

# Ethical Analysis of Apparel Industry.

PaedDr.Terézia Horná\*

*Prešovská univerzita v Prešove*

*Katedra manažmentu*

*Prešovská ul. 5, 080 01 Prešov, Slovakia*

*terezia.horna@gmail.com*

Mgr. Amália Shine

*University of West Florida*

*Advanced economics*

*amalia.petrakova@gmail.com*

## Abstract

This paper discusses the ethical issues of the apparel industry. The major current concerns are fair labor practices and sustainable production. Most companies only engage in lip service and greenwashing to appeal to a customer. While retailers often include a long list of sustainable values on their websites, the real solutions have minor impact and long project times. The industry indicates future growth and stability, offering creative and dynamic job opportunities. The stock valuations are issued with a score of 4 – Weak Buy - for Abercrombie and Fitch Co. due to increased price to earnings and exceeded stock price expectations for last year compared to Russel 1000 Index. The score of 4 – Hold – is assigned for Gap, Inc. carrying too much debt while also manifesting the trend of negative profit margins.

## Key words

ethical analysis, ethical issues, lip service,

## 1. Introduction

Abercrombie & Fitch Co. and Gap, Inc. belong to the apparel industry. Companies operate under “2022 NAICS code 458110 - Clothing and Clothing Accessories Retailers.” Clothing retailers are primarily involved in retailing general or specialized lines of new clothing and clothing accessories. 2012 and 2017 NAICS codes for both companies were “448140”, “Family Clothing Stores”, indicating retailing for all genders (United States Census Bureau, 2022). The global apparel market earned an estimated \$1.5 trillion in revenue, and the industry is projected to grow to estimated \$2 trillion by 2027, with United States having the largest share. The market share of the apparel industry in the United States in 2022 was \$312 billion. Consumers are increasingly turning to convenience of online shopping. All major retailers need to invest continuously in their online presence to secure their market share and in technology improving the shopping experience (Smith, 2023).

## 2. Theoretical framework

### 2.1 Ethical Analysis

The analysis focuses on the most prominent ethical issues in the apparel industry and ethical issues specific to both companies featured in the portfolio paper. Discussion below identifies lip service strategies and economic challenges standing in a way to solve the moral concerns. Business ethics can protect a company's integrity and reputation.

### 2.2 Ethical Issues

The clothing industry is facing multiple ethical challenges including issues surrounding labor conditions, sustainability, equality, and discrimination. Fast fashion brands created a pattern of producing clothes for weekly seasons instead of traditional four seasons. Clothing is being purchased more often and being worn less times. Industry is responsible for 10% of global carbon dioxide emissions (Foroozesh, 2021). To sustain a rapid business model, companies often seek to cut costs in supply chain and outsource production to countries with lesser regulations. Loose or absent law leads to the practice of slave and child labor, hazardous working conditions, and pay below the livable wage. The fashion industry worldwide employs over 75 million workers and less than 2% of them can make a living wage. It is often the case that companies choose to have a minimal or zero oversight of their supply chain to avoid litigations and liabilities (Ross, 2021). Figure 1 describes the garment manufacturing supply chain.

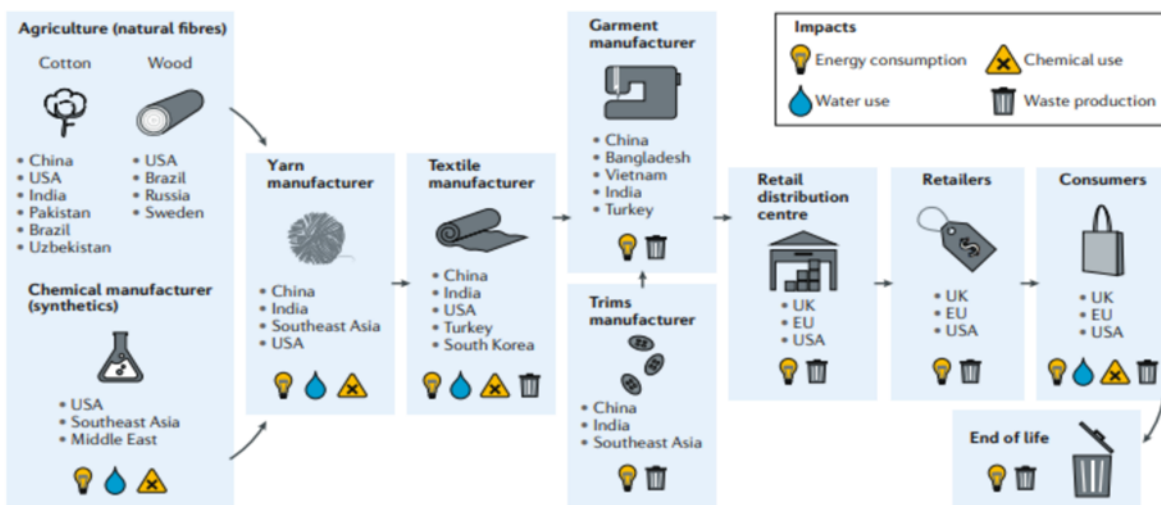


Figure 1 – Garment Manufacturing Supply Chain (Niinimäki et al., 2020)

A documentary about Abercrombie & Fitch Co. has been released in 2022. The story focuses on discriminatory hiring practices and exclusionary lifestyle. Once a cool brand associated with being popular found itself entangled in scandals leading to litigations and lingering negative image. The company's challenge is to re-establish itself as an organization that evolved in "a place of belonging" winning the approval of millennials (Klayman, 2022). In recent years, the question of visibility and fairer work conditions in the supply chain emerges as an even more pressing matter. Abercrombie & Fitch Co. operates without its

own plants using independent subcontractors and internal policies seeking to prevent unfair treatment in outsourced production (Abercrombie.com, n.d.(b)).

Gap, Inc. is linked to using supply chain models that physically abuse the workers, forcing women to work unpaid overtime, and under maximum pressure. Over 540 workers in factories that supply Gap and H&M brands reported cases of threats and abuse. Cases include women being beaten and called stupid when not meeting unrealistic production targets. The company acknowledges the raised ethical issue of violence and malpractice (Reed, 2018).

### **2.3 Lip Service**

Retailers often pay the “lip service” when dealing with the issues requiring solution. A lip service is “a disingenuous or surface-level attempt to gain public favor by appearing to take a popular stance yet making little effort to actually adopt or implement that position in private” (Pollick, 2023). Company virtue signals support for fair labor and sustainability via websites, social media, posters, and various pledges. Typical word choice of lip service includes examples such as to believe, to ensure, to commit, to align, or to advance initiatives.

Abercrombie & Fitch Co. addresses increasing safe labor, sustainability, and other requests from consumers through their corporate values publicly stated on their website. The company embraces inclusion and diversity, where everyone should “feel respected and represented” (Abercrombie.com, n.d. (a)) and claims that its goals and strategies are aligned with United Nations’ goals regarding poverty, climate change, environmental degradation, peace, and justice. The appeal to customers is also stated as a commitment to ensure the product is made in safe and responsible factories (Abercrombie.com, n.d.(b)).

Gap, Inc.’s efforts to appeal to customers include statements about equality and belonging such as respect of all mindsets and people, or gender equality and empowerment claims. Sustainability is promoted as creating opportunity and a healthy environment for customers, employees, and those working their supply chain (Gapinc.com, n.d. (b)). The company supports various policies such as the California Transparency in Supply Chains Act and Climate Policy. The retailer is “deeply concerned” with claims of worker’s abuse occurring in the supply chain and promises to investigate and address the issues (Reed, 2018).

Clothing companies often intentionally or unintentionally engage in greenwashing, a deceptive strategy of “green” and “sustainable” practices while ignoring a total contribution to climate change or sustainability. The selective disclosure advertising positive impact while hiding the negatives is a good example. Another example would be when brands can symbolically donate money to renowned children charity while not dealing with child labor in their supply chain. More visibility, data, and credible certifications are required to spot, check, and report companies practicing greenwashing (Spors, 2021).

### **2.4 Economic Challenges to Addressing Ethical Issues**

Companies are facing an ethical dilemma of labor exploitation and environmental damage versus high profit margins the unethical practice itself creates. Few small businesses have recently adopted the strategy of lower profit margins in pursuit of doing the right thing. This lower net income strategy seems impossible to implement in large companies with shareholders expecting maximum profits. In addition, there is a disconnect between a wish and an action on the purchaser’s side. Consumers list fair labor practices and sustainability as top demands from the fashion industry, although they do not always wish to pay for costs associated with their demands. Survey of 2000 consumers shows 52% of respondents would like to see the companies following ethical practices when making an item while only 29% of consumers would pay extra for the same item made in sustainable way (Moore, 2019). Over 60% of consumers value transparency of production process as important, but only 20% actively seek information when purchasing an item

© Published by Journal of Global Science.

This is an Open Access article distributed under the terms of the Creative Commons Attribution License which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited. The moral rights of the named author(s) have been asserted.

(Foroozesh, 2021). Therefore, commitment to the idea of good practices is required from both the companies and the customers for important changes to be implemented.

Abercrombie & Fitch Co. and Gap, Inc. clothes are priced relatively low to justify making them in the US where the industry is more regulated. The massive scale of production requires large factories. Companies are looking to increase cost benefits and to maximize their profit margin. The labor prices as well as other inputs such as materials and facilities are more expensive in the US, thus not making it feasible for either of the two companies to produce in the US. Both retailers' garments are manufactured in many countries including Vietnam, China, Indonesia, and Bangladesh. Both companies conducted surveys regarding issues in supply chain and sustainability listing the findings, goals, and progress reports on their corporate websites. Abercrombie & Fitch Co. claims 100% of its factories are without child labor, harassment, and migrant workers violations since 2018. The same audit acknowledges that only 92% of factories are transparent (Abercrombie.com, n.d.(b)). Gap, Inc.'s Environment, Social, and Governance report (ESG) shows improvements such as 81% of cotton now being more sustainably sourced and being on track to address purchasing practices of its supply chain (Gapinc.com., n.d. (b)).

### 3. Conclusion

Despite the above claims, a recent Ethical Fashion Report reveals that there has been very slow progress towards the betterment of garment workers. Over 84% of clothing companies are not sourcing from facilities that pay a living wage. Human rights activists are calling for government intervention that outlaws unethical buying strategies and holds apparel companies accountable for unfair practices (Crumbie, 2023). Precise metrics implementation and data analytics tools to evaluate suppliers and acting upon findings should be a standard for every company. Company's supply chain sustainability is the key to making the biggest environmental and social impact towards a real ethical change (Luther, 2020).

#### Bibliography:

1. Abercrombie.com. (n.d.(a)). Our Commitment. Retrieved from <https://corporate.abercrombie.com/our-commitment/>
2. Abercrombie.com. (n.d.(b)). Sustainability. Retrieved from <https://corporate.abercrombie.com/sustainability>
3. Crumbie, A. (2023, April 12). What is fast fashion and why is it a problem? Ethical Consumer. <https://www.ethicalconsumer.org/fashion-clothing/what-fast-fashion-why-it-problem>
4. Foroozesh, S. (2021, July 13). Sustainability in the Fashion Industry: Avoiding Communication Landmines. Forbes. <https://www.forbes.com/sites/forbesbusinesscouncil/2021/07/13/sustainability-in-the-fashion-industry-avoiding-communication-landmines/?sh=5ff49bd561a69-58>.
5. Gapinc.com (n.d. (a)). Raw Materials and Products. Retrieved from <https://www.gapinc.com/en-us/values/sustainability/enriching-communities/raw-materials-and-product>
6. Gapinc.com. (n.d. (b)). What We Value. Retrieved from <https://www.gapinc.com/en-us/values>
7. Klayman, A. (Director). (2022). White Hot: The Rise and Fall of Abercrombie & Fitch [Documentary; online video]. Netflix Originals
8. Luther, D. (2020, October 1). Supply Chain Sustainability: Why It Is Important & Best Practices.

Oracle NetSuite. <https://www.netsuite.com/portal/resource/articles/erp/supply-chainsustainability.shtm>

9. Moore, K. (2019, June 5). Report Shows Customers Want Responsible Fashion, But Don't Want To Pay For It. What Should Brands Do? Forbes. <https://www.forbes.com/sites/kaleighmoore/2019/06/05/report-shows-customerswantresponsible-fashion-but-dont-want-to-pay-for-it/?sh=2b255090178>
10. Niinimaki at al. (2020). The Environmental Price of Fashion. Nature Review. [https://finix.aalto.fi/wp-content/uploads/2021/04/Nature\\_review\\_Niinimaki-2020.pdf](https://finix.aalto.fi/wp-content/uploads/2021/04/Nature_review_Niinimaki-2020.pdf)
11. Reed, B. (2018, June 5). Abuse Is Daily Reality for Female Garment Workers for Gap and H&M. Guardian. <https://www.theguardian.com/global-development/2018/jun/05/female-garment-workers-gap-hm-south-asia>
12. Ross, E. (2021, October 28). Fast Fashion Getting Faster: A Look at the Unethical Labor Practices Sustaining a Growing Industry. GW Law. <https://studentbriefs.law.gwu.edu/ilpb/2021/10/28/fast-fashion-getting-faster-a-look-at-the-unethical-labor-practices-sustaining-a-growing-industry/>
13. Spors, F. (2021, May 20). How to Spot Greenwashing and How to Stop It. World Economic Forum. <https://www.weforum.org/agenda/2021/05/how-spot-greenwashing/>
14. Smith P. (2023, Jun 15). U.S. Apparel Market – Statistics & Facts. Statista. <https://www-statistacom.ezproxy.lib.uwf.edu/topics/965/apparel-market-in-the-us/#topicOverview>