AN EMPIRICAL STUDY OF THE RELATIONSHIP BETWEEN CREATING SHARED VALUE AND PROFITABILITY IN THE APPAREL INDUSTRY

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Abstract- The aim of this research is to verify empirically the relationship between creating shared value (CSV) activity and profitability in the apparel industry. CSV is a corporate strategy which aims to achieve sustainable growth on a long-term basis by coexisting with society rather than merely maximising short-term profits. According to previous studies, conventional philanthropic activities or environmental activities are often not correlated to improvements in the financial results of a company. Various activities are included in conventional philanthropic activities. The CSV strategy in this research is distinguished from conventional philanthropic activities, such as that aimed at hedging risk. In terms of research methodology, statistical verification was carried out based on the sustainability statement, the various publicity materials and the financial data released by each company. In conclusion, when private enterprises adopt a positive approach to CSV activity, unlike a simple redistribution of profits, corporate and social values expand cyclically.

Keywords- Apparel Industry, Creating Shared Value, Empirical Research, Sustainability.

I. INTRODUCTION

The aim of this research is to verify empirically that the strategy with which a company aims to sustain growth increases its financial results on a long-term basis. In order for a company to sustain growth rather than to pursue short-term profits, it is desirable to manage its relationships with various social stakeholders and to continue developing within a society. Conventionally, such activity is classified as corporate society responsibility (CSR). However, hitherto, CSR activity was not commonly positioned in the growth strategy itself. The main purpose of CSR was risk reduction when a company was growing and dispensation by partial reduction of profit. However, CSR activity has come to be positioned more positively. Social activity is often an opportunity for growth in a company and is regarded as a key business objective. Hence, the development of a strategy for creating shared value (CSV) aiming to improve the triple bottom line, which combines economic efficiency and social and environmental aspects, has attracted attention.

Porter and Kramer (2011) refer to the strategy of shared-value creation as comprising the positive role of a company economically and for society. CSV within a company and a society can attract attention with the expansion of enterprise activity as well as trans-nationalisation. CSV is a corporate strategy which aims to achieve sustainable growth on a long-term basis by coexisting with society rather than merely maximising short-term profits. For example, with regard to the apparel and textile industry, the trans-nationalisation of production has often provided developing countries with the possibility of exploiting cheap labour, leading to environmental pollution. By implementing a CSV strategy, a company can support innovation in a production area and control improvement in earnings while at the same time promoting environmental protection and improvements in product quality through sustainability. Generally, raising the yield of textile production and environmental protection tends to bring about the opposite result. Innovation is required to attain both simultaneously. Innovation in a production area may not simply be attained by the introduction of existing technology from a developed country. If a production area develops actively and creatively, the efficiency of production and environmental protection may be improved to a greater extent. If a production district realises that innovation also leads to profit, it will be able to enter a self-sustaining expansion cycle. For this purpose, the multinational firms of developed countries need to change the strategy of concentrating on research and development and other managerial resources in a home country and aim for economies of scale. It is required that a multinational firm actively adopts innovation in a production area over a long-term basis. Through such localisation, a multinational firm can be differentiated from other companies and sustainable competitive advantage may increase. Innovation often requires technical accumulation and as serendipity is a factor, the success of an innovation takes time. A company which succeeds in innovation requiring time and solves a social problem receives high praise socially and achieves sustainable competitive advantage.

However, in many previous empirical studies, the conventional CSR activity of a company has not always correlated with corporate performance. Each research finding may involve a positive correlation (Waddock, et al, 1997; McGuire, et al, 1988; Orlitzky, et al, 2003), a negative correlation (Mahapatra, 1984;

Jaggi, et al, 1992) or no correlation (Aupperle, et al, 1985; Ullman, 1985; McWilliams, et al, 2000; Vogel, 2005). The considerable differences in previous research findings have tended to be related to the intermingling of industries, companies, activities or scales. The stance in relation to conventional CSR activity was often that it comprised a derivative activity for a company to carry out business. However, sustainable activity may be regarded as the strategy of finding a new market or increasing competitive advantage. Companies which realise that sustainable activity is an opportunity to raise corporate value may also be increasing in number. Thus, the definition of sustainable activity may be diversified by a company or industry, so that sustainable activity is closer to the core business of a company.

In this research, attention is paid especially to CSV activity in the international supply chain of apparel companies. This is considered to be a key aspect of sustaining the growth of an apparel company, involving adopting innovation on a long-term basis to lower cost and reduce the effects on the environment simultaneously. The focus of the research is multinational large-scale corporations in the Japanese apparel industry and the possible items of a CSV strategy suitable for conditions peculiar to the apparel industry were investigated. In terms of research methodology, statistical verification was carried out based on the sustainability statement, the various publicity materials and the financial data released by each company.

II. SURVEY OF PREVIOUS STUDY

Porter and Kramer (2011) described the difference between conventional CSR and a CSV strategy, taking fair trade as an example. Shared value is not about personal values. Nor is it about "sharing" the value already created by firms – a redistribution approach. Instead, it is about expanding the total pool of economic and social value. A good example of this difference in perspective is the fair trade movement in purchasing. Fair trade aims to increase the proportion of revenue that goes to poor farmers by paying them higher prices for the same crops. Though this may be a noble sentiment, fair trade is mostly about redistribution rather than expanding the overall amount of value created. Instead, a shared value perspective focuses on improving growing techniques and strengthening the local cluster of supporting suppliers and other institutions to increase farmers' efficiency, yields, product quality and sustainability. This leads to a bigger pie of revenue and profits that benefit both the farmers and the companies that buy from them. Initial investment and time may be required to implement new procurement practices and develop the supporting cluster, but the return will be greater in terms of economic value and the broader strategic benefits for all participants. According to Porter and Kramer (2011), there are three distinct ways for companies to create economic value by creating societal value, each of which is addressed below.

1) Reconceiving Products and Markets

Society's needs are huge – health, better housing, improved nutrition, help for the aging population, greater financial security and less environmental damage. Whole new avenues for innovation open up and shared value is created. Society's gains are even greater because businesses will often be far more effective than governments and non-profits are at the marketing that motivates customers to embrace products and services that create societal benefits, such as healthier food or environmentally friendly products.

2) Redefining Productivity in the Value Chain

The following are some of the most important ways in which shared value thinking transforms the value chain:

(a) Logistics: shipping is expensive, not just because of energy costs and emissions but because it adds time, complexity, inventory costs and management costs. Logistical systems are beginning to be redesigned to reduce shipping distances, streamline handling, improve vehicle routing and so on.

(b) Resource use: heightened environmental awareness and advances in technology are catalysing new approaches in areas such as the utilization of water, raw materials and packaging, as well as expanding recycling and reuse.

(c) Procurement: by increasing access to inputs, sharing technology and providing financing, companies can improve supplier quality and productivity while ensuring access to growing volume. Improving productivity will often trump lower prices. As suppliers get stronger, their environmental impact often falls dramatically, further improving their efficiency.

(d) Employee productivity: the focus on holding down wage levels, reducing benefits and offshoring is beginning to give way to awareness of the positive effects that a living wage, safety, wellness, training and opportunities for advancement for employees have on productivity.

(e) Location: until now, many companies have thought that being global means moving production to locations with the lowest labour costs and designing their supply chains to achieve the most immediate impact on expenses. In reality, the strongest international competitors will often be those that can establish deeper roots in important communities.

3) Enabling Local Cluster Development

When a firm builds clusters in its key locations, it also amplifies the connection between its success and the communities' success. A firm's growth has multiplier effects, as jobs are created in supporting industries, new companies are seeded and demand for ancillary services rises. A company's efforts to improve framework conditions for the cluster spill over to other participants and the local economy. Workforce

development initiatives, for example, increase the supply of skilled employees for many other firms as well.

III. DEVELOPMENT OF HYPOTHESES

The aim of this research is to verify quantitatively the relationship between CSV activity and profitability in the apparel industry. According to previous studies, conventional philanthropic activities or environmental activities are often not correlated to improvements in the financial results of a company. Various activities are included in conventional philanthropic activities. For example, they can relate to the re-distribution of profits or activity for the avoidance of sudden risks, such as a suit, etc.

The CSV strategy in this research is distinguished from conventional CSR, such as that aimed at hedging risk. Below, the relationship between each component and revenue is clarified. The CSV strategy is considered to be a growth strategy as part of the main business of a firm. That is, conventionally, social problems, such as environmental pollution or the economic discrepancy between wealth and poverty, were the responsibility of governments, for example, through regulation and support. However, social problems can serve as a business opportunity for the sustainable growth of a company. It is possible to cover a social problem on the surface and temporarily address it through government regulation or economic support. However, when a company achieves innovation for the solution of a social problem, it may be resolved sustainably and fundamentally. This is the so-called internalisation of externality. For example, the high cost of pollution removal, which is imposed on a company by regulation, is reduced by innovation and this can improve profitability. Innovation requires long-term effort and once a company introduces an innovation it will take time for other companies to catch up. Therefore, innovation serves to sustain competitive advantage. Furthermore, a company which solves such a social problem may be able to obtain high praise from consumers or local people. As a result, the company may be able to achieve high profitability and stability on a long-term basis.

According to previous research on CSV, the components can classified as follows: reconceiving products and markets, redefining productivity in the value chain (logistics, resource use, procurement, employee productivity and location) and enabling local cluster development. The components of the CSV strategy of multinational firms in the apparel industry are categorised using this previous research. As a presupposition, the viewpoint of the CSV strategy in this paper is that it can confer an improvement in long-term corporate earnings, as well as the belief that social value can be increased simultaneously.

The first category is reconceiving products and markets. In the apparel industry, it seems that consumer concerns about the influence of chemical substances, agricultural chemicals, etc. on the human organism are increasing. Thus, providing clothing which presents a high degree of safety may promote consumers' purchases. Furthermore, products representing excellence in relation to reuse and recycling may be able to attract consumers with a high environmental awareness. On the other hand, the influence of issues concerning the human organism or environment on a product is relatively small and consumers may not accept a high premium on the price.

For example, large quantities of chemical substances, water resources and agricultural chemicals are used for the production of both manmade fibres and cotton, conventional materials of apparel. One of the countermeasures is the change to organic cotton. However, the yield per unit area of farmland decreases sharply for organic cotton and this translates into a steep rise in costs. It also becomes the cause of various societal and environmental problems, such as the use of high environmental impact dyes, the dispersal of defoliants and huge amount of cheap manual labour. If an apparel company can achieve cost reductions by improving production efficiency and restricting negative impacts on human organisms and the natural environment through innovation, it will surely gain high competitiveness. Consumers may be induced to make purchases by specifying the safety of the source of a material, etc. Of course, a reduction in environmental pollution and the cost of public rejection, etc. can be expected and a shared value is created by such innovation. Therefore, the following hypothesises can be formed with regard to reconceiving products and markets.

H1. An apparel company which implements product innovation to reduce negative impact on a human organism or a natural environment will have sustainable growth.

H2. An apparel company makes a clear statement concerning an influence on a human organism or a natural environment will have sustainable growth.

The second category is redefining productivity in the value chain. Many items are included in this category, one of which is logistics. The supply chain of an apparel business is subdivided into various processes, for example, those related to the plantation (e.g. the manufacturing of raw thread, spinning, weaving, dyeing) and to the cloth (e.g. cutting, and sewing). It is also divided geographically as while design is performed near the place of consumption in many cases, generally the production processes are distributed all over the world. Therefore, if the transportation of raw materials, semi-process materials, sub-products or finished products, is lessened and efficiency is increased, a reduction in energy costs is possible. Furthermore, the reduction in the environmental impact related to energy consumption naturally leads to the creation of shared

value. Therefore, the following hypotheses can be formed in relation to logistics:

H3. An apparel company increases the efficiency of its logistics will have sustainable growth.

The next item within redefining productivity is resource use. The costs of an apparel company are reduced by the efficient use of raw materials, water and energy in the production/distribution process. To improve the efficiency of resource use, reducing the amount of rejections, such as raw materials in the production process, etc., is effective as a first step. In addition, if the production process can be improved to curb the generation of a chemical substance or greenhouse gas, the cost related to the removal of toxic substances can also be reduced. Furthermore, if the reuse and recycling of raw materials, sub-materials and water resources can be realised at a low cost, the economic efficiency of resource use will increase. The efficient utilization of resources and reducing waste serves to lessen the cost of public disposal and leads to a decrease in environmental impact and the creation of shared value. Therefore, the following hypotheses can be formed concerning resource use:

H4. An apparel company which improves the efficiency of use of raw materials, water, or energy will have sustainable growth.

H5. An apparel company which engages in the efficient reuse and recycling of raw materials, water, or energy with have sustainable growth.

H6. An apparel company which reduces its greenhouse gas emissions, etc. will have sustainable growth.

The third item is employee productivity. An apparel company may have a manufacturing side producing a commodity and a service side as a fashion industry. When consumers select clothing products, it is not only their basic function that is important but also aspects of additional value. Added value may comprise coordination according to an occasion, being at the forefront of trends, a change in image, etc. Therefore, creativity is important for the employees of apparel companies to generate new consumer value. In a creative industry, neither cuts in personnel expenses nor long working hours can easily be connected with financial results. As the realisation of an innovation takes time, it is desirable to have a workplace environment which aims to stimulate the employees' motivation on a long-term basis. According to Schumpeter, an innovation comprises a new combination of factors of production and it is thought that employee diversity is an effective element in generating such a novel combination. An innovation can be promoted by building a healthy workplace adapted to various employees' conditions. This then leads to the creation of shared value in that beneficial employment adapted to various people's conditions is assured. Therefore, the following hypotheses can be formed in relation to employee productivity:

H7. An apparel company which pursues cheap and short-term employment cannot grow sustainably.

H8. An apparel company which implements improvements to create a healthy working environment for its employees will have sustainable growth.

H9. An apparel company which addresses employee diversity will have sustainable growth.

The third category is enabling local cluster development. As procurement and location are considered to be related closely to local clustering, these aspects are discussed collectively. In the apparel industry, a supply chain is finely subdivided into many steps as mentioned above. Many companies tend to divide each process internationally. A company that operates within a manufacturing and retailing business model as a specialty store retailer of private label apparel (SPA) is also usually in cooperation with many external partner companies. Therefore, when considering CSV in relation to the whole supply chain, the company's relationship with various partners has an important influence.

For example, one trend is for an apparel business to change to organic cotton in consideration of the influence of chemicals on the human organism and the natural environment as mentioned above. However, to guarantee an organic product, regulation and control of the producers of the raw material is necessary. There are other problems, namely that by changing to organic cotton, the yield of a cotton-farming household falls, the amount of water resources used increases, manual labour at lower wages is necessary for gathering the cotton and dyestuffs harmful to the environment are still used. If these problems cannot be resolved, ensuring a sustainable supply of organic cotton is difficult. To solve these problems, mere regulation covering a production district is not adequate. Innovation through cooperation with the various partners within a production district is required. Textile product suppliers generally have a presence in developing countries. It is therefore important to transfer the technology of developed countries to these countries. Furthermore, when the production district itself continues technological improvement autonomously based on the local environment, it is thought that it becomes easier to solve problems. Apparel companies can enjoy improvements in productivity or quality by supporting a production district with technology, fostering talented people, providing funds and so on. As the living standards of a production area improve, natural biodiversity is protected and this leads to the creation of shared value. Therefore, the following hypotheses can be proposed in relation to enabling local cluster development:

H10. An apparel company which supports the autonomous innovation of a production district will have sustainable growth.

H11. An apparel company which addresses the reduction of the environmental impact of a production district will have sustainable growth..

IV. VERIFICATION AND RESULTS

4.1. Verification Approach

The aim of this study is to verify empirically whether companies in the apparel industry which adopt a CSV strategy improve their profitability in the long term. This is based on the latest public information disclosed by the companies. To evaluate global CSV activity as an object of verification, multinational companies in Japan were selected, focusing on large-scale corporations with managerial resources which had released information on positive activity with regard to sustainability. Moreover, as it takes a long time for CSV activity accompanied by long-term innovation to be reflected in revenue and thus it was necessary to evaluate long-term performance to ensure that such activity was reflected, the period of analysis covered was 10 years. CSV activity and financial performance for the fiscal years 2002 to 2011 were compared. Therefore, enterprises which underwent a significant transition in structure, business category, etc. in these 10 years were excluded from the analysis. As a result of the above selection process, 22 companies which met all the criteria were selected for analysis.

4.2. Appraising CSV Activity

Each CSV activity was analysed in relation to the multinational firm in the apparel industry selected to verify each of the aforementioned hypotheses. CSV strategies were extracted from sustainability statements, CSR statements, press releases and company homepages in the preceding 10 years of each company. CSV activity comprises textual information, although the information can be expressed numerically in financial measurements. Therefore, the context of the various statements in each year was examined; when there was a positive statement concerning each CSV activity, this was categorised as 1 and 0 otherwise.

4.3. Verification Result

Statistical analyses were conducted for the verification of the hypotheses. In the statistical analyses, the valuation of the aforementioned CSV activity is the explanatory variable. The rate of change in the sales amount in the preceding 10 years in the financial statements of each company serves as the objective variable. First, as the CSV strategies recorded in the sustainability statements varied, were determined as explanatory variables using principal components analysis. Correlation analysis was conducted for each principal component and objective variable. SPSS version 22 (International Business Machines) was used for each statistical procedure.

1) Principal components analysis

Four principal components were extracted as a result of the principal components analysis of explanatory variables with eigenvalues of one or more. The sum of the squares of the loading of the four principal components was 71.97%. The first principal component consists of items such as product innovation to reduce negative impact on the human organism or the natural environment, a clear statement of an influence on the human organism or the natural environment, long-term and steady employment, an improvement to the health of employees' workplace environments and employee diversity. This first principal component is termed "product innovation and employment".

The second principal component consists of items such as supporting the autonomous innovation of a production district and reducing its environmental impact. This second principal component is termed "support for production district". The third principal component consists of items such as improvements in the efficiency of use of raw materials, water, or energy, the reuse and recycling of raw materials, water, or energy and a reduction in greenhouse gas emissions, etc. This third principal component is termed "resource efficiency". The fourth principal component consists of items related to the efficiency of logistics and is thus simply termed "logistics".

2) Correlation analysis

Next, correlation analysis of each of the principal components and the rate of change in the revenue of the preceding 10 years – an objective variable – was conducted. The results of the correlation analysis are shown in Table 1 (* indicates a 5% significance level).

Table.1. Results of correlation analysis

	Principal component	Correlation coefficient
1	Product innovation and employment	.482*
2	Support for production district	.591*
3	Resource efficiency	.268
4	Logistics	.377

The results of the analysis show that both the first and second principal components correlated significantly with revenue. On the other hand, the third and fourth principal components were not significantly correlated with revenue.

4.4. Discussion

Each of the hypotheses is verified based on the results of statistical analysis. First, the "product innovation and employment" component relates to the hypotheses concerning "reconceiving products and markets" and "employee productivity" and is correlated with revenue. It is of considerable interest that product innovation and improvements in employment conditions are closely related statistically. Even if a product is safe and of high quality, it is difficult to increase a selling price beyond certain limits. On the other hand, it is difficult to grow sustainably solely through price competition by employing a relatively cheap workforce. Innovation is necessary to continue providing consumers with safe, high quality and inexpensive products. A long-term perspective with

regard to research and development is important in achieving innovation. It is thought that innovation is promoted by improving employees' working environments, exploiting diversity, cultivating capability and enhancing motivation enhancement. Thus, hypotheses 1, 2, 7, 8 and 9 are considered to be verified.

The second principal component, "support for production district", is related to "enabling local cluster development", "procurement" and "location" in the hypotheses and is correlated with revenue. For an apparel company to grow sustainably, a long-term perspective on innovation in the production district is useful. Some multinational firms seek out those countries which offer cheap labour and move from one factory to another. Even if such a strategy is successful in the short term, long-term success may be difficult. Rather, it is thought that improving employment conditions, living standards, or the natural environment in a production district reduces various risks. As a result, in the long term, this leads to inexpensive and sound production. Thus, hypotheses 10 and 11 are considered to be verified.

On the other hand, neither the third nor fourth principal components, "resource efficiency" and "logistics", respectively, show any great link to improvement in revenue. Hypotheses 3, 4, 5 and 6 are thus considered to be rejected. It is thought that improving the efficiency of resources, such as the use of raw materials, water, or energy, through the improvement of a production process or logistics should lead to long-term reduction in the costs of an apparel company. However, in the apparel industry, the ratio of the costs of such resources relative to a company's overall costs may not be particularly high. Thus, it may be difficult to assure sustainable growth solely by cutting such costs. Furthermore, if efforts are made to reuse or recycle solely in response to a regulation, this may lead to increases in costs. Also, neither a reduction in greenhouse gases nor the use of renewable energy leads readily to a direct decrease in costs. Although consumers' concern regarding activities related to the lessening of environmental impact is increasing, their daily buying behaviour may be influenced to a lesser extent by such activities compared to those regarding the safety of products, etc. Innovation which improves the performance of resources and political support aimed at providing incentives to reduce environmental impact, etc. are considered to be subjects worthy of future research.

CONCLUSIONS

The objective of this research was to demonstrate empirically that the CSV activity of private enterprises contributes to gains in revenue on a long-term basis. In previous empirical studies on CSR activity and financial results, correlations have not always been established consistently. A contribution of this research is its focus on the CSV activity of the apparel industry and its clarification of the effect of CSV strategies on revenue. When private enterprises adopt a positive approach to CSV activity, unlike a simple redistribution of profits, corporate and social values expand cyclically. The implications of this research are of particular relevance to business administrators who may have confidence in CSV investment as the advantages of CSV activity and the link to profitability are clear. However, in this research, the survey was limited to major multinational firms in Japan and the survey sample was thus small. A future objective is to extend the survey and to undertake a comparative study of the companies of various countries.

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