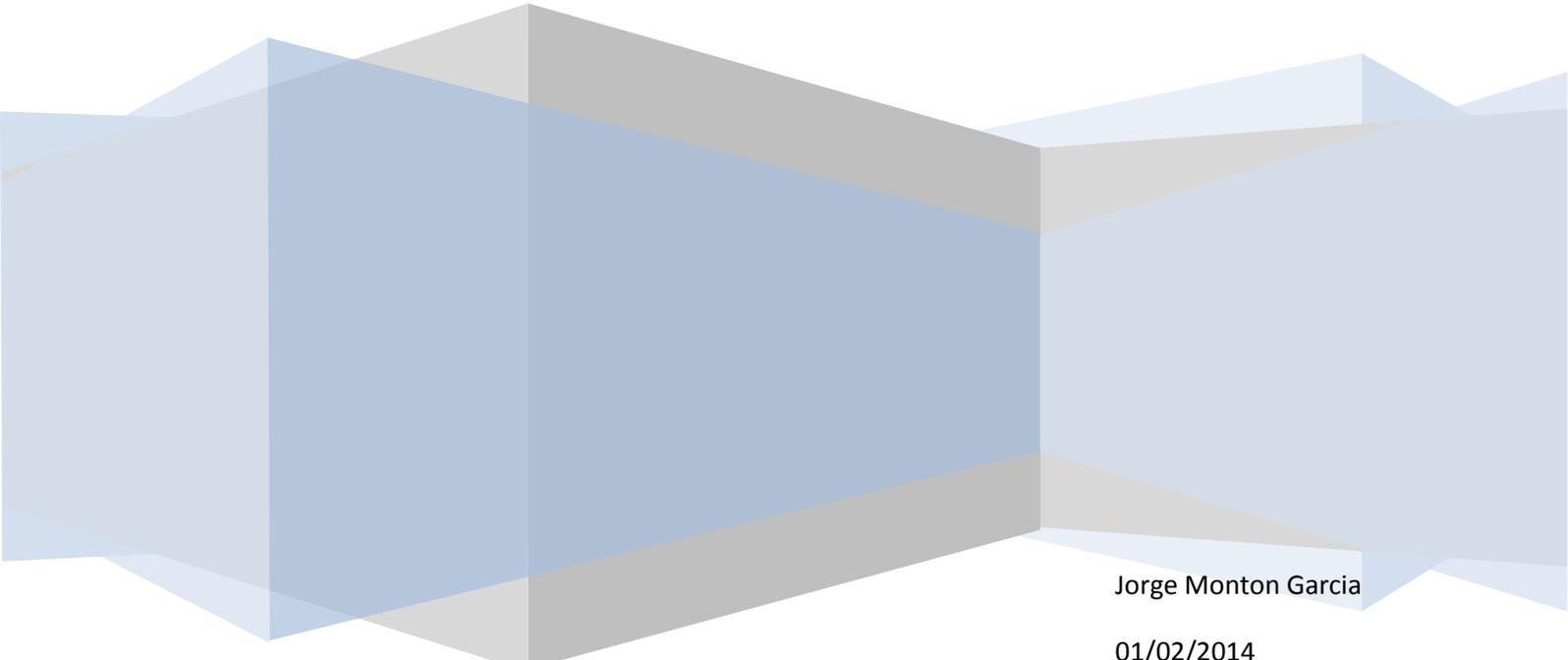


# Offshoring in Textile Industry

Inditex and H&M; analysis



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01/02/2014

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# 1. What is offshoring?

Offshoring could be defined as a process through which, companies, change functions and processes from one country to another.

For a business, this can entail moving product manufacturing, service centers or operations to a different country. Offshoring is often used to reduce the cost of business, with the company seeking to move parts of operations to countries with more favorable economic conditions.

This term is used in different ways. It is sometimes used broadly to include substitution of a service from any foreign source for a service formerly produced internally to the firm. In other cases, only imported services from subsidiaries or other closely related suppliers are included. A further complication is that intermediate goods, such as partially completed computers, are not consistently included in the scope of the term.

## **1.1 Evolution of offshoring**

In the developed world, moving jobs out of the country dates to at least the 1960s and has continued since then. It was characterized primarily by the transferring of factories from the developed to the developing world. This offshoring and closing of factories has caused a structural change in the developed world from an industrial to a post-industrial service society.

During the 20th century, the decreasing costs of transportation and communication crossed with great disparities on pay rates made increased offshoring from wealthier countries to less wealthy countries financially feasible for many companies. Further, the growth of the Internet, particularly fiber-optic intercontinental long haul capacity, and the World Wide Web reduced "transportation" costs for many kinds of information work to near zero.

With the development of the Internet, many new categories of work such as call centers, computer programming, reading medical data such as X-rays and magnetic resonance imaging, medical transcription, income tax preparation, and title searching are being offshored.

Before the 1990s, Ireland was one of the poorest countries in the EU. Because of Ireland's relatively low corporate tax rates, US companies began offshoring of software, electronic, and pharmaceutical intellectual property to Ireland for export. This helped create a high-tech "boom" and which led to Ireland becoming one of the richest EU countries.

In 1994 the North American Free Trade Agreement (NAFTA) went into effect. As concerns are widespread about uneven bargaining powers, and risks and benefits, negotiations are often difficult, such that the plan to create free trade areas (such as Free Trade Area of the Americas) has not yet been successful. In 2005, offshoring of skilled work, also referred to as knowledge work, dramatically increased from the US, which fed the growing worries about threats of job loss.

## **1.2 Difference between offshoring and outsourcing**

Usually these two words are confused, but actually they have a very differential meaning.

Outsourcing refers to an organization contracting work out to a 3rd party, while offshoring refers to getting work done in a different country, usually to leverage cost advantages.

It's possible to outsource work but not offshore it; for example, hiring an outside law firm to review contracts instead of maintaining an in-house staff of lawyers. It is also possible to offshore work but not outsource it; for example, a Dell customer service center in India to serve American clients.

Offshore outsourcing is the practice of hiring a vendor to do the work offshore, usually to lower costs and take advantage of the vendor's expertise, economies of scale, and large and scalable labor pool.

### 1.3 Pros and cons of offshoring

The pros and cons of offshoring jobs can vary depending on the perspective from which the issue is viewed. For workers in poorer countries, it can open up opportunities that may not be available from domestic sources. This, however, also tends to mean that there is a loss of opportunities in the nation where the jobs are generated. The governments of developed countries can benefit from the diplomatic implications, but they may have to bear the anger of their citizens.

Companies can save significant amounts of money by offshoring jobs. In many cases, they are able to access labor much more cheaply. Certain materials may also be cheaper, especially if they are domestic products in the nation where the jobs are filled. Furthermore, other operational costs may be lower due to fewer regulations.

Offshoring jobs to third-world countries can have a significant impact on economies that have excessive unemployment rates and limited opportunities. This can benefit the governments of developed nations in several ways. First, it can be very good for diplomatic relations. Second, providing people with the ability to succeed in their native lands can drastically reduce immigration problems.

The native response a government receives when foreign labor is widely relied upon may not be as positive, however. In many cases, citizens will argue against offshoring jobs because it results in fewer opportunities in their national and local economies. They may also argue that it reduces competition because labor is usually cheaper in less developed countries, which can empower employers to offer an ultimatum — lower salaries and less benefits or no jobs at all.

There are also possibilities that work may not be completed to the desired standard when jobs are offshored. In the freelance writing industry in the U.S., for example, many businesses have tried to find writers to produce content at cheaper rates in other countries. As English is either not the first language of the offshore writers or they speak a different type of English, the resulting work generally requires additional labor, and therefore time, from the job provider before it can be used.

Offshoring jobs also lend itself to problems such as lack of adequate oversight. On numerous occasions, it has been found that businesses operating in

one nation are affiliated with operations in another nation that act unethically or even criminally. The company that sent the jobs offshore generally claims to be unaware of such practices. Whether this is true may not matter to consumers, and they may refuse to continue supporting the company.

This is one of the main negative aspects of the practice of offshoring by companies in developed economies aspect that will be discussed below.

## 2.Destination offshoring

It seems that companies only made offshoring in countries like China or India, but this is not true, more and more, companies moved out of their production process to more countries.

In one hand there are three main countries where companies make offshoring in Asia:

- China has become the premier destination for companies who wanted to relocate production facilities of its products. Today China produces clothing, equipment, electronics, toys and a host of other products. China has work ethic, however have a lack of English communication difficult.
- Philippines emerges as an alternative to India for its infrastructure and knowledge of English. On the other hand, lacks the skills that India has and there is concern about terrorist activities.
- India is a leader in relocation services and administrative processes, such as customer service centers and financial processes. Among the advantages of India recognized English proficiency (20% of the population) and the number of computer engineers who graduate each year (300,000 graduates) are counted. Among the obstacles that companies may face cultural differences are highlighted.

In the other hand companies also made offshoring in some countries in Europe:

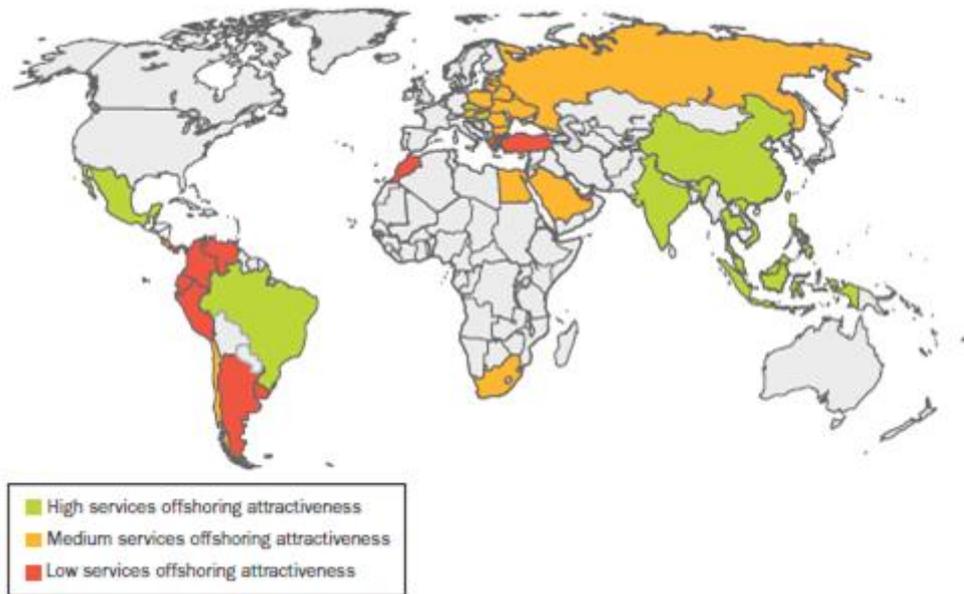
- Czech Republic, Hungary, and Poland the leaders in the region are now losing ground to emerging locations, such as Bulgaria and Romania. Continued improvement in the business environment in the Czech Republic and Hungary cannot offset deterioration in cost competitiveness.

- The Baltic States, Estonia, Latvia and Lithuania still lack the infrastructure of its European neighbors, and suffer from the relatively small size.
- Russia the new kid on the block offers strong technical skills, but lacks the infrastructure, language skills and cultural alignment that some of the newer EU members or prospective members offer.

Finally it is important to highlight the increasing application of offshoring in South America.

- Chile stands out for its economic, political and social stability, in addition to its modern infrastructure, openness to markets and skilled workforce.
- Colombia is the most important emerging economy in the Latin region, with excellent professional and a level of unprecedented work capacity. Take the lead in export of call center services, by their organizational capacity, infrastructure, government support and its neutral Spanish accent and in some cases quality bilingualism.
- Mexico has a privileged geographical position, with a population of over 112 million inhabitants, is the country with more Spanish speakers in the world. Share over 3000km border with the United States, it is worth mentioning publicly held companies and free trade agreements with Mexico that account and its relatively wide trade liberalization, cheap labor ( cheaper than all the BRIC countries except India).

- Panama with a young, skilled and bilingual population, and culturally closer to the U.S. can be a good alternative if you are looking for low costs and good infrastructure. This is one of the main negative aspects of the practice of offshoring by companies developed economies aspect will be treated below.



Final ranking by country

In this figure we can see, the main countries where companies make offshoring, countries in green color are those more attractive for companies who want offshoring high services, more attractive countries for medium services are countries in orange, and finally in red are countries where for companies is more attractive offshore low service.

## 2.1 What does companies look for in a country?

Differentiating between three sectors, high, medium and low, companies seek these characteristics in countries where they want to make offshoring.

In the following table this is represented:

High (relatively)	Medium (relatively)	Low (relatively)
<ul style="list-style-type: none"> <li>■ Legal system</li> <li>■ Skilled workforce</li> <li>■ Political stability</li> <li>■ Language</li> <li>■ Labour costs</li> </ul>	<ul style="list-style-type: none"> <li>■ Cultural alignment</li> <li>■ Economic stability</li> <li>■ Government incentives</li> <li>■ Infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>■ Existing track record</li> <li>■ Proximity</li> <li>■ Access to resources</li> </ul>

Own elaboration

Below three countries where offshoring related textile industry is stronger in Asia, with its main features, which are Bangladesh, Vietnam and India.

### 2.2.1 Bangladesh

Still has an underdeveloped apparel and fabric manufacturing industry, although it also has very low labor costs and cotton prices. Thus Bangladesh can be targeted for sourcing of cotton garments of basic design and standard quality cotton price is the lowest in the region, but operating costs are higher than most countries in the region and much of the machinery in the industry is largely outdated.

### 2.2.2 Vietnam

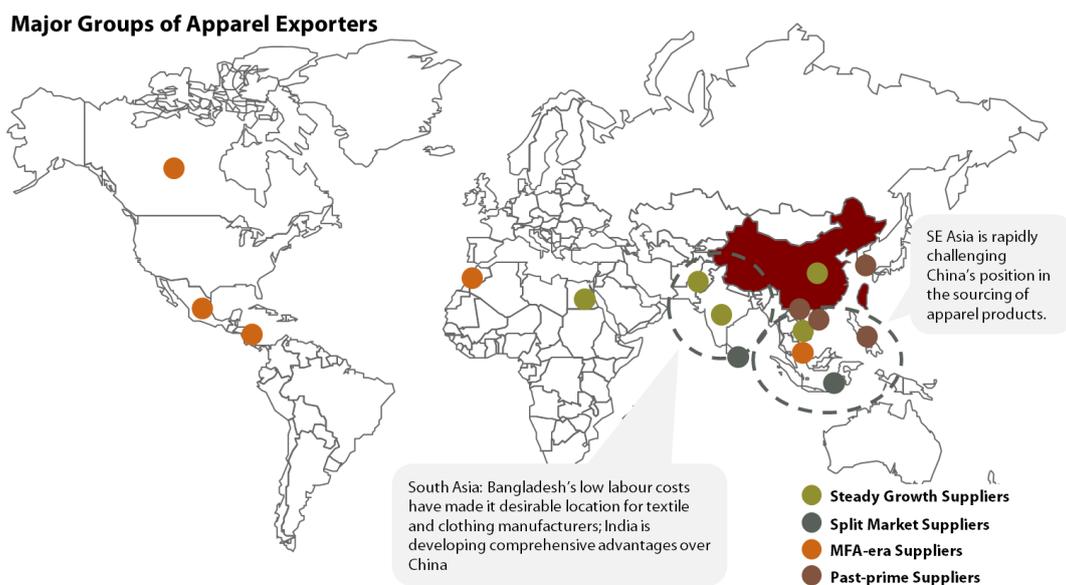
Has a lower cost base than China and India, although higher than Bangladesh and Pakistan. The textiles and apparel industry is actively supported by the government, and relatively significant currency depreciation makes the country's exports competitive. The local workforce is still largely of a low-end

skill base, however, meaning that Vietnam's best sourcing opportunities are still in basic designs and standard types such as woven garments and children's products

### 2.2.3 India

Has a diverse and integrated fabric and apparel industry, and it now has lower labor costs and cheaper cotton prices than China. These and other trends mean that India will likely gain a comprehensive competitive edge over China in the future. India can be targeted for sourcing fabrics and textiles across virtually all product categories.

This map shows countries that made more exportations related with apparels:



Major Groups of Apparel Exporters 2012

## **3.Overview**

### **3.1.Inditex**

The Inditex Group is made up of more than 100 companies operating in textile design, manufacturing and distribution.

The group's success and its unique business model, based on innovation and flexibility, have made Inditex one of the biggest fashion retailers in the world.

Their approach to fashion – creativity, quality design and rapid turnaround to adjust to changing market demands -- has allowed them to expand internationally at a fast pace and has generated an excellent public response to their retailers' collections.

Inditex is one of the world's largest fashion retailers, welcoming shoppers at its eight store formats -Zara, Pull & Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, Zara Home and Uterqüe - boasting 6.249 stores in 86 markets.

### **3.2 H&M**

H&M's business concept is to offer fashion and quality at the best price, H&M was established by Erling Persson who opened the first store in Västerås, Sweden in 1947. Today there are 3,100 stores in 53 countries.

H&M Hennes & Mauritz AB comprises six independent brands: H&M, COS, Monki, Weekday, Cheap Monday and & Other Stories, where 104,000 dedicated people are employed. The collections are created by 160 in-house designers and 100 pattern makers.

H&M offers everything from the hottest trends to the best in basics for women, men, teenagers and children complete with shoes, accessories, cosmetics and a home interiors concept.

Sustainability is an integral part of H&M's operations and they work actively to ensure a more sustainable chain of design, manufacturing and product handling for both people and the environment.

### **3.3 Code of conduct**

#### *3.3.1 Introduction Inditex*

The Inditex Code of Conduct for Manufacturers and Suppliers (hereinafter, the Code) defines minimum standards of ethical and responsible behavior which must be met by the manufacturers and suppliers of the products commercialized by Inditex in the course of its business, in line with the corporate culture of Inditex Group (hereinafter Inditex), firmly based on the respect for Human and Labor Rights.

Inditex undertakes to allocate the appropriate resources so that manufacturers and suppliers are acquainted with and understand this Code and are able to ensure its compliance.

The Code shall be applied to all manufacturers and suppliers that take part in the purchasing, manufacturing and finishing processes and fosters and is based upon the following general principles that define Inditex's ethical behaviour:

- All Inditex's operations are developed under an ethical and responsible perspective.
- All persons, individuals or entities, who maintain, directly or indirectly, any kind of employment, economic, social and/or industrial relationship with Inditex, are treated fairly and with dignity.
- All Inditex's activities are carried out in a manner that most respects the environment.
- All manufacturers and suppliers (production centres that are not property of Inditex) fully adhere to these commitments and undertake to ensure that the standards which are set forth in the Code are met.

### 3.3.2 Code of conduct Inditex

The following list describes 13 points that manufacturers and suppliers of the products commercialized by Inditex must apply.

1. No forced labor
2. No child labor
3. No discrimination
4. Respect for freedom of association and collective bargaining
5. No harsh or inhumane treatment
6. Safe and hygienic working conditions
7. Wages are paid
8. Working hours are not excessive
9. Regular employment
10. Traceability of production
11. Health and Safety of products
12. Environmental awareness
13. Confidentiality of information

However Inditex has been involved with several scandals, where some of the points appointed on the list were not fulfilled.

#### ***1. No forced labour***

*Inditex shall not allow any form of forced or involuntary labour in their manufacturers and suppliers. They may not require their employees to make any kind of "deposits", nor are they entitled to retain employees identity documents.*

*Manufacturers shall acknowledge the right of their employees to leave their employer after reasonable notice.*

First point of Code of Conduct for Manufacturers and Suppliers Inditex Group

Below, there are two news which show that the first point of his own code of conduct is not fulfill:

- Zara has been accused of allegedly accepting slave-labor working conditions supplanted by more than 30 of its outsourced plants running in Brazil.
- An investigation of a South American factory that may be producing Zara products has revealed "slave labor" working conditions.

## **2. No child labour**

*Manufacturers and suppliers shall not employ minors. Inditex defines minors as those persons who have not yet reached their 16 birthday. In cases where local legislation stipulates a higher minimum age, the higher limit shall apply.*

*Persons with the ages between of 16 and 18 years will be considered young workers. Young workers shall not work during night hours or in hazardous conditions.*

Second point of Code of Conduct for Manufacturers and Suppliers Inditex Group

According to the next new, the second point of the code of conduct was not accomplished either:

- Zara's Brazilian suppliers contracted with factories which subjected workers to hazardous "slave-like" working conditions and employed at least one girl aged 14.

## **6. Safe and hygienic working conditions**

*Manufacturers and suppliers shall provide a safe and healthy workplace to their employees, ensuring minimum conditions of light, ventilation, hygiene, fire prevention, safety measures and access to a drinking water supply.*

*Workers shall have access to clean toilets facilities and drinking water. Where necessary, facilities for food storage shall be provided.*

*Accommodation, where provided, shall be clean and safe.*

*Manufacturers and suppliers shall take the required steps to prevent accidents and injuries to health of their workers, by minimizing as much as possible the risks inherent to work. Manufacturers and suppliers shall provide their workers with regular training in the matter of health and safety at work. The company shall keep an appropriate record of the training courses done. Likewise, they shall appoint a person in charge of health and safety within the Management, duly authorized and with the appropriate decision taking power'.*

Sixth point of Code of Conduct for Manufacturers and Suppliers Inditex Group

Neither point 6 is accomplished by Inditex as we can see in the next news:

- The workers were employed illegally by Inditex's contractor, a raid in Sao Paulo found people working in a factory cramped, unsanitary conditions, for long hours, where electrical wires dangled dangerously from the walls above piles of fabric.

## ***12. Environmental awareness***

*Manufacturers and suppliers shall be duly committed at all times to protect the environment and shall comply with the standards and requirements of the applicable local and international Laws and Regulations.*

*Likewise, they commit to comply with environmental standards established by Inditex including, if applicable, the necessary measures to reduce and compensate such impact in order to apply said standards.*

Twelfth point of Code of Conduct for Manufacturers and Suppliers Inditex Group

And finally the point related with environment has not been accomplished by Inditex according to the next news:

- Brands like Armani, Calvin Klein, Marks and Spencer and Zara (Inditex) are being linked to devastating water pollution in the Chinese textile industry.

### ***3.3.3 Introduction H&M***

This Code of Conduct is applicable to all suppliers, their subcontractors and other business partners that do business with H&M Hennes & Mauritz AB.

Quality also means that their products must be manufactured in a way that is environmentally and socially sustainable. H&M have a responsibility towards everyone who contributes to their success.

They are therefore committed to working closely with their suppliers and business partners to achieve a long-term, sustainable social and environmental standard

in the factories that manufacture H&M's products and in the operations of other business partners.

This Code of Conduct specifies what H&M require from their suppliers, their subcontractors and other business partners in order to fulfill their commitment to their Board of Directors, to their employees, to their customers, to their shareholders and to other stakeholders. It is the responsibility of H&M's suppliers and other business partners to inform their subcontractors about H&M's Code of Conduct and Policy for Homework, and to ensure that these are implemented in every factory and workplace that produces, finishes packs or otherwise handles goods or performs services for H&M.

H&M base their requirements mainly on internationally agreed standards such as the Universal Declaration of Human Rights, The UN Convention on the Rights of the Child and applicable ILO Conventions, as well as national legislation.

#### *3.3.4 Code of conduct H&M*

The following list describes 8 points that manufacturers and suppliers of the products commercialized by H&M must apply.

1. LEGAL REQUIREMENTS
2. CHILD LABOUR IS NOT ACCEPTED
3. HEALTH AND SAFETY
4. WORKERS' RIGHTS
5. HOUSING CONDITIONS
6. ENVIRONMENT
7. SYSTEMS APPROACH
8. MONITORING AND ENFORCEMENT

As in the case of Inditex, there baring news where it can be observed that H&M does not do these points.

## ***2. Child Labour is not accepted***

*(Refer to LO Conventions 138 and 182 and to the UN Convention on the Rights of the Child)*

### *2.1 Child Labour*

*H&M does not accept child labour. No person shall be employed at an age younger than 15 (or 14 where the national law so allows) or younger than the legal age for employment if this age is higher than 15.*

*The company must take the necessary preventive measures to ensure that it does not employ anyone below the legal age of employment.*

### *2.2 Young Workers*

*All legal limitations on the employment of persons below the age of 18 years must be followed.*

*We acknowledge that according to the UN Convention on the Rights of the Child, a person is a child until the age of 18. We recognise the rights of every child to be protected from economic exploitation and from performing any work that is likely to be hazardous or to interfere with the child's education, or to be harmful to the child's health or physical, mental, spiritual, moral or social development.*

*For further clarification regarding the prevention and remediation of child labour please see our Code of Conduct Guidance for Implementation of Good Labour Practice.*

Code of conduct H&M

- It has been reported H&M's links to child labor and labor exploitation in Uzbekistan and Bangladesh
- H&M is under pressure to break their links with clothing suppliers who buy cotton from Uzbekistan, where large amounts are harvested using child labor.

### **3. Health and Safety**

#### *3.1 Building Safety*

*We require our suppliers and other business partners to make employees' safety a priority at all times. No hazardous equipment or unsafe buildings are accepted.*

#### *3.2 Fire Safety*

*Emergency exits on all floors must be clearly marked, well lit and unblocked all the way out of the building. Evacuation through emergency exits must always be possible during working hours.*

*Everyone working on the premises, including managers and guards, must be regularly trained in how to act in case of fire or other emergency. Regular evacuation drills for all employees are required; evacuation plans and firefighting equipment must be in place.*

#### *3.3 Accidents and First Aid*

*The employer must work proactively to avoid accidents causing harm to any employee in the workplace.*

*Relevant first aid equipment must be available and where legally required a doctor or nurse should be available during working hours.*

#### *3.4 Working Environment*

*The premises must be regularly maintained and cleared and must provide a healthy working environment.*

Code of conduct H&M

- An investigative Swedish TV show on 24 October, exposed poor working and living conditions under which H&M, one of the leading fashion brand's garment products are produced.

## **6. Environment**

*The environment is of increasing concern globally and H&M expects its suppliers and other business partners to act responsibly in this respect. Our suppliers must comply with all applicable environmental laws and regulations in the country of operation. In particular, we are concerned about how the production of our garments and other products contributes to climate change and water stress.*

### **6.1 Environmental Permits**

*The company must have the relevant environmental permits and licenses for its operations.*

### **6.2 Handling of Chemicals**

*Chemicals used must be in compliance with H &M's Chemical Restrictions for the relevant product type. Chemical containers must be properly labelled and safely stored. A material safety data sheet (MSDS) must be available (in the local language) in the workshop. The instructions in the MSDS must be followed. (Refer to ILO Convention 170)*

### **6.3 Water Management and Wastewater Treatment**

*Water is a scarce resource in many parts of the world and should be used as efficiently as possible. All outgoing wastewater from wet processes must be treated before it is discharged. The treated wastewater quality must meet the requirements in local legislation or the BSR guidelines', whichever is stricter.*

### **6.4 Waste Management**

*Any waste and in particular hazardous waste must be taken care of in a responsible manner and in accordance with local law*

## *Awareness for the environment*

Not only on the code of conduct for H&M, on their website you can also find up to 3 references in relation to the environment, which are as follows :

### *Be climate smart*

*“Climate change is one of the major challenges of our time. Like many other organizations, we have a keen interest in tackling this – and a responsibility to do so.”*

H&M website

### *Reduce, reuse, and recycle*

*“Making the most of the resources we use and avoiding waste is central to our business idea. Avoiding unnecessary material use and applying smart methods to reuse and recycle helps reduce waste. But it also helps to decrease the need for virgin resources. Both mean fewer environmental impacts – and it can save money, too. “*

H&M website

### *Use natural resources responsibly*

*“From using cotton to transporting finished garments and lighting our stores, H&M is a consumer of natural resources. We depend on them throughout our value chain to do business and meet the needs of our customers. However, increasing scarcity of some resources globally, like oil and minerals, and regionally, like water or agricultural land, means that access to these vital inputs for our business cannot be taken for granted.”*

H&M website

In the following news, we can see news where these points related with environment are not accomplished.

- “A Chinese conglomerate supplying Nike, Adidas, Puma H&M, and other leading brands has discharged hormone-disrupting chemicals and other toxins into the country's major water systems, according to a new Greenpeace investigation that raises questions about corporate responsibility for the firms they do business with.”

## 4.Human rights violated

As it has been explained, Inditex and H&M have failed to fulfill their own code of conduct, but they even have not fulfilled even some articles of The Universal Declaration of Human Rights, which is supposed to be the rules that every company, country and person must comply.

In relation to human rights, we can highlight two which clearly Inditex and H&M have been violated in the last years.

The first one is the article number 4 of The Universal Declaration of Human Rights, which says:

### Article 4

1. *“No one shall be held in slavery or servitude; slavery and the slave trade shall be prohibited in all their forms.”*

Universal Declaration of Human Rights

The second one is the article number 23 of The Universal Declaration of Human Rights, which says:

### Article 23

1. *“Everyone has the right to work, to free choice of employment, to just and favorable conditions of work and to protection against unemployment.*
2. *Everyone, without any discrimination, has the right to equal pay for equal work.*
3. *Everyone who works has the right to just and favorable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection.*
4. *Everyone has the right to form and to join trade unions for the protection of his interests.”*

Universal Declaration of Human Rights

This violation of human although it has been done by the providers of these two great brands, and not directly by the companies themselves, shows the serious problem that the practice offshoring is causing.

## 5.Reactions

As seen so far , H&M and Inditex have not complied with their own codes of conduct, and what is more serious have not complied with the universal declaration of human rights.

But Inditex and H&M are doing more and more steps to try to solve this situation, and thus fulfill their conduct codes.

The disaster occurred in Bangladesh on 24 April 2013, an eight -story commercial building, contained clothing factories, a bank, apartments , and several other shops ,collapsed in Savar, a sub -district in the Greater Dhaka Area, the capital city of Bangladesh, was the reason for the creation of a big deal.

This disaster became one of the top stories around the world, this led to numerous textile brands around the world to signed the Accord on Fire and Building Safety In Bangladesh, among which are Inditex and H&M.

The Accord is an independent agreement designed to make all garment factories in Bangladesh safe workplaces. It includes independent safety inspections at factories and public reporting of the results of these inspections.

Where safety issues are identified, retailers commit to ensuring that repairs are carried out, that sufficient funds are made available to do so, and that workers at these factories continue to be paid a salary.



ACCORD website

## 5.1 H&M reaction

Besides the agreement before appointed H&M and Inditex are making effort to improve conditions at workplaces, improve respect for the environment etc ...

These are some of the actions that H&M is conducting today:

### *Continue to promote improved fire safety in Bangladesh*

Fire safety is a major issue in Bangladeshi garment factories. Poor electrical installations and bad maintenance often create significant fire hazards. In order to make a safe workplace the norm throughout the sector, H&M think that it is essential to involve all stakeholders such as the government, industry organisations, trade unions and other brands.

This is why H&M developed two training films to increase fire safety awareness amongst employees at all levels in garment factories. H&M teamed up with 18 other brands and employer associations in the sector, BGMEA and BKMEA, to spread this training. According to BGMEA, more than 1,250 factories and 100,000 workers received the training.

### *H&M Incentive Program*

In order to show their appreciation of their employees, H&M has started an incentive program for all employees. The program was initiated in 2011 with a donation from Stefan Persson Family, of approximately 4 million H&M shares with a value of approximately SEK 1 billion (based on the share price on 6 September 2010) to the Swedish foundation Stiftelsen H&M Incentive Program.

### *Joint ban on sandblasting*

Sandblasting is a technique used to give garments, in particular denim, a used or worn-out look. Media reports drew attention to studies that highlighted serious health risks to workers from unprotected use of this technique. In 2010 H&M together with Levi Strauss & Co. enforced a ban on sandblasting for all products and we encourage others to do the same.

### *Workers' awareness films in Bangladesh and India*

H&M wants their suppliers to be in charge of their own sustainability in the long run. To achieve this, their employees must be involved. Employees need to know their rights and how to claim them. Ultimately, H&M want them to be able to influence their situation through dialogue with their employers. Through short films, more than 300,000 workers in Bangladesh have received training on their rights at work since 2008.

### *Joining forces with others*

The sustainability challenges within the global retail business affect everyone in the industry. These challenges are often universal issues that no company can solve on its own.

H&M also often share suppliers with other retail brands. Collaborating with industry peers can therefore help to increase the level of influence we have on a particular issue where working alone we would have less influence.

### *Towards higher wages in Bangladesh*

In Bangladesh, the government does not review minimum wage levels regularly and systems for employees to negotiate directly with their employers are generally not sufficient. That's why in 2010 H&M took the initiative to address this issue with the Bangladeshi government.

### *All for Children*

All for Children is a unique collaboration between H&M and UNICEF. Together they work to protect the rights of some of the poorest children in the world. Today, they reach out to more than 2 million children and the adults around them in two projects in India and Bangladesh.

25% of the sales price of their annual All for Children collection and additional donations from H&M fund these projects with around USD 12.5 million. H&M Training Centre in Dhaka, Bangladesh.



H&M website

## *Carrier bags made from recycled material*

H&M's studies showed that recycled plastic is the best material for carrier bags from an environmental perspective. That's why in 2010 H&M switched to recycled material for all of our standard plastic consumer bags.

### **5.2 Inditex reaction**

Also Inditex is doing actions now a day:

*Inditex earmarks €10 million to finance educational programs run by the Entreculturas Foundation in Africa and Latin America*

The 20 projects covered will benefit 120,000 people in 13 countries. Today Inditex and the Entreculturas Foundation signed two collaboration agreements for the financing of the aid programs being carried by the former in Africa and Latin America.

Inditex will provide a total of €9.8 million to fund these projects, which will last three years and focus on enhancing the skills and employment prospects of vulnerable echelons of society.

*Inditex to donate €1.5 million to humanitarian projects run by Médicos Sin Fronteras in India and Turkey*

The projects in India are aimed at mitigating infant malnutrition in the Darbhanga region in the state of Bihar and helping with the fight against visceral leishmaniasis (or kala azar) in the nearby city of Vaishali.

The Turkish initiative encompasses the provision of medical and humanitarian aid to refugees along the border town of Kilis, mainly to undocumented border crossers.

Inditex, has been working with MSF organization since 2008, will inject €0.5 million of financing into each of these projects

*Oysho opens its first 'for&from' workforce integration store in Palafolls*

In opening a store serviced by persons with severe mental illness in Palafolls (Barcelona), in collaboration with NGO Fundació El Molí d'en Puigvert, fashion chain Oysho has joined the Inditex Group's 'for&from' workforce integration program. This is the third store opened under the program in this Catalan town, where Massimo Dutti and Bershka also operate 'for&from' stores, and it is the seventh such store in all of Spain.

*Collaborating with NGOs: Médicos Sin Fronteras – España*

Inditex confirmed its commitment to emergency work of MSF through its support for humanitarian teams attend to the victims of this devastating typhoon.

The contribution of 250,000 euros will be used to meet the most immediate needs of the population, such as sending material necessities.

## 6.NGOs

Regarding NGOs related to problems of offshoring, such as working conditions, respect for the environment, child labor... numerous NGOs have emerged to try to solve these problems arising.

Among the most popular would be the followings:

### Fair Wear Foundation (FWF)

Is an independent, non-profit organization that works with companies and factories to improve labor conditions for garment workers.

FWF's 80 member companies represent over 120 brands, and are based in seven European countries; member products are sold in over 20,000 retail outlets in more than 80 countries around the world. FWF is active in 15 production countries in Asia, Europe and Africa.

FWF keeps track of the improvements made by the companies it works with. And through sharing expertise, social dialogue and strengthening industrial relations, FWF increases the effectiveness of the efforts made by companies.



Fair wear website

### The Clean Clothes Campaign

Is an alliance of organizations in 16 European countries. Members include trade unions and NGOs covering a broad spectrum of perspectives and interests, such as women's rights, consumer advocacy and poverty reduction

The Clean Clothes Campaign rely on a partner network of more than 200 organizations and unions in garment-producing countries to identify local problems and objectives, and to help them develop campaign strategies to support workers in achieving their goals.

They cooperate extensively with similar labor rights campaigns in the United States, Canada, and Australia.



[Clean Clothes Campaign website](#)

## Accord

The Accord is an independent agreement designed to make all garment factories in Bangladesh safe workplaces. It includes independent safety inspections at factories and public reporting of the results of these inspections.

Where safety issues are identified, retailers commit to ensuring that repairs are carried out, that sufficient funds are made available to do so, and that workers at these factories continue to be paid a salary.



[ACCORD website](#)

## **7. Different models of production, same problems**

As it is going to be explained, Inditex and H&M have really different models of production, despite finally they sale the same products with very similar prices.

In one hand H&M does not own any factories; their products are sourced from independent suppliers, mainly in Europe and Asia. These suppliers manufacture their products and generally source fabrics and other components.

In the other hand Inditex gets part of the tissues and other necessary materials by group companies located in different countries in Europe, Asia and Africa. The rest (about 60%) is acquired through multiple national and international suppliers. The goal is to have a wide source of supply that allows having two types of required fabrics at an affordable price.

As is the case with the supply, the production process is divided approximately 50% between group subsidiaries and offshoring.

Despite this significant difference between these two brands, both have been involved, as has been explained in numerous cases where their own codes of conduct have been violated and even human rights.

## 8. Project summary

This project is about offshoring in the textile industry, focusing in the rights violated in this process, this concept can be defined as the moving of various operations of a company to another country for reasons such as lower labor costs or more favorable economic conditions in that other country.

The project describes the evolution of offshoring, which started in 1960's and has continued since then; it was characterized primarily by the transferring of factories from the developed to the developing world. This process of offshoring and closing of factories has caused a structural change in the developed world from an industrial to a post-industrial service society, and also in the developing world.

The main advantages and disadvantages of this process are also covered in this project, these advantages and disadvantages of offshoring jobs can vary depending on the perspective from which the issue is viewed. On one hand for workers in poorer countries, it can open up opportunities that may not be available from domestic sources; however, on other hand this also tends to mean that there is a loss of opportunities in the nation where the jobs are generated.

The project also studies the main destinations in the offshoring processes, which unlike most people's opinion takes place in a large number of countries, not only in Southeast Asia, in countries like India or China, but also in east Europe, South America or North Africa. The main reasons for which companies decide to relocate their production in those countries is also explained, focusing in 3 countries Bangladesh, Vietnam and India, which are the most important countries in relation with offshoring in textile industry.

In this project the code of conduct of H&M and Inditex are dissected, during the different processes of production both companies do not fulfill their own code of conduct, they have been involved in not a few scandals, where is clearly shown that their code of conduct was not accomplished. These scandals were mainly related about child labour and environment.

Not only their code of conduct was not accomplished for these two companies, there have even been different cases where human rights were violated, particularly the article number 4 and article number 23, related the first

one with slavery and servitude rights and related with right of workers the second one.

As is explained in the project, this violation of their code of conduct and some of the articles of the Human Rights, have been violated for these two companies although they have different ways to execute the process of offshoring.

Finally the reaction to these problems of these 2 companies is explained, they are carrying out different actions to improve this situation (supporting and working hand by hand with NGOs in order to improve worker's situation, investing to improve the workplace etc...)

Numerous NGOs have emerged trying to solve these problems related with offshoring, such as working conditions, respect for the environment, child labor... the significant work of these NGOs is also explained.

## 9. Conclusion

- Offshoring in textiles and clothing industries is important in economic and social terms, in the short-run by providing incomes, jobs, especially for women, and foreign currency receipts and in the long-run by providing countries the opportunity for sustained economic development in those countries with appropriate policies and institutions to enhance the dynamic effects of textiles and clothing.
- Companies can save significant amounts of money by offshoring jobs. In many cases, they are able to access labor much more cheaply. Certain materials may also be cheaper, especially if they are domestic products in the nation where the jobs are filled. Furthermore, other operational costs may be lower due to fewer regulations.
- But, there are not only benefits in this process; offshoring jobs also lend itself to problems such as lack of adequate oversight. On numerous occasions, it has been found that businesses operating in one nation are affiliated with operations in another nation that act unethically or even criminally. The company that sent the jobs offshore generally claims to be unaware of such practices. Whether this is true sometimes this may not matter to consumers, sometimes they may refuse to continue supporting the company.

In conclusion, it is clear that the process is not taking place in the best way possible, as it can be seen, there are not a few problems which offshoring in textile industry is causing, although there are so many benefits for both develop and developing countries. This process has to be done in a different way, in which both parts of the process can take advantage, reducing those problems mentioned in the project (improving workplace, worker's rights labour, , reducing child environment) The awareness of society, especially consumers, must play a key role, following the steps that NGOs already did, can lead to important changes in the way that the process is done so far.

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