labour, living wage guaranteed, prohibition of excessive working hours, anti-discrimination, regular employment and prohibition of inhuman treatment (Ethical Trading Initiative, 2010). Generally, CoC imposes minimum requirements and leaves more room for modification, meaning the level of sustainability achievement is up to the focal company and stakeholders.

One of the critiques to be considered about adopting universal standards is that it could be a form of cultural hegemony prioritizing the values of western nations, while others argue that there are natural rights to be protected (Erçel, 2006). On one hand, cultural differences cannot be the absolute excuse for any kind of unethical actions. Meanwhile, it is true that some issues are more culturally sensitive and difficult to deal with. Close examination and deep understanding are

required, recognizing that having a universal set of standards does not mean that the same ideas on priorities and means of achieving goals should be imposed.

CoC is generally focused more on social problems than environmental issues. It is common that companies have one criterion on environmental issues in their CoC, if any. However, it is rare that it goes beyond the level of a little more than compliance of the local regulations. Some companies implement other voluntary measures such as their own standard of waste water treatment or application of ISO14001<sup>4</sup>.

### Auditing

Making sure that CoC is implemented appropriately by the suppliers, focal companies conduct auditing. Auditing styles vary depending on companies/cases and it could be conducted by either external third party or internal auditors. There are both positive and negative sides to the two approaches. Whereas internal auditing could be conducted more regularly with less cost, the audit result is subject to distrust due to the lack of transparency. The handlings of suppliers who fail to meet the criteria of CoC or other standards bound by the contract differ among companies.

Despite the aforementioned development, the current practices have been criticized by many literatures claiming that their achievements are limited in the long run (e.g. Jørgensen & Pruzan-Jørgensen, 2003; Jemkins, 2002; Peterson, 2009; Welford & Frost, 2006). It is mainly due to the lack of addressing the complexity of the context which should be the starting point of the problem. Repeated media reporting of human rights abuse and employees demonstration in countries where suppliers are located, regardless of long efforts of multi-national corporations, are among the evidence demonstrating the gap between the expectation of CSR and the reality of stakeholders. Therefore, to pursue more sustainability in SCM requires a Sustainable Supply Chain Management (SSCM) framework which addresses the cause of the problems, rather than the consequence of the problems, in an integrated manner.

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<sup>4</sup> ISO14001 is international standards for environmental management system.

### 3.3 Sustainable Supply Chain Management

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SSCM is defined in this paper as SCM with the incorporated concept of CSR aiming at achievement of corporate sustainability to address complex social and environmental issues.

This section presents key success factors as a conceptual framework which SSCM is characterized by. SSCM factors presented below are SCM reframed by linking theories, best practices and the corporate sustainability framework (see Figure 3). Because the framework is to lead a company to a more sustainable stage, which direction they should take to achieve stage five is eventually sought. The factors are used as an analytical framework in the following section to assess the apparel SSCM in Japan. Seven factors are in the framework and categorized in two parts, *Reconceptualization of SCM* and *Structural change*. The concept of the former category was adapted from the study of Pagell & Wu (2009, p. 39) emphasizing the relevance of seeing supply chain, who is involved, what it does and how it does, differently. This category introduces factors involving the focal company's change in concepts and approaches of SCM. The factors in the latter category relate to the practical approaches considering the dynamics of the stakeholder relationship mainly focusing on focal companies and suppliers.

#### 3.3.1 Reconceptualization of SCM

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##### **Corporate sustainability concepts should be integrated in the central management strategy of a company**

By placing corporate sustainability at the core of the management strategy of a company, the importance of social and natural capital will increase. By raising the importance at the same level as economic capital, the list of stakeholders may change accordingly due to the expansion of areas of responsibility (Bergkamp, 2002). Conventional stakeholders usually consist of primary stakeholders while multi-stakeholders are inclusive of secondary stakeholders whose interests are affected by the organization's activities. They possess influence over the primary stakeholders' ability to make an impact on the organization (Isaksson, Johansson, & Fischer, 2010). As a result, reconceptualization largely involves including

non-traditional members such as NGOs and the local community as key stakeholders in SCM (Pagell & Wu, 2009).

In addition, by fully integrating corporate sustainability concepts in all the departments in the company, the whole company will share a vision. This will make all the messages and communication sent from the focal company to suppliers consistent. In the current scheme of SCM, suppliers receive distinct messages from different divisions of the focal company. For instance, demand for compliance from the CSR division, and demand for cost reduction from the financial division, creates a difficult situation for suppliers to answer both request (Jørgensen & Pruzan-Jørgensen, 2003). In a similar perspective, corporate sustainability should be practiced not only in sections concerning Public Relations, but every day practices by all the employees (Pagell & Wu, 2009). If they all acknowledge what they do that causes problems, there will be better chances to design the merchandise process in a way that facilitates SSCM establishment.

### **Management should consider the complexity of sustainability and systematic approaches**

Setting CoC followed by auditing and/or environmental management schemes can be a step towards sustainability; however, they are obviously far from being a panacea (A. Haraldson, personal communication, March 1, 2011). Sustainability challenges are such complex issues requiring multidisciplinary approaches that simply checking all the checklists does not lead to achieving sustainability, especially not when CoC only includes minimum requirements that seek short-term solutions. Reaching sustainability requires more efforts than current auditing systems. Auditing and management schemes such as ISO are useful, but it is just a tool to achieve a goal which should aim at drawing a bigger picture (A. Haraldson, personal communication, March 1, 2011). The goals should be set in the long-term and an appropriate systematic strategy to reach the goal is required. If companies had an appropriate goal, vision and target, the mid-term goal and year plan would follow as in the back casting strategy, a suggested approach for sustainable development by the NGO Natural Step (The Natural Step, n.d.).

### **Proactive relationship and communication to aim for well-being of the whole community**

Conventionally, the focus in the social field of even progressive SCM practices is only on human rights (Smith & Feldman, 2004). It has been several years since the research of Smith and Feldman was carried out, but the focus of SSCM still remains on the individual level. It is rare that a focal company actually tries to contribute to improving the community as a whole where their suppliers operate rather than focusing on risk avoidance. Most of the current practices aim at returning the negative impact back to zero, but if the well-being of the whole community, or the purpose of CSR is considered, the impact has to be brought to a positive direction

Empirical researches suggest that the lack of governmental and legal support is a major obstacle to implementing sustainable manners (Jørgensen & Pruzan-Jørgensen, 2003; Silkey, Bannister, & Anderson, 2010). In stage five of the framework it is essential to work towards changing the environment suitable for SSCM, moving away from the current scheme where the company plays in a fixed field. Governmental regulations can be influenced by those companies and it could give a competitive advantage to a company proactively working towards the well-being of the community if the regulation becomes stricter (Carter & Rogers, 2008).

#### 3.3.2 Structural Change

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##### **Top-down structure to dialogue-based structure**

This is probably the most frequently mentioned deficiency of the current structure. It is characterized by a one-way flow of the procedure where SSCM has a hierarchical structure and does not input conditions of the upper stream. Creating standards such as CoC without involving stakeholders and demanding suppliers to comply are what make it highly hierarchical (Jørgensen & Pruzan-Jørgensen, 2003; Jiang, 2008; Silkey, et al., 2010; Welford & Frost, 2006). If CoC does not consider the situation of suppliers, they might not be able to keep up with the criteria and end up cheating the audit, which does not lead to improvement. Without identifying relevant stakeholders and thinking of what they demand, what companies are

expected to achieve can hardly be recognized and problem prioritization cannot be realized.

Top-down structures also have impacts on how focal companies and suppliers deal with the detected problems. Through the conventional top-down and one-way structure, it is likely that suppliers are expected to fix the problem until the next audit if they are found to have a problem. On the other hand, the dialogue based SSCM could make room for cooperative actions for improvement. This could contribute to knowledge sharing, burden sharing, strategic planning and prevention of repetition.

### **Low specificity to high specificity**

Addressing sustainability issues can be explained as balancing the three capitals. And the size of each capital is different regionally according to, among other things, their culture, geography and regulations. A small problem in one region may be a huge problem in another; therefore, social value and what kind of problems that should be prioritized are also different. Ideally, what needs to be strengthened at suppliers should be treated differently according to the local needs. Both environmental and social problems are culture and location specific. The level of risk should be prioritized to the quantity of the risk upon deciding on the risk factors. For instance, sometimes local and national regulations are inconsistent (Fujii, 2006, p. 202).

It is particularly important to know the local environmental regulation and to conduct environmental assessment as the natural environment is especially regionally sensitive. The method and distance of transportation can affect the levels of air pollution and geography and local regulation could enhance the risk of environmental degradation. In terms of environmental impacts, production creates environmental burdens no matter what. The most popular regions for production are not likely to have strict environmental regulations, or even if they do, enforcement does not always occur. Therefore, implementing self-regulations whose level is higher than the legal requirement is important to minimize the negative impacts. In order to do so, understanding the local regulation and associated socio-economic status is necessary. The framework should be sensitive to those particular issues to promote sustainability that can meet local demands.



Specificity also includes the range of coverage (Tulder, et al., 2008). As mentioned earlier, environmental factors are often neglected from a SSCM scheme. Aiming to enhance the three capitals, attention should be paid to environmental issue coverage as well. On the other hand, detailed requirements that are imposed can be a great burden to suppliers. It is usual that suppliers receive orders from many different focal companies on contract. Therefore, suppliers generally demand unified regulations and CoC (Jørgensen & Pruzan-Jørgensen, 2003). To minimize the burden and maximize improvement, understanding the condition of the supplier and available solution that fits in the context is necessary. Involving MSI, Multi-Stakeholder Initiatives<sup>5</sup>, may be an effective way to mitigate the burden for both suppliers and the focal company. They are organizations working in cooperate with the business sector and multi-stakeholders to seek possible solutions for sustainability issues. Those initiatives can provide consultation and ideas that are best suitable for the situation and their accumulated experiences could make the efforts most effective, which companies would not be able to achieve by themselves.

#### **Audit base to behaviour change system**

This is also a frequently discussed deficiency. Capacity building, empowerment and education for stakeholders and business partners should be considered thoroughly (Hamner, 2006; Jørgensen & Pruzan-Jørgensen, 2003). Meeting the checking criteria on auditing is sometimes only solving superficial issues and does not guarantee sustainability. For example, formation of workers unions does not necessarily represent the voice of the vulnerable who need special attention to protect human rights (Jørgensen & Pruzan-Jørgensen, 2003). Therefore, ensuring that every employee knows their rights and that there is a secured condition where they do not feel threatened when speaking up has to be accompanied by the right of a union to pursue its full potential.

As for environmental issues, focal companies can implement environmental management systems with “end-of-pipe” solutions which can be dealt with at the technical level; however, improving the management capacity of suppliers requires training programmes (Hamner, 2006, p. 32). It is about enhancing the human

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<sup>5</sup> Famous MSI in the apparel sector include Ethical Trading Initiative, Better Cotton Initiative and MADE-BY.

capital which could spread the ability and knowledge enhancing the societal capital in a long run (Debrito, Carbone, & Blanquart, 2008). If audits occur only once or twice a year, the management capacity of suppliers is an advantage.

In addition to that, when focal companies educate suppliers there will be better chances to induce a spill-over effect as they acknowledge the sustainability concept and its importance (Hamner, 2006). It is still rare that the second tier and the upper stream suppliers are considered in the scheme. In that case, maximizing the potential for the trickle-down effect is important. If suppliers try to improve the issues by merely meeting the requirements imposed by the focal company, the practices and efforts may not trickle down. In reality, the former auditor mentioned that the trickle-down never worked, as suppliers that she worked with hardly met the imposed standards for themselves (R. Ghadban, personal communication, April 11, 2011). Hamner (2006) states that education and collaboration could bring the largest effect to suppliers' behaviour among the existing practices; however, it also requires the highest commitment and efforts by focal companies. A positive side of the cost and effort is that when focal companies incur costs to educate suppliers, it is likely to make the business relationship between focal companies and suppliers longer and closer (Fujii, 2006).

### **Short-term commitment to long-term relationship**

The long-term commitment is the requirement for implementation of a bottom-up structure as it involves both financial and physical commitments (Jørgensen & Pruzan-Jørgensen, 2003). This factor also concerns the treatment of non-compliance cases. Long-term relationships tend to ensure that the focal companies assist suppliers to improve the situation, rather than terminate the contract immediately, which could leave the suppliers worse off. This also prevents suppliers from cheating the system and to build distrust. Because a long-term relationship can pay back a supplier for the investment they made, it will be a great driver for suppliers (R. Ghadban, personal communication, April 11, 2011). On the contrary, financial, time and effort investment of both suppliers and focal companies will be limited by a short-term relationship.

These seven factors may increase the implementation of the concept of corporate sustainability within the SCM scheme. The factors attempt to deal with the dynamics of the system where issues are interconnected and one action could impact the whole organizational and behavioural dynamics. For instance, a dialogue based relationship between suppliers and focal companies could accelerate a behaviour change system, which could lead to CoC with high specificity.

## 4 Results, Analysis and Discussion

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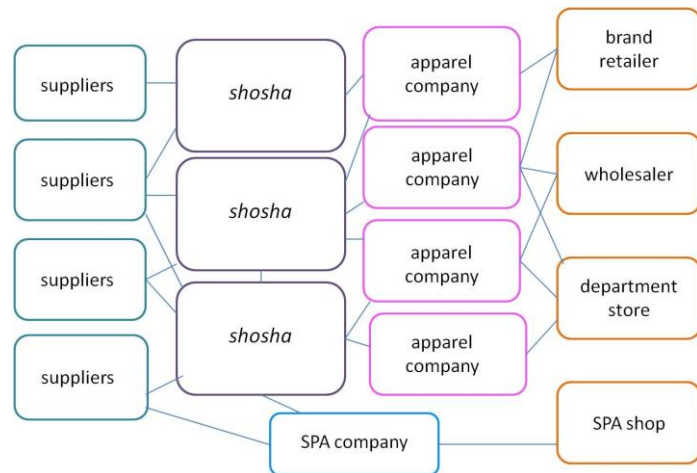
This chapter introduces the main findings from the interviews, complemented by the review of CSR reports. Although information received from the interviews were certainly more informative than that of CSR reports, CSR reports are also used as a supplemental source. The results are organized into the factors discussed in the previous chapters. By doing so, the current trend of the activities and efforts regarding SSCM in Japanese apparel industry is presented. In the first section, the actual analysis, any subjectivity and personal opinions are excluded as much as possible to convey the information without leading a reader into biased thinking. Similarly, while conducting the interview, to avoid biased remarks and keep the result as fair as possible, not all the questions were asked in a way that directly corresponded to factors. In the second section, organized material is analyzed using the SSCM factors. In the third section, analysis is discussed further preceded by identified challenges found through interviews. To make the picture of SSCM of the Japanese apparel industry as general as possible, CSR reports from other apparel companies are also reviewed. Although Itochu provided a good source of information in interview, information from other *shosha* is not researched here as they tend to publish data that combine other businesses as well as apparel business.

### 4.1 Structural background of Japanese apparel industry and SCM

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Many literatures mention that communication deficiencies between focal companies and suppliers are caused by “geographical or cultural distance”. However, what the Japanese apparel industry is facing is “structural distance”. It is not unusual that there are multiple influential actors within the Japanese side of

the supply chain (Figure 4). For example, department stores can indirectly influence a supply chain as well as apparel manufacturers. Unlike SPA brand, Specialty Store Retailers of Private Label Apparel, often seen in the Western apparel industry where a single brand



**Figure 4.** Downstream Supply Chains in Japan  
Adapted from (Yamauchi, 2009, p.6)

deals with the whole process from product to distribution, the different actors are involved in phases of SCM including planning and design, production, promotion and marketing and distribution in an interconnected manner. Business systems are complicated and there are no fixed rules for work division. When it comes to SSCM, to what extent they can exercise their power and influence is limited when they work individually. The case study vividly shows the disconnection of each phase in terms of SSCM.

One prominent aspect about the Japanese apparel industry is the thorough quality and product safety management. Companies often set the high-standard of product as their priority in order to make efforts to keep the product quality high. To produce high quality commodities, technical experts and product quality managers are often sent to suppliers for training (Fast Retailing Co. Ltd., 2011)

#### Companies interviewed

**Mizuno Corporation** (Mizuno, hereafter) is a sport equipment/apparel manufacturer. After NGO's warning about working conditions in China in 2004, Mizuno immediately started an investigation and set up CoC as well as Global CSR office, a division that is in charge of SSCM in the same year. The number of suppliers they acknowledge as 1<sup>st</sup> tier is about 200. Most of them are contract suppliers in China, the rest are located in other Asian countries.

**Itochu Corporation** (Itochu, hereafter) is one of the seven biggest trading companies in Japan (*shosha*). There are seven business departments and one of them is in charge of the textile business. Their CSR activities started in 2006 and carried out

supplier investigation in 2007-2008. Based on the investigation results, CoC was established in 2009. Their suppliers are nearly 100,000 including the non-textile business.

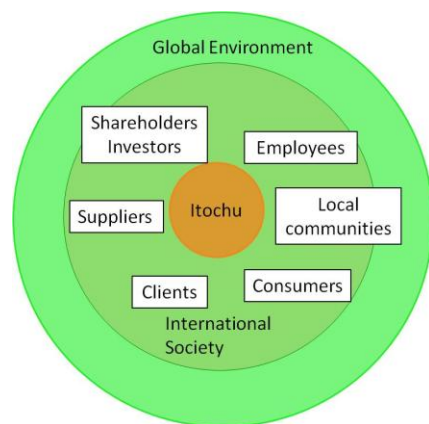
All the reference used in the next section is from interviews unless otherwise specified.

#### 4.1.1 Reconceptualization of SCM

##### **Corporate sustainability concepts should be integrated in the central management strategy of a company**

As for multi-stakeholder approaches in their overall business activities, Itochu claims that they have had a similar concept in their business philosophy from their establishment back in 1858 (Itochu Corporation, 2010). The philosophy states that the company should pursue business by balancing between multiple stakeholders and the spirit is claimed to have been passed on until now. The current concept of stakeholders is explicitly mentioned in their CSR report (Figure 5). As in the figure, along with the conventional stakeholders such as shareholders and consumers, suppliers are also included. Environment is set as a background concept. NGOs and NPOs, and next generations are also mentioned as their stakeholders (Itochu Corporation, 2010). In SCM, Itochu considers local communities where there are suppliers as stakeholders. However, there are not many cases where the company works with NGOs.

Mizuno states that their stakeholders are their customers, retailers and suppliers, and employees in their CSR guideline which is one of the bases of their corporate philosophy (Mizuno Corporation, 2010). In their SSCM making, though consultants are involved, NGOs are not included in the actual operation. On the other hand, Mizuno has already



**Figure 5. Stakeholders of Itochu**  
Adapted from (Itochu Corporation, 2010)

implemented concepts in ISO26000<sup>6</sup>, which largely focuses on multi-stakeholder dialogue in their SCM.

Itochu also acknowledges that CSR is demanded by the global society and that it needs to be implemented in the management plan (Itochu Corporation, 2010, p. 8). However, at the same time, their mid-term management plan does not have a sustainability nor SSCM concept mentioned except expanding the market in the renewable energy industry (Itochu Corporation, 2009)

Among top 25 apparel companies in Japan, four companies mention non-traditional stakeholders as their stakeholders (see Appendix 1). In terms of SSCM, involvement of those non-traditional stakeholders is often limited to members/organizations located in Japan. Companies often receive feed-back for their CSR reports from NGOs and academic institutes, however, it is rare that they are involved in actual planning or decision making process.

For internal communication, the Itochu's CSR promotion department distributes CSR reports to every employee all over the world to ask for understanding their CSR policy and what they do as a corporation. The department collects feedback from employees about CSR and the collection rate is about 70%, which is said to be higher than other companies. In addition to that, workshops are organized in each department to have discussions on each theme regarding CSR. In these ways, the CSR department tries to spread the concepts of CSR of Itochu. In terms of SSCM, when communicating with suppliers, Itochu does so through employees who always communicate with them. Therefore, the ones in charge of sales or purchasing are likely to be the point of communication. SSCM checklist is added to their demands for their suppliers, which are mainly based on lead time and price.

Mizuno has the CSR procurement committee within the company and they organize a meeting once every two months where employees from divisions who work with main suppliers and executive officers attend. Proposals regarding SSCM are planned by the global CSR office and the discussion and actual decisions are made in the meeting. Therefore, the guideline and principle of creating a SSCM is agreed upon based on the consensus of the related departments.

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<sup>6</sup> ISO26000 is an international voluntary standard on CSR management system, which focuses on working on sustainability problems in cooperation with multi-stakeholders.

### **Management should consider the complexity of sustainability and systematic approaches**

Itochu does not state that there is a long-term vision of SSCM. As a short-term CSR vision, four plan goals are set in a year, but it has little to do with SSCM (Itochu Corporation, n.d.). Their current SSCM system is to ensure that their suppliers do not violate factors in their checklist that is made based on their CoC. They emphasize that the checking process should be through dialogue between Itochu employees and managers of the suppliers rather than “auditing”. Unlike auditing system frequently adapted by western companies, there is no unnoticed check of bookkeeping as some other companies do unless requested by their client companies, for example.

Mizuno currently does not possess a concrete long-term vision, either. They claim that their SSCM has just started and is still in the process of creating a plan and discussing how long or short the plan should be. One mid-term plan that has been decided is that all the selected suppliers will be audited within three years. In order to do so, specifically which and how many suppliers should be audited during this fiscal year are being discussed now. Mizuno conducts an audit for about one fifth of their first tier suppliers a year to address both social and environmental issues. Since last year, the system started to be modified by adding a capacity building programme and strengthening the environmental criteria in hope of improvement.

None of four other companies with SSCM mentioned any mid-term or long-term goals either.

### **Proactive relationship and communication to aim for well-being of the whole community**

Neither Itochu nor Mizuno have worked specifically to improve well-being of the local community where their suppliers operate through SSCM. Their checking lists are fundamentally based on compliance of each country. Mizuno is currently expanding its environmental check list. However, they acknowledge the difficulties of applying the same level of the management system as in the developed country, which imposes extra financial burden on the suppliers. Therefore, rather than demanding suppliers to acquire specific technical systems such as ISOs, Mizuno prioritizes keeping the minimum requirements for protection of global environment.

Itochu's CSR activities do include community development support, such as the development of a smart city in India (Itochu Corporation, 2010, p. 35). However, those projects mainly occur independently of their SCM process and there are no activities to improve sustainability within the region of apparel suppliers through their production. Their standards are mainly based on governmental regulations. Therefore, encouraging and working with the local government and/or organizations has not been realized by either company.

Among four other companies with SSCM<sup>7</sup>, there was none to aim for well-being of the whole community except one interesting case. The company, Fast Retailing, has started a project last year in Bangladesh with Grameen Bank<sup>8</sup> to improve the living standard of the local community through clothing production (Fast Retailing Co. Ltd., 2010). Its aim "addressing social needs and problems with the business operation" is similar to the concept of the SSCM factor. However, it is unique because they "start" production rather than "manage" production to fulfill the aim.

#### 4.1.2 Structural Change

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##### **Top down structure to dialogue-based structure**

Neither Itochu nor Mizuno involve their suppliers when developing their audit checklist and CoC. For Itochu, before the set up of its CoC in 2009, they decided to conduct an investigation of the actual conditions of the suppliers. Based on the survey and the checklist that they used at that time, CoC was made. In addition, CoC also includes the main base codes of ILO and advice they received from their consultants. This process took place in each of the six divisions of their company including the textile division; their common factors became the CoC of the company as a whole.

Mizuno also involves a consultancy in the CoC and auditing checklist creation process, but other stakeholders such as the suppliers and NGOs are not involved. When their suppliers could not keep up with their CoC, they demand that the suppliers improve the situation. Itochu acknowledges that their follow-up checks

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<sup>7</sup> Five apparel companies working on SSCM are researched in this study, including Mizuno (see Appendix 1)

<sup>8</sup> A microfinance organization that makes small loans aiming at diminishing poverty.



have not been sufficient and considers it as one of the problems. They never had any cases of serious problems such as child labour; however, should such cases occur, it is likely that they would consider cancelling the contract. Mizuno classifies the problems into three levels and follows up if the problem identified is fixed after the request. In serious cases, they consider the local condition of where the supplier is situated and deal with each case differently.

Among four other companies, one of them, Fast Retailing Co. Ltd., states that they take collaborative improvement process when any problems are found and try to find out the reason why they happened (Fast Retailing Co. Ltd., 2011).

### Low specificity to high specificity

Both Itochu and Mizuno use the unified CoC and the auditing checklist for any suppliers all around the world. Itochu raised an example about collective bargaining and freedom of association. According to the ILO principles, they are considered important. However, they are mainly on standards of developed countries and contradict national laws of some areas prohibiting the criteria, such as the association of unions. In these cases, Itochu chooses words that correspond to both policies. For example, “we respect freedom of association to promote common benefit between labour and management” is used instead of supporting one statement over the other. Concerning the local conditions, mentioning of labour time is avoided in the CoC. Although Itochu acknowledges the sensitivity of the child labour issue and mentioned that the situation and handling method should differ case by case, their CoC prioritizes the national law of the corresponding country. Their checklist consists of yes-no questions (Figure 6).

Mizuno is trying to modify their checklist according to each country. However, they admit that they have not been able to reach the level where they handle small discrepancies.

		Check	Comment
1	The company has a policy or system for <b>compliance</b> with laws and regulations, and implements them.		
2	The company guarantees <b>the rights of freedom of association and collective bargaining</b> .		
3	The company does not practice <b>forced labor</b>		
4	The company does not practice <b>child labor</b> .		
5	The company does not practice <b>discrimination in hiring and employment</b> .		
6	The company has taken measures to protect <b>occupational health and safety</b> .		
7	The company observes the national (host country) laws and regulations regarding <b>working hours</b> .		
8	The company observes the national laws and regulations regarding <b>minimum wage</b> .		
9	The company has a policy or system for <b>dealing with complaints</b> from its business partners, and implements them.		
10	The company has a <b>policy or system for environmental conservation / complies with national laws and regulations concerning environmental conservation</b> .		
11	The company does not handle goods infringing upon <b>intellectual property rights</b> .		
12	The company ascertains the country of origin of the procured items and <b>checks the environmental and social aspects of its suppliers</b> .		

**Figure 6.** Example of Itochu’s Supplier Checklist Adapted from (Itochu Corporation, 2008, p. 9)

Thus, understanding the local regulations and conditions were considered as their next challenge. Mizuno also mentioned cooperative actions with other companies. They have just begun and it is not yet an official activity. More than 10 companies are members discussing collaborative action towards improving their SSCM strategy.

One company, Descente Ltd.<sup>9</sup>, among four adopts a CoC that relatively considers some countries' situations and ask for a better treatment of workers. Other companies either do not publish their CoC to public or have CoC that prioritizes compliance.

### **Audit base to behaviour change system**

Itochu does not initiate capacity building activities for suppliers. Any costs for environmental management systems required to comply with the governmental regulations are expected to be covered by the supplier side.

Mizuno is planning to conduct capacity building activities for their suppliers. Their supply chain structure is developed by a Japanese trading company (*shosha*) though the suppliers are situated in China and other Asian countries. Therefore, SSCM seminars were first conducted last year to the trading company to share the concepts. Mizuno believes that communication should not be a one-time audit but the meeting should be held on a regular basis and that it should aim for a broader view. What they are trying to achieve is not just a “dimension of CSR”, but establishment of a win-win relationship with the suppliers. Its production division has already begun meeting with the main suppliers and is planning to extend it to the regional office in China and its suppliers. They are still in the middle of planning to work with their first tier suppliers and have not been able to reach the second or suppliers of upper stream yet. Auditing costs are covered by Mizuno; either they are conducted by Mizuno employees or third party auditors while any costs for improvement have to be paid by the suppliers.

None of the four other companies states that they carry out capacity building, though one of them is planning on it in near future.

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<sup>9</sup> A sport equipment/apparel company

### **Short-term commitment to long-term relationship**

As for Itochu, as a *shosha*, they are generally not in the position to decide on a contract. *Shosha* basically designs a supply chain upon orders from the companies further downstream. Therefore, it is likely that the terms of contract are largely influenced by apparel companies. Itochu decides on which suppliers they work with depending on the terms of contract with apparel companies.

Mizuno aims at establishing a win-win solution, which may require long term commitment by both Mizuno and the suppliers. Yet, still, Mizuno is in the process of discussion about to what extent the scope of the plan is concerned in terms of quantity and quality.

## **4.2 Framework Application and Analysis**

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This section analyzes the materials introduced in the previous section. As the Japanese apparel industry, what is lacking and how the focal company can improve the current condition is analyzed based on the analytical framework.

### **4.2.1 Reconceptualization of SCM**

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#### **Corporate sustainability concepts should be integrated in the central management strategy of a company**

The point of discussion here is that focal companies must shift the concept of stakeholders from conventional to multi-stakeholder and integrate the perspectives of their stakeholders into the management system. Doing so allows the focal company to actually cooperate with them rather than just “recognizing” them as their stakeholders. It would be difficult to secure the value of each sphere constituting corporate sustainability if the focal company did not take into consideration any representative stakeholders from the different spheres.

The research shows that it is still rare that the Japanese apparel industry includes multi-stakeholders in its scope in terms of SSCM. Itochu shows an extensive list of stakeholders (see Figure 5), but most of them are rarely involved in the actual business operations. In order for them to be able to make a fair judgment on their business rationality, Itochu declares in their CSR report “we make sure

that each business activity should not be justified by our own rule, but should be based on the decision of society and CSR must be carried out with dialogues with stakeholders” (Itochu Corporation, 2010). However, as long as their SCM is concerned, actual actions to fulfill this objective may be scarce. In Itochu’s case, it stresses the importance of dialogue-based communication with its suppliers. On the other hand, there is no communication with employees of the suppliers, local communities or NGOs. Proactive attitudes such as working with locally-based organizations including local government and NGOs are important to seek for the best for all the actors. One obvious reason is that it can lead to diversifying the perspectives and efficient sharing of information if Itochu wishes to have a fair consideration on their business manner, as claimed in their statement. Second, misunderstanding caused by cultural difference can be minimized. Especially in apparel industry, working style varies from place to place, and what is normal in one area may not be normal in another area. The focal company can benefit from information gathering as well (R.Ghadban, personal communication, April 11, 2011).

As for the consistency of communication, though a SSCM programme itself is proposed by the CSR division, correspondence and information delivery are mainly conducted through another department. According to the interviews, it is likely to be a conventional department, such as the production, purchasing or outsourcing departments, that has been in charge of contacting the suppliers. As a result, it should not occur that their suppliers receive different messages from more than one department; therefore, a certain level of consistency should be kept. At the same time, it requires that employees of different departments have a common vision of what they are trying to achieve. It seems that Itochu has an advanced CSR education and training programme for its employees, and managed to widely spread the concept (Cre-en Inc., n.d.). The next step may be integrating the knowledge and result of education into the business practice. On the other hand, Mizuno does not particularly have an education programme within the company, but all the SSCM policies and processes are build on consensus of involved departments. By involving different divisions in the process, improvement or any other changes to the action plan may reduce the risk of internal collision and one way communication.

## **Management should consider the complexity of sustainability and systematic approaches**

The issue raised here is lack of long-term goals. According to the interviews with a consultant and a former auditor, they both discussed having a goal as one of the most important factors that could lead the focal companies to the most successful path based on their experiences (R. Ghadban, personal communication, April 11, 2011; A. Haraldson, personal communication, March 1, 2011). Prioritized problems may be different depending on various conditions. Itochu is especially experiencing the lack of feedback loops. They admit that the follow-up for suppliers is weak at this point (Cre-en Inc., n.d.). Strengthening the feedback to the suppliers is also necessary to improve the system as the current one is rather one-way and likely to lead to a hierarchical structure. The simplicity of their checklist may also be insufficient to capture the complexity of sustainability (see Figure 6). For example, though assessing environmental impacts can be complex, the checklist only asks if the supplier has any checking systems and if it can meet the governmental regulation. Similar problems exist for social issues. It asks if there is a policy and implemented structure for compliance, but important questions about the quality of the policy and structure, such as its content and the degree of its implementation, are missing. This leaves little room to encourage the suppliers to improve the quality of their management, thus preventing the whole SSCM from development in the long-run. In addition, because of the simplicity, close communication and a strong mutual trust are a precondition for the dialogue. From the data collected for this research, it is hard to predict if Itochu has already established such a precondition. It is influenced by numerous other factors such as the number of visits and terms of contract as regular visits from local staff have a better chance to build trust with the suppliers than coming to them once a year for audit (R. Ghadban, personal communication, April 11, 2001).

Mizuno has a short to medium-term plan for SSCM and the management cycle including analysis of the audit result, feedback to the related departments and follow-up process for the suppliers. Their current goal is conducting the audit to all of their suppliers, which serves as means to achieving goals. The next challenge should contain establishing a clear vision of sustainability and the goal.

### **Proactive relationship and communication to aim for well-being of the whole community**

It seems that SSCM in the Japanese apparel industry has not aimed for improving sustainability of the community where their suppliers operate. The ambition requires efforts that go beyond the level of compliance. Most of the Japanese companies are not yet at the level of making actions more proactive to contribute to the development of a better community. Because of the tendency to pursue race to the bottom, companies may be selecting locations where local or national regulations are set low, bringing down the compliance level. Keeping the compliance level might still reduce the negative effects; however, it would not be sufficient to accelerate positive effects at the community or factory level.

Influencing the community as a whole is not an easy task, especially when factories of operation are not owned by the focal company<sup>10</sup>. It is not unusual that the focal companies do not possess control over deciding on the wage for employees of the suppliers if they do not own the suppliers' factories. Suppliers may receive orders from multiple companies. In that case, all they can do is to ensure that the legal minimum wages are guaranteed and to further recommend that higher wages be paid if the legislation is not changed. Considering that minimum wage is sometimes way below living wage, to improve the employees' standard of living by avoiding problems that might be caused by this gap, some companies have been working to influence the regulation. In such approaches, there are limitations if a company acts alone. Besides understanding the local conditions, influencing the community generally requires close cooperation with other parties such as local and national government, NGOs, residents and others in the same trade. For example, when H&M worked on increasing the minimum wages in Bangladesh last year, they teamed up with other companies to make a collective action (H&M, n.d., p. 55). Having a larger group not only makes their voice larger and more powerful, it is also important to make sure that the companies informed the government that they would accept the increase in wage positively and continue their business with the suppliers trying to establish a longer relationship (H&M, n.d.). Bringing the

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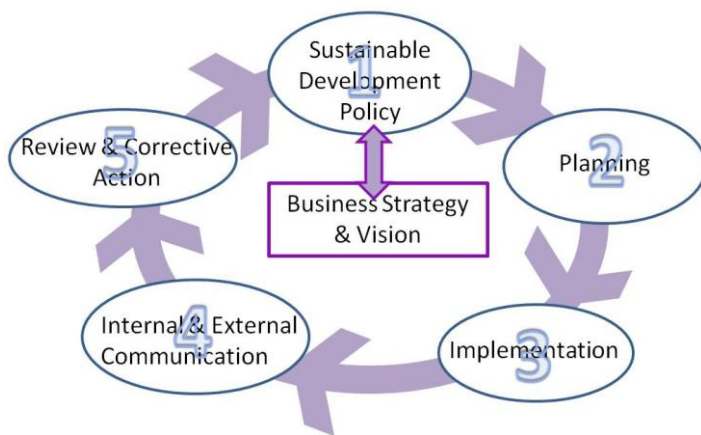
<sup>10</sup> The only company among five with SSCM that states their environmental standards on factories in other countries are same as that of Japan, but they are owned factories by the company(Gunze Ltd., 2010)

community as a whole into view requires tackling the complex system; therefore, serious engagement and a comprehensive view by the whole industry and the cooperation with other sectors are required. The case of the minimum wage issue is just an example; the same can be said for other issues of social and environmental fields.

#### 4.2.2 Structural Change

##### Top-down structure to dialogue-based structure

This section refers to the efforts of the focal company to improve the condition in cooperation with other stakeholders by considering the reality that they face. The efforts affect the content of the CoC/checklist, how to conduct the audit/checking process and how to deal with the detected problems. It seems that the relationship between focal companies and suppliers is hierarchical in the context of the Japanese SSCM. Hierarchical approaches have shown some effectiveness to some extent, but transition to dialogue-based approaches is key to go beyond this extent (Jørgensen & Pruzan-Jørgensen, 2003).



**Figure 7.** Corporate Sustainability Management Framework adapted from: (Azapagic, 2003, p.305)

If there was a platform for dialogue-based structure, it should be easier to approach other important factors. A dialogue-based structure which allows feedback and communication from the supplier is therefore important. A circular system is expected

in the corporate sustainability management framework, strengthening phase three to five in Figure 7 is especially dispensable for correcting the one-way structure.

Dialogue-based relationship with suppliers could encourage trust building and keeps consistency in communication, as mentioned earlier. However, it should be accompanied by some important premises where the review results will be reflected in the future strategy (R. Ghadban, personal communication, April 11, 2011).

### **Low specificity to high specificity**

It seems that both companies that participated in the interview have difficulties in adjusting their CoC or checklist to the area where their suppliers operate. As mentioned by both companies during the interviews, it is difficult to grasp the details of regulations of each nation/municipality, especially when they have thousands of suppliers like Itochu. In that case, different approaches may be required.

As for serious problems such as child labour, the complexity and sensitivity of the problem is acknowledged and handled carefully. It may be due to the fact that it is one of the problems most severely criticized by media and NGOs and the apparel industry has been repeatedly reported for.

Itochu mentioned that they considered involving a third party audit. It is hard to say if it is better than the internal audit; they have good and bad sides. However, it may be better that they include broader, but more specified points in their checklist either way. It could be improved by what and how they do, rather than who does.

It is a great sign that companies in Japan have started a discussion on SSCM together, which could lead to solutions that reduce the burden on both suppliers and focal companies. Even if they are from different industries, there should be stories to learn from one another.

### **Audit base to behaviour change system**

This category refers to the fundamental change of the concepts for making supply chains more sustainable. It is about “how to deal with the system”, rather than the conventional way of thinking “how to deal with the product”. Suppliers may comply with standards imposed by the focal companies; however, the compliance does not necessarily lead to improvement of the practices. As stated earlier, an apparel supply chain is extremely long and complex. To aim for the improved management system to “trickle up” the supply chain, not only suppliers’ practices on surface, but also behaviour within has to be changed. It is common that CoC asks suppliers to manage their suppliers in a same way. For example, Mizuno has a statement

“We expect our suppliers to make progressive improvement in environmental performance in their own operations and require the



same of their partners, suppliers and subcontractors. This includes: integrating principles of sustainability into business decisions; responsible use of natural resources; adoption of cleaner production and pollution prevention measures; and designing and developing products, materials and technologies according to the principles of sustainability.” (Mizuno Corporation, n.d.)

Although capacity building or education programmes have rarely been conducted so far, focal companies in Japan seem to recognize its importance. Efforts, time and cost are huge barriers to capacity building. On the other hand, leading companies outside of Japan have already begun the education and training programme so that they understand the meaning of sustainability and that they can manage their sustainability practices by themselves (Hamner, 2006). Because it is a qualitative issue, it is difficult to assess the result; however, in theory, it is supposed to benefit both suppliers and focal companies. For focal companies, they will curtail the cost for auditing. And suppliers will be able to receive more orders from conscious focal companies and to expect a longer relationship with the focal companies as it is likely that they will not cease a contract with suppliers they invested resources in.

### **Short-term commitment to long-term relationship**

This is an important factor to change the nature of SSCM; looking into a long-term solution to focus on the causes of problems rather than trying to fix only the superficial problems. Examining how the two focal companies see the scope of time in their SSCM clarifies the business relationship within the supply chain and their roles. Although Itochu, as a *shosha*, can play an important role in implementing the sustainability concept in SCM, they work on SCM upon order of apparel companies situated further downstream. As a result, their SSCM is conducted within a fixed framework which they cannot change by themselves. As in an industry, they are powerful. However, in an individual supply chain, their power cannot be fully exercised due to constraints caused by their position in the middle of a stream of supply chain. As a consequence, the duration of commitment as well as how much involvement they should have is difficult to be designed by a *shosha* alone.

Mizuno, as a sport apparel and equipment manufacturer, has more direct control over their SCM. If their willingness to establish a win-win situation through strengthening SSCM was realized, it would be likely to lead them to a longer business relationship with the suppliers. Likewise, having a long-term relationship can be an incentive for suppliers to commit to cleaner production. The financial burden to meet the environmental and social standards is always the problem for suppliers. This indicates that short to mid-term goals should also be accompanied.

### 4.3 Other Factors

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There are two important challenges identified during the interview that have not been categorized in the analysis factors, but should be considered in the SSCM factors as they could affect the quality of the management.

First, the focal companies claim that they have not felt any SSCM demand from consumers, recognizing that it would be a great motivation. Mizuno raised an example of their competitor company with more advanced SSCM, explaining their commitment comes from their international market share, which is much larger than Mizuno. Itochu also does not receive many requests on SSCM from Japanese apparel companies while they receive additional requests from Western clients, which most likely comes from the lack of demand from consumers.

The other challenge is the number of suppliers and the coverage. Itochu carries thousands of suppliers for their apparel business. Among them, they select suppliers for check up based on size of transactions, kinds of products and regions that are prone to risk, and Itochu's capability to do the check up. After selection, there are about only 30 suppliers that are checked each year<sup>11</sup> (Itochu Corporation, 2010, p. 37). Itochu themselves do not know if it is enough. Likewise, Fast Retailing (n.d.) states they have monitored 174 suppliers (Fast Retailing Co. Ltd., n.d.). Although they do not mention how many suppliers they have in total, there should be more suppliers than 174 considering the volume of their production. In addition they state they conduct SSCM with suppliers who have sign the CoC without mentioning if there are any suppliers who did not agree to CoC (Fast Retailing Co.

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<sup>11</sup> If it includes non-apparel suppliers, the total number of check-up will be around 300.

Ltd., n.d.). It is common that focal companies only work with their main suppliers. How to deal with those left out remains to be questioned.

## 5 Discussion and Suggestions

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This section discusses the findings from the analysis and further potentials for the Japanese apparel industry to implement SSCM.

### 5.1 Self-Closed Orientation

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Examining the analysis factors, it became apparent that SSCM in Japan is still closed to other actors. At the theoretical level, focal companies acknowledge that there are more actors that are influenced by or influence their business operation, thus should be included in their stakeholders. Nevertheless, at the operational level, inclusiveness of non-conventional stakeholders such as NGOs and communities where outsourcing takes place is seemingly limited. To understand how a focal company is expected to manage its supply chain and to collect innovative ideas for further improvement of the management system, communication with those non-conventional stakeholders cannot be avoided. Multi-stakeholder engagement is a relatively new concept and its effectiveness has not been empirically tested yet (Pagell & Wu, 2009). However, some leading companies in the field of CSR have already shifted their management style to a more dialogue based one and it is expected to become more common as its importance is recognized by ISO standards, which are widely used (A. Haraldson, personal communication, March 1, 2011).

Many companies in Western countries benefit from working with MSI. There are also NGOs and organizations working on the issue in the area where there are suppliers. Collaborating with local organizations is a huge advantage to build a closer relationship with suppliers (R. Ghadban, personal communication, April 11, 2011). Cultural and language problems may make it harder for Japanese companies to join such initiatives, but Japanese companies might have advantages for having a relatively similar culture as the majority of the suppliers who are located in Asia. As there are not many NGOs focusing on SSCM in Japan, it is difficult for companies to join an existing scheme that understands the unique business

structure in Japan. Therefore, I take the dialogue among the industries which Mizuno started participating positively and hope it will eventually become open for participation from actors of other disciplines.

Because of the fully-established quality management system in the Japanese industry, communication channels between suppliers and focal companies already exist. Quality management and sustainability do not at all collide with each other. Almost all interviewees admitted that suppliers of companies famous in their SSCM do produce high-quality products and are popular among other companies even if they do not have any interests in sustainability aspects. Use of these channels may bring possibilities forward as means for SSCM.

While internal CSR communication networks within the organization have also already been established, decision making is still limited to CSR division and those already involved in SCM. Every division has an important role to facilitate in achieving more sustainability. For example, product designers have significant impacts on how products are made. Which textile and what techniques need to be used determine important factors that change environmental and social impacts such as the lead-time and types of dyeing (Kviseth, 2011). Therefore, the next step could be involving them all in SSCM discussion and decision making, not just outputting the policy and information from CSR division.

## **5.2 Challenges Caused by the Complexity of the Supply Chain in Japan**

Apparel supply chains are generally quite complex as stated earlier. The Japanese apparel supply chain seems to be complex even within Japan. The work of Itochu shows the limitation that a *shosha* feels about SSCM commitment in the existing business model. They are generally not in the position to design the contract as it is upon the order from apparel companies. They also deal with too many suppliers to manage without each brand's cooperation. On the contrary, Mizuno shows extra steps that they need to take, such as conducting a capacity building session for *shosha* before going into their suppliers.

The structural complexity of the industry also results in a transparency problem. If a company situated at the downstream acts as an agent of change, they have a high chance of communicating about how their products are made. However,

if a company situated in the middle of the chain, for example *shosha*, started SSCM, their efforts may not be visible to a consumer. What the industry can do to make a commodity and its production process transparent is to provide sufficient information for consumers.

The structural complexity and lack of transparency indicate the need for cooperation of the whole industry. Currently it seems that there is no platform for the whole industry to discuss on SSCM. Urging all the actors in Japan as well as those in exporting countries to participate at the industry level SSCM is urgently required.

### **5.3 Difference between the Reality and Theory**

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The focal companies in Japan have not been able to see the economic benefit from SSCM commitment. Their motivations for commitment are risk prevention and fundamental responsibility towards keeping supply chains healthy, which may not lead beyond the level of compliance according to Corporate Sustainability Framework. In CSR theory, investment in social and environmental capitals can create a return to the company in the long run. Doubtlessly, it is hard for a company to start the activities without the tangible return at least as a mid-term goal.

There are two problems regarding Japanese consumers not contributing to be a driver. One is that they do not take SSCM as companies' responsibility and the other is that they do not support ethical shopping anyways even if they think it is important. According to research on consumers' behaviour, only 17% think that companies are responsible for addressing global social problems such as human rights and poverty while the global average is above 50% (NTT Data SMIS, 2009, p. 6). The same study reveals that 20% do actually support companies with CSR that they think is good while 34% is the average among industrial countries (NTT Data SMIS, 2009, p. 8). For this issue, from my personal observation, Japanese people are not familiar with the SSCM concepts or, even, the connection between products and sustainability problems created during the production process. Balancing three capitals within the paradigm of corporate sustainability of the apparel industry, peoples' normative change is necessary. Whether or not such conscious change of consumers is within range of corporate responsibility is another discussion.

However, developing niche for sustainability related products is one way of achieving a competitive advantage.

#### **5.4 Inherent Problems of Current Paradigm**

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The theory of corporate sustainability and CSR are most applicable in society where awareness on the concept of sustainability exists. As discussed repeatedly, many problems are inherent to the current business model shaped by the societal structure which includes consumers' behaviour and lack of awareness of sustainability problems in general. There is always room for improvement and companies can continue doing their best in terms of establishing SSCM within the current paradigm. Those efforts could contribute to weak sustainability (see section 3.1 for explanation). However, it was revealed that bold change in the business model, ways of communication and conception of SCM is the key for the way leading to strong sustainability. To fulfil the capacity of the theories, change at the conceptual and practical level is needed. In order to do so, even if the focal companies are expected to be the major player, it will require strong willingness and flexible actions from each stakeholder.

The concept of CSR and SSCM emerged from the western countries and the context is based on their cultural background. Therefore, its application to other areas such as Asian countries may face more barriers. For example, the organizational structure as well as the societal structure is more hierarchical and inward-looking, which allows bottom-up actions to occur less frequently. In such different settings, how much commitment can be expected from each stakeholder and how it will affect the interconnected and complex system is still unknown.

## **6 Conclusion**

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Sustainability impacts are already inherent to the existing business model and the production structure associated with it. The apparel industry has a tendency to seek rapid cycle of production, low labour price and mass production. This tendency has resulted in creation of long and complex global supply chains, which ended up causing large social and environmental impacts in an inequitable manner. While

being a reason for such negative outcomes, corporate sustainability shows the potential of business bringing positive effects.

Aiming for promoting sustainability through SCM, seven factors are introduced as a SSCM analytical framework which recommend: *Corporate central management strategy where corporate sustainability concepts are incorporated, systematic approaches dealing with sustainability complexity, aiming for well-being of the whole community, dialogue-based structure, high-specificity, behaviour change system, and long-term relationship*. Those factors could be neither a clear answer nor panacea to solve the complex sustainability issues, but are considered to contribute to enhancing the potential.

Analyzing the Japanese apparel industry's challenges with the framework, it was revealed that they are lacking many perspectives and approaches. It gives an impression that they are several steps back from advanced companies in Western countries, and needless to say, far from arriving sustainability. What prevent them from achievement vary, from micro to macro level, and from general to particular reasons. The industry's structural complexity, risk of increasing burdens to suppliers and lack of awareness among actors are part of them. It is not that there are clear obstacles, therefore there is no clear solution. Problems exist in a complex manner in the structure where all the actors and stakeholders with different backgrounds are intermingled. In such a dynamic system, there are crucial roles for focal companies to implement sustainability aspects into their SCM. This study has indicated that the Japanese apparel industry could establish a system where all the actors can enhance their sustainability potentials allowing focal companies to be organically linked to their stakeholders. Focal companies of the Japanese apparel industry are recommended to consider the followings: 1. Stronger integration of sustainability concepts in their central management strategy. Acquire deeper understanding of what benefits that they can receive through achieving SSCM and what risks that they will face through not achieving it, and share them with stakeholders including employees of their own. 2. Identify inclusive stakeholders and actors with a broad perspective and detailed attention. Establish a communicative platform involving them in the decision making and action process. This could result in understanding what focal companies are expected to do and in receiving cooperation to make SSCM most effective and efficient. 3. Have clear

mid-long term goals and strategies to reach those goals. 4. Use resources that they have now. Take advantage of the resources such as structured communication network and quality management system, and integrate them with SSCM. They should not collide with their original intention, but reinforce each other. The way to achieve goals is not just one; it could be built upon the already-established system. 5. Think outside of the boxes and try working on the identified barriers. It may be true that there is lack of awareness among consumers or that it is easier when their client is more proactive. However, those challenges should not be an absolute restriction against the expansion of the focal companies' efforts. Working towards removing or overcoming the challenges should also be an option. They could promote products made through SSCM to their clients, they could create a SSCM niche industry, they could publish advertisements on fashion magazines, or they could run a campaign with NGOs at university campuses. They might need to play different roles from the ones they always do in the "business as usual" paradigm, but some companies have already started. Why can't others?

Researching on the apparel industry's challenges to address sustainability issues on SCM with focused and critical eyes gave me many disappointing and hopeful moments. The SSCM in the Japanese apparel industry in general may be still immature comparing to that of other developed countries. However, the positive side of it is that they have many cases to learn from. There are already great stories available.

### **6.1 Suggestion for Future Research**

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Because this study focuses on perspectives from focal companies, researches on the SSCM looking at perspectives from different stakeholders will be useful to grasp a bigger picture. How the SSCM style of Japanese focal companies affect or do not affect stakeholders should be examined in seek for the most suitable management style. Along the similar lines, looking into how the second tier and upper stream suppliers could be involved in the scheme is important to think of the length of supply chains. In addition, application and implementation of ISO26000 on SCM will be a practical research. Because ISO is a popular standard among Japanese companies, I presume that many companies have already looked into it. Involving



multi-stakeholders is not common in the business sector in Japan. However, if ISO 26000 becomes popular, it will be a helpful step forward.

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## Appendices

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### Appendix 1

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#### CSR reporting of Apparel Companies

	data 1	data 2	Company	CSR report	CoC	SSCM	Non-traditional Stakeholders
1	1		Fast Retailing Co., Ltd.	yes	yes	yes	yes
2	2		Shimamura Co.,Ltd.	no	no	no	no
3	3	1	World Co.,Ltd	no	yes	no	no
4	4	2	Onward Holdings Co.,Ltd	yes	yes	yes	stated, but no clear involvement
5	5		Aoyama Trading Co.,Ltd	no	no	no	no
6	6	3	Wacoal Holdings Corp.	yes	yes	no	no
7	7	9	Gunze Ltd.	yes	yes	yes	yes
8	8		Aoki Holdings Inc.	no	no	no	no
9	9	5	Renown Incorporated	no	no	no	no
10	10		Nishimatsuyachain Co., Ltd	no	no	no	no
11	11	6	Sanyo Shokai Ltd.	no	no	no	no
12	12	7	Sanei-International Co.,Ltd	no	no	no	stated, but no clear involvement
13	13		Right-On Co.,Ltd	no	no	no	no
14		4	Five Foxes Co., Ltd.	no	no	no	no
15		8	Itokin.	no	no	no	no
16	16	10	Cross Plus Inc.	no	no	no	no
17		11	Mizuno Corporation	yes	yes	yes	yes
18		12	Takihyo.co.ltd.	no	no	no	no
19		13	Descente Ltd.	yes	yes	yes	yes
20		16	Triumph International Japan Ltd.	no	yes	no	no
21		24	Flandre Co., Ltd.	no	no	no	no
22	14		Point Inc.	no	no	no	no
23	15		United Arrows Ltd.	yes	no	no	no
24	20	14	Tokyo Style Co.,Ltd.	no	no	no	no
25		15	Jun Co., Ltd.	no	no	no	no

For screening, two sets of data on sales ranking were used as each of them has different criteria to make a ranking. Numbers indicated under each data corresponds to place in the ranking.

data 1: Industry Trend Analysis (Japanese) <http://gyokai-search.com/4-apparel-uriage.htm>

data 2: Japan Apparel Technology and Research Association (Japanese)

<http://www.jat-ra.com/edb/edb200/205.xls>



## Appendix 2

### List of Personal Communication

Name	Organization	Position/department	Method	Date	Place
Anna Haraldson	Sustainia Sweden AB consultancy	Sustainability Consultant	interview	01/03/2011	Malmo, Sweden
Achim Richarz	Sustainia Sweden AB consultancy	Senior Consultant	interview	08/02/2011	telephone
Masahiro Sato	Mizuno Corporation Sport equipment/apparel manufacturer	department chief, Global CSR Office	interview	24/03/2011	Osaka, Japan
Akemi Sakuramoto	Itochu Corporation Trading Company	CSR•Global Environment Office	interview	25/03/2011	Tokyo, Japan
Yuko Takeuchi	Itochu Corporation Trading Company	CSR•Global Environment Office	interview	25/03/2011	Tokyo, Japan
Roba Ghadban	Levi Strauss & Co.*	Environment, Health & Safety/Code of Conduct officer Middle East & North Africa	interview	11/04/2011	Malmo, Sweden
Company A**			email	22/02/2011 23/02/2011	
Company B**			email	01/03/2011 04/03/2011	
Company C**			email	09/03/2011 10/03/2011	

\*left the position in 2004

\*\*As for Company A-C, I was requested that their names and any information that could identify their names should not be open. Therefore, data given is used for general information.

## Appendix 3

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### Questions for focal companies

#### Basic information about the company

1. How many suppliers are there?
2. Where are they located?
3. Are they on contracts or owned factories?
4. How is the process of SSCM? And how did it start?

#### CoC

1. How and when was it developed? Was it developed with other stakeholders?
2. Is it modified according to the country/region/supplier?
3. Is it based on another standard?
4. Specific wordings used? e.g. living wage or minimum wage. How do you treat the gap between CoC and legal regulations?
5. How do you make sure CoC is ensured?

#### Auditing

1. Is audit checklist based on CoC?
2. What does it cover?
3. What happens if suppliers cannot keep up with it?
4. Is the auditing checklist specific to each region?
5. What happens if serious problem such as child labour occur?
6. Are standards more than compliance?
7. Who covers the cost of improvement?

#### Stakeholder communication

1. Do you work with local government where your suppliers are located?
2. Do you work with MSI?
3. Do you work with local communities where your suppliers are located?

#### Recognition of CSR outside of CSR division

1. How do you collaborate with other divisions in your company?
2. Do you have an education programme within the company?
3. Who communicates with suppliers?
4. Is SSCM policy developed with other divisions?

#### Driving forces, challenges, and impacts

1. Do consumers and shareholders care about the issue?
2. What is your driver? Challenges?
3. Do you have any capacity building sessions to employees, suppliers, NGOs etc?
4. Short-term, mid-term, long-term goals?

## **Appendix 4**

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### Questions for Consultants in Sweden

How are you involved in SSCM?

Can you specify any characteristics of the apparel supply chain from others industry?

Do companies work with suppliers of 1<sup>st</sup> tier?

Do you know any apparel companies working towards community development through SSCM, in the area where their suppliers operate?

How do you work with CoC?

Do auditors work with local NGOs?

ISO26000 is becoming popular?

Do you think auditing based SCM will shift to communicative base SCM?

What if CoC collides against local or national regulations?

What are companies' motivations?

If suppliers cannot keep up with the criteria, what will happen?

Who will pay the cost for improvement?

What are the biggest barriers and challenges in SSCM?

What are success factors?

Can you introduce best practices?