THEORETICAL ISSUES OF THE STUDY
CHAPTER 3
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INTRODUCTION

Small and Medium enterprises contribute significantly to the economy and are geographically widely spread in a country like India., their adaptation of CSR and ethical practices is crucial to India development.

In this chapter, the researcher deals with the theoretical issues which covers this issues. The chapter focuses on the study of the issues faced by SMEs in particular in the apparel sector concentrating on the Ready Made Garments manufacturing SMEs in India, the impact of their CSR investment on social and economic performance of the companies. To facilitate the purpose of effective flow of discussion the chapter is divided into six sections.

3.1 Section A: Gives an overview of Apparel Industry in India moving down to Tamilnadu.

3.2 Section B: Understanding Ready Made Garments in India and Tamilnadu

3.3 Section C: Explores the issues of SMEs in Apparel Industry.

3.4 Section D: Identifies the benefits to Apparel companies for engaging with CSR.

3.5 Section E: Discusses the management perception in SMEs in Apparel on the effect of investment in CSR.
3.1 SECTION A

INTRODUCTION

Readymade garment industry has occupied a unique place in the industrial scenario of our country by generating substantial export earnings and creating lot of employment. Its contribution to industrial production, employment and export earnings is very significant. This industry provides one of the basic necessities of life. The employment provided by it is a source of livelihood for millions of people. It also provides maximum employment with minimum capital investment. Since this industry is highly labour-intensive, it is ideally suited to Indian condition.

OVERVIEW OF INDIAN TEXTILE INDUSTRY AND EXPORT PERFORMANCE

R.K.Gupta (2006) India is replete with natural resources like cotton, jute and silk. Indian products were known for fine designing, embellishment and craft. Besides this the ancient Indian fabric designers and weavers were one of the best in the world (Reference: The Dhaka Muslin-one of finest and light weight weaving that could pass through a finger ring)

Indian textile Industry is also largest employer (after agriculture) of workers directly and indirectly. Due to ethnic diversity and cultural multiplicity besides racial traces in India's hinterland, several designs and variety of costumes and apparels are used that enrich Indian textile garments design possibilities.
Industry plays significant role by contribution of 4% of GDP and 20% to the Indian exports kitty. Indian textile Industry is completely self reliant in the entire value-chain from cotton crop to Hi-fashion garment making.

India has around 40 Million Spindles (23% of world) and 0.5 million rotors (6% of world capacity). India has 1.8 Million Shuttle looms (45% of world capacity), 0.02 Million shuttle less looms (3% of world capacity) and 3.90 Million handlooms (85 % of world capacity). The Industry is highly fragmented except for spinning sub-sector and thus manually intensive. This is obvious from data of weaving sector mentioned above. Cotton products are stronghold of India.

The Indian textile Industry had been plagued by obsolescence, labor problems, raw material vagaries and lack of modernization including that of spindles. The post fabric stage processing technology has also been lagging but is now coming up fast with infusion of textile processing technology. SSI firms perform the majority of weaving and processing operations. The level of weaving technology is of lower order and knitting units do not possess capacity to perform dyeing, processing and finishing to international standards.

The apparel sector has over 25000 domestic manufacturers, 48,000 fabricators and around 4000 manufacturers/exporters. Over 80% of these are
small operations (less than 20 machines) and are proprietorship or partnership firms. In 2001, GOI de-notified RMG products from SSI reservation list for obvious reasons. As stated before, cotton apparels constitute major part of India's apparel exports, although cotton appears to be out-thing in current global markets with share declining from 50% in 1982 to 38% in 2003. The export product mix of India is quite interesting with low and mid priced products and also high fashion items.

India processed 1900 million kgs of jute fiber at 1\textsuperscript{st} rank, 15 million kgs of raw silk at 2\textsuperscript{nd} rank, 2700 Million Kgs of cotton fiber at 3\textsuperscript{rd} rank, over 2000 million Kgs of man made fiber at 5\textsuperscript{th} rank, and finally 51 million kgs of wool at 8\textsuperscript{th} Rank in Global markets.

After de-throttling of industry under new Textile policy of 1985 man made fiber industry has seen investments and scale economies coming up. India imports silk, fine quality wool and rags to feed its organized sector as well as shoddy yarn units. Most of woolen capacity is concentrated in North India.

THE KEY ADVANTAGES OF THE INDIAN INDUSTRY

- India is the third largest producer of cotton with the largest area under cotton cultivation in the world. It has an edge in low cost cotton sourcing compared to other countries.
- Average wage rates in India are 50-60 per cent lower than that in developed countries, thus enabling India to benefit from global outsourcing trends in labor intensive businesses such as garments and home textiles.

- Design and fashion capabilities are key strengths that will enable Indian players to strengthen their relationships with global retailers and score over their Chinese competitors.

- Production facilities are available across the textile value chain, from spinning to garments manufacturing. The industry is investing in technology and increasing its capacities, which should prove a major asset in the years to come.

- India has gathered experience in terms of working with global brands and this should benefit Indian vendors.

Companies with integrated capacities, such as Arvind Mills and Vardhman Spinning, capable of delivering large volumes are likely to gain. Alternatively, market leaders in niche segments, such as Aloki Industries, Abhishek Industries and Welspun India (both in cotton pile towels), may also emerge as gainers. Some of the largest garment exporters, such as Orient Craft and Gokuldas Exports, which supply to international retailers, could gain considerably.
Jatinder S. Bedi (2009), The textiles and clothing industry occupies a very important place in the Indian economy in terms of its share in employment, value added and export earnings. But the industry is dominated by small, fragmented and non-integrated units with the exception of spinning sector. The spinning segments production is dominated by large units and has been able to undergo significant modernization at a rapid rate. In recent years, a trend towards consolidation and integration with the value chain upstream along with modernization in segments like garments has been witnessed. The ginning, weaving and processing sectors, on the other hand, lags behind as regards modernisation. Within the weaving sector, increasing dominance of the powerloom sector is being witnessed over the years. The garments sector is undergoing significant expansion and modernization process in recent years and this opportunity has been created through de-reservation. De-reservation of garment sector, introduction of TUFS, lowering of customs duties and MFA phase out are the major policy changes responsible for bringing these changes in the environment.

AN INSIGHT INTO THE INDIAN GARMENT EXPORT AND IMPORT INDUSTRY

Jayden William (2011) Export Import activities in our country have gradually improved over the last decade. According to the latest statistics, a considerable percentage of Indian population is involved in garment export import business. Even in the context of the International garment industry,
garment manufacturers and garment exporters India have earned a good reputation for themselves. In the International market, Indian textile and garment Industry is known to be the most lucrative one offering good quality products at very reasonable prices.

Small scale industry and cottage industry skilled craftsmen and artisans from India are popular all over the world for their hand made products that picture the diversity and ethnicity of our culture and traditions. Due to this reason, the small scale industry and the cottage industries functioning in our country are now coming forward and exporting huge quantities of knitted garments to foreign countries. Handmade products ranging from fashionable clothing accessories, bed linen, table linen, curtains, toilet and Kitchen linen, carpets, and floor coverings almost every piece of Indian Handicraft is exported to numerous garment importers throughout the world.

Large Scale Industry Indian textile and fashion garment originating from the large scale industrial set ups are also exported in huge quantities by garment exporters India. A detailed study of the Indian garment export import statistics, provided by the Indian database companies like Info drive India, reveals that all possible varieties of machine knitted fabric and garment is exported from India every year. Different variants of fabric exclusively imported from India include 100% cotton, 100% viscose, rayon powerloom,
exclusive woven shirts (Readymade Garments Made from Polyester Viscose Fabric), polyester georgette, woven dyed poly viscose cotton embroidered, and so on. All these variants of textile for readymade garment are extensively bought by garment importers from Sweden, Jordan, France, Italy, USA, UK, Saudi Arabia, Canada, Malaysia, Nigeria, Singapore, United Arab Emirates, Sri Lanka, Finland, Sudan, Ethiopia, Bangladesh, Switzerland, etc.

**REASONS BEHINDS THE DEVELOPMENT OF GARMENT INDUSTRY IN TERMS OF EXPORT IMPORT SCENARIOS**

Garment importers from all across the world prefer to trade with garment exporters in India owing to the numerous benefits they get by purchasing our products. Following are some of the fundamental reasons behind the rise of Indian textile Industry and its fame amongst the traders of the European countries:

1. Ever since Independence, the country’s government authorities have passed several laws for the development of our country’s very own garment industry. Reforming the policies of foreign trade laws has also boosted the growth of this sector.

2. Due to the effects of globalization and technology transfer, several advanced and hi-tech production methods and machinery has been introduced. This has led to an overall development of the industry.
3. The easy availability of import export data has boosted the country’s garment export import activities that have ultimately added to the growth international traders. This has in turn added value to the Indian garment industry.

Kathuria, Lalit Mohan Singh and Raghbir (2008) Indian apparel exporters have to be efficient in handling complex designs in smaller lots in this scenario of intense competition. As a part of competitive strategy, apparel firms will have to gain ability to create new designs not only for samples but also for bulk production. It has become the need of the hour that our procedures become simpler and global practices be adopted in the procedures concerning port handling, custom clearances, and transport arrangements. Efforts of the Indian apparel export industry have to be complimented by the Government of India through speedy implementation of labour reforms, infrastructure improvement in the form of rail and road networks, port infrastructure, power availability and differential rates of electric power in favour of exporters, and skill upgradation through opening up of more training institutes. Cost advantage, good product quality, supplier reliability, and effective delivery mechanism are becoming the qualifying criteria whereas for winning orders, exporters will have to gain competitiveness on parameters like speed, flexibility in value chain, consistency in supplies, design development, productivity, corporate social responsibility, and building relationship.
3.2 SECTION B

THE RMG INDUSTRY

AN OVERVIEW

Industry has grown rapidly since early ‘90s

- Value-adds to fabrics around 40%, through design and marketing
- Makes up 15% of country’s export earnings
- Concentrated in unorganised sector - employs around 2.5 million workers

Table 3.1: Category wise brands

<table>
<thead>
<tr>
<th>Category</th>
<th>Range</th>
<th>Some Brands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal Wear</td>
<td>Suits, Trousers, Shirts,</td>
<td>Allen Solly, Arrow, Cambridge, Colour Plus, Louis Philippe,</td>
</tr>
<tr>
<td></td>
<td>Jackets Blazers, Neckties….</td>
<td>Peter England, Park Avenue, Reid &amp; Taylor, San Frisco, Van</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Heusen</td>
</tr>
<tr>
<td>Casual Wear</td>
<td>Shirts, Trousers, Jeans,</td>
<td>Lee, Flying Machines, Parx, Weekender, Wear-house, Benetton</td>
</tr>
<tr>
<td></td>
<td>Tee Shirts Shorts</td>
<td></td>
</tr>
<tr>
<td>Kids wear</td>
<td>Shirts, Shorts, Frocks,</td>
<td>Lee, Ruf ‘n’ Tuf, Wear-house, Weekender</td>
</tr>
<tr>
<td></td>
<td>Skirts, Jeans…</td>
<td></td>
</tr>
<tr>
<td>Ladies Wear</td>
<td>Skirts, Tops, Salwar</td>
<td>No national brands</td>
</tr>
<tr>
<td></td>
<td>Kameez, Sarees</td>
<td></td>
</tr>
<tr>
<td>Under garments</td>
<td>Vests, Briefs, T-Shirts, etc.</td>
<td>Byford, Crocodile, Jockey, Park Avenue, Tantex, VIP, Jockey,..</td>
</tr>
<tr>
<td>Knitwear</td>
<td></td>
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Table 3.2 RMG Industry : Market

- Annual output 1998-99: Rs. 24,235 crs (US $ 5636 mln), at an estimated 10980 million pieces

- Cotton garments had a growth around 2.5% while blended garments had a higher rate around 9%

Raw Material

- Key input: Cotton - available abundantly in the country (80% of market is for cotton garments).

- High-quality fabrics also imported under advance licencing scheme.

Industry Structure

- Highly fragmented; Market dominated by unorganised sector (>60%) over 50,000 units in operation: each has typically 15-20 machines

- Smaller players also active in local and overseas markets

- Larger players positioned in branded segments - Arvind Mills, Madura Coats, J K Synthetics.
Concentration of units in Tirupur (Tamil Nadu) - major centre for cotton and knitted garments,(exports and domestic); also at Bangalore, Chennai Mumbai and N Delhi

**RMG INDUSTRY : EXPORTS**

- RMG an export oriented industry

- These exports are either done by units on their own or through export houses

- India’s RMG exports are around Rs. 22650 crs US $ 5267 mln), as against the global demand of over Rs. 688,000 crs. (US $ 160,000 millions) In the world market, India’s share (3%); China (15%), Hongkong (13%) and Italy (8%); other competitors - Pakistan, Indonesia, Thailand, Egypt

- Labour cost in India is very cheap; Per hour rates :India : US $ 0.72; Hong Kong - US$ 3.05, Japan - US$ 13.96, Singapore - US$ 2.83

- Focus on exports aided by governmental policies; the latest textile policy announced in Nov ‘99 encourages units to enter non-quota markets.

- Indian exports are mainly to quota countries (> 60%) - USA (> 20%), Germany, UK, France, Canada Non-Quota markets : CIS, Gulf, Japan, Switzerland and Australia
READYMADE GARMENTS : WTO IMPLICATIONS

- Upto 1995, textile trade regulated by Multi Fibre Agreement (MFA) - enabled importing countries(mainly Western) to impose quota restrictions on exports from developing countries
- Quotas imposed on selective basis - India and Pakistan clubbed together with lower quota, Srilanka marginally higher quota, Bangladesh with no quota and so on
- With the formation of World Trade (WTO) in January 1995, MFA replaced by Agreement on Textiles and clothing (ATC); MFA to be phased out over a 10-year period from 1995
- Scope for increased market access during the transition period of 10 - years for products under quota system
- Market size of quota-imposing countries large - exports could become more competitive.
- Indian exporters stand to gain with the opening up of markets hitherto restricted.

READYMADE GARMENTS : MARKET CHARACTERISTICS

Key Success Factors

- Branding & sub branding
- Offering variety : current trends and patterns
- Coping with change in fashion quickly
- Quality standards - in material, stitching, cuts
- Moving up the value-chain - ensuring better returns
- Export market - Sticking to delivery schedules, honouring quality and quantity commitments, ability to interpret fashion changes

**Market Characteristics**

- Highly dynamic - designs changing frequently
- Brand consciousness catching on-focus on quality, finish; price secondary a factor.
- Increasing competition in the branded segment.

**READY MADE GARMENTS IN INDIA**

**Indian Garment Exporters.com, May (2011),** The garments industry in India is one of the best in the world. An extremely well organized sector, garment manufacturers, exporters, suppliers, stockists and wholesalers are the gateway to an extremely enterprising clothing and apparel industry in India. There are numerous garments exporters, garments manufacturers; readymade garments exporters etc. both in the small scale as well as large scale.

During April-December 1999-2000, textile exports were recorded as US $ 9735.2 million (Rs.440179.4 million), of which ready made garments
comprised nearly 40%. Interestingly, almost ¼ of India's total exports goes to the USA.

Indian readymade garments and textiles are extremely popular the world over. In fact, exports of readymade garments registered a 6.4% increase in dollar terms and an 11.6% increase in rupee terms during the period April-December 1999-2000, despite a sluggish growth in income both at home and abroad. Indian Garment export growth during April-June 1998 for woolen ready made garments was a phenomenal 150%, for ready made garments made of silk it was 58%, and for other ready made garments it was 39%, in dollar terms.

Today, garments exports from India have made inroads into the international market for their durability, quality and beauty. One of the reasons for the economical pricing of India's ready made garments and apparels is the availability of highly skilled, cheap labor in the country. The superiority of India's Garment Industry has been acknowledged in the National Textile Policy (NTP) of India 2000. Having realized the tremendous growth potential of this sector there is a proposal in the NTP for taking the Indian Garment Industry out of the SSI reservation list.

**READY MADE GARMENTS: TAMIL NADU’S NEW GROWTH SECTOR**

Meenu Tiwari (2000) – in her paper - The Challenge of reform talks how Garment production has grown rapidly in Tamil Nadu over the past five
years, and is one of the fastest growing areas of the region’s textile value chain. This growth has been fueled by increased demand from overseas buyers after India’s economic liberalization in the early 1990s and growth in demand from some domestic segments for ready-made garments. Tamil Nadu—especially the region around Chennai and the Madras Export Processing Zone—is one of the country’s growing hubs of garment production along with Mumbai, Delhi, Bangalore and Calcutta. But who exactly is investing in the garment sector, and where is the capital coming from?

Three sets of actors are investing in garments in Tamil Nadu: The first is

(a) Tamil Nadu based spinning mills, who are investing their surplus from the spinning boom of the early 1990s into higher-value added segments such as garments (as we saw in the previous example). Even though firms are still picking their way across the segments from yarn to garments, a growing number of mills have begun to clearly see the merits of diversifying across the textile value chain. This integration, they say, brings with it information that helps cut costs; and it is a way to tap into a higher-return, long-run segment of the textile value chain. “You do well today by integrating across segments. You get to know pricing and costs
across segments (e.g., prices and costs of yarn as well as fabric, and also garments) [that you would not know if you focused on one segment]” (interview, October 2000). This helps cut costs—by 4-5% in the case of the interviewed firm. Secondarily, it provides mills with an avenue for higher long-term returns. After the de-licensing of textiles in the late 1980s, the rush of surplus capacity into spinning led many leading mills to conclude that “in the long run the spinning sector was too open—anyone could come in, there were no barriers [to entry]” (Interview, 2000). Garments were a way to diversify out of a crowded sector.

(b) A second set of investors are new, first time players—small and medium in size—who are taking advantage of the government’s erstwhile policy of reserving garments for exclusive production by small firms to get into a new and potentially lucrative market.

(c) But, it was a surprise to find that a significant amount of the capital that is being invested in Tamil Nadu’s garment industry is coming from outside the state. This capital is being brought in by outside entrepreneurs who have moved to Tamil Nadu from other parts of the country specifically to enter the garments business.

Some of the capital in the garment sector is from overseas, such as the Hong-Kong based 100% equity firms in the Madras Export Processing
Zone, and IKEA’s new investments in made-ups near Karur. But many of the investors are from other states: Mumbai, Gujarat, and some even from the North. Thus, while Tamil Nadu’s mill sector is old, local capital. The garment sector, as it is emerging is much more eclectic, energetic. These firms also tend to have more vibrant contacts with multiple markets, and this is bringing in new knowledge as the following example shows.

**CHENNAI CAPITAL OF TAMILNADU IS THE PREFERRED DESTINATION FOR BUYING OFFICES AS INDUSTRY GROWS MULTI-PRODUCT**

Fashion from inside out  Feb 2010  Paris le Bourget France: For a country that has grown tremendously on inherent strengths, the division of manufacturing excellence into specialized regions is a natural progression of growth. Delhi and Mumbai are the traditional bases for apparel exports, mainly because of the fact that both cities enjoyed the advantage of international exposure much before other cities with airports and other facilities that support global trade. However, other cities have come up strongly today and these two traditional centres no longer control apparel exports from the country. One of the newest growing centres is Chennai, which has moved much beyond the image of ‘shirt maker’.

With Bangalore now bursting at the seams, both exporters and buyers are looking at options in the southern part of the country. Chennai, with its many attractive advantages is a de facto choice
Chennai is globally known as an exporter of woven garments with about 2,400 registered manufacturing companies.

**FASHION GARMENTS ARE SLOWLY BUT STEADILY ENTERING THE CHENNAI INDUSTRY**

Earlier, buying offices were the forte of Delhi with some big buyers in Mumbai and Bangalore. This was mostly because the trade was also centered around the cities but in the last few years, Chennai has attracted an increased number of buying offices and many more are scouting around for real estate to set-up base. S.Oliver, Ben Sherman, French Connection, Columbia Sportswear, Levis, TMS Fashions, Austin Group are some of the offices in Chennai and the industry grapevine has it that Kohl’s, Tom Tailor, and Timberland are also eying Chennai as the sourcing base for India operations. All major buying operations like Triburg, Li & Fung, GAP also have branch offices in the city to monitor growth and production.

Najeeb Sayed, GM Merchandising, The TMS Group, which set-up office nearly four years ago to source for Esprit (edc) and today does approximately $8 mn worth of sourcing from the country says that Chennai has untapped potential, which is waiting to be realized. Among the many advantages that the buying offices find in Chennai, the obvious and most important is the flourishing export manufacturing industry, which consists not only of expanding Chennai manufacturers but also factories from the North who want to take advantage of the natural port in the city. Modelama, Matrix and Pearl Global are factories from Delhi who are looking at the Chennai advantage.
Elspeth Pereira, Country Manager of the newly established Ben Sherman buying office also remarks that with lead-times shrinking, every possible way of cutting down on the supply chain matrix is critical to global operations with Mr. Najeeb adding on that it takes almost two days from Bangalore and nearly seven days from Delhi to reach the port; having facilities in the city means easy access in both import of fabric and trims and export of final products. In fact, proximity to the port is one of the major reasons for growing sourcing especially since fabrics from Taiwan and China are increasingly being used for international markets.

With the coming up of NIFT in the last four years and better communication facilities, the awareness of global products has gripped the city and it is much easier to find skilled and professional staff for buying operations.

The cost of operations is also very critical to the decision of setting up offices in Chennai. In a city like Delhi, offices are slowly moving outside the city bounds due to space constraints and the pressure of keeping employees motivated is becoming difficult.

Travel times are killing and much valuable time is spend moving from factories to office to home. An average office-goer in Chennai travels not more than 20-25 minutes to reach his work site.

These seemingly small factors add up not only to lead-time but also cost. In fact, besides cost saving on operations the expenses incurred in
employing professionals is also much less. Further, professionals are less inclined to jump jobs and are more committed to the organisations. According to buying offices, an employee remains with the company at least for 3-4 years, while in established metros, cases of professionals switching jobs in just a few months is not unknown.

Culturally, the city is hardworking and buying offices find the level of professionalism much higher than other cities. The quality of life is better and the cost of living is also much less, making it much easier to inspire and motivate employees. However a disadvantage of this easily satisfied city is the fact that there is very little to offer the buying teams from headquarters in terms of entertainment and nightlife. The city closes shutters early and as one buyer said ‘all work and no play makes ..........

Traditional strengths also make Chennai a good choice for the garment industry. Known as the shirt makers of the country, Chennai garment manufacturers have enjoyed the advantage of a strong powerloom / autoloom sector in the region, which have added value to the industry. The vibrant fabrics from these looms have contributed hugely to the success of the garment industry. Both manufacturers and buyers can control fabric production and R&D from close quarters. Even the powerloom/autoloom sectors realize the growing potential and efforts are made to improve upon working systems and raw material used to meet the growing demand as per international standards.
Another dimension which has attracted buyers to this upcoming city, is the increased product range and diversity that the city can offer. Flexibility is a key word in Chennai and all exporters are moving beyond shirts, among the upcoming product categories are bottoms and structured jackets. Many companies are now investing in units for bottoms and knits are also on the agenda for expansion. Even buyers like French Connection, which are fashion dominated, find Chennai suitable ground, as exporters are willing to move an extra mile to keep the buyers satisfied. All buyers agree that management is more open to new ideas and are less aggressive in approach to changes, which come about at short notice when doing fashion garments.

Today knits, mill-made, prints and stretch poplin are easily available in the city; in fact, almost all products that were earlier only available in Mumbai and Delhi are being sourced from the city. It cannot be denied that the initial reason for many buyers to open office in Chennai is the strong base in shirts. For Levis, the strength in bottoms is the pull. For others, it is the ability to control both Bangalore and Tirupur from Chennai that holds the key. Whatever the initial reason, the experience has been pleasant. Those that are just setting up base have their strategies in place and very confident in their choice.
3.3 SECTION C

ISSUES IN APPAREL INDUSTRIES

What is MFA?

Sharma, Manisha, Prashaant, Anu (2009) MFA is an agreement through which developing countries of the world were restricted to export their textile products beyond a certain level to the markets of developed nations. Thus, the motive behind this was to provide a window of opportunity for developed and underdeveloped economies or to save the interest of the domestic textile industry of the European Union and the US. According to MFA developing nations trading in textile and clothing were assigned a quota for exporting textile products to developed nations. This agreement was implemented in order to safeguard the textile industry of these nations to provide breathing time to textile industries of these countries to make structural readjustments.

MFA was to initially operate for a limited period of four years and was primarily meant to provide breathing time to textile industries of the developed countries to make structural readjustments. However, the quota regime of MFA got extended for varying periods till 1994. The Agreement on Textile and Clothing (ATC) came into force in January 1995 and replaced the multi-fibre Agreement. ATC is a transitory regime between the MFA and the integration of trading in textiles and clothing in the multilateral trading system. The ATC provided for a stage-wise integration process to be completed within a period of ten years (1995-2004) and when it expired on 1
January 2005 there was no longer the need for an agreement devoted solely for textile products. 1, January 2005, marked the end of a 10-year phase-out process of the quotas under the World Trade Organization. The abolition of quotas on specified products was a gradual process which phased out in four stages as mentioned below:

a) 16 per cent on January 1995,

b) 17 per cent on January 1998,

c) 18 per cent on January 2000,

d) remaining 49 per cent on the final day of the transition period, i.e. 1 January 2005.

It was in this era when Multi-Fiber Agreement (MFA) was in existence that Indian textile industry managed to penetrate its roots deep in the international market.

**Khanna (1991)** reports that studies have pointed out that quota restrictions do constrain Indian garment exports. It is generally recognized that the removal of quota restrictions would lead to an expansion of export markets for Indian garment producers. On the other hand, the lower labour productivity of Indian labour observed in an earlier section, as compared to some of its competing nations like China, Indonesia and Bangladesh, may threaten India’s competitiveness and hence lead to a decline in exports. Since India seemingly has an edge in the semi-fashion segment where economies of
scope rather than scale matter, it is possible that they may continue to retain or expand their shares in such markets. However, respondents from the industry and other secondary sources do indicate an anticipated threat from China even in this segment (Manager, Export firm, interview by the author in Tiruppur, dated 5/8/2001).

M. Vijayabasker provides a framework outline to understand the other issues under consideration in Garment Industry, delineating the major characteristics and examining its position in the world garment industry of the Indian garment industry, focusing on few important dimensions and its labour market in particular. The constraints and opportunities are also highlighted.

OPPORTUNITIES AFTER MFA QUOTA REMOVAL

1 Characteristics of Indian Garment Sector:

Changes in export composition Garment exports as a share of manufactured exports from India rose from 0.3 percent in 1960/61 to 17 percent in 1992/93 (Chatterji and Mohan 1993; Exim Bank of India 1995, 5). Chatterji and Mohan distinguish two phases of this growth based on composition of garments exported, their destination and demand vagaries. The first one, during the late 1960s and early 1970s, was led by a tremendous surge in demand for handloom garments due to fashion requirements in the US and Europe. The second phase, according to Chatterji and Mohan (1993),
begins from 1983/84 and has been marked by a relatively more steady growth.

2. Relative Performance

Indian garment exports do not compare well with many other peripheral economies. Economies like Thailand, Indonesia, Bangladesh, Mauritius, Pakistan and Sri Lanka have achieved higher growth rates during this period as compared to that of India (Exim Bank of India 1995, 8; Ramaswamy and Gereffi 1998, 124).

3. Government Policies and regulations

Sectors like the garments were reserved for firms that fall under the ‘small scale’ sector. Firms with a capital investment limit of less than Rs. Three Crore are categorised as ‘small’ and any firm with greater investment need to commit to export more than 75 percent of its output. Since no time frame is provided for this requirement, it is said that big firms do not will to risk entry into this sector (Chatterji and Mohan 1993, M117). Further, the small firms too would be unable to upgrade their technology, as this would invite a movement beyond the capital ceiling fixed for the small-scale sector.5As a result, the Indian garment sector is found to consist of smaller firms as compared to other exporting peripheral nations, thereby placing limits on the sector’s ability to compete on the basis of productivity (M116). Moreover, given the importance of market information in this industry,
traders exert a dominant influence in the export market. Out of 10,000 exporters registered with AEPC, only 250 are manufacturer exporters (M114). As a result, incentives to improve production techniques have not been forthcoming.

It is therefore said that Indian exports depend more on fashion changes than on any inherent competitive strength based on quality or productivity (Chatterji and Mohan 1993). Despite these limitations, Ramaswamy and Gereffi (1998) find that India has improved its market share in 9 out of its 17 main product categories (129) and further that, there has been an increase in the unit values realised. This appears to have been possible due to the advantages derived from such a decentralised and networked production structure, which enable firms to compete in low-volume segments with greater fashion content as compared to say, China or Bangladesh where the minimum efficient scale of operation is much higher. 6In fact, Kathuria and Martin (2000), quoting Khanna (1990), cite that all successful exporting firms subcontract much less than India. While Indian firms subcontract 74 percent of their output, countries do not subcontract more than 36 percent of their output in all other cases. Further, they also contend that investment of Indian firms in processing techniques is very low when compared to other exporting countries.

Thus, while government policies have constrained garment producers from competing on the basis of scale economies and improved labour
productivity, they have fostered a structure, albeit accidentally, that facilitates production for a more flexible product market. However, with the removal of reservation for the small-scale sector, possibilities of entry into large-scale production and benefiting from the scale of economy, have been facilitated. Further, with a good domestic production base in cotton fibre and lack of import restrictions to upgrade process techniques, Indian garment producers may venture to compete in the mass market as well. Nevertheless, given the strong competition in this segment and absence of a first-mover advantage, it may still be in the ‘flexible’ market segment that Indian producers retain their advantage in the post-MFA regime. Simultaneously, it also opens up possibilities for the latter segment to upgrade its quality by taking advantage of availability of new processes.

4. Growing feminization of the workforce

The important observation is the phenomenal growth in the use of female labour. From a low of around 21 percent in 1985, the proportion of female labour in the total workforce has increased to 33.8 percent.

5. Segmented labour markets

With growing no of women being employed it is found that they are predominantly in the lesser paying jobs. The wage rates provide only the average rates, and actual rates are found to be much lower in firms located on the urban fringes. More women are employed in such firms as they need to be
closer home to attend to household work as well. Further, women workers do not undertake jobs in ancillary firms like fabrication units as it would involve working night shifts, which once again undermines their access to relatively better paying jobs. Thus, the structural location of women in a patriarchal household too reinforces the segmentation process. In fact, it may be even argued that jobs that exclusively employ women or children are lesser paying precisely because women and children are employed, since their wages are seen to only supplement the family income.

6. Casualisation of labour

With movement to the global market, demand has become more seasonal, uncertain and flexible. It is therefore imperative for capital to flexibilise the workforce to adjust the quantum of labour employed to production requirements. For most firms in Tiruppur, production ceases for nearly four months in a year and hence, it is expensive for firms to maintain a permanent workforce. Along with the movement to the export market, there has been a growing casualisation of the workforce, with recruitment ‘just-in-time’. Workers, especially tailors who constitute bulk of the labour force, are recruited indirectly through labour contractors who would bring in labour whenever required. These labour ‘gangs’ under the contractor move from firm to firm according to employment availability. As a result, workers find employment in the industry only for eight months in a year. On the other
hand, workers employed in firms catering to the domestic market are recruited directly and employed on a permanent basis. Given the uncertain employment prospects, households of the workers are forced to send more than one member of the household to work in the industry so as to reduce the risk of inadequate income due to uncertain employment.

This casualisation of the labour force also precludes them from bargaining for social security provisions that had been fought for and obtained through trade union struggles in the early 1980s.

7. Work intensity and conditions of work

Under the Indian Factories Act of 1948, and the Shops and Establishment Act, worker sought not work for more than 48 hours per week. However, in Tirupur, such regular and optimal work hours are found only in firms catering to the domestic market. The movement to the export market has rendered the need for a labour force willing to work for long hours. Given the importance of sticking to delivery schedules, workers during peak season are found to work intensively for lengthy periods. In tailoring units, workers including child workers, tend to work for 36 hours at a stretch, and then go home for a short break, only to return to work the following day. On an average during peak season, workers in finishing firms, especially tailors, work for a minimum of 10 hours, six days a week. Working for three or four continuous shifts are however quite common.
It is said that the turnover time, i.e., the time taken between the placement of an order with an exporter and the arrival of garments on the sellers’ premises, has come down overtime and this squeeze on time available to complete orders subject workers to such intense work hours. And importantly, such intense work hours alternate with bouts of unemployment during which workers are engaged in search for employment. A study finds that the high work intensity and the cotton dust permeating the town has led to serious ailments among workers including children (cited in John 1998). In fact, over 60 percent of child workers reported ill health that included mouth ulcers, respiratory problems, stomach-ache, giddiness, etc.

Apart from such effects of long work hours, work also poses serious hazards due to inadvertent slipping of fingers or hands or dresses into the stitching machine. An incident in point is the recent death of a child worker. While she purportedly worked in a unit that would fall under the Factories Act, the accident however took place in a neighbouring unit run by the owner’s son which was not registered. This unit functioned as an extended production unit of the former firm and worked on the excess orders of the parent firm passed on to this unit to overcome capacity constraints. Hence, legal redressal could not be sought (John 1998, 9).
8. Declining unionisation

Working hours have increased considerably as discussed earlier. Given the high fragmentation of production and casualisation of labour, workers increasingly fall out side the ambit of seeking legal redressal. In the course of interviews with trade union officials, everyone concurred that though they have a significant role to play, in recent years their effectiveness has been undermined due to changes in nature of the product market and the attendant changes in production organization. Demand being seasonal and labour status ‘casual’, employment is available only for six to eight months a year. On the other hand, during peak season, the need to stick to delivery schedules forces labour through long work hours. This insecure employment for which ‘local’ capital is less responsible prevents trade unions from demanding any kind of social welfare and employment security measures from producers. Further, since employment is only seasonal, workers do not have an incentive to organize themselves during peak season as they need to work long hours to compensate for offseason unemployment. Another factor that has rendered worker mobilisation difficult is the large scale use of internal migrant labour, especially that of temporary migrant workers.

9. Pressure for labour flexibility

India’s workforce appears to be less ‘flexible’ and enjoy a greater bargaining strength. There is a need for a more flexible workforce which portends a serious threat to working conditions of the garment workers.
According to Prof R.K.Gupta in 2009 the Indian textile Industry had been plagued by obsolescence, labor problems, raw material vagaries and lack of modernization including that of spindles. The post fabric stage processing technology has also been lagging but is now coming up fast with infusion of textile processing technology. SSI firms perform the majority of weaving and processing operations. The level of weaving technology is of lower order and knitting units don't possess capacity to perform dyeing, processing and finishing to international standards.

**Future challenges for the Garment Sector**

Changes in international sourcing environment are posing challenges for the Indian suppliers. These challenges are mainly concerned with more issues.

- Competing sourcing destinations are now being assessed in the light of new developments related to enhanced concerns for the workers and workplace.

- Increasing awareness and acceptance of such standards will also ensure in the future that similar demands have started coming from domestic markets too.

- For fulfilling the desired objectives, awareness and support for producers and importers must be ensured.
In recent business environment, all major international retailers such as GAP, Nike, levis, H&M, Sara Lee, Jockey International and VF Corporation have started participating in the improvement of working conditions in the garment factories from which they source and many of such initiatives have resulted in improvements in the working conditions of the workers as the issues of improving on the job working conditions are being addressed, companies are realizing the importance of going beyond the factory and participating in improving the quality of the life of workers.

In India, according to available estimates, there are 58 WARP certifications, 111 SA 8000 and more than 125 AVE audits. Besides these manufacturers are also keeping up with regular monitoring under code of conduct with specific buyers. GAP is working with over 100 factories, compliance for their buyers. It is estimated that exporters with turnover of more than Rs.50 crores exports from the country. Such certifications will enhance the social image of Indian suppliers’ world wide leading to a better market share and higher value realization. Also the companies will be able to improve the relations between their management and work force and create a healthy work environment resulting in higher labour productivity.
3.4 SECTION D

IDENTIFICATION OF BENEFITS TO APPAREL COMPANIES FOR COMPLYING TO CSR

An increasing number of scientific research projects show clear and identifiable benefits, when companies implement CSR measures to produce an overall positive impact on society and environment. CSR represents care for social and environmental issues with a profitable business perspective: the so-called ‘People – Planet – Profit’ philosophy

<table>
<thead>
<tr>
<th>Social (people)</th>
<th>Environmental (planet)</th>
<th>Economical (profit)</th>
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<tbody>
<tr>
<td>Better working conditions and increased workers motivation</td>
<td>Reduced raw materials and energy inputs</td>
<td>Reduced costs on input materials and energy</td>
</tr>
<tr>
<td>Decreased overtime and decreased reworking</td>
<td>Eliminated toxic materials use</td>
<td>Reduced (wastewater) treatment costs</td>
</tr>
<tr>
<td>Increased productivity and increased wages</td>
<td>Reduced quantity and toxicity of emissions and waste (water) outputs</td>
<td>Increased production revenues</td>
</tr>
<tr>
<td>Improved health &amp; safety, less illness and accidents</td>
<td></td>
<td>Better product quality</td>
</tr>
<tr>
<td>Improved (company) image</td>
<td></td>
<td>Enhanced reputation and brand value</td>
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<tr>
<td>Increased ability to attract and retain quality employees</td>
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<td>Increased efficiency and productivity</td>
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<td>Increased sales and customer loyalty</td>
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<td></td>
<td></td>
<td>Attracting and retaining quality investors and business partners</td>
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Figure 3.1: Overview of CSR benefits
More than 100 empirical studies published between 1972 and 2000 have examined the relationship between companies’ socially responsible conduct and financial performance. In these studies, the majority of results (68%) point to a positive relationship between corporate social performance and financial performance.

Other research show that corporations with a public commitment to relying on their ethics code out performed firms that did not by two to three times (Business and Society Review, 1999).

For China for example, several case studies point out the benefits of CSR when it comes to recruitment, staff retention, productivity and overtime reduction. In some factories studied, turnover rates were as high as 10% per month during particular periods of the year and this created huge amounts of uncertainty over production schedules and the ability to meet orders.

**Generally stated, CSR leads to a more beneficial situation in terms of cost saving through improved working conditions, higher loyalty and productivity by workers, saved costs by energy efficiency and cleaner production and better opportunities for international trade and attracting foreign clients and financiers.**

For supply chains for example, a major driver of CSR practices tends to be the big buyers who are keen to protect brands and reputations. CSR is about building relationships with customers. Another driver can be risk
management as there are a range of issues that can threaten the value and future health of the company. These range from the publicity around human rights abuses in the supply chain and to environmental incidents such as pollution incidents or explosions leading to regulatory measures, fines and damage to brand reputation. CSR focuses on managing risk and assuring reputation. CSR enables companies to implement a pro-active social and environmental strategy, which reduce pollution in the production processes by means of preventive measures and increase workers productivity and liability. It’s a structural business strategy that increases the efficiency and the gross returns (profit).

CSR helps companies to: reduce production costs; attract and retain talented staff; use resources more efficiently; produce safer and better products; reduce levels of pollution and risk; comply with many international standards and codes of conduct; link up with international markets and to improve company.

**CSR AND ITS ADVANTAGES**

According to a survey published in 2008 by “Economist Intelligence Links (Canada)”, carried out with 1200 managers from everywhere in the world, and who intended to benefit from the implementation of strategies and policies in the field from the RSE, the six principal greater advantages mentioned were:
• capacity to attract new customers,

• a greater value for the shareholders,

• an increased profitability,

• better capacity to manage the risks,

• products and processes of better quality and,

• capacity to recruit first choice employees.

But there are still other advantages according to us.

• **Purchases** : Better access to the resources, reinforcements of the relations with the suppliers, pride of collaboration

• **Commercial activities** : Better access to capitals, profitability, control of management, pride of your customers

• **Operations** : Reduction of the social and environmental impact of the activities, relation between good vicinity and local associations, better comprehension of the activities of your company

• **Credit** : Safety of the credits, valorization of your company and profit-sharing of the shareholders present and/or future

• **Marketing** : Development of the markets, existing and new, reinforcement of the image of the brands, competitive advantage,
better comprehension of new customer’s needs by a reinforced proximity, information on the markets

- **Institutions**: Influence and recognition, better social and citizen investments, development of new networks and channels of communication, reputation

- **Management**: Better risk managements, put in legal conformity (mandatory) and even more (the RSE being voluntary), strategic development and organizational training (the quicker you are there, the less delay you will have to catch up), innovation

- **Human resources**: Resourcing of management for the questions on hygiene and on safety, development of the human capital, staff safety (when you have what you need…), pride of this one, which will not want to leave any more or will want to come to work for you
3.5 SECTION E

3.5.1 Management Perception of CSR

**Jong Keun Kim (2011)** suggests that companies with excellent CSR activities are likely to show better relationship performance in terms of satisfaction, cooperation and communication. **Akgeyik Teklin (2005)** says that Corporate social responsibility is a commitment by the company to manage its roles in a society in a responsible and sustainable manner. Today there is growing perception among enterprise that sustainable business success and shareholder value cannot be achieved solely through short term profits but by responsible behaviour.

**Sue Shipman (2003)** Report describes that CSR is not simply about funds and expertise companies chose to invest in communities to help resolve social problems, although many companies do make contribution in this way. It is about the integrity with which a company governs itself, fulfills its mission, lives by its values, engages with its stakeholders and measures its impact and publicly reports on its activities. The working group recognized that the central need for CSR practice to be embedded firmly within all business practice so that responsible business progressively becomes just the way they do business in the UK.

The group believes that popularizing CSR, getting more companies, both large and small to take up its practices and informing all sectors in changing practices requires a leap forward.
Lina Song (2008) published a paper that empirically investigates how Chinese executives and managers perceive and interprets corporate social responsibility to what extent firms’ productive characteristics influence managers’ attitudes towards their CSR rating and whether their values in favour of CSR are positively correlated to form view of CSR and a willingness to participate in socially responsible activities. Controlling certain variables, it is found that managers’ orientation is positively correlated with their CSR activities.

Daniel Ofori (2006) His article reports the finding that though there is no legal framework for CSR in Ghana, companies are involved in various CSR activities like support for education, sponsorship of events, and cash donations. Managers and executives believe that it is important for their firms to be socially responsible and to be seen to be behaving ethically. The study also revealed that ethical of both individual managers and their firms are the major factors determining managers’ attitudes is good for corporate reputation.

SUMMARY

From the review of literature reported above gives an overview of Apparel Industry in India covering the importance and growth of the industry in Tamilnadu and in particular the ready made garment in India and in Tamilnadu. Some researchers have even explored the issues of Small and Medium Enterprises in Apparel Industry. The researcher is able to identify the
benefits of Apparel Industry for engaging with CSR compliance through some published papers, articles and reports based on foreign countries research work and from national works. The perception of Management of CSR compliance was gathered from studies on literature review.