The Effect of Sustainable Development Goals on the Sustainability of Multinational Enterprises in the Apparel Industry

Kanako NEGISHI

ABSTRACT

Recently, multinational enterprises (MNEs) have become increasingly accountable. They are often expected to work towards global agendas like Sustainable Development Goals (SDGs) in their sustainable management. How can MNEs better implement SDGs in their core business and strategies? This study examines this issue focusing on Inditex, H&M, and Fast Retailing, the largest apparel companies in the world by investigating their reports. Using content analysis, I extract how their practices changed after the SDGs were announced in 2015. The results reveal that the impact of the SDGs is not yet reflected in the companies' practices from 2016 to 2018. SDGs are still recognized as one of the tools for organizing their businesses in term of sustainability. The results serve as reference for sustainable management by MNEs.

Introduction

Recently sustainable management by companies are strongly requested by many public and private sectors and stakeholders because of the change of the global management environment about sustainability. One of the representative example of such a change worldwide is United Nations Global Compact (GC). United Nations (UN) call to companies to align their strategies and operations with universal 10 principles in 2000 to form a GC (UNGC homepage). It was the first action for UN to requested companies directly to participate in public global action. This effort is in line with the

Millennium Development Goals in 2000 and Sustainable Development Goals (SDGs) in 2015. SDGs are 'the blueprint to achieve a better and more sustainable future for all'. The 17 goals and 169 targets of SDGs are created in order to leave no one behind (UN homepage). They request to implement to the goals for many actors like governments, NGOs and companies.

In particular, MNEs have been strongly requested to get involves global actions regarding to sustainability in the world. Such a request means the MNEs' presence and practice cannot be ignored because their activities sometimes cause problems and solve global agendas. For example, Shell was criticized for the plan that sink an obsolete oil storage platform in Northern Sea (Vogel, 2005; Tulder, 2006). Nike was also criticized for poor

working condition in developing countries (Scheiber, 2015; Doorey, 2001; Park, 2006; Vogel, 2005; Tulder, 2001). These case caused large argument worldwide. These argument is also affected by the expansion of MNEs' activity range cannot be regulated and monitored by each nation (Jones, 2005).

On the other hands, companies, in particular MNEs, have enough resources including technologies, networking abilities, labor absorption ability and marketing method with high-profiles brand (Praharad,2005; Sekishita, 2017). Because of it, nowadays they are recognized as one of the important actor to solve the social problems (Zaten & Tulder,2018).

In this sense, SDG is one of the symbolic goals for sustainability and many MNEs and other stakeholders in the world. How can MNEs better implement SDGs in their business? This study examines this issue by focusing on the apparel industry, which has been criticized regarding the aspects of working conditions and environment.

Literature Review

Nowadays BOP (Bottom of Pyramid) market, social business and inclusive business (Yunus, 1997; Praharad,2005; Hayashi,2016) are essential keywords in MNE's management. Creating Shared Value (CSV) balances profit and the activities about environment and society or even the make money by solving social problems (Praharad, 2005; Hart,2007; Porter,2011).

Why do MNEs deal with the agenda about sustainability in their global business? The driver of the effort is varied; cost reduction, sales and profit margin, risk and risk reduction, reputation and brand value, attractiveness as employer and innovative capability (Schaltergger, 2012). The efforts for environment and society sometimes are positioned in the field of philanthropy that is out of management core. However, the drivers of sustainability are not philanthropic, but economic ones.

The implementation of the activities sometimes connects to global agendas like GC's 10 principles and SDGs goals and/or report refer to GRI (global reporting initiative) that is objective indicators (Negishi,2009; KPMG,2018). The cooperation with MNEs and UN are sometimes criticized as blue-wash (Knudsen, 2011). Therefore, it has been studied how much effect it actually gives from the relationship between them.

Such a new business models regarding sustainability often involves innovation. Brocken et.al (2014) classified main type of business model innovation that technology, social and organizational oriented innovation. Technological innovation includes maximize material and efficiency, create value and substitute with renewables and processes. Many of this group are involved in the environment regarding activities. It has been generalized because the improvement in environmental field may reduce costs or create new markets as not same as working condition field while working conditions in developing countries

suppliers' usually raise cost and rarely create additional markets（Vogel, 2005）. There is still considerable debate regarding labor issues in this industry, such as the case of Rana Plaza in Bangladesh in 2013.

Some survey shows MNEs' engagement with SDGs in their sustainable management. Zaten and Tulder (2018) target 81 European and north American companies and finds the trend that 'MNEs engagement with SDGs to avoid negative impact on sustainable development'. It suggests that the MNEs engage with SDGs to risk reduction.

However, the lack of research on the apparel industry has led to concerns about working conditions of suppliers in developing countries in terms of it.

Therefore, this study focuses on three companies: Inditex, H&M, and Fast Retailing (FR), and conducts comparative analysis based on their reports from 2016 to 2018.

Although the three companies have different home countries (Inditex's home country is Spain, H&M's is Spain, and FR's is Japan), they have a lot of supplier factories both in developed and developing countries. SDGs are focused on the effect of suppliers' practices in developing countries on the supply chain.

Methodology and Data

The data analysed by content analysis with sustainability reports[24]. The implementations about

sustainability report to stakeholders and society with sustainability reports. Sustainability report is that one of the CSR communicate tool. Although the information sometimes includes their advertisement, it become natural to publish the reports for MNEs (KPMG, 2017). Additionally, SDGs12.6 request that encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle. Content analysis is widely adopted method in management literatures in order to analyze companies report including financial, annual and sustainability reports to extract and compare the features and tendency (Campopiano, 2014; Landrum, 2017, 2018). This methodology is defined that "an observational research method that is used to systematically evaluate the symbolic content of all forms of recorded communications" (Kolbe, 1991). The merit of adopt is its credibility and objectivity (Higuchi, 2014).

Result

First, Tables 1 to 3 report the ranking of noun frequency in the three companies' reports. There have not been any significant changes during the period. For example, the word "risk" can only be found in Indetex's reports for all 3 years. Similarly, the words "employee" and "factory" can only be found in FR's reports for all years.

By contrast, in 2018, there is a different trend for H&M compared to 2017 and 2016. "Strategy,"

"fair," "equal," and "standards" first appeared in

2018.

Table 1 Top 10 most frequently occurring nouns in the reports in 2018

	FR2018		H&M2018		Inditex 2018	
	extracted word	frequency	extracted word	frequency	extracted word	frequency
1	FR	119	H&M	290	INDITEX	853
2	store	106	STRATEGY	228	GROUP	660
3	UNIQLO	101	Change	208	director	550
4	employee	99	Group	197	company	548
5	factory	87	FAIR	189	risk	507
6	product	75	Supplier	183	supplier	502
7	Group	74	EQUAL	180	ZARA	440
8	business	69	Product	177	sale	436
9	customer	67	RENEWABLE	176	information	434
10	partner	63	REPORT	161	management	432

Table 2 Top 10 most frequently occurring nouns in the reports in 2017

	FR2017		H&M2017		Inditex 2017	
	extracted word	frequency	extracted word	frequency	extracted word	frequency
1	factory	82	H&M	395	INDITEX	774
2	business	71	group	192	GROUP	635
3	UNIQLO	63	business	167	director	568
4	people	59	product	153	ZARA	505
5	employee	50	partner	129	company	483
6	refugee	42	rights	118	risk	467
7	store	42	chain	117	supplier	464
8	impact	41	material	112	COMMITTEE	447
9	partner	38	supplier	106	BOARD	445
10	production	36	factory	103	sale	430

Table 3 Top 10 most frequently occurring nouns in the reports in 2016

	FR2016		H&M2016		Inditex2016	
	extracted word	frequency	extracted word	frequency	extracted word	frequency
1	FR	182	H&M	427	INDITEX	1134
2	employee	98	business	234	director	645
3	store	84	group	221	GROUP	589
4	factory	74	chain	189	BOARD	497
5	business	69	vision	170	company	491
6	CSR	69	supplier	163	risk	462
7	UNIQLO	64	rights	159	COMMITTEE	432
8	Group	63	material	157	ZARA	431
9	Japan	54	sustainability	153	supplier	426
10	production	49	product	151	sale	404

Although there have not been significant changes in Inditex in terms of frequency of nouns, their 2018 report includes not only which SDG each activity contributes to, but also what targets contribute to the goals. Some of them show achievement with specific figures. In addition, the company's target, milestone for 2018, and KPIs (key performance indicators), which can be quantified unlike in other companies, are presented in the column below the corresponding target of the SDG.

Second, "SDGs" does not appear in the top 100 most frequently used noun in the reports from 2016 to 2018. The following words extracted from the goals did not appear either: poverty, hunger, sanitation, decent work, infrastructure, justice, land, and peace.

The following words only occurred in specific company/ period.;

- Health: Inditex from 2016 to 2018 and FR 2017 and 2018
- Water: H&M from 2016 to 2018 and FR 2018
- Equality: H&M from 2016 to 2018
- Climate: H&M from 2016 to 2018
- Consumption: Inditex from 2016 to 2018
- Partnership: FR from 2016 to 2018 and H&M 2016
- Education: FR 2017

Finally, Table 4 reports the overall frequency of the use of the term "SDGs". There are clear differences between the three companies.

Table 4 The frequency of "SDGs"

	FR	H&M	Inditex
2018	2	41	57
2017	4	34	42
2016	0	43	33

Consideration

The results indicate the use of words related to SDGs has increased during the period. The differences are more pronounced between the three companies than between the years used in this analysis. However, the degree of interest in SDGs is different between Inditex, H&M, and FR.

Conclusion

Using content analysis based on their annual reports, this study examined how the world's largest apparel MNEs may have increased their efforts to implement SDGs. From the results, the impact of the SDGs is not yet reflected in the companies' practices. The companies are at the stage at which SDGs are one of the tools used to organize current business (Kosaka, 2018)[28].

The limitation of this study is the small sample period given it has only been three years because since it has only been four years since SDGs were adopted. Therefore, to observe changes over the long term, it is necessary to conduct further analysis in the future.

References

Bocken, Nancy, Short, Samuel.W., Rana, Padmakshi. and Evans, Steve., A literature and Practice review to develop sustainable business model archetypes, *Journal of Cleaner production*, 65, pp.42-56. 2014.

Campopiano, G. and De Massis. A., Corporate Social Responsibility Reporting: A Content Analysis in Family and Non-Family Firms, *Journal of Business Ethics*, 129 (3), pp. 511-534, 2014.

Doorey, D. J., The Transparent Supply Chain: from Resistance to Implementation at Nike and Levi-Strauss, *Journal of Business Ethics*, 103 (4), pp. 587-603, 2011.

Kosaka, S. SDGs in sustainability reports: analysis from the integrated approach, *Environmental Information Science*, pp.25-30, 2018.

Kolbe, R. H., and Burnett, M.S., Content –analysis research: An examination of applications with directive for improving research reliability and objectivity, *Journal of Consumer Research*, 18, pp.234-250, 1991.

Knudsen, J.S. Company Delistings from the UN Global Compact: Limited Business Demand or Domestic Governance Failure? *Journal of Business Ethics*, 103 (3), pp.331-349, 2001.

Hayashi, T., Emerging Markets and the New Perspective of Strategic management for BOP, *Kokushikan business review*, pp.55-86, 2016.

Hart, S.L. *Capitalism at the Crossroads*, Wharton School Publishing, 2007.

Higuchi, K. *Quantitative Text Analysis for Social Researchers: A Contribution to Content Analysis*, Nakanishiya, 2014.

Jones, G. *Multinationals and Global Capitalism from the Nineteenth to Twenty First Century*, Oxford University Press, 2005.

Landrum, N. E., Stages of corporate sustainability: Integrating the strong sustainability worldview, *Organization & Environment*, pp. 1-27, 2017.

Landrum, N. E. and Ohsowski, B., Identifying Worldviews on Corporate Sustainability: A Content Analysis of Corporate Sustainability Reports, *Business Strategy and the Environment*, 27(1), pp. 128-151, 2018.

Negishi, K., The Relationship between MNEs and GRI and Ceres focusing on Japanese MNE's CSR reports and GRI guideline, Comparative Studies of Management, 36, pp.123-141, 2009.

Park, Keunho, Multinational Enterprise and Corporate Social Responsibility: Focus on the problems of sweatshop in Nike, Economic Review, *Shizuoka University*, 11(3), pp.63-81, 2006.

Porter, M. E. and Kramer, M. R. , The big idea: Creating shared value, *Harvard Business Review*, 1-17, 2011.

Prahalad, C.K., *The Fortune at the Bottom of the Pyramid*, Wharton School Publishing, 2005.

Schaltegger, S. and Lüdeke-Freund, F.H. E., Business Cases for Sustainability: The Role of Business Model Innovation for Corporate Sustainability, *International Journal of Innovation and Sustainable Development*, 6 (2), pp.95-119, 2012.

Scheiber, F., Dressing up for Diffusion: Codes of Conduct in the German Textile and Apparel Industry, *Journal of Business Ethics*, 126 (4), pp.559-580, 2015.

Sekishita, M., Future Transnational: Business Ethics, Social Responsibility and Harmonization with Global Democracy, *RIKKYO ECONOMIC REVIEW*, 71(1), pp. 43-66, 2017.

Tokoro, N., *Environmental Management and Innovation*, Bunshido, 2017.

Tulder, R.and Kolk, A., Multinationality and corporat ethics: codes of conduct in the sporting goods industry. *Journal of International Business Studies, 32*, (2), pp.267-283, 2001.

Tulder, R. and Zwart, A.V. *International Business-Society Management: Linking corporate responsibility and globalization*, Routlege, 2006.

Vogel, D. *The market for Virtue: The Potential and Limitations of Corporate Social Responsibility*, Brookings Institution, 2005.

Yunus, M., *Creating a World Without Poverty: Social Business and the Future of Capitalism*, Public Affairs, 2009.

Zaten,J.A and Tulder R., Multinational Enterprises and the Sustainable Development Goals: An institutional approach to corporate engagement,

Journal of International Business Policy, 1 (3-4), pp.208-233, 2018.

KPMG, The KPMG Survey of Corporate Responsibility Reporting 2017. Retrieve from https://home.kpmg/xx/en/home/insights/2017/10/the-kpmg-survey-of-corporate-responsibility-reporting-2017.html

United Nations Global Compact, who we are. Retrieve from https://www.unglobalcompact.org/what-is-gc

United Nations, about the sustainable Development Goals. Retrieved from https://www.un.org/sustainabledevelopment/sustainable-development-goals/