Corporate Social Responsibility Reporting: The Case of the Fashion Industry

Karina Zhao
kzhao27@gmail.com

Follow this and additional works at: https://opencommons.uconn.edu/srhonors_theses

Part of the Accounting Commons, Fashion Business Commons, and the Sustainability Commons

Recommended Citation
Zhao, Karina, "Corporate Social Responsibility Reporting: The Case of the Fashion Industry" (2020). Honors Scholar Theses. 728.
https://opencommons.uconn.edu/srhonors_theses/728
ABSTRACT:
This paper examines the nature of corporate social responsibility (CSR), with a focus on corporations within the fashion industry. First, I discuss the evolution of CSR from its origin in the 1930s until present day, along with global trends that have risen in respect to emerging economies, industry sectors, and regulatory change. Then, I summarize factors that motivate firms to prepare and provide CSR reports – i.e., the determinants of voluntary disclosure of CSR reports. In addition, I discuss to what extent these reports are regulated and assured across the globe, as an increasing number of corporations participate in disclosing CSR activity, as well as the important role of stakeholder relationships. Lastly, I present several firms within the fashion industry as examples. I analyze their carbon emissions patterns and overall financial performance to see how these firms are making sustainable progress.
# Table of Contents

I. Introduction ........................................................................................................................................ 2

II. Evolution of CSR and the Current Global Trends ....................................................................... 4
    A. Evolution of CSR .......................................................................................................................... 4
    B. Current Global Trends ................................................................................................................. 8

III. Determinants of CSR Reporting .................................................................................................. 11

IV. CSR and Stakeholder Relationships ............................................................................................. 14

V. The Fashion Industry ..................................................................................................................... 18
    A. Background ................................................................................................................................ 18
    B. CSR Reporting in the Fashion Industry ....................................................................................... 21
    C. Carbon Emissions in the Fashion Industry .................................................................................. 24

Appendix A ........................................................................................................................................ 31
Appendix B ........................................................................................................................................ 33
References ......................................................................................................................................... 34
I. Introduction

In an era of continuous economic growth and societal development, we have seen the global reach and devastating effects of natural resource depletion, unsustainable consumption patterns, and climate change. As global citizens, everyone has an inherent responsibility to care for the people and the environment. As such, corporate social responsibility (CSR) has never been more important. The 21st century has nurtured a new generation of consumers and innovators with more integrative mindsets. They have new expectations as they strive to align their consumption habits with their own values of being socially conscious and responsible. More consumers have shifted to brands that operate in socially responsible ways and are turning to products and services that show clear, sustainable impacts. In turn, organizations must pivot to meet this obligation of cultivating social good while delivering financial success and profitability.

The past two decades have witnessed a growing emphasis on socially responsible corporate activities around the world. Many companies are bringing economic, legal, ethical, and philanthropic responsibilities into their decision-making process (Huang & Watson, 2015), voluntarily taking action to work towards social good. This diverges from the traditional shareholder theory which states that firms act with the objective of wanting to maximize shareholder wealth (Friedman, 1970). In other words, CSR counters the traditional shareholder theory, suggesting that firms are driven to make decisions that do not always prioritize shareholder wealth. Rather, it is a balancing act with a focus on finding a healthy and sustainable middle ground between two motivations: fulfilling shareholder interests and compounding social value.

Corporate social responsibility is a growing concept that has taken center stage only recently. With the inherently broad nature of CSR, more research is being performed to gain a better understanding of its impact. Analytic groups have worked to track and comparatively rate
the CSR performance of large firms. A growing number of these firms have also voluntarily agreed to issue their own CSR reports. For instance, in 2007 alone, firms that voluntarily provided CSR reports constituted more than 10 percent of the total U.S. market (Dhaliwal et al., 2011). Despite the rapid development of CSR disclosure over the past two decades, up until today many CSR reports still lack a standardized structure. Although the theory of socially responsible corporate activities sounds ideal and straightforward, putting it to practice is significantly more challenging. The reason is that CSR relates to various elements, including corporate governance, community relations, employee relations, human rights, diversity, and product-related issues. The breadth of CSR makes it challenging to develop standardized metrics that accurately depict and measure a firm’s CSR initiatives. Given that corporate social responsibility is heavily linked to the accounting realm, accounting professionals are tasked with the jobs of measuring, disclosing, and assuring information. This ability to hold firms accountable translates into important contributions to the CSR movement. As a result, while the work of accounting professionals has traditionally been to ensure the financial accountability of corporations, the role of accounting has since broadened and professionals in the accounting field have stepped in to help create and assure the CSR reports.

In this paper, I first present the evolution of CSR and the current global trends in Section II. I then go on to discuss factors that motivate firms to spend resources on compiling and publishing the CSR reports in Section III, and the role of stakeholder relationships in Section IV. Lastly, I will analyze CSR implications in the fashion industry in Section V, looking into carbon emissions performances for several top-performing firms and how they have taken proactive measures to drive sustainable change. Section VI concludes.
II. Evolution of CSR and the Current Global Trends

A. Evolution of CSR

To gain a comprehensive understanding of corporate social responsibility and its implications in modern business, it is important to understand the historical timeline and events that have heavily influenced its evolution. While the origins of socially responsibility and corporate behavior can be seen as early as several centuries ago, the formal research and literature on CSR take root in the 1930s. In the years leading up to the early 20th century, large scale urbanization and industrialization drove corporate leaders to start organizations that pushed for better working conditions and advocated for improved qualities of life. Moving into the 1950s, the primary focus of business leaders was to find a balance between profit through value creation and a responsibility to their customers, employees, and the community at large. This led to academic discussion and research literature that first defined the concept of corporate social responsibility. One of the most notable contributors to this movement was H.R. Bowen, credited as the “Father of Corporate Social Responsibility” (Latapí et al., 2019). He strongly believed that because large companies held immense power, their actions had an indelible and tangible impact on communities. As such, there is a need to shape their decision making in a way where leading firms can create and communicate a positive impact. Executives have an obligation to “pursue those policies, make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society” (Bowen, 1953). This ideology inspired other scholars and spearheaded the idea of defining certain principles, in order for corporations to fulfill their social responsibilities.

The 1960s was marked by a series of instrumental events, individuals, as well as ideas that pushed for more social change. As the civil rights movement gained traction, the protest culture around it grew, driving radical and political activism. People started to see companies as an
important piece to the societal establishment that they wanted to reshape (Waterhouse, 2017). As such, the large corporations faced immense pressure to reflect and redefine their roles and social obligations towards society. However, the sociopolitical environment leading into the 1970s garnered little confidence that corporations would be able to fulfill their parts. One of the defining events was the 1969 California oil spill, which subsequently lead to the creation of the first Earth Day. Millions protested across the U.S. against pollution, caused mainly by corporations, and demanded for a sustainable, clean environment. This was one of the beginning initiatives that helped shape the country’s political agenda and pushed for creating agencies such as the Environmental Protection Agency (EPA), the Consumer Product Safety Commission (CPSC) and others (Thulin, 2019). New legislations and social movements followed shortly after, covering a variety of socio-environmental concerns including product safety and labor rights. The Committee for Economic Development later published literature that advanced discussion on society’s new expectations for business and the extent to which corporations should be involved in social issues. Corporations were now being asked to take on broader responsibilities to society and contribute more to the quality of American lives than simply providing goods and services (Committee for Economic Development, 1971). These publications noticeably shaped corporate behavior and pointed out the need for regulation and frameworks. In 1979, Archie Carroll, a business management professor and author, introduced a framework that highlighted four main responsibilities he believed corporations had. He also proposed the unified definition that CSR is “the social responsibility of business [that] encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time” (Carroll, 1979).

Moving into the 1980s, these business objectives and social interests became more closely aligned, as the discussion turned to CSR integration. There was a strong focus on reducing the
pressure being placed on large corporations as management began to see business ethics and CSR operations as a more proactive way of responding to groups including shareholders, employees, and consumers. This period explored how CSR would operate rather than focusing on just the concept itself. New frameworks and models were introduced, this time examining CSR from an operational standpoint. During the 1990s, the idea of CSR became universally approved, and with the globalization taking place, firms started to adopt an international approach to sustainable development. International organizations and agreements such as the European Environment Agency, the UN Framework Convention on Climate Change, and the Kyoto Protocol were created, setting higher standards for climate-related issues and corporate behavior. Another substantial addition to the discussion was the “Triple Bottom Line” concept. Developed by John Elkington, a British management consultant and sustainability advocate, it was a framework that focused on creating value through achieving social, environmental, and economic balance (Latapí et al., 2019). However, as multinational corporations were expanding globally, they also faced diverse business environments abroad, some of which operated with weak regulations and frameworks. With this expansion overseas, global market competition and reputational risk increased, along with domestic pressures and expectations from other nations. Yet, more firms were seeing social responsibility as a way to counter these challenges and risks by grabbing the opportunities that arose from globalization. Researchers hypothesized that there was a positive correlation between CSR and financial performance, and literature pushed the idea that CSR could be used in strategy to support core business while improving overall firm efficiency. Corporate social responsibility efforts notably grew, in strength and magnitude.

Moving into the early 2000s, corporate social responsibility became a significant strategic issue. Along with its expansion, recognition of the movement increased as well. President Clinton
introduced the concept of corporate citizenship, stating that companies should embody being good corporate citizens and embrace their social responsibilities. During this time, the United Nations Global Compact (UNGC) was also created – a pact that encouraged businesses globally, to adopt sustainability principles and to report on their implementation (Kingo, 2019). This drew more global attention towards long-term corporate social responsibility. The UN also spearheaded an international agenda called the Millennium Development Goals, which set a stronger focus on human rights, labor, and the environment – objectives included halving extreme poverty, providing universal primary education, and minimizing HIV/AIDS by 2015 (United Nations, 2013). In 2015, the UN launched another global program building off the Millennium Development Goals. This universal plan, the 2030 Agenda for Sustainable Development, adopted 17 Sustainable Development Goals (SDGs). Since its inception, the agenda has spurred a global effort to deliver this 2030 promise of building sustainable solutions to the world’s biggest challenges ranging from poverty and gender equality, to climate change and economic growth (United Nations, 2015). On a more corporate level, international certifications have also been developed to address growing concerns related to social responsibility. A notable example is the International Organization for Standardization (ISO), a non-governmental organization working to provide solutions to global issues through issuing specifications. In 2010, the ISO proposed ISO 26000 which gives guidance to businesses committed to operating in a socially responsible way. The standard gives clarity on what social responsibility is, shares best practices, and provides a method of assessing organizational performance. Developed as a collaborative effort from professionals of 99 countries, ISO 26000 to date, has been adopted by more than 80 countries (“ISO 26000”, 2020).

Building off of a universal recognition, the strategic approach towards CSR was another turning point during the 2000s. Over the years, there has been a stronger belief that corporations
are responsible not only for creating value for their shareholders through giving benefits for society, but also translating that into a competitive and sustainable edge. Instead of a small, voluntary commitment, CSR has evolved into an active response to new corporate challenges and become a necessary component to firm strategy. Firms have started to internally see the social, compounding impact of the value chain and the effect that their CSR activities have on the communities around them. With this better understanding, many are adopting a holistic perspective to determine the best way to carry out and integrate corporate social responsibility into their firm structures.

B. Current Global Trends

As more studies are being performed pertaining to corporate social responsibility and its implications, insight on global trends has also grown. Like many other firms, the Big Four accounting organization, KPMG, is working to gain more insight and offer guidance on good practice. In 2017, KPMG published its Survey of Corporate Responsibility Reporting, where professionals analyzed company financial reports, responsibility reports, and websites to produce a comprehensive guide. The survey sampled 4,900 companies around the world and divided them into two categories: the N100 (the top 100 companies by revenue in each of the 49 countries surveyed) and the G250 (the world’s 250 largest companies by revenue) firms. Currently, global trends in corporate social responsibility show that CSR reporting has become a standard practice to large and middle-sized companies around the world. Of the 4,900 companies studied, over 75% issue CSR reports. While the world’s G250 firms have the highest reporting rate, the number of participating N100 companies is continuing to catch up. 93% of the G250 firms now incorporate CSR reporting in their standard business practices, with the N100 companies not far behind at 75% (KPMG, 2017). With the larger firms taking the lead, others seem to be following their footsteps and adopting the concept of non-financial reporting.
Simultaneously, there has also been a growing number of companies including CSR data into their annual financial reports. 78% of the world’s largest companies include, to some extent, integral non-financial information (KPMG, 2017). This growth has led to firms combining integrated reporting with CSR reporting. Integrated reporting is the aligning of business reporting with strategy. In IR reports, firms disclose how environment, social, governing, and non-financial factors have impacted their ability to generate value. In this sense, it takes a broader, wider narrative on business performance, focusing primarily on material matters that are relevant to the business and issues that cater towards investor needs. Corporate social responsibility reports take a more specific, and comprehensive approach by disclosing more details on certain policies and firm initiatives. Generally, companies can choose the report format they wish to use, but recently the question has been raised of whether it is more effective to thoroughly disclose CSR activity in a stand-alone report or to take a more integrative approach towards the annual report.

Another trend in firm disclosure shows that CSR reporting in emerging economies has seen a surge. In the Americas, and Latin America in particular, reporting has risen by 6% to reach a current 83% of surveyed companies who participate. This is due largely to Mexico where, in just over two years, rates have jumped from a 58% to a 90% in 2017 (KPMG, 2017). As a result, the Americas has surpassed Europe as the leading producer of CSR reports. Europe, however, is not far behind with 77% of the companies surveyed, also reporting on corporate responsibility activities. Moving across the globe, in the Asia Pacific region, reporting rates also saw a jump. 78% of companies based in the region are now issuing their own reports as compared to a 71% in 2013 (KPMG, 2015).

This growth in CSR reporting is driven heavily by regulatory change. Government regulation, new guidelines, and standards from stock exchanges and other organizations have
influenced the rise in reporting rates, especially in countries including Mexico, New Zealand, and Taiwan (KPMG, 2017). Many of these policies operate on a ‘report or explain’ approach, asking firms to either disclose CSR activity or list why they are choosing not to do so in their annual reports. Several countries now also list sustainability reporting as a requirement for firms. There are a variety of factors driving these requirements around the world. In developing countries, CSR reporting is seen as a measure of good governance which helps to attract foreign investment. In other countries, governments and stakeholders are focused on how firms are creating and sustaining long-term value. This transition from having voluntary to mandatory reporting requirements is a trend that seems to be developing into a mainstream expectation.

Looking more closely into individual business segments, another noticeable trend was the closing gap between leading and lagging industry sectors. More than 60% of companies across all industry sectors now include CSR information in their annual reports. Many of these sectors have taken major steps towards reporting over the past few years. In 2015, KPMG identified Healthcare, Transport & leisure, Industrials, manufacturing & metals, and Retail as the four lagging sectors. These sectors have all seen increases in the 2017 survey, with the Healthcare industry showing the most growth at an 8% increase. Even Retail, which used to have the lowest CSR reporting rate across all industries at a 58% has jumped to a 63% within a two-year window (KPMG, 2017).

Along with the increased reporting rates, more companies are having their CSR performance and data, assured. While external assurance is still voluntary in most countries, firms are actively working to demonstrate credibility through their corporate social responsibility approach. Similarly, external stakeholders and other groups want to make sure that companies are as serious about their CSR data as they are with their regular, financial information. In an effort to address this desire, more firms are getting reassurance from independent auditors to value the
reliability of their data and to gain a clearer understanding of CSR issues. According to the 2017 KPMG Survey, of those who perform CSR reporting, 67% of the G250 and 45% of the N100 firms use independent assurance services. This demonstrates a significant increase since KPMG’s survey in 2011 where only 46% of the G250 firms and 38% of the N100 companies sought to have their data assured (KPMG, 2015). Data also suggests that the largest increases in assurance rates took place in countries with high rates of CSR reporting. For instance, the U.S., Taiwan, and Japan, all with reporting rates of 88% or above, showed increases in assurance with a 12%, 14%, and 14%, respectively (KPMG, 2017). This increase in the percentage of assured reports suggests that there are benefits to doing so, including stakeholder confidence, lower forecast errors, and a reduced cost of capital.

III. Determinants of CSR Reporting

Within the realm of corporate social responsibility reporting, a universal topic in question is whether firms are successful because they are socially responsible or whether CSR is merely something that successful firms do. As such, there are a variety of determinants that drive firms to move into the CSR arena. Firms that perform CSR activity are able to transfer positive returns to shareholders by increasing firm sales, earnings, and the overall stock price. They can use CSR reports to identify areas that could become potential concerns, as well as areas that they can develop into their best practices. These reports also allow firms to reference back to disclosed data so they can continuously benchmark their progress against their set goals. On the other end, investors, employees, and other academics also find use in these CSR reports. Investors can read and scan for data affecting company stock prices and their long-term business objectives. Employees, current or future, are able to use reports to garner which companies have the safest work environments and a commitment towards being socially responsible in the corporate realm.
Researchers and individuals involved in academia can find data pertaining to a firm’s current and past performance, allowing them to develop analyst reports and hypotheses moving into the future.

With the increasing number of firms performing CSR reporting, there is inevitably variation in the activity and data disclosed across and within industries. One determinant of CSR stems from a managerial motivation to allocate firm resources towards CSR initiatives. Some firm leaders see corporate social responsibility as a way to develop eco-efficiency and create sustainable, long-term value for their shareholders (Figge & Hahn, 2013). Competition from other firms across the industry also increases management’s desire to be perceived as innovative leaders in their communities and be recognized for taking efforts to become corporately responsible. Bringing this corporate responsibility into an organization’s management has shown to improve control over a firm’s sustainability objectives (Huang & Watson, 2015). While having a strong management control system does not directly influence the company’s financial performance, it has led to positive environmental exposure, corporate public visibility, and a proactive response to environmental concerns. This helps firms to identify risks and opportunities within the growing social responsibility field and provides an attainable way to help firms achieve their CSR goals.

Corporate social responsibility reporting provides a plethora of benefits to firms. It drives performance and innovation, creating more awareness within the company. This encourages improvement in data management and helps to spearhead various initiatives and projects. Firms that have stepped into the CSR reporting realm have also enhanced their own internal and external reputations. Customers are looking to firms that provide products and solutions that will help them operate more sustainably and effectively. As firms increase their CSR reporting, customer engagement will also rise (KPMG, 2013). This will strengthen relationships with external stakeholders as well, answering their questions and sharing firm positions on key issues. Being
able to provide solutions to and mitigate the plethora of environmental, social, and governance issues will recruit new employees and retain current ones. Firms performing CSR reporting show improved internal communication with the driving factor being that corporate sustainability reports draw from diverse teams within the firms. By embarking on this initiative, companies have the opportunity to practice more internal awareness, helping different departments to learn from each other, identifying areas for growth along with potential risks. CSR reporting is also beneficial in that it more effectively influences firm strategy, long term management, and business policy planning (KPMG, 2013). By streamlining processes, costs are reduced and operational efficiency is heightened. As a result, CSR can positively affect earnings quality. Socially responsible firms with strong CSR activity are driven by responsible motives and are less likely to manipulate or play with earnings. This reduces the likelihood of having insider trading or immoral activity, with CSR conscious firms having a stricter code of ethics, as compared to those who are not as strong in CSR. Conscious firms that maintain this transparent communication can also reduce information asymmetry through their reporting. From the other end, informed investors and readers are able to effectively act on information that pertains to a firm’s sustainability performance.

Another commonly discussed topic within the realm of corporate social responsibility is correlations. Many researchers and academics question whether there exists a positive correlation between corporate social responsibility and a firm’s financial performance. Some claim there to be a small positive relation, while others report that firm value is negatively associated with CSR activity and disclosure. Research has also explored the effect of environmental disclosure on stock price and firm value. The disclosure of social information can drive an increase in a firm’s stock price and stock markets tend to have positive reactions to this voluntary CSR reporting (Huang & Watson, 2015). Voluntary environmental disclosures are seen by stakeholders as a commitment to
social investment, giving external groups reassurance and driving better firm reputation. Another potential correlation is whether disclosures affect analyst and investor behavior. CSR disclosure can be touted as a proactive approach in improving a firm’s informational environment, yielding more transparency. Firms with more publicized social performance reports are more likely to attract analysts and institutional investors, building up a larger investor base. This increased attention by analysts lowers the chance of analyst forecast errors and subsequently reduces the cost of equity capital (Dhaliwal et al., 2011).

With some of these proven correlations, firms have the potential to utilize corporate social responsibility reporting as a platform to create social benefits and drive their business objectives, by using a holistic and more encompassing approach.

IV. CSR and Stakeholder Relationships

Corporate social responsibility, with the end goal of striving for improved business management, is not complete without considering stakeholder relationships. Companies have to interact with and rely on customers, employees, investors, and other individuals that support their operations. Through better communicating with stakeholders and shareholders, corporations can work towards a more inclusive and engaging business structure. As the flow of information improves, companies can identify new opportunities and future potential endeavors. This not only drives innovation from the corporate end but also grows social capital as management and external groups are encouraged to share opinions, concerns, and understandings (Noked, 2013). Stakeholders also provide an objective, third-party view which is heavily beneficial in identifying potential risks and budding concern regarding social and environmental effects, or product-related issues.
Different stakeholders focus on different CSR issues and many annual reports tailor to this, organizing sections by the stakeholder. This allows individuals to hone in on information that is most valuable to them. Investors, specifically, focus on the business model, corporate governance, and ethics as key areas of concern. They pay close attention to product development and how firms integrate CSR into their business strategy. Having a thorough understanding of how businesses run and how they make profit, lets investors analyze the financial effects of CSR activities. These activities comprise a company’s business model and will likely manifest as part of its corporate strategy moving forward. Understanding how the business runs also allows risks to be identified early on, especially those that can negatively impact profits. Often times, companies may run into dilemmas where their products or services do not align with the current CSR trends. It is beneficial for investors to see CSR data along with financial information in a report. This generally implies that the firm is adopting a triple-bottom-line approach, taking the planet and people into consideration as it works to make profit (Lydenberg & Wood, 2010). Corporate governance and board oversight are another area of focus. Many investors look to the board of directors and their governing policies to assure that companies are protecting their best interests. Governance, including independence from corporate management and policies addressing conflict of interests, signals openness and a push for more direct access. Within a CSR report, indicators such as having a committee dedicated to CSR activity and giving shareholders a voice in board decisions, show a corporate effort to go above standard oversight. This directly translates into an honest and transparent corporate culture which investors place a high priority on. With many cases of companies bypassing legal duties and finding loopholes to protect corporate reputation, it is natural that investors are concerned about ethical behavior. However, merely showing a firm’s ethical guidelines is not sufficient. Investors should look for quantitative measures on how the firm may
allocate resources to employee conduct training or periodic seminars, as well as data revealing potential ethics breaches and how that behavior has been dealt with. This information would show that a comprehensive program has been put in place and is being maintained efficiently.

Another stakeholder group that holds CSR issues to a high importance is employees. As a firm’s human capital, their concerns should be taken into close consideration. Health and safety, diversity, wages and benefits, and work-life balance are among the key issues they focus on (Noked, 2013). Current and potential employees want to see that companies are putting the health and safety of their workers first, and that safety protocols are being enforced. Within a CSR report, data visuals showing declines in the days away from work, injuries, or fatalities are positive signs that employers are taking preventive measures towards employee protection. Another safety indicator is companies being awarded OSHA’s Voluntary Protection Program Star status (Lydenberg & Wood, 2010). This designation given by the U.S. Occupation Health and Safety Administration, acknowledges firms who have shown a commitment to employee safety that goes above and beyond OSHA requirements. On the other hand, company sites that violate these OSHA standards are subject to fines and penalties. Diversity in the workplace and getting support along with promotion opportunities for women as well as minorities, has been another substantially important issue. While it is strategically unwise to not recruit the best candidates, it is equally unfair to not give individuals the opportunity to grow and realize their potential. In the U.S., most large corporations are mandated to disclose their hiring and promotions of women and minorities to the Equal Employment Opportunity Commission. While they are not required to share this data with the public, firms that choose to do so pass along valuable information. Firms with CSR reports showing increasing or high percentages of women and minorities in management level positions, positively indicate that they are perpetuating an inclusive and non-discriminatory corporate culture.
Building off of this, employees also focus on firms that provide good pay and stable employee benefits. Pension plans and retirement have been an ongoing area of concern, with around 45% of U.S. workers unable to keep their current standards of living after retirement (Lydenberg & Wood, 2010). U.S. companies are currently required to disclose pension plan funding along with company-managed benefit plans. Firms with adequately funded pension programs and other benefits, such as stock ownership and rewards programs, show corporate commitment to developing their human capital. Along the same line, having a work life balance and programs to help employees balance their jobs with other obligations is highly regarded. Corporations with detailed policies should include information on flexibility work hours, financial childcare support, and parental leave, along with data on the number of employees that are able to use these programs. These types of initiatives are valuable for firms and are a positive indicator of supportive corporate infrastructure.

All firms in one way or another, provide goods or services to their customers. As such, customers play a vital role in the business cycle. Their concerns focus on product quality and safety as well as customer service, privacy, and having an ongoing communication channel. Companies that issue CSR reports usually highlight their certifications that fall under different quality standards, including Six Sigma (a management practice and set of techniques for process improvement) and ISO 9000 (Lydenberg & Wood, 2010). Aside from these indicators, customers should also look for validation from third parties supporting claims from corporations that product quality programs have been enforced. It is uncommon that companies do not run into recalls or other safety issues from time to time, but many firms also do not disclose these events. Firms that choose to openly address these controversies in their reports are likely to be taking a proactive and preventive approach, to ensure that problems do not reoccur. In terms of customer service, having
reports and real-time data on customer satisfaction and marketing policies helps to maintain ongoing communication. Companies may report customer satisfaction surveys that show positive results, but those who disclose data about customer complaints and how they are handled, provide better indicators of a commitment towards quality customer service. Privacy is another area of substantial concern in today’s digital world. Customers feel more reassured knowing that there are measures and safeguards for private data that is being collected. Many companies across different industries are required to have privacy policies for personal information (Lydenberg & Wood, 2010). CSR reports that detail employee training, address breaches, or disclose how those breaches have been handled, give a greater sense of reassurance. This sense of corporate responsibility and proactiveness stems from having an open, and ongoing conversation between companies and customers. With CSR reporting becoming more prevalent, firms have found more ways to share their initiatives with internal and external stakeholder groups, from newspaper features, to blogs and social media platforms. This two-way communication encourages more engagement and drives greater return on business strategy.

V. The Fashion Industry

A. Background

The fashion industry, fast fashion in particular, has long been criticized for its unethical and unsustainable business operations. As a whole, the world’s consumers purchase around 80 billion garments each year (Thomas, 2019). To maintain mass production, this annual demand relies on two components that have been under controversial scrutiny: cheap labor and disposability. Differing from fashion in earlier periods, today’s clothing brands capitalize off fast trends. In fact, consumers keep clothing items for about half as long as they did 15 years ago (Remy et al., 2019). For this reason, industries profit by mass producing pieces at low costs that
are designed to only last one or two seasons, at most. The disposability of these garments is what creates demand for low-paid labor. To keep prices and manufacturing costs low, the fashion industry has turned to outsource their labor to the world’s poorer countries. While offshoring clothing production has helped to stimulate economies of these poorer countries, it has also led to a high human cost. Workers are forced to work long hours for little pay, endure poor and unsafe working conditions, and have also faced instances of physical and verbal abuse.

Another victim of fast fashion has been the environment. According to the United Nations Environment Program, the fashion sector is one of the biggest polluting industries, responsible for nearly 20% of the annual industrial water pollution and releasing 10% of carbon emissions worldwide (Dwyer, 2019). Textile, apparel, and footwear manufacturing naturally have high consumption levels of water, energy, and chemicals. Most fabrics used in cheap apparel are synthetic fibers and polyesters, which do not biodegrade, unlike wool or cotton. Keeping up with modern clothing trends in fast fashion substantially increases these amounts, which inevitably leads to more nonbiodegradable waste. The impact of clothing continues even after garments are produced and consumers leave the store with their purchases. When clothing is washed, plastic microfibers are shed, adding to the polluted water supply and food chain. When clothing items become unfashionable or worn-out, the process of disposing of them also creates excessive wastes. Without proper recycling methods, nearly three-fifths of all clothing ends up in landfills and incinerators. Toxic chemical dyes and plastic microfibers pollute nearby water sources and add to heavy carbon emissions, contributing to an ever-growing carbon footprint. McKinsey & Company, an international management consulting firm, reports that carbon emissions are predicted to jump 77% from 1,714 million metric tons in 2015 to a stark 3,030 million metric tons in 2025 (Remy et al, 2019). With global consumption continuing to rise, unless significant efforts are made to foster
sustainable consumption and production processes, carbon emissions will inevitably continue their current trajectory.

Many companies have realized that with the size and global reach of the fashion industry, if changes are not made to correct harmful and unsustainable practices, social and environmental detriments will continue to rise. Recently, there has been a variety of initiatives and pacts pushing for industry change and sustainability targets. In early 2019, the United Nations formed the UN Alliance for Sustainable Fashion, an initiative of agencies and organizations to contribute to achieving the Sustainable Development Goals. The alliance works to promote projects and policies within the industry to reduce negative social and environmental impacts. Their work addresses a broad scope of issues from raw materials and production, to the distribution and disposal, along with worker protection (“UN Alliance”, 2019). Many brands have since joined the alliance, contributing to a unified strategy that strives to innovate for sustainability.

Today’s digital realm facilitates easy access to a constant stream of information. We, as consumers, are becoming more aware of the impact of fast fashion on the world around us and have been empowered to demand more transparency. The relevance of corporate social responsibility to brand valuation is on the rise, and from a consumer perspective, CSR has become a critical factor with the potential to increase or diminish brand value. Consumers have growing concerns on issues surrounding the environment, sustainable resourcing, and fair labor conditions. More than 66% of consumers are willing to pay for sustainable products, in support of brands that are doing good (Amed et al., 2019). As consumer expectations grow, brands have been stepping up their ethical credentials in an effort to maintain and grow their loyal customer base. In order to do so, many companies are now incorporating CSR policies to revamp their business procedures and employing a wide range of techniques to further promote their responsibility campaigns.
Retailers have started to address synthetic materials and nonbiodegradable textiles, seeking sustainable ways to source fabrics and recycle clothing. The fast fashion brand H&M, launched an ecofriendly collection, pledging to use only organic or recyclable cotton in its production (H&M Group, 2019a). The retailer has also started an initiative that allows customers to drop off used clothing to recycle or reuse. Currently, an estimated 57% of its materials are either sourced or recycled in a more sustainable manner (Newburger, 2020). On the other end of the apparel industry, Nike, an American sportswear company and an U.S. Olympic sponsor, announced that for the Tokyo 2020 Olympics, athletes would be dressed in uniforms made of recycled polyester. As part of a broader company objective, the retailer plans to reduce carbon emissions and waste by powering its facilities with 100% renewable energy by 2025 (Thomas, 2020). Many companies are also collaborating with other brands and non-profit organizations to reduce their overall impact. Adidas, another major fashion brand, teamed up with Stella McCartney, a well-reputed designer with a focus on a cruelty free fashion. Together, they released a sustainable collection in 2019 with objectives to reduce their waste byproducts and reuse leftover fabric materials (Newbold, 2019). In order to make a positive impact and reduce the industry’s negative environmental impact, McCartney urges that both retailers and consumers must “change [their] mindset and leverage solutions that will make fashion circular and eliminate waste” (Danziger, 2019).

B. CSR Reporting in the Fashion Industry

Corporate social responsibility encompasses a wide range of information and topical issues that detail how companies interact with their communities. The CSR reports distributed by companies start out by sharing company objectives and goals for future social and environmental performance. Often times, they also provide transparency on industry specific social and environmental events, various policies and actual practices they have adopted, along with
philanthropic initiatives. Some companies include sections to summarize firm highlights and successes, and also have portions that openly address red flags or risks. By disclosing a set vision, paired with a detailed plan of action, and quantitative indicators to measure performance, corporations can create a comprehensive framework approach to reporting (Adams, 2004). This provides a clearer indication as to how firms are demonstrating accountability and showing commitment to improving environmental and social impacts. This transparency and maintaining an open communication channel with stakeholder groups, remain key characteristics that drive successful corporate social responsibility reporting.

CSR reports can be found on company websites, the Global Reporting Initiative (GRI) database, and in corporate annual reports. Most of them follow a similar structure, starting with a letter from corporate leadership along with a company introduction, annual objectives and quantitative targets, followed by a performance summary and an action plan for moving forward (Lydenberg & Wood, 2010). Sustainability objectives can vary from company, with some choosing to focus mainly on reducing environmental impact, and others aiming to improve labor conditions through the value chain. Figure 1 shows an example of corporate objectives from PVH, a fashion and lifestyle company that houses iconic brands including Calvin Klein, Tommy Hilfiger, and IZOD. The firm’s priorities for 2019 revolved around zeroing out negative impacts, increasing positive impacts through its products, and improving lives across the value chain. Using these corporate objectives as a roadmap, companies will add quantitative depth by providing benchmarks. CSR reports usually include data from previous years, along with targets for coming years which provides measures of progress. Figure 2 shows Nike’s performance targets for 2019, organized by environmental impact and assigned with specific, quantitative measures.
Figure 1. PVH’s specific company objectives for its 2019 Forward Fashion initiative (Full CSR report is available at: https://responsibility.pvh.com/wp-content/uploads/2019/07/pvh-cr18-1.pdf)

Figure 2. Performance targets from Nike’s 2019 CSR report (Full CSR report is available at: https://purpose-cms-preprod01.s3.amazonaws.com/wp-content/uploads/2020/02/11230637/FY19-Nike-Inc.-Impact-Report.pdf)
C. Carbon Emissions in the Fashion Industry

While many companies are pledging to take a stand towards sustainability and match their sales with improvements in their environmental and social performances, the question has turned to how this ethical and sustainable progress can be quantitatively measured. Seeing a growing interest in climate-change from institutions, investors, and other stakeholders, I have decided to explore carbon emissions and its implications in voluntary disclosures within corporate social responsibility reporting. There is a plethora of sources that collect carbon emissions data and benchmark performances, with the Carbon Disclosure Project being a major database.

The Carbon Disclosure Project (CDP) is an international non-profit organization that works to build a sustainable economy by helping investors, companies, and cities, measure and understand their impact. The CDP drives different program initiatives to spur sustainable development to counter growing risks from climate change, water insecurity, and deforestation. From its inception in 2002, the global environmental disclosure system has had over 8,400 companies monitor, measure, and publicly disclose their environmental information (Figure 3). To date, more than 515 investors with over $106 trillion in assets and 147 major purchasers have requested for companies to disclose specific data on environmental risks, impacts, and opportunities through the CDP platform (CDP Global, 2020).
Every year, the CDP gathers this corporate data by administering questionnaires to score companies and cities on their disclosure and environmental progress. Since 2008, PricewaterhouseCoopers LLP, another Big Four accounting firm, has been the CDP’s global sponsor, responsible for analyzing the survey responses for the S&P 500, Global 500, and FTSE 600 companies (Matsumura et al. 2014). These responses are maintained in a database containing greenhouse gas emissions data, emissions reduction targets, and management’s views on the risks and opportunities of climate change (Lydenberg & Wood, 2010). Scores are calculated from these responses, using a thorough and independent methodology that measures if, and how well, companies respond to each question. The questionnaire has four main steps to assess a company’s current disclosure status, their level of environmental awareness, risk management, and
environmental leadership. Companies that show detailed disclosure, high awareness of their environmental impact, and demonstrate best practices to address climate change, usually receive high CDP scores and are recognized on the CDP’s A-list (CDP Global, 2020). Those that do not disclose or do not provide sufficient information are given scores of F. To analyze greenhouse gases and carbon emissions in particular, investors and other stakeholders refer to the Climate Change Questionnaire. An example of a CDP Questionnaire is provided in Appendix A.

For this study, my sample consisted of 14 top-performing firms by revenue, within the fashion industry for the years 2016 through 2019. Using the CDP database, I hand-collected carbon emissions data for each of these firms, focusing on annual Scope 1 and Scope 2 emissions. The majority of firms reporting to the CDP follow the Greenhouse Gas (GHG) Protocol Corporate Standard. This standard divides a company’s emissions inventory into direct and indirect emissions. As seen in Appendix B, direct emissions, which are emitted from sources that are owned and controlled by the reporting entity, are considered Scope 1. Indirection emissions, which are byproducts of a reporting company’s activities that come from sources of outside companies, fall into Scope 2 and Scope 3. Scope 2 emissions come from energy that is bought or consumed by the company, whereas Scope 3 covers upstream and downstream emissions (“Operational Boundaries”, 2013). As Scope 3 emissions are an optional reporting category in the Corporate Standard, for this analysis, I focus on Scope 1 and Scope 2 emissions, to arrive at gross values.
Table 1. Annual gross carbon emissions from 2016-2019

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Region</th>
<th>CDP Score</th>
<th>2019 CO2e Emissions (mT)</th>
<th>2018 CO2e Emissions (mT)</th>
<th>2017 CO2e Emissions (mT)</th>
<th>2016 CO2e Emissions (mT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adidas AG</td>
<td>Europe</td>
<td>B</td>
<td>48,543</td>
<td>44,548</td>
<td>55,623</td>
<td>64,497</td>
</tr>
<tr>
<td>Burberry Group PLC</td>
<td>Europe</td>
<td>A-</td>
<td>14,826</td>
<td>20,222</td>
<td>25,358</td>
<td>37,691</td>
</tr>
<tr>
<td>Fast Retailing Co., Ltd</td>
<td>Asia</td>
<td>A-</td>
<td>147,140</td>
<td>160,038</td>
<td>125,654</td>
<td>133,897</td>
</tr>
<tr>
<td>Gap Inc.</td>
<td>USA</td>
<td>A-</td>
<td>387,644</td>
<td>405,503</td>
<td>445,882</td>
<td>505,536</td>
</tr>
<tr>
<td>Hennes &amp; Mauritz AB (H&amp;M)</td>
<td>Europe</td>
<td>A</td>
<td>56,978</td>
<td>63,690</td>
<td>80,452</td>
<td>151,753</td>
</tr>
<tr>
<td>Hermès</td>
<td>Europe</td>
<td>B</td>
<td>42,300</td>
<td>42,200</td>
<td>42,300</td>
<td>-</td>
</tr>
<tr>
<td>L Brands, Inc.</td>
<td>USA</td>
<td>C</td>
<td>264,167</td>
<td>283,874</td>
<td>297,213</td>
<td>314,205</td>
</tr>
<tr>
<td>LVMH Moët Hennessy (LVMH)</td>
<td>Europe</td>
<td>D</td>
<td>384,123</td>
<td>379,312</td>
<td>385,626</td>
<td>408,830</td>
</tr>
<tr>
<td>Nike, Inc.</td>
<td>USA</td>
<td>B</td>
<td>260,182</td>
<td>264,628</td>
<td>263,097</td>
<td>264,303</td>
</tr>
<tr>
<td>Nordstrom, Inc.</td>
<td>USA</td>
<td>B</td>
<td>223,199</td>
<td>256,083</td>
<td>293,462</td>
<td>291,827</td>
</tr>
<tr>
<td>PVH Corp.</td>
<td>USA</td>
<td>B</td>
<td>128,520</td>
<td>140,481</td>
<td>148,726</td>
<td>134,459</td>
</tr>
<tr>
<td>TJX Companies, Inc.</td>
<td>USA</td>
<td>B</td>
<td>668,284</td>
<td>732,830</td>
<td>827,427</td>
<td>831,805</td>
</tr>
<tr>
<td>VF Corporation</td>
<td>USA</td>
<td>A-</td>
<td>213,313</td>
<td>233,535</td>
<td>238,419</td>
<td>258,815</td>
</tr>
</tbody>
</table>

Table 1 provides basic information on the sampled companies, along with their 2019 CDP scores. It also details the total carbon emissions in metric tons, as an aggregate of Scope 1 and Scope 2, for each year during the 2016-2019 period. Table 2 presents the annual percent changes in carbon emissions. Of the 14 observed firms, all but three disclosed reductions in their 2019 carbon emissions, as compared to the previous reporting year. However, all firms at one point within the 2016-2019 period showed decreasing levels of carbon – a reflection of individual corporate incentives to work towards a carbon-neutral environment.
In 2019, H&M was one of 182 companies that made the climate change A-list based on its climate reporting. The world’s second-biggest fashion retailer was recognized for its initiatives to cut carbon emissions, mitigate climate risks, and foster a low-carbon economy. In 2016, the company made a commitment of becoming climate positive across its entire value chain by 2040, pledging to remove more emissions that it produces (“Climate Q&A”, 2019). Within the past year, H&M has introduced projects to test new sustainable materials, reinvented business models, and increased product transparency for its consumers. A focus on transitioning to circularity, and transforming the way items are produced, transported, and used has allowed H&M to continually expand and grow its revenue without leading to increased emissions (H&M Group, 2019b). Table 3 which provides percentages of revenue growth, details a 5%, 4%, and 6% increase in H&M’s retail revenue during 2019, 2018, and 2017, respectively. Within the same three years, it simultaneously reduced their carbon emissions by 11%, 21%, and 47%. The retailer does not stand
alone in its ability to lower emissions without sacrificing revenue growth. Other companies such as Fast Retailing Co., Ltd, Gap Inc. and VF Corporation have all reported positive changes in revenue and decreasing percentages in emissions for the 2019 reporting year. This profit growth paired with a reduction in negative impacts, along with affirmative statements in their CSR reports, shows a commitment to social and environmental sustainability. Many firms have been able to find and are striving to maintain this balance, between growing their businesses and working for social good.

Table 3. Retail revenue growth from 2016-2019

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Region</th>
<th>CDP Score</th>
<th>2019 Revenue Growth</th>
<th>2018 Revenue Growth</th>
<th>2017 Revenue Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adidas AG</td>
<td>Europe</td>
<td>B</td>
<td>8%</td>
<td>12%</td>
<td>26%</td>
</tr>
<tr>
<td>Burberry Group PLC</td>
<td>Europe</td>
<td>A-</td>
<td>-0.5%</td>
<td>-1%</td>
<td>10%</td>
</tr>
<tr>
<td>Fast Retailing Co., Ltd</td>
<td>Asia</td>
<td>A-</td>
<td>8%</td>
<td>14%</td>
<td>4%</td>
</tr>
<tr>
<td>Gap Inc.</td>
<td>USA</td>
<td>A-</td>
<td>5%</td>
<td>2%</td>
<td>-2%</td>
</tr>
<tr>
<td>Hennes &amp; Mauritz AB (H&amp;M)</td>
<td>Europe</td>
<td>A</td>
<td>5%</td>
<td>4%</td>
<td>6%</td>
</tr>
<tr>
<td>Hermès</td>
<td>Europe</td>
<td>B</td>
<td>15%</td>
<td>8%</td>
<td>7%</td>
</tr>
<tr>
<td>Industria de Diseño Textil, S.A. (Inditex)</td>
<td>Europe</td>
<td>A-</td>
<td>3%</td>
<td>9%</td>
<td>12%</td>
</tr>
<tr>
<td>L Brands, Inc.</td>
<td>USA</td>
<td>C</td>
<td>9%</td>
<td>-1%</td>
<td>4%</td>
</tr>
<tr>
<td>LVMH Moët Hennessy (LVMH)</td>
<td>Europe</td>
<td>D</td>
<td>10%</td>
<td>13%</td>
<td>5%</td>
</tr>
<tr>
<td>Nike, Inc.</td>
<td>USA</td>
<td>B</td>
<td>6%</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>Nordstrom, Inc.</td>
<td>USA</td>
<td>B</td>
<td>5%</td>
<td>4%</td>
<td>0.4%</td>
</tr>
<tr>
<td>PVH Corp.</td>
<td>USA</td>
<td>B</td>
<td>8%</td>
<td>9%</td>
<td>-4%</td>
</tr>
<tr>
<td>TJX Companies, Inc.</td>
<td>USA</td>
<td>B</td>
<td>9%</td>
<td>8%</td>
<td>7%</td>
</tr>
<tr>
<td>VF Corporation</td>
<td>USA</td>
<td>A-</td>
<td>17%</td>
<td>-2%</td>
<td>-3%</td>
</tr>
</tbody>
</table>

VI. Conclusion

CSR and its reporting is a combination of actions, initiatives, and indicators that represent progress towards sustainability. It is a highly powerful tool that not only aids brands in communicating how they are ethically and socially responsible, but also helps promote positive brand images and deepen relationships with consumers and stakeholders. The fashion industry does not stand alone in the urgent challenges it faces. From issues such as climate change, water
scarcity, and resource depletion, to labor rights and working conditions, the need for change has never been greater. Consumers are no longer seeking the perfect clothing piece, but rather, companies that align with their values. In order for companies to successfully move forward, they must rethink the way that they operate to build a sustainable future through developing new technologies, increasing industry transparency, and focusing on environmental protection. Sustainable innovation married with corporate leadership and consumer support, is a powerful driver for growth. Corporate social responsibility reporting and disclosure have become an integral part of this positive transformation, strengthening firms’ brand identities, and weaving successful narratives that they can tell.
Appendix A

Below are examples of sections in the CDP Climate Change Questionnaire, answered by Estee Lauder in 2019. C0 gives a brief introduction to the organization while C6 addresses specific emissions data. [2019 Estee Lauder CDP Questionnaire](#)
C6. Emissions data

C6.1

(C6.1) What were your organization’s gross global Scope 1 emissions in metric tons CO2e?

Reporting year

Gross global Scope 1 emissions (metric tons CO2e)
34,537.08

Start date
July 1, 2017

End date
June 30, 2018

Comment

C6.2

(C6.2) Describe your organization’s approach to reporting Scope 2 emissions.

Row 1

Scope 2, location-based
We are reporting a Scope 2, location-based figure

Scope 2, market-based
We are reporting a Scope 2, market-based figure

Comment
This is the third year we have calculated both a location-based and market-based scope 2 emissions response. For our Scope 2, market-based figure, we incorporated residual mix factors for our facilities in the European Union, as well as the purchases of utility supplied green purchased power, REC purchases, and on-site solar PV. We otherwise reverted back to regional emission factors (e.g., for our facilities in the United States) as we were unable to obtain supplier or contractual rates. We expect to acquire more of this information and provide more accurate market-based figures in future years.

C6.3

(C6.3) What were your organization’s gross global Scope 2 emissions in metric tons CO2e?

Reporting year
Appendix B

This Figure explains the impacts on the value chain from different scopes and emissions.

Source: GHG Corporate Standard
References


