

It is expensive to manufacture garments in developed countries where wages, transport and infrastructure costs are high. It is also a competitive market. As customers, most of us look to secure a good deal when we shop. This is why most garments sold in developed countries are actually made in less developed countries. Large retail chains such as Gap select suppliers who can deliver acceptable quality at a cost that allows both them and the chain to make a profit. But what if the supplier achieves this by adopting practices that, while not unusual in the supplier's country, are unacceptable to consumers? Then, in addition to any harm to the victims of the practice, the danger to the retail chain is one of 'reputational risk'. This is what happened to the garment retailer Gap when a British newspaper ran a story under the headline, 'Gap Child Labour Shame'. The story went on, 'An Observer investigation into children making clothes has shocked the retail giant and may cause it to withdraw apparel ordered for Christmas. Amitosh concentrates as he pulls the loops of thread through tiny plastic beads and sequins on the toddler's blouse he is making. Dripping with sweat, his hair is thinly coated in dust. In Hindi his name means "happiness". The hand-embroidered garment on which his tiny needle is working bears the distinctive logo of international fashion chain Gap. Amitosh is 10.

Within two days Gap responded as follows: 'Earlier this week . . . an allegation [was made] of child labor at a facility in India. An investigation was immediately launched . . . a very small portion of one order . . . was apparently subcontracted to an unauthorized subcontractor



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without the company's knowledge . . . in direct violation of [our] agreement under [our] Code of Vendor Conduct. We strictly prohibit the use of child labor. This is a non-negotiable for us – and we are deeply concerned and upset by this allegation. As we've demonstrated in the past, Gap has a history of addressing challenges like this head-on. In 2006, Gap Inc. ceased business with 23 factories due to code violations. We have 90 people located around the world whose job is to ensure compliance with our Code of Vendor Conduct.'

**Input costs.** CSR-related costs are often associated with the nature of the relationship between an operation and its suppliers. As in the example of Gap above, socially responsible behaviour involves careful monitoring of all suppliers so as to ensure that their practices conform with what is generally accepted as good practice (although this does vary in different parts of the world) and does not involve dealing with ethically questionable sources. All this requires extra costs of monitoring, setting up audit procedures, and so on. The benefits of doing this are related to the avoidance of reputational risk. Good audit procedures allow firms to take advantage of lower input costs while avoiding the promotion of exploitative practices. In addition, from an ethical viewpoint, one could also argue that it provides employment and promotes good practice in developing parts of the world.

**Transformation (processing) costs.** Many operations' processes are significant consumers of energy and produce (potentially) significant amounts of waste. It is these two aspects of processing that may require investment, for example, in new energy-saving processes, but will generate a return, in the form of lower costs, in the longer term. Also in this category could be included staff-related costs, such as those that promote staff well-being, work–life balance, diversity, etc. Again, although promoting these staff-related issues may have a cost, it will also generate economic benefits associated with committed staff and the multi-perspective benefits associated with diversity. In addition, of course, there are ethical benefits of reducing energy consumption, promoting social equality and so on.