

INTERNATIONALIZATION AND THE DUTCH FASHION INDUSTRY

AN INVESTIGATION OF INWARD AND OUTWARD INTERNATIONALIZATION

**EDITED BY LORI DIVITO AND
WILLEM VAN WINDEN**



CREATING TOMORROW

Internationalization and the Dutch Fashion Industry

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COLOPHON

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ISBN: 9789059728349

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School of Economics and Management

Hogeschool van Amsterdam

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The studies in this book were written by students from the International Business School at the University of Applied Sciences Amsterdam and in cooperation with the Knowledge Economy of Amsterdam research center.

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INTRODUCTION: INTERNATIONAL BUSINESS AND ITS MANY FACETS

Lori DiVito

This book is a compilation of three student thesis projects, written by fourth year students from the International Business and Management Studies program at the Amsterdam University of Applied Sciences, International Business School. Their final theses are included in their original form. The only adaptations are the inclusion of this introductory chapter and the concluding chapter.

The overall topic of this book is internationalization. It is hard to deny that organizations are increasingly internationalizing in order to remain competitive, to access growth markets and resources and to reduce operating costs. Understanding international business has become imperative for academic researchers, business managers and policy makers but also for students as they prepare themselves to enter an increasingly complex business environment. The subject of *International Business* can be viewed from many angles and general interest in the subject, as educators, researchers and business professionals, has grown exponentially. A simple Google Scholar search on the keywords “international business” delivers nearly 1 million articles and, as a teacher, I can choose from 258 “international business” textbooks. It is, therefore, necessary in this introductory chapter to provide some background on the subject and to adequately describe the scope and context of the international business that we focused on in the series of studies that follows.

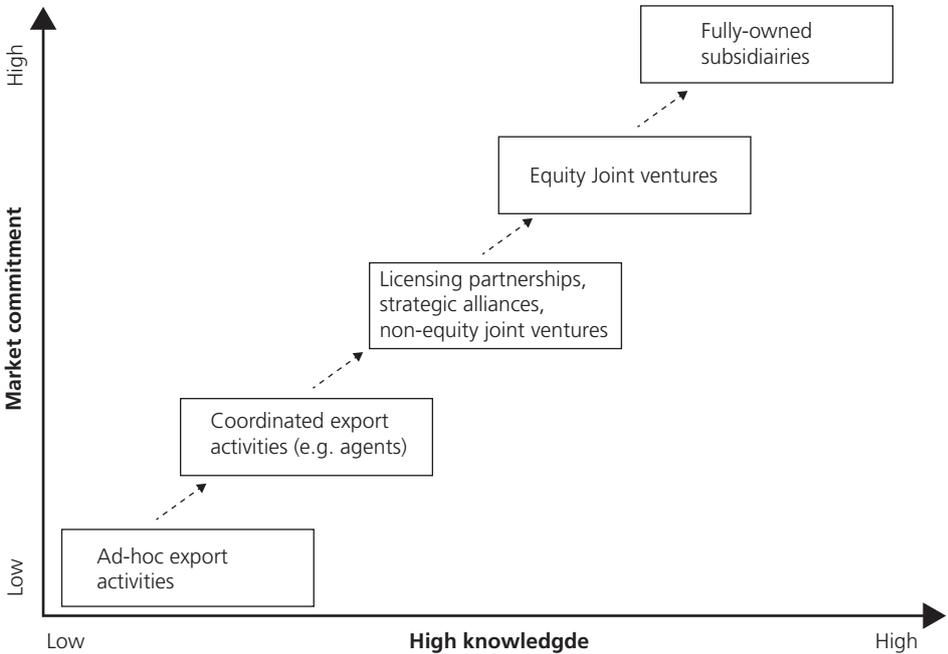
1.1 THE INTERNATIONALIZATION PROCESS AND ITS IMPLICATIONS FOR FIRMS

Largely because of the media attention focused on the advantages and disadvantages of globalization, it is common to think that doing business internationally, across borders, is a recent phenomenon. Nothing could

be farther from truth. Businesses, merchants, traders have been conducting international business for centuries. It's just that recent developments in information technology and transportation have made the extent to which we are globalized unparalleled in comparison to the past. We communicate and move around much more quickly than we did hundreds of years ago, and many businesses can simply not survive without having an international reach.

Some of the early research done on international business focused on understanding how firms become international, the process or steps involved in learning to operate internationally. One of the widely accepted views is the Uppsala model (Johanson and Vahlne, 1977), so called because of the university where the studies were conducted. Simply put, the Uppsala model basically tells us that the ways in which firms internationalize is related to their market knowledge and market commitment of the country where they want to conduct business. So, if firms are new to internationalization, they start by exporting their products. As they gain knowledge and become more experienced in operating internationally, they move along the commitment pendulum and invest either by entering into more committed strategic alliances or by making foreign direct investments (FDI) (e.g. acquisitions, subsidiaries or greenfield investments). Figure 1.1 illustrates how the increasing levels of knowledge and commitment are associated with an increasing level of risk in international operations. The steps also represent the various ways that firms can enter new markets, or market entry modes. Four widely used access strategies (mode to entry) include: export, licensing, joint ventures (weak FDI) and fully owned subsidiaries (strong FDI).

FIGURE 1.1 MODES OF FOREIGN MARKET ENTRY RELATED TO MARKET COMMITMENT AND KNOWLEDGE

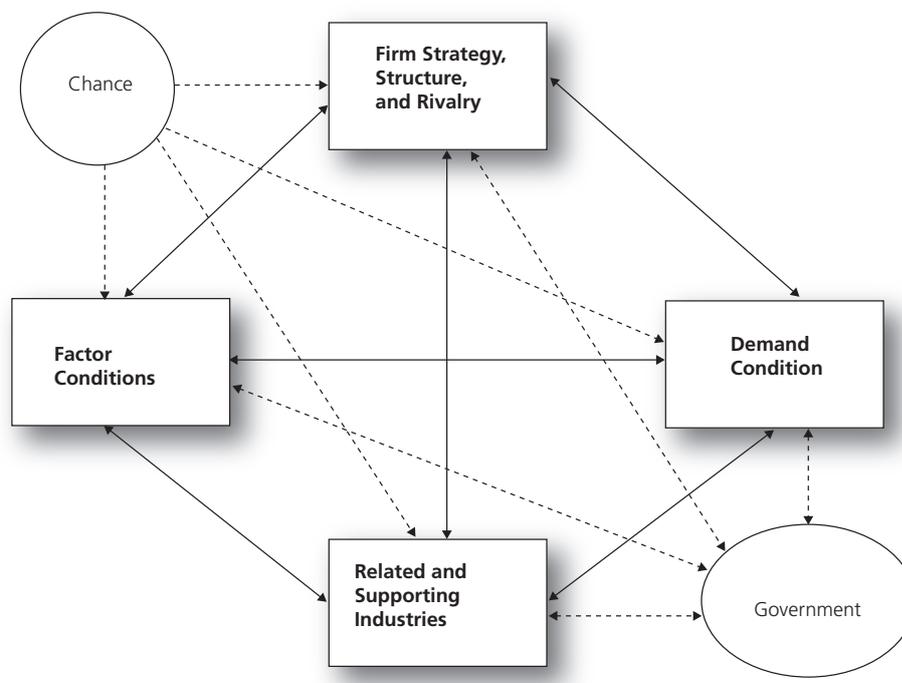


But understanding the steps taken to become international (or to become a multinational enterprise (MNE)) is not enough. In addition to *how*, another strategic concern is *where* to internationalize. The eclectic paradigm, or OLI model, (Dunning, 2000) offers some guidance here. The OLI model stands for: ownership advantages, locational advantages and internalization advantages. This model basically provides a framework for making FDI decisions. It asserts that:

- there are *ownership advantages* if a firm has competitive advantage (relative to the country of investment) from brand equity, specific production techniques or skills, economies of scale, or other internally owned assets, therefore increasing its business growth or volume;
- there are *locational advantages* if the foreign country has immobile, natural (or created) resource endowments (e.g. raw materials, low-wage labor, specialized knowledge or skills) that complement a firm's own competitive advantage;
- there are internalization advantages of coordination and control (e.g. intellectual property protection, distribution control, cost control) when a firm chooses to internalize foreign operations (strong FDI) rather than use 'market' transactions¹ (export, licensing, franchise, supplier agreements).

Another model that is important to understanding the decision of where to internationalize is Michael Porter's Diamond model (Porter, 1990). While the Uppsala model and the OLI model have a view of internationalization that is centered on the firm, Porter's Diamond model takes a broader industry view. It is used to help explain locational benefits and why industrial specialization in cities or regions or nations occurs. In other words, the features of locations that make it attractive for firms to establish or retain operations in certain places. In this sense, it is the location (local, regional or national levels) that offers competitive advantages. There are four determinants of the diamond model: i) firms, their strategy, structure and rivalry ii) related and supporting industries or institutions, iii) demand conditions, a strong home market, and iv) factor conditions, the natural or created resource endowments. Government policy and chance events influence these four different aspects and affect either positively or negatively the competitive advantages of a particular location. Figure 1.2 is an illustration of the diamond model.

FIGURE 1.2 PORTER'S DIAMOND MODEL, ADAPTED FROM *THE COMPETITIVE ADVANTAGE OF NATIONS*



Source: Porter, 1990, pg 127

1 This decision is also referred to as "market vs. hierarchy" or "make vs. buy". "Buying" on the market through transactions is external to the firm whereas "making" is internal and requires (hierarchical) firm structures for coordination and control.

Locational competitive advantages are intrinsically linked to internationalization; recall the L in the OLI model. Influenced by their contextual environment, they evolve and change as, for example, buyers' preferences might change affecting demand conditions, or technological innovation might replace certain skill sets affecting supporting industries, or severe weather (or war, for that matter) might occur affecting access to natural resources. It is easier to understand this by taking two concrete examples: Silicon Valley in California and Detroit, Michigan. Silicon Valley gained ground in the 1970s for having exceptional locational benefits for high-tech entrepreneurs. A high-tech firm or start up from anywhere (e.g. Boston or London) may find it beneficial to have a subsidiary in Silicon Valley in order to access local knowledge and other resources, like specialized venture capital. Governments around the world have tried to replicate the set of systems (or conditions) that create Silicon Valley's locational advantages with varying degrees of success (Casper, 2007). If we look at Detroit, it was an example of exceptional locational benefits for the automotive industry in roughly the first half of the 20th century (Klepper, 2002a). Today, there is not much left of the automotive industry in Detroit, which is the largest US city to declare bankruptcy.² American car companies have long realized the production and cost benefits of moving manufacturing activities overseas to low-wage countries. An interesting question to ask is why Detroit lost its locational advantages whereas Silicon Valley has been able to retain or perhaps renew these advantages (Saxenian, 1994).

In an article in the Harvard Business Review by Pisano and Shih (2009), the authors heed warning that America is losing its 'industrial commons', another way of referring to locational benefits. They claim that after decades of outsourcing America has lost its semi-conductor manufacturing base and with that its competitiveness in that sector. Pisano and Shih are pointing out that outsourcing parts of the value chain that may be less competitive on a global scale (like semi-conductor manufacturing, car manufacturing or even textile manufacturing) makes economic sense, but in the long run destroys crucial industrial commons as it also decreases the demand of certain skills, capital equipment, educational programs, suppliers or service providers (for example) and the commons slowly disappear. Perhaps this is an explanation of why Detroit's locational advantages dissipated.

Within the context that has just been outlined, strategic management scholars have been picking apart the pieces of the internationalization puzzle for decades. There are questions on the firm level in regards to internationalization and firm size, motivations, return on investment, divestment, organizational structure, control, knowledge and learning, value creation and value capture. There are questions on an industry level about complementary resources, development and accessibility of specialized skills and labor, competitive behavior, strategic alliance management. And then there are questions on policy levels, governments and the policies they create and implement that either support or hinder sustainable industrial development. Locational benefits evolve and change accordingly.

1.2 INTERNATIONALIZATION AND SUSTAINABLE COMPETITIVE FIRM CAPABILITIES

Scholars have long espoused that firms should focus more on their core competences or capabilities and outsource secondary activities, doing what they are good at and ultimately becoming more competitive

² July 19th, 2013, BBC News, <http://www.bbc.co.uk/news/world-us-canada-23369573>

(Prahalad and Hamel, 1990). Therefore, firms continuously explore and exploit locational advantages where and when possible. If firms are outsourcing and externalizing value chain activities, this leads to a greater fragmentation of their activities and increases the associated costs of the coordination and control of external partners. Also, there is often between manufacturing and design, development or engineering, a learning loop (Malmberg and Maskell, 2002) that is broken by outsourcing. When these activities are internalized, much can be learned from the manufacturing process that might translate into incremental product innovation (Klepper, 2002b). In outsourcing, firms lose these learning opportunities and potentially jeopardize their innovative capacity. It's this loss on an accumulated industry level that Pisano and Shih refer to. Arguably, firms can foster and commit to learning relationships with their external value chain partners, but as we'll see from the studies in this book, this is a complex and difficult process, especially for small firms.

If knowledge and learning are the building blocks of firm capabilities, a firm's uniqueness is often attributed to its ability to create and integrate new knowledge into the organization (Argote and Ingham, 2000; Grant, 1996; Kale, Dyer, Singh, 2002; Kogut and Zander, 1996; Teece, Pisano and Shuen, 1997). While firms in a specific industry may share similar characteristics due to a similar pool of resources, it is the idiosyncratic patterns of knowledge creation and integration from complex social relationships that set them apart from each other (Nonaka, Toyama and Nagata, 2000). In this way, individuals and their relationships with others inside and outside the organization are an integral component of a firm's competitive advantage (Dyer, Singh, 1998; Lavie, 2007). The potential for a firm to convert knowledge into organizational learning that is used for improving routines, creating new products or changing capabilities will depend greatly on *who* inside and outside the organization is participating in the process of knowledge creation and *how* that process is taking place (Nonaka et al, 2000).

As discussed in the prior section, internationalization is either direct (strong and weak FDI) or it is indirect through exporting or licensing. In both cases, it involves partnerships and learning from international partnerships is a complex and misunderstood process (Inkpen, 1998; Nonaka et al, 2000). Learning requires firms to have a certain level of absorptive capacity (Cohen and Levinthal, 1990), of which there are four dimensions (Zahra and George, 2002): i) *acquisition*, the ability to acquire externally generated knowledge; ii) *assimilation*, the ability to analyze, process and interpret the acquired knowledge; iii) *transformation*, the ability to improve or develop new organizational routines that enable firms to combine their stock of knowledge with the acquired and assimilated external knowledge; and lastly, iv) *exploitation*, the ability to leverage existing competences with newly created ones, generating benefits (e.g. profit) from incorporating the acquired, assimilated and transformed knowledge from external sources into their operations.

How might firms learn from internationalization? Scholars have shown that the type of partnership (e.g. strategic alliance, joint venture, etc.) influences learning and value creation (Anand and Khanna, 2000). Joint ventures have a positive correlation between learning and value creation, whereas learning from licensing partnerships has a neutral effect on value creation. Studies also show that learning is more apparent in joint ventures that focus on R&D or production and is limited in marketing joint ventures (Lam, 2003). Furthermore, scholars (Lane et al, 2001) have seen that knowledge relatedness between partners (the similarity of their knowledge bases) facilitates knowledge transfer and trust, which influences the ability to understand, assimilate and apply knowledge. Makhija and Ganesh (1997) argue

that to accomplish knowledge transfer and learning partners need to participate actively in the relevant processes in which knowledge is embedded. Visits and tours of the partners' sites are effective ways of accessing tacit knowledge³ from partners (Inkpen, 1996) but in order to exploit the knowledge, first-hand experience with the partner is essential and usually achieved by appointing expatriate management at the partner's site (Inkpen and Crossan, 1995).

However, Tsang (2002) discounts this view and asserts that firms learn from their overseas partners even if they don't acquire skills (Luo, 1999). Tsang claims that firms absorb knowledge from their international joint venture partners through two mechanisms: i) *overseeing effort* which involves the supervision of the JV partner by the parent through primarily communication, and ii) *management involvement* which differs from the former by focusing more on daily operations and having physical presence in the JV by assigning expatriate management. Overseeing effort is important and crucial when the geographical distance is great. Management involvement is crucial for learning. Tsang (2002) found that overseeing effort is more important for firms with experience in international joint ventures while management involvement is more important for firms without experience. An important insight from Tsang's study is that learning has an asymmetrical pattern and that once a parent has improved its information processing capacity (overseeing effort), either by experience or longevity of the partnership, less managerial involvement is needed. It suggests that 'overseeing effort' is a necessary condition for continuous learning in international partnerships.

To summarize the main points from these prior sections briefly, firms internationalize to gain locational benefits and there are several different modes of entry that a firm can decide to use. Each entry mode has implications for coordination and control and has exposure to different levels of risk. However, to create sustainable competitive advantage firms need to continuously learn and adapt their core competences or capabilities. Knowledge is essential to this learning process. Firms therefore need to be able to acquire, assimilate, integrate and transform knowledge from their external partnerships to their internal processes and routines.

1.3 THE RESEARCH SETTING

The prior sections outline the context in which the three studies in this book should be seen. Collectively, the studies address several aspects of internationalization of the Dutch fashion industry. We chose the fashion industry because it is an industry dominated by SMEs and internationalization; the outsourcing of manufacturing is commonplace. Since the 1970s, manufacturing in the fashion industry has undergone significant changes, leading to the fragmentation of the value chain (Gereffi, 1999) and the decline of fashion/textile manufacturing in developed countries (Lane and Probert, 2009). As in other developed countries, the manufacturing of clothing and textiles in the Netherlands has been largely, if not completely, off-shored, making it essential for Dutch fashion firms to engage with international partners (Wenting, Atzema and Frenken, 2011). Additionally, the Netherlands is a small country economy with a

3 Generally there is a distinction between explicit and tacit knowledge. Explicit knowledge is codified in specifications, procedures and manuals and can be easily copied or transferred between individuals and firms. Tacit knowledge is contextual and socially-embedded in individuals, locations and networks and is difficult to transfer, imitate, share and acquire.

limited home market. In small country economies, SMEs tend to internationalize more quickly in order to benefit from scope and scale economies; so, Dutch fashion firms engage in internationalization from a relatively young age (Boter and Holmquist, 1996; Gassman and Keupp, 2007; Karra, Phillips and Tracey, 2008).

1.4 OVERVIEW OF THE BOOK

This book is a compilation of three student theses and as such chapters 2, 3 and 4 represent each respective thesis. Chapter 2 is the thesis written by Toyah Siegel. She investigated the locational conditions of two cities that attract young fashion designers: Amsterdam and Berlin. It is a comparative case study of eight fashion designers, all of which are young firms. She explored how these designers accessed critical resources such as financing and customers and how they used their network ties in accessing these resources. She also identified the different resource endowments of each location and made comparisons between Amsterdam and Berlin.

Chapter 3 is the thesis written by Gabriela Suruceanu. She investigated international production partnerships of small and medium sized fashion firms, specifically exploring the relation between the type of international partnership and quality control mechanisms. As discussed in a previous section, different types of partnerships (e.g. strategic alliances, joint ventures) are associated with varying levels of control. The expectation is that small and medium sized fashion firms would have limited control over the partner due to limited commitment and equity investment. Suruceanu used a mixed method approach of qualitative and quantitative data collection and analysis, drawing on four in-depth interviews and a joint survey conducted with Charelle Felix.

Chapter 4 is the thesis written by Charelle Felix who also investigated international production partnerships but then with a focus on managing corporate social responsibility and specifically labor-related issues. Felix looked more closely at the relation between production variables, such as volume and quality issues, and labor non-compliance. She also looked at the relation between labor non-compliance and the adherence to labor guidelines. Felix conducted an initial exploratory interview with a fashion firm that had experienced labor non-compliance and used insight from the interview to inform and guide further data collection. Using survey data that was gathered jointly with Suruceanu, she used quantitative methods to analyze the data.

Lastly the concluding chapter, chapter 5, synthesizes the findings of the studies by first summarizing them. The findings are discussed further in the broader context of the literature, reflecting on how they add to the broader body of knowledge on internationalization and international supplier relations. The implications for industry practitioners, such as fashion designers, entrepreneurs, firms or other industry participants, are presented, as well as the implications for policy makers. The concluding section closes with some suggestions for further avenues of research.

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LOCATIONAL SUCCESS FACTORS OF CREATIVE ENTREPRENEURSHIP

HOW AVAILABLE ARE START-UP RESOURCES FOR FASHION
FIRMS IN THE CITIES AMSTERDAM AND BERLIN?

Toyah Siegel

2.1 EXECUTIVE SUMMARY

This report was commissioned to better understand locational success factors of creative entrepreneurship based on the example of the fashion industry.

Semi-structured interviews with fashion entrepreneurs in Amsterdam and Berlin were conducted to obtain primary data. The thesis draws attention to key findings in the areas of finance, local support, network, and urban place. The respondents had similar ideas about these key elements. Finance is a matter all the designers struggle with. Network appears to be highly important to ensure success. The choice of urban place, Amsterdam or Berlin, was based on the environment the cities offer. Striking was the finding that the fashion entrepreneurs lack knowledge in the area of business management.

Lastly, implications for future fashion design entrepreneurs and policy makers are presented. Aspiring creative entrepreneurs must considerably plan how they will finance the venture as many struggle with funding in the start-up phase. On top of that it is vital to have a network to draw on, as no designer will be able to do everything on his or her own. Policy makers must enable the designers to build an extending network, provide access to resources and create the creative environment that attracts the creative industry.

2.2 INTRODUCTION

This thesis attempts to explore the main ingredients to success of contemporary fashion start-ups. It lays the focus on Amsterdam and Berlin and shall present a comparison between the cities' available resources, networks and infrastructure that contribute to the development of well-established fashion businesses.

The thesis is part of the research project '*Innovation and participation in the knowledge economy*' led by the Amsterdam University of Applied Sciences' School of Economics and Management. Its Centre for Applied Research on Economics and Management (CAREM) liaises closely with the school's professors, the city's major stakeholders Economic Affairs, AIM, SME and leading firms Flora Holland, ING and Cordaan. Together, they research the development of the economy into the direction of a knowledge economy based on the idea that Europe needs to focus on innovation as it can not compete on costs. CAREM's research areas are: Innovation of Services, HRM and Leadership, The Economy and Management of Cities, and Internationalization. This thesis' research will be within the topic of Internationalization and will focus on the first step of CAREM's creative industry research: the fashion industry.

It is investigated how international collaboration affect small- and medium-sized enterprises and their development of competitive advantage. It is further assumed that in order to foster international success of local creative brands, one must understand the needs creative industries have and the challenges they face. Hence, this paper's aim is to provide an insight into the fashion business by interviewing fashion experts based in Amsterdam and Berlin. It was chosen to apply a comparison of Amsterdam based fashion firms with another city to see whether the designers' experiences there are similar or not. Comparing Amsterdam to another city with an established fashion industry can help Amsterdam policy makers to understand why the other city, i.e. Berlin, attracts the fashion entrepreneurs and if Amsterdam offers these attraction factors as well. Berlin is comparable to Amsterdam because both offer similar settings for fashion design entrepreneurs. For example, both cities engage in various fashion related events, and offer education opportunities in the fashion studies.

For this paper, the following main research question and four sub-questions have been formulated:

MAIN RESEARCH QUESTION

How available are start-up resources for fashion firms in the cities Amsterdam and Berlin?

SUB-QUESTIONS

1. What access do entrepreneurs have to resources?
2. How do the designers finance their venture?
3. Network: who do they draw on, who do they know, and where do they know them from?
4. What makes a city attractive for creative entrepreneurs?
5. Why did the designers choose the cities Amsterdam or Berlin?

RESEARCH METHODS

This paper presents a qualitative research study. It uses an exploratory approach and thus leads to an inductive reasoning. This means that this paper brings to the surface key issues of the research question. The data collected is used to help develop further knowledge in the area of creative entrepreneurship.

Primary data was derived from conducting semi-structured interviews with fashion designers in the cities Amsterdam and Berlin. The interviews were then transcribed and examined for patterns.

ORGANIZATION OF THE THESIS

The second chapter will discuss various bodies of literature, which are important for this paper. Afterwards the methodology is explained in more depth. Then the findings of the research are analysed. The fifth chapter then discusses the findings. Finally, the limitations of this paper are explained.

2.3 LITERATURE REVIEW

This chapter provides a review of different bodies of literature, which are important in the context of this thesis. First, the theory of *Clusters* is explained. Second, the theory of *Regional Specialization* is put forward. This is followed by insights into theories on the *Creative Industries*. On top of that literature on *Early Stage Entrepreneurship* is reviewed. Lastly, a summary of the literature is presented as well as stated why these theories are important for this dissertation.

DEFINITION OF CLUSTERS

According to vom Hofe and Chen (2006), clusters refer to “*groups of firms, businesses, and institutions that co-locate geographically in a specific region and that enjoy economic advantages through this co-location.*” Over the last decades a considerable amount of research has been done on the cluster phenomenon. Experts still believe that there is no single correct definition of an industrial cluster (Doeringer and Terkla, 1995), it is widely accepted that geographic location and concentration and local networks and interdependences play a crucial role for creating a competitive advantage in any business (Braun, McRae-Wiliams & Lowe, 2005).

The cluster phenomenon can be observed in various sectors all over the world. Well known examples include Silicon Valley, California (technology), Hollywood (film making), London (creative industry), Milan (fashion design), Bangalore (software engineering) as well as Hong Kong and New York (financial sector).

Rosenfeld (1997) believes that the effectiveness and success of a cluster is highly dependent on its members. Only they can define their own needs and make the cluster benefit from its co-location. Theorists such as Motoyama (2008) have identified key elements that are of utmost importance for creating a competitive advantage and growth and innovation. The key elements cluster members must have to support the successful development of a cluster are described by Michael Porter (1998) as follows:

“...companies in industries related by skills, technologies, or common inputs, suppliers of specialized inputs, providers of specialized infrastructure, customers, governmental and other institutions—such as universities, standards-setting agencies, think tanks, vocational training providers, and trade associations—that provide specialized training, education, information, research, and technical support...” (p.78)

Clusters mostly consist of cluster members that are not direct competitors but still share common needs and opportunities. This synergy supports nurturing innovation and attracting new businesses, which

leads to increased productivity by all cluster participants. They collaborate to maximize the benefits of the entity while maintaining the intensity of rivalry (Porter, 2000). Braun et al. (2005) endorses "learning and knowledge creation among cluster participants can improve cluster efficiency and effectiveness, and may act as a spur to innovation" (p.3).

CHARACTERISTICS OF CLUSTERS

The economist Alfred Marshall, regarded as the pioneer economist in cluster theory, has identified four main development characteristics of the cluster effect (Coe; Yeung; Kelly, 2013). Firstly, intermediate industries producing semi-finished products are stimulated by the presence of component good suppliers. Transportation costs decrease when producers locate close to suppliers. Secondly, the availability of a skilled labor market concentrated in a specific region. Job hunting and labor search become less time-consuming and more cost-efficient. Thirdly, the need of dedicated infrastructure in education, health, property, transport, communications and power supply. The combination can lead to cost reduction for individual firms and increases attractiveness of the cluster. Fourthly, the concentrated presence and the geographical proximity of economic activity allow more direct contact with competitors and contributors, thereby facilitating idea creation and new innovations. Closeness of firms can "strengthen productivity and economic growth by transferring technology and information" (vom Hofe & Chen, 2006, p. 14).

In conclusion, these four forces show the beneficial aspects of agglomeration economies. Companies function much better when they are located in an environment where suppliers, manufactures, competition and customers are close to each other. Firms outside a cluster or those who operate independently neglecting the benefits of proximity and interdependence are comparatively less successful (Cortright, 2006).

REGIONAL SPECIALIZATION

When looking at regional specialization one must also consider geographic concentration, as these are known to be "*two sides of the same coin*" (Aiginger, K., Rossi-Hansberg, E. 2006). Regional specialization is seen as one main aspect of clusters and geographical concentration of companies in an industry, or even from other related industries, continue to be the focus of economic geography research. Most of the models and studies in regional specialization and concentration arise from theories of trade and location.

Through agglomeration of similar or complementary economic activities at one location, businesses can make use of cost advantages in their value creation processes. Besides the decrease in costs for businesses, Krugman (1998) referred to the formation of a specialized labor market. This benefits both workers and companies and was already observed by Alfred Marshall. In the 1890's Marshall observed the development of a regional labor market for specific qualifications in industrial districts in Britain, such as Sheffield or Lancashire. He makes use of the term 'industrial districts' to identify advantages created by locating companies in the same geographical area. Krugman (1991) then added a dimension, which was not considered by Marshall: the social relations of organizations that operate in similar fields. In the so-called new economic geography this dimension is added and implies that intangible factors become more and more important as sources of regional specialization, namely information and *knowledge spillovers* (Krugman, 1991). For companies, access to knowledge is vital to ensure a competitive position within an industry. However, knowledge is not just created within regional networks but often results from international partnerships. Owen-Smith and Powell (2004) referred to these channels as *'global*

pipelines', which especially transfer non-incremental knowledge. Other studies by Grabher (2002) and Scott (2002) also emphasize on the importance of extra local-linkages. Furthermore there is a difference between local knowledge creation and that one resulted from '*global pipelines.*' Local knowledge is easier accessed and more available, while pipelines provide "*access to more specialized forms of knowledge that are not locally available. This specialized knowledge may relate to the development of new technologies or new market opportunities*" (MacKinnon, D.; Cumbers, A., 2011). To be more exact, knowledge triggers innovation, which plays a crucial role in global competition. Even though one might expect location to be less important in times of globalization and progress in information and communication technology, several theories and empirical studies show there still is a significance of place for the realization of innovation. This is because governments have budgets and competences spend on innovation. Regions perform better because of interactions between cluster members. Governments invest in initiatives, which support networks to link businesses with the surrounding environment (Industrial Innovation, European Commission Website).

CREATIVE INDUSTRIES

There is a growing importance of the elements knowledge and creativity. The creative industries become more and more crucial for economic wealth. UK's former cultural secretary, Chris Smith, realized that in 1998 already:

"The role of creative enterprise and cultural contribution ... is a key economic issue ... The value stemming from the creation of intellectual capital is becoming increasingly important as an economic component of national wealth ... Industries, many of them new, that rely on creativity and imaginative intellectual property, are becoming the most rapidly growing and important part of our national economy. They are where the jobs and the wealth of the future are going to be generated" (Smith, C., 1998).

As the UK has the largest creative industry in the EU, their official definition of creative industry is widely applied: "those industries that are based on individual creativity, skill and talent with the potential to create wealth and jobs through developing intellectual property (BritishCouncil.org)." However, the definition is subject to various forms, although it is associated with similar underlying characteristics. The concepts of *knowledge*, *creativity* and *innovation* emerge as the central defining characteristics of the creative industries.

Knowledge can be seen as a framework or structure in which information is stored, processed and understood (Howells, 2002, p.872). It is the ability of people to understand how to work with the growing amount of information, how to sort these into the relevance of the data, to structure them, and how to bring them into context as well as to select irrelevant data. Accordingly, knowledge is the result of a learning process, which implies the ability to make comparisons, draw consequences, and connect links (Matthiesen, U., Bürkner, H. J., 2004, p.69).

Knowledge is usually distinguished between two different forms: codified knowledge and tacit knowledge (Danny MacKinnon; Andrew Cumbers, 2011, p. 246). Codified knowledge can be transmitted independent of person-related communications in written form. Tacit knowledge on the other hand is not widely available and can only be conveyed through direct experience and expertise (Danny MacKinnon; Andrew

Cumbers, 2011, p. 246). Creative entrepreneurs possess a lot of tacit knowledge. They have personal skills, experience and know-how in the industry, and that is part of their competitive advantage.

Creativity is a property that is not reserved for the genius or the artist. It is a 'common good' that all people possess and can apply (Florida, R., 2004, p. xxvi). Creativity is defined by the Webster Dictionary as "the ability to create meaningful new forms" (Merriam-Webster, 2013) and it "has become the driving force of economic progress and the decisive source of competitive advantage" (Florida, R., 2012). Richard Florida defines three types of creativity in his book "*The Rise of The Creative Class*" (2004, p.5):

1. Artistic or cultural creativity
2. Technological creativity or innovation
3. Economic creativity or entrepreneurship

Florida says that these three types of human creativity are related to each other, stimulate each other and important driving factors for regional development (Florida, R., 2004, p. 5). The basis for this is the recognition that innovation and the practical application of inventions constitute a fundamental component of economic growth (Florida, R., 2004).

IMPORTANCE OF CITIES AND REGIONS

Never before was the city as popular as it is today. This view is also shared by Charles Landry, who stated in his book "*The Creative City – a toolkit for urban innovators*" that the 21st Century is the century of cities (Landry, C., 2000, p. xiii). Since 2008 more than half of the world's population has been living in cities and the number is increasing. Experts at the United Nation Fund For Population Activities (UNFPA) estimated that by 2030 more than 60% of the world's population would live in urban areas (UN report 2007).

Creative industries play an important role in the regional development. Cities have to adapt to the new structures of urban competition. Here comes the theory of Richard Florida into play. According to Florida cities and regions can only develop in a globally operating economy if they are able to attract creative minds and tie them to their own location. Richard Florida puts the creative minds into the group of '*Creative Class*'. He states that the presence of the creative class in a city or region is the starting point of economic growth (Florida, R., 2004, p.8ff). He also explains that the creative class is attracted by other factors than just the coverage of the labor market ("people follow jobs"). He identifies the combination of the three-location factors talent, tolerance and technology as guarantors for economic success. These factors lead to the companies going to areas where those are given ("jobs follow people") (Florida, R. 2004, p. 220 ff). Florida (2004) therefore recommends for regional policy to create a suitable environment for creative people, because this group is an important source for the settlement of other creative activities and thus crucial for future regional development.

EARLY STAGE ENTREPRENEURSHIP

Entrepreneurs go through various stages in their business creation. The earliest stage is not the birth of a business but a step before that: the discovery of an opportunity and the decision to pursue that opportunity (Shane; Venkataraman, 2000). The early stage is the time of idea generation, formulation, and implementation. Often individuals who know other entrepreneurs are likely to become one themselves (Tversky; Kahneman 1992). At the early stage, entrepreneurs decide to put time, effort, and resources

into their idea and the funding of their firm (Carter, Gartner & Reynolds, 1996; Reynolds, 1997). The early stage of the business creation is crucial for its success or failure. Entrepreneurs are at the beginning of their learning curve and face new events that they have to react to frequently.

SOCIAL NETWORKS

Social networks play an important role for entrepreneurs in overcoming various obstacles (Stuart & Sorenson, 2006). New firms potentially “lack the commitment of their employees, knowledge of their environments, and working relationships with customers and suppliers necessary to operate successfully” (Stinchcombe, 1965 and Stuart & Sorenson, 2006, p. 4). Furthermore they often miss the necessary resources to overcome periods of poor performance.

Research has shown that entrepreneurs with a rich network are more successful than those who do not have an extensive network available. Rich networks are vital to accrue a variety of resources (Stuart & Sorenson, 2006).

ENTREPRENEURS IN CREATIVE INDUSTRIES

Especially in the creative industries more and more entrepreneurs appear. Thus, these industries are becoming more important socially and economically (Rae, 2006). The motivations entrepreneurs in creative industries have are different from those in other industries. Creative entrepreneurs are more focused on the creation of art rather than profit. Also, the term ‘creative’ is almost interchangeable with the term ‘cultural’⁴. This is why Swedberg’s (2006) definition on cultural entrepreneurship also applies to creative entrepreneurs:

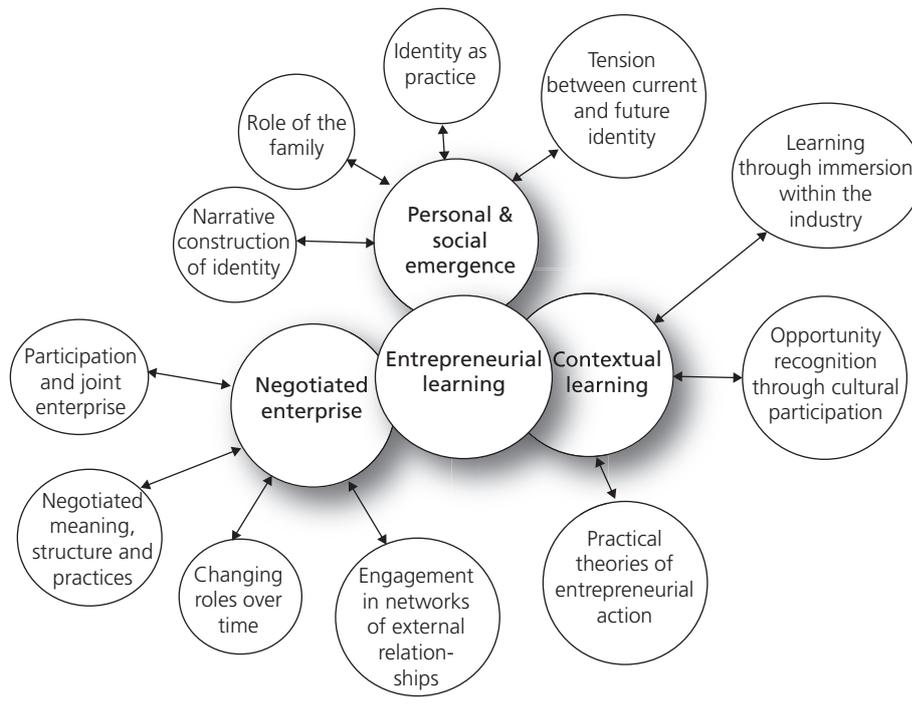
“While moneymaking is often a crucial component of cultural entrepreneurship, it does not constitute its primary focus. Cultural entrepreneurship, as I see it, may therefore be defined as the carrying out of a novel combination that results in something new and appreciated in the cultural sphere (p. 18).”

ENTREPRENEURIAL LEARNING – RAE’S TRIADIC MODEL

As mentioned earlier, early stage entrepreneurs are not just at the beginning of their venture but also at the beginning of their learning curve. This is obviously also true for creative industries. To better understand the learning processes of cultural entrepreneurs, Rae (2006) developed a *triadic model framework for entrepreneurial learning*.

4 “... the notion of “cultural industries” emphasizes those industries whose inspiration derives from heritage, traditional knowledge, and the artistic elements of creativity, the notion of “creative industries” places emphasis on the individual and his or her creativity, innovation, skill and talent in the exploitation of intellectual property (Global Center for Cultural Entrepreneurship).”

FIGURE 2.1 THE TRIADIC MODEL OF ENTREPRENEURIAL LEARNING



Source: David Rae, 2006.

The triadic model consists of three major themes that each has several sub-themes. First, a conceptual framework was developed from interviews, field research, and theoretical literature. Rae followed three entrepreneurs over a timeframe of two years and gathered a range of information, based on a series of in-depth life story interviews.

From all the data collection originated the three main themes:

1. *Personal and social emergence*: Entrepreneurial identity is influenced by early life and current experiences. This identity helps to express the sense of self and future aspirations and also how the entrepreneur wants to be recognized by others.
2. *Contextual learning*: Through comparison/sharing experiences with others, entrepreneurs learn to recognize opportunities.
3. *The negotiated enterprise*: Entrepreneurial ideas are not translated successfully alone. Interpersonal relationships, exchange and negotiations with others inside and outside of the business support the entrepreneurial success.

Rae's model is applicable to the creative sector but most likely also more widely "because its themes and sub-themes relate to generic human learning processes" (Rae, 2006). Still, there remains a growing demand for practice-based theory on entrepreneurship learning in the creative industry, as it is an area, which is not well understood yet. Since the creative industry becomes more and more important in the economy, understanding the learning processes involved in creative entrepreneurship is vital for policy makers to prepare people for creative entrepreneurship (Rae, 2006).

CONCLUSION

This chapter put forward various theories. First, the theory of clusters was discussed. Clusters are regional networks formed of agglomeration of economies. This agglomeration is beneficial for companies as they are located in an environment where suppliers, manufactures, competition, and customers are close to each other. The next literature element, regional specialization, links closely to the literature of clusters, as it is one main element of clusters. The theory of regional specialization explains how the close distance of complementary or similar economic activities initiate innovation. The network of businesses in similar industries facilitates information and knowledge spillovers. As we know from the third part of the literature review, about creative industries, knowledge is one main trait of creative entrepreneurs. This is why knowledge spillovers are important for them. Hence, the first three parts of the literature review are linked closely together. All of them help us to better understand how networks develop for the fashion firms interviewed for this thesis and show us how they can benefit from them. On top of that the importance of urban place is discussed in the literature review, and Richard Florida's concept of the 'Creative Class' is introduced. Florida explains how essential the creative industries are for economic growth, and that cities should aim to attract those (Florida, 2004). This is an important element for this thesis as it contributes to the understanding of the choice of place of the fashion designers and what it is they are drawn to. Lastly, literature on early stage entrepreneurship and entrepreneurs in the creative industries are introduced. This part is obviously important for this paper as the focus is laid on fashion firms and their start-up phase. The last part of literature shows that the motivation of creative entrepreneurs lies in the creation of art rather than profit. Again the importance of networks for entrepreneurs is drawn on. Network is an element, which is also reflected in the triadic model on entrepreneurial learning in creative industries by Rae (2006). This model presents the processes of identity formation and entrepreneurial learning in the creative sector.

2.4 METHODOLOGY

The aim of this thesis is to provide more knowledge for Amsterdam policy makers and creative entrepreneurs on the creative industries. Collecting primary and secondary data that was then analysed and used to formulate recommendations for future research did this. A qualitative approach was identified as highly suitable to better understand the research question of this thesis. Having an exploratory approach led to an inductive study. Combining secondary and primary sources improved the accuracy of the findings (Denscombe, 2010). To establish validity of the primary data collected, the data, where possible, were triangulated⁵ with desk research, i.e. the findings of the primary research were validated by looking for further evidence in secondary data.

PRIMARY DATA COLLECTION TECHNIQUES

Primary data was collected by conducting semi-structured interviews with fashion designers in Amsterdam and Berlin. It was chosen to conduct semi-structured interviews as the degree of an interview structure determines the degree of freedom the respondents answer the questions with (Marshall & Rossman, 1999). In this way the respondents' views were revealed and it was also possible to create immediate

⁵ Triangulation is a method used in qualitative research to establish validity in the study. Data triangulation involves using different sources of information in order to increase the validity of a study.

clarification of answers if necessary. The interviews were exploratory, allowed a flexible approach and were guided by several questions (Robson, 2002). The use of a question guide (Appendix 1) assured a certain interview structure to ensure that the respondents talk about the same issues. These topics/questions were not known to the subjects before.

The question guide (Appendix 1) provided a wide range of questions. The fashion designers were asked general questions about their personal background and motivation, as well as about the nature of their firm. Furthermore questions to better understand the process of their financing activities were posed. On top of that questions aimed at the importance and acquisition of network partners, e.g. suppliers, producers, employees, customers, were asked.

All interviews happened to take place in the designers' workspaces. This was helpful as it ensured a certain confidence of the designers and also helped to give the researcher a better idea of what the work process looks like. The interviews all lasted for about 40 minutes and were recorded. These recordings were later transcribed by the researcher herself and names in the transcripts were changed to assure the individuals' anonymity.

SAMPLING

Since this paper presents a qualitative study and stresses in-depth investigation, it was determined to make use of non-probability sampling. With this way of sampling, as defined by Kerlinger (1986), one avoids random sampling by using rather small groups as samples. Specifically, purposive sampling was applied. This strategy, which is popular in qualitative research, selects subjects based on similar characteristics. Even though this technique appears to be well suited it comes with certain limitations. The small size of the sample makes it difficult to generalize to a population through this single research study. However, considering this study leads to a better understanding of the research question it was identified as appropriate.

The research setting consisted of the cities Amsterdam and Berlin, and in these cities small to medium sized enterprises in the fashion design industry. Amsterdam was chosen of course because this thesis partly aims to better understand fashion enterprises in Amsterdam. Berlin was chosen because it offers a similar setting for the fashion designers. Both cities engage in various fashion events; twice a year in Fashion Week⁶, they offer different fashion fairs⁷, and there are also many competitions where young designers can win prizes⁸ in form of money, fashion shows, fashion shootings, or exhibitions.

It was decided to take a sample of four small fashion brands in each city (Amsterdam and Berlin), in total eight brands. The size of the sample was determined through theoretical fit, i.e. the aim was to have samples of equal size in each city and fashion firms that have similar characteristics and are illustrative of the theoretical concepts investigated in this thesis. It was important to have firms in the sample who have network partners they draw on to better understand how clusters and regional specialization are

6 Amsterdam Fashion Week, and Mercedes-Benz Fashion Week Berlin.

7 e.g. Mode Fabriek Amsterdam, Bread & Butter Berlin, Premium Berlin.

8 e.g. Frans Molenaar-Prijs (Amsterdam), Premium Young Designer Award (Berlin).

beneficial for the designers. Furthermore none of the designers had enough financing for the venture, and all needed access to outside financial resources.

The sample firms were found with the help of search engines on the Internet. The companies were all founded by maximum two individuals, and consist up to date of maximum 15 workers. Furthermore the fashion firms all produce apparel for men and/or women. The interviewed firms were approached through email explaining the research study. The time and place for the interview were also set up via email.

PRIMARY DATA ANALYSIS

First the author transcribed the recorded interviews herself. In this way she already got a good understanding of each interview's answers. After that the interview transcripts were read and simultaneously searched for patterns. For the next step the transcripts were searched especially for answers to the sub-questions. These were then highlighted and written on extra sheets of paper to simplify the comparison process. Lastly, a number of the discovered answers were triangulated with desk research.

2.5 FINDINGS

This chapter first presents what policy makers in Amsterdam and Berlin do to support the local creative industry. It then presents and analyses the findings from the interviews on the key success factors of small fashion design firms. The patterns found in the interview transcripts will be presented and analysed below. The given tables were created to give a better overview of the themes that resulted in a high number of findings.

POLICIES AMSTERDAM

The city of Amsterdam supports the local creative and fashion industry in various matters. For example is international talent attracted by making immigration processes simple with the help of the Amsterdam Expat Center (iamsterdam.com). Moreover, in 2007, a one stop shop for the creative industries was initiated: the project Creative Cities Amsterdam Area (Ccaa.nl). The initiative helps to integrate creative players better and helps in finding suitable locations and property, funding and financing opportunities or training. It conducts research, publishes brochures, organizes events and meetings, and promotes the region at international trade fairs. Also, room is made for the creative class by adopting anti-squatting laws (iamsterdam.nl). Furthermore there are ways by which the Amsterdam fashion industry is specifically supported. For instance does the city attract fashion talent by offering education in the fashion sector. Especially the Amsterdam Fashion Institute (AMFI) offers a variety of studies for international students and participates in Erasmus programs (Amfi.nl). The Dutch Fashion Foundation (DFF), a non-for profit organization, supports the local fashion industry with its wide network of Dutch fashion designers. The DFF is supported by the Dutch Ministry of Economic Affairs, Agriculture and Innovation. The organization works closely with others on various projects. One main project is "Red Light Fashion Amsterdam," which turns the city's red light district into an international fashion attraction. The project is part of Amsterdam's regeneration aims (Dutchfashionfoundation.com). Lastly, the city makes room for bi-annual activities of the Amsterdam Fashion Week (AFW). AFW also offers the so called "LAB" program, which gives young talents the opportunity to showcase their designs at the official AFW (Amsterdamfashionweek.com/en).

POLICIES BERLIN

One of Berlin's major initiatives is "Projekt Zukunft" (Project Future), initiated by the Federal State of Berlin and overseen by the Senate Department for Economics. It supports the creative industries with a mix of measures. Financial support, knowledge transfer and networking play a central role (Berlin.de). One main project arising from the initiative is the portal "Creative City Berlin" with the aim to give the creatives a platform for information, presentation and exchange. It has established to be the central platform that informs artists about funding programs, scholarships, workshops, jobs or events (Creative-city-berlin.de). Furthermore The "Kreativ Coaching Center" (KCC) provides support in form of workshops for Berlin based-startups in the creative industries (Berlin.de). Besides offering a large amount of empty spaces and rather low rent prices in general, the Senate Chancellery of Cultural Affairs provides affordable working spaces through it's "Berlin Atelier Program" for many years. On top of that the city occupies nine schools, which offer studies in the fashion sector (Berlin.de). However only few of them offer full English programs. On top of that Berlin participates in the Mercedes Benz Fashion Week twice per year, and simultaneously offers various fashion trade shows, events, and competitions (Fashion-week-berlin.com). One of the city's most striking competitions is called "Start your Fashion Business", which supports the founding of Berlin fashion brands with a total of 100,000 Euro every year (Berlin.de).

FINANCE

Finance appeared to be one of the main issues the interviewed designers have to deal with. All of them mentioned they struggled with the financing for their business and have to take various methods to overcome this struggle. Most of the fashion designers stated that they had other jobs only to make money to invest in their dream and to cover their basic expenses (see table 2.1).

" . . . now I am taking on some project management things, just to get some cash." (AMS4)

"Savings. Just savings." (BER4)

"If I would do this full time now, I would be broke." (AMS3)

One designer in each city especially saved money beforehand to invest in the company. Besides the highly important element of working other jobs next to the business start-up, it appeared to be important to have family and friends who invest in the designers. Either by handing out a private credit without strict payback terms, or in form of gratuity (see table 2.1).

" . . . I basically put all the money that I earned from that into the label. And let my boyfriend pay for the rest . . . And I got a lot of money from my mother. " (AMS2)

" . . . I saved a little bit and then I asked my brother, like more relatives, who gave me a little bit of money." (BER1)

"Most of it is own money. Also everything that I earn at this moment, I think 80% goes back into my brand. 40% is from my family, from my two sisters . . ." (AMS3)

TABLE 2.1 SHOWS HOW MANY DESIGNERS IN EACH CITY USE WHAT KIND OF FINANCIAL RESOURCES

Type	Amsterdam N = 4	Berlin N = 4
Jobs	3	3
Savings	1	1
Family & Friends	2	3
Grants	2	0
Prizes	1	1

Furthermore table 2.1 shows that two Amsterdam based designers acquired grants. On top of that in each city one designer mentioned winning prizes in form of money or fashion show grant. Also, one Amsterdam based designer won money from participating in a TV show competition. Lastly, it appeared that all the designers have a rather negative feeling towards the acquisition of a bank loan; the designers said small fashion brands hardly get any money that way. Also, none of the respondents stated to have made use of a bank loan.

Finding that entrepreneurs struggle with funding is not surprising. It was to be expected that entrepreneurs have difficulties financing their business next to their continuing every day life bills, assuming that they don't have access to endless funds. *"Unlike large firms, small firms typically have a substantial amount of their funding provided by insiders -- the entrepreneur, other members of the start-up team, family, and friends"* (Berger, 1998). Also Campbell and De Nardi (2007) discovered that in their research *"A conversation with 590 nascent entrepreneurs,"* where the majority of respondents also invested primarily personal money and gratuities into the business as well as hardly any of them stated to receive formal credits.

LOCAL SUPPORT

While researching the designers' finance strategies some also mentioned local support they received. One Amsterdam designer in particular sticks out; this designer acquired a grant from the Fonds Beeldende Kunsten, Vormgeving en Bouwkunst (Fonds BKVB)⁹, took a loan from Cultuur-Ondernemen, and became winner of a Dutch Television show, where designers competed against each other for prize money. In Berlin, two designers mentioned to have participated in competitions, one of them ended up winning a slot for a fashion show, the other fashion firm was unsuccessful several times (see table 2.1). The designer who won a competition also stated it is important to have these kinds of opportunities.

"For us it is really helpful. Especially if you want to step from a mini company to a small company. This is really something that helps you to gain a lot of attention." (BER3)

The firm that lost several competitions seemed rather negative towards the competitions.

⁹ Fonds BKVB provides grants to artists, designers and architects to develop particular artistic activities, or to devote themselves entirely for a period to their artistic development.

“ . . . we tried now three or four competitions for a fashion prize and it doesn't work for our things. And then you always pay for the copy shop, postal service, and everything...it is not possible.” (BER2)

Another Amsterdam designer makes use of “anti-kraak¹⁰” studios, spaces that are not used and occupied by people for different reasons for some time, to save money, even though it is very stressful to move on short notice.

“It is horrible because every time right before collection has to be finished...then you need to finish your collection and also have to move.” (AMS1)

Lastly, one Berlin designer mentioned to get help from the German labor relations agency, who paid more than half of the salary of employees hired through the agency.

NETWORK

Social networks turned out to be of major importance to the firms in this study. This reflects well in the discussed theories in chapter 2, where amongst other things the significance of rich networks for a successful business start-up is presented. The interviewees' networks arose from their circle of friends, classmates, and colleagues.

“I had a fashion blog four years ago. And then I got to know a lot of people in fashion and I used those connections to start up my brand.” (AMS3)

Firms in both cities mentioned to have a certain confidence for starting their business because of their rich social capital¹¹.

“Without my network, without my friends I was nothing. I am still nothing without my friends.” (AMS3)

“We know a lot of creatives...This is also one of the reasons why you have the confidence to found your label, when you feel you know people.” (BER4)

The confidence built up because the people in the firms' networks are a support system who they draw on. Many designers get help with building their business without using capital resources for it. Especially, creative work such as that of models, photographers, and web designers was acquired as favors by many.

“ . . . but most of the stuff I did was all done for free, like the pictures. One of my best friends did the website for free.” (AMS3)

“They [photographers and models] are always friends of us.” (BER2)

10 “Anti-kraak” translates to “anti-squatting” and implies the temporary use of empty property to prevent vandalism of those properties. Usually students and artists make use of them.

11 “The sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit. Social capital thus comprises both the network and the assets that may be mobilised through that network” (Nahapiet and Ghoshal 1998).

"Yes, [the network is] very important. Because for a photographer or website you have to pay a lot of money for somebody you don't know. So, that is how we save some money." (BER4)

"We have help for the website from a friend but in return I am designing some business cards and stuff for him." (BER4)

TABLE 2.2 SHOWS WHAT BENEFITS THROUGH NETWORK WERE ACQUIRED BY HOW MANY FIRMS IN EACH CITY

Benefits	Amsterdam N = 4	Berlin N = 4
Found production	2	4
Found customers	1	1
Exchange creative information with other designers, photographers, models etc.	4	4
Found employees	0	2

The fact that other creatives appeared to support free of charge can be explained through their motivation to create appreciated art rather than making a profit, as explained in chapter 3 "Entrepreneurs in creative industries."

Moreover, through their existing contacts the designers gain access to those contacts' networks to further build their own. If they do not have the right contact in their network, they find them, e.g. interns, through word-of-mouth.

"I always got someone through friends or classmates." (AMS2)

"So far it was more mouth to mouth. I didn't really give up an ad or something. It was more like I told somebody and this somebody told somebody." (BER1)

Another element in their network was that of fellow designers (see table 2.2). The majority of firms were very content with having fellow fashion design entrepreneurs in their circle.

"I have two really good friends who also have a fashion label. And we exchange quite openly and help each other also." (BER1)

"I think in the little businesses it is a lot more about working together and being small companies against the big players than being competitive against each other." (BER3)

"I learned by mistakes but I also learned from mistakes from my friends a lot." (AMS3)

But some of the firms did not say to draw on other firms in similar situations.

"No, we don't know too many people with their own fashion label." (BER4)

During the interviews it was also discussed how the firms find their production partners. The firms had production partners in various countries and many found them through existing contacts or simply using online search engines.

"I found it [production company] through a fellow designer, she produced in Poland and was very happy." (AMS4)

"I came to India by the other brand I am working for." (BER4)

"I researched on the internet." (BER1)

Also, there were opinions on preferring production companies close by.

"If it gets much bigger and we need more production time and space also, I think we have to leave Germany because there are not so many manufacturers here. But if it is still possible I would like to stay here because it is closer. There are many designers struggling because of production places out of Germany, that there is something not working or that they are always on delay etc." (BER3)

"I am envying a bit the Belgians or something where they still have production there...so that is a bit a pity, because it would be great to have production one hour from here where you can drive there and you can do the sampling there and you can already figure things out which we have to do one step in between and it makes all things complicated and slow you know." (BER1)

Because you can drive there by car and I been to Romania, I like the people, you know the atmosphere and plus it is still a low wage country and they have lots of fashion and clothing companies there and it is Europe still, so it is easier with the import/export. (AMS1)

CUSTOMERS

For the acquisition of customers, who are all small multi-brand boutiques, all of the respondents searched for appropriate stores themselves (see table 2.3). Most used Internet search engines to find potential customers and then contacted them through email, calling, and visiting.

"I found them by approaching them myself." (AMS1)

"A lot of emailing, calling them, sending the line sheet again and again." (BER4)

Many also found customers at trade shows, and some work with sales agents (see table 2.3). It appeared that the firms working with sales agencies were approached by the sales agents rather than searching for one.

"They contacted me. I had in my mind there was some email from somebody and then I searched it and then I found them." (BER1)

One designer's first point of sale was the boutique where he works as a sales person.

"That is where I work, that store. I think the owner of the store believed in the story, believed in the possibility for me to sell there." (AMS3)

TABLE 2.3 SHOWS HOW MANY FIRMS IN EACH CITY GAINED CUSTOMERS IN WHAT WAY

Ways	Amsterdam N = 4	Berlin N = 4
Own Search	3	3
Trade Shows	0	2
Sales agents	2	2
Existing contacts	1	0

Furthermore, there were different opinions about the influence of trade shows on gaining valuable contacts and buyers. Some firms mentioned to be dissatisfied with the experience of attending a trade show, while others stated to have found buyers there. The dissatisfied firms said the buyers were only interested in more established brands and that the trade shows were too expensive.

" . . . it's too expensive and I think people who come there are just like [looking] one second over the collection and maybe they already know the labels they want to buy . . . " (BER2)

"But we had maybe too much expectations of the showroom. Like it is expensive and I think for labels who are already up and running it is just very good...they pay their 3000 euros and then they have their booth and they have already contacts to stores...And we paid a lot of money to be there and then no one really, like no one was there...there was nice, interesting people, but no buyers." (BER4)

On top of that, having a design background, the founders expressed to not having enough time or knowledge for the business side of their venture.

"I felt like I needed a lot more help with the business side of the label." (AMS2)

" . . . if you are not really into all the marketing stuff and the promotion stuff then it is very difficult to handle it because the day is very short." (BER2)

Also, David Rae (2006) has put forward that *"Social capital ("who you know") is important in affording access to resources"* and that no venture is created unaided. Successful interactions with others are vital for a prosperous business start up.

URBAN PLACE

This thesis also looks into the meaning of urban place for the firms and thus the cities Amsterdam or Berlin were discussed during the interviews. It appeared to not be easy for the respondents to express their opinions on what the cities offer. It is not surprising that the respondents had difficulties explaining why they like the city of choice as the factors cities offer are everyday factors for their citizens, and do not necessarily stick out when not having comparisons to other cities. Rushton (2006) gave further insight on what creatives are drawn to: *" . . . arts and culture, nightlife, the music scene, restaurants, artists and*

designers, innovators, entrepreneurs, affordable spaces, lively neighbourhoods, spirituality, education, density, public spaces and third places" (Rushton, M. 2006).

In both cities, designers stated to never really have considered another place since the present city was their home before already. The Berlin based firms all communicated that the major benefit of the city is that it is affordable to be an entrepreneur there.

"I think it is the only city where I could have done this, from the price point of view . . . Of course if you really want to do fashion and high-end fashion then Berlin is not the best choice, it is still Paris to go to. But if you are trying to experiment with your own kind of business and what works and what doesn't work, Berlin is the best place because you can experiment really...because it is not such a big risk...you don't have to spend so much time to try things out here. Or you don't have to spend so much time, money, or anything...you can just experiment still, you know...check if something works or not . . . that is something you can . . . have in Berlin - I would say, that you can live from a part time job and do your stuff that interests you." (BER3)

"Because of my boyfriend. And also because I knew I can not start in any other city in Germany after living in Beijing; it's a big city." (BER1)

. . . it is very true, in Berlin everybody can afford a good life...I mean it gets more expensive but it's very easy to afford a good life and in London even when you have a very good job you probably still just having a room in a flat share. So, I came to Berlin with the idea of more freedom for creativity and less pressure by like...moneywise. (BER4)

On top of that Berlin is open for creativity, offers enough other creative minds, and enough selling opportunities.

"Berlin is just more creative, I mean you have more creative people here, you have more designers... but you also have more shops that can sell your product. So for that I think Berlin is a good choice . . . [And] I feel like Berlin is a cool spot and it's easy to establish as cool when it's from Berlin, for me this feels like very easy." (BER4)

The primary findings point towards Berlin's unofficial slogan: "Poor but sexy" (Wowereit, K., Focus Money, 2003). The creative class in Berlin is rising and the city was the first European city to be named "City of Design" by UNESCO in 2006. Creatives are attracted to Berlin because cheap rents, lots of empty spaces, urban density with high quality of life and low costs of living, and cultural diversity are offered (Berlin.de).

The firms in Amsterdam also expressed that the capital offers many creative people. Also, the rather small size of the city makes it easy to enter the fashion scene.

"[I came] to study at AMFI, Amsterdam Fashion Institute. And actually I always knew that I wanted to study in Amsterdam or live in Amsterdam at least . . . Amsterdam is the city to be in Holland when you want to do something in fashion . . . I mean, it is quite easy to get to know everyone in fashion scene in Amsterdam. That is quite possible and easy to do." (AMS1)

“ . . . Amsterdam, The Netherlands, is really small. Especially in fashion. So, they [friends] told me have a look [at the producer] and then it clicked, and from there on we were going to work on a sample.” (AMS3)

“The city is really small, everyone knows each other...maybe a little bit too good.” (AMS3)

“Here in Amsterdam there are lots of boutiques . . .” (AMS4)

But the small size of the city must not necessary be good. The fact that Amsterdam is rather small results in there being too many creatives trying to succeed with a fashion business. The industry is overcrowded. One designer particularly stated that other cities might be a better choice. However, as she loves Amsterdam so much she would not change location for the business.

“... on the other hand, it's already so full and there is so little space in the fashion scene for young labels to establish themselves because there is already so much out there. I think Arnhem or Rotterdam will be easier to start-up ...” (AMS2)

2.6 DISCUSSION

This thesis aims to better understand the availability of resources for fashion entrepreneurs in Amsterdam and Berlin. In the previous chapter findings on local creative industry policies in both cities were presented as well as the key findings from interviews with designers in Amsterdam and Berlin. It appeared that finance is a central issue for all the interview respondents. Thus, all designers mentioned different ways of acquiring funds. The most common way was by having side jobs and through support from family and friends. Also, the importance of network was stressed during the interviews. The networks the designers draw on comprise of their circle of friends, classmates, colleagues, and the weaker ties resulting from those connections. The interactions with network partners help the designers in building their businesses. All designers mentioned to get help from other creatives, often photographers and models. Also, the designers were able to find production places, customers, and employees through their network. Lastly, the attractiveness of Amsterdam or Berlin were discussed. The Berlin based designers were especially content with the affordability of the city and the large amount of empty spaces. In Amsterdam the rather small size of the city seems to make it easier to network and become part of the local fashion scene. Both cities offer a certain diversity, which is attractive for the designers.

This chapter will further discuss the meaning of the key findings for fashion entrepreneurs and policy makers.

FINANCE AND LOCAL SUPPORT

Finance was a central issue discussed in the interviews to better understand the sub-question number 2 of this thesis: “How do the designers finance their venture?”

Fashion entrepreneurs might not have large investments in tangible assets, such as heavy machinery, but still need sufficient funds to not only finance the business but also their personal expenses. As most

fashion start-ups do not make high revenues in the beginning, the companies need other financial resources. Therefore aspiring entrepreneurs should consider to accumulate savings, make use of additional income from other jobs, and if available acquire financial support from family and friends. Family and friends are an important source for financing as it is difficult for micro-firms to obtain outside funding. This fact appeared from the conducted interviews and was also recently drawn on by Victor van der Chijs, head of the '*Creative Industries team*' of the Dutch Ministry of Economic affairs, Agriculture, and Innovation (Van der Chijs, 2013). Besides having sufficient funds, entrepreneurs must also critically evaluate their investments. From the theory on Clusters and Regional Specialization (Chapter 2) we know that costs can be lowered by collaborating with other cluster members, e.g. producers to lower transportation cost. Thus, fashion designers are advised to look for local or close production facilities. The interviews also put forward the benefit of easier communication with business partners located close by. Both cities make various sources of financial funds or other local support available. Amsterdam makes cheap work spaces available by legalizing anti-squatting laws. Berlin appears to be generally seen as more affordable and on top of that provides working spaces for creatives through its program "Berlin Atelier." However, the interviews put forward a rather negative understanding of the ease of acquiring support. An explanation for this might be that many of the respondents were not able to acquire funds or win competitions. Furthermore the fact that none of the respondents acquired finance through a bank loan or investors indicates that financial intermediaries need to become more investment ready towards fashion firms with assets, which are often intangible (e.g. design, marketing, branding etc.) and therefore unable to provide sufficient collateral. Cities should provide loan guarantees to make potential investors more confident in investing in businesses, which offer rather intangible assets.

NETWORK

Every entrepreneur gets support from network partners. This became clear in for example the theory of David Rae on entrepreneurial learning: "The concept of the negotiated enterprise is that a business venture is not enacted by one person alone, but is dependent on negotiated interpersonal relationship (Rae, 2008)." Thus, understanding how the designers network and who they draw on (sub-question 3: *Network: who do they draw on, who do they know, and where do they know them from?*) was important to better understand this paper's research question. Generally the designers' networks are comprised of friends, classmates and colleagues. The bodies of literature discussed in chapter 2 mentioned the importance of rich networks for businesses. This importance is also reflected in the interviews with the designers. All designers mentioned to acquire help from other creatives, e.g. photographers or models, who represent those cluster members who are not direct competitors but share common needs and opportunities. A significant benefit gained from networks is the existence of knowledge spillovers (Krugman, 1991). These knowledge spillovers are important since creative entrepreneurs develop skills and expert knowledge through exchange with others. The benefit of knowledge spillovers was also mentioned by all designers interviewed in this study. On top of that the respondents all acquired other benefits by drawing on their network partners such as the extension of their network of customers, employees, and producers. Therefore aspiring fashion entrepreneurs should constantly grow their network and look for opportunities to draw on it as much as possible. The findings presented that Amsterdam and Berlin both offer various opportunities to grow ones network. Most obvious are the cities' engagement in local Fashion Weeks, which offer designers the opportunity to attend various events where other creatives can be met. Especially trade shows are used to network and often customers are found there. However, the interview findings put forward that many of the designers' experiences with participating trade shows

were negative. The general understanding was that the firms were too small and therefore unattractive for buyers. Hence, future entrepreneurs should evaluate critically if their customer reach is big enough already to justify the investment in a trade fair. It also appeared from the interviews that the respondents lack knowledge and network partners to draw on in regards to help with the less creative business parts, as for example accounting, marketing, or sales. Therefore aspiring entrepreneurs are advised to extent their network with partners who can support them with these business factors. As network is such an important element for the success of creative enterprises, cities must provide platforms where entrepreneurs can find other cluster members. Also, the cities should attract the international creative class (Florida, 2004) to grow the local cluster. This is discussed in more detail in the next section.

URBAN PLACE

As this paper focuses on fashion entrepreneurs in Amsterdam and Berlin it was important to understand the designers' motivations for their choice of urban place (refers to sub-questions number 4. "*What makes a city attractive for creative entrepreneurs?*" and number 5. "*Why did the designers choose the cities Amsterdam or Berlin?*").

As the creative industries become more important socially and economically, cities should aim to attract creative talent. One of the pioneers in the urban studies area is Richard Florida who explained that the "Creative Class" is attracted to certain types of cities. According to him the combination of the three-location factors talent, tolerance and technology are guarantors for economic success (Florida, 2004). The interviews' findings showed that affordability is highly important, and, the connection to other creatives in the city is beneficial. We know how important knowledge and information spillovers are for the designers. In the literature review the ideas of knowledge from extra-local linkages was stressed as important. This specialized knowledge, which is not locally available, can be brought to cities by making them attractive for expats. Amsterdam has already applied regulations towards attracting international talent by making the immigration process very simple and fast. Furthermore beneficial is the fact that Amsterdam is in general known to be very tolerant and also many citizens possess good English language skills. This opens the possibility for foreigners to easily communicate with the locals. However, as living and working space is limited in Amsterdam, the city should make information in English available for expats in the creative industry where to find affordable spaces. Also, surrounding areas should be made attractive for expats from the creative industry, as there is still more space at lower prices offered. The city of Berlin appears to be rather affordable for creative entrepreneurs. This became clear from the primary findings and is also the general idea of the city. On top of that the city's large availability of empty spaces make it highly attractive for the "Creative Class." Furthermore Berlin attracts creative talent by offering various fashion studies. However, as most of the courses are in German, the education system should offer more fashion studies in English to attract the international fashion talent. Lastly, the primary findings revealed that most of the respondents lack knowledge in the areas of business and management. Amsterdam and Berlin both should make aspiring fashion designers more ready to become a business owner by including fashion entrepreneurship in the curriculum. For aspiring fashion entrepreneurs, who know they lack knowledge in business entrepreneurship, this means that they should obtain the missing expertise by for example participating in workshops, which might not necessarily be for creative entrepreneurs only.

CONCLUSION

This paper aims to better understand the research question: “How available are start-up resources for fashion firms in Amsterdam and Berlin?”

This paper stressed the importance of the creative industry for the economy. On top of that cities become more important as the number of the population living in cities is increasing. Hence, it is for both Amsterdam and Berlin of high interest to offer an attractive urban place to the creative industry.

Previously the meanings of the key findings were discussed. Generally, it can be said that both cities, Amsterdam and Berlin, already appear to be attractive to the international “Creative Class” and offer a variety of start-up resources. These help the fashion entrepreneurs in many areas of their venture: financial support, network, knowledge transfer, and training. This was to be expected as both cities are known to have established creative industries, and in particular an attractive local fashion industry. Thus, most of the key findings were not surprising. However, the primary findings revealed the respondents’ problems in managing all areas of business. As mentioned before, Amsterdam and Berlin should apply more entrepreneurship courses in the fashion education sector. Still, this thesis only gives a light insight into the matter. Therefore future research on this topic should be done to better understand the reason for why the designers lack business skills and to reveal more details on what can be done about the subject.

2.7 LIMITATIONS

The aim of qualitative research is to better understand details about a question, phenomena, or group of people. Samples are usually small as the data collection is rather time consuming. This is also the case for this thesis. The chosen sample is not big enough to make a generalization for the population. It cannot be stated that interviewing other designers will not result in new findings. However, the findings of this paper delivered insight into fashion design firms’ early steps in their business venture and the creation of patterns from the interviews was realizable. Furthermore the data analysis depends on the author’s interpretation. To make the analysis more valid, the use of interview quotations was added as well as some data triangulation.

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MECHANISMS OF QUALITY MANAGEMENT WITHIN INTERNATIONAL SUPPLY CHAINS

Gabriela Suruceanu

3.1 EXECUTIVE SUMMARY

The fashion industry is a competitive industry in which production costs play a significant role in firms' overall success and profitability. With the increase in the competitive pressures affecting developed countries, the fashion industry's production has moved to low-wage countries worldwide creating difficulties in monitoring the quality of the end product.

This research seeks to understand whether small and medium-sized Dutch fashion firms use sufficient control mechanisms to monitor quality in their international supply chains. These control mechanisms used by companies refer not only to monitoring the production quality but also to managing the relationships with its production suppliers, as this proves to be a key element in achieving the desired level of quality.

Competing in today's business environment requires working on achieving an effective supply chain by adding value at each step of it, and hence achieving an efficient value chain that must be managed accordingly, which also requires thinking about value creation at the level of supplier relationships. This study stresses out that need of choosing proper types of supplier relationships so that quality can be achieved.

This study required collecting in sequence both qualitative and quantitative primary data using interviews and survey, correspondingly. The findings were triangulated with sources of secondary data retrieved from reports and newspaper articles.

The implications of the study are presented in order to advise managers with regards to the most efficient quality control mechanisms with their international production suppliers. The managers are advised to choose supplier relationships that require high level of collaboration and are built based on long-term trust and commitment. Additionally, fashion firms should seek advice from non-profit organizations that specialize in creating various tools for monitoring suppliers and ensuring a visible communication. The Dutch policy makers are advised to create open source platform that is transparent and objective to provide with all the necessary data that is needed to support the Dutch fashion SMEs.

3.2 INTRODUCTION

This thesis forms part of an “Innovation and Participation in the Knowledge Economy” study conducted by the Centre for Applied Research on Economics and Management (CAREM).¹² It emphasizes the fact that Europe cannot compete on cost and should therefore seek to preserve its competitive position through innovation and through development of its knowledge economy. The implications of this study are of importance to Amsterdam policy makers (Amsterdam Economic Board), companies, and knowledge led institutions.

CAREM aims to involve students in its research projects as part of its participation in promoting the knowledge economy. Since research is becoming more important, it is important to integrate it optimally into the education process and to develop necessary competencies among students in order to bridge the gaps that exist between theory and practice, and between the knowledge institution and the business sector. To achieve this vision, school professors and members of School of Economics and Management (SEM) research committees are actively involved in the study, which is divided into four different themes: ‘Innovation of Services’, ‘HRM and Leadership’, ‘The Economy and Management of Cities’, and ‘Internationalization’. These themes derive from a wide range of programs provided by SEM and are essential to both contribution of innovation and participation in the knowledge economy.

This thesis lies within the scope of the theme of Internationalization and focuses on research into the internationalization of small and medium-sized enterprises (SMEs) in the Amsterdam area. A group of creative industries were chosen as a first avenue of inquiry into this theme, the fashion industry being one of these, due to its international and innovative character, and its reliance on international supply chain partners.

PROBLEM CONTEXT

The fashion industry has undergone considerable change in recent decades, due to global sourcing and fierce competition on price. As a consequence, fashion firms are constantly under pressure to identify solutions that can reduce production costs and lead to increased levels of outsourcing activities within the

¹² Research Institute of School of Economics and Management (SEM), Hogeschool van Amsterdam (HvA).

supply chain. Production is now routinely outsourced to globally dispersed production suppliers; this is a situation that creates difficulties in terms of quality control, requiring strategies to guide the selection of proper quality control mechanisms.

In defining the limits of this research, it was determined to study Dutch fashion SMEs¹³, since these often fail to adapt to the rapidly changing business environment, in which innovation is crucial. Additionally, previous research studies have predominantly focused on large fashion firms, which have a different modus operandi and benefit differently due to having abundant resources. In contrast, SMEs have limited resources and must make use of these in the most efficient way to ensure quality.

Interviews conducted with fashion firms reveal that the majority experienced quality problems as a result of outsourcing production to international suppliers; this has had a negative impact on the firms' overall profitability. In order to address this problem and regulate outsourcing, firms are selecting different modes of control, such as on-site audits, implementing terms and conditions for orders, and policies for local compliance. In addition, it has become apparent that in order to compete in today's business environment, it is no longer sufficient to engage in the traditional supply chain. Instead, what is needed, is to add value to some of the activities that take place within the supply chain (i.e. outsource the activity to achieve lower costs and/or value advantage) and therefore focus on achieving an efficient supply chain. Within this supply chain, various types of buyer-supplier relationships are established that also then impact on quality.

Despite the fact that quality is defined differently among firms (e.g. good fabrics/materials, free of defects, sustainable partnerships), all firms engage in quality control mechanisms and tailor these to suit them best. This paper illustrates the importance of accurate control mechanisms and discusses how to establish appropriate supplier relationships, with the aim of advising fashion firms' managers on how best to regulate quality. Additionally, it suggests possible policy measures to support fashion firms.

PROBLEM STATEMENT

The problem that is being addressed in this research relates to the understanding of quality control within the international supply chain and production partners, in the fashion industry. This generates the following research question:

“How should fashion firms use quality control mechanisms to monitor quality in their international supply chain and production partners?”

RESEARCH SUB-QUESTIONS

In order to answer the main research question, the following sub-questions must be answered:

1. What is quality, and how do fashion firms define it?
2. What mechanisms of quality control do small and medium sized fashion firms use?
3. What is an international supply chain in the fashion industry, and how do fashion firms monitor it?
4. What types of international supplier relationships affect quality?

¹³ From this point on Dutch fashion SMEs will be referred to as 'fashion firms'.

METHODS

This research requires the adoption of an exploratory approach, since little is known about the research problem. This requires the researcher to acquire more knowledge about quality and possible control mechanisms within the industry under study. In addition, this study follows a mixed methods approach, embracing both qualitative and quantitative primary data, collected in two sequential phases. During the first phase, qualitative data was gathered by means of semi-structured interviews, conducted with fashion firms. The initial findings from these interviews indicated that quality control was an issue for fashion firms; however, the details of this were not clarified. Hence, a detailed investigation was needed, which led to phase two; in which quantitative data was collected by administering a questionnaire to an additional sample of firms.

The primary data has been collected during the months of March, April and May 2013. The qualitative data was analyzed by identifying commonalities and discrepancies between the firms in terms of quality and quality control; whereas quantitative data was analyzed using software for statistical analysis SPSS. The latter has been done by employing two type of analysis: univariate (behaviour of one variable) and bivariate (behaviour between two variables).

In addition to primary data, secondary data was collected from industry reports of a non-profit organization (NGO) and newspaper articles about the fashion industry with regards to its international supply chain and production partners.

THESIS STRUCTURE

In the second chapter, the literature is reviewed and a theoretical framework established in order to discover what previous literature has to say about the research question. In the following chapter, the methodology is explained in detail. In the fourth chapter, the research findings are analyzed. Chapter five presents the discussion and implications for the study and the paper concludes with a summary and recommendations.

3.3 THEORETICAL FRAMEWORK

The theoretical framework is established by critically reviewing relevant literature that stresses the definition of quality and the theory of total quality management (TQM). Then, the literature on supply chain management is reviewed, as well as the literature on the value chain of the fashion industry. In addition, types of supplier relationships are discussed. Finally, a conclusion is drawn based on how this literature review is implemented in existing research.

QUALITY AND TOTAL QUALITY MANAGEMENT

Quality is a relatively vague concept, considering that the term has been used in diverse practices and under different circumstances. According to Gomes (2004), recognizing quality is easy; it is defining it that is problematic. Reeves and Bednar (1994) comment that there is no global definition of quality and as circumstances differ so does the perception of quality, making it a complex phenomenon.

Furthermore, it appears that quality should be understood as a multi-dimensional concept. According to Garvin (1987), quality has eight dimensions: performance, features, reliability, conformance, durability, serviceability, aesthetics and perceived quality. In addition, Stone-Romero, Stone and Grewal (1997) provide empirical evidence of quality's multi-dimensionality. According to Armstrong and Kotler (2009, p. 236), product quality emphasizes the characteristics of the product or service, in reference to its ability to satisfy stated or implied customer needs. They argue that it has two dimensions: quality level (performance quality in terms of product's ability to perform its functions) and quality consistency (conformance to a targeted level of performance).

Furthermore, although defining quality itself can be challenging, the most important fact to emerge is that the principle of quality as seen by the organization itself must be understood by all the professionals within that company and industry if harmony is to exist. A consistent, cross-organizational approach requires TQM, which emphasizes that all of a company's employees should remain constantly focused on improving the quality of its products, services and business processes. TQM must be embedded into every activity that takes place within the company, and be subject to continuous improvements (Armstrong & Kotler, 2009, p.236).

According to Daft (2008, p. 468), TQM philosophy focuses on teamwork, increasing customer satisfaction and lowering costs. Effective implementation occurs by motivating managers and employees to collaborate across departments and functions, as well as with customers and suppliers, in order to identify those areas that require improvement. Each newly improved area places the organization closer to its ultimate goal of having zero defects. This represents the definition of quality management in its narrowest sense: "freedom from defects" (Armstrong & Kotler, 2009, p. 236). Dean and Bowen (1994) define quality management as a "philosophy or an approach to management based on set of mutually reinforcing principles, each of which is supported by a set of practices and techniques". Sousa and Voss (2002) imply that quality management practices relate to two types of decisions: what to do (the content: e.g. improve product quality to increase sales and revenues and to reduce risk), and how to do it (process: e.g. using teams to reduce or eliminate inefficiencies in the manufacturing process).

In sum, quality management is an integral part of the activities of any firm that strives to deliver quality regardless of the view of quality adopted.

SUPPLY CHAIN AND SUPPLY CHAIN MANAGEMENT

According to Sanders (2012, p. 3), a supply chain is the network of entities involved in producing and delivering a finished product to the final customer. It involves processes including sourcing of raw materials and parts, manufacturing, producing, assembling the products, storing these in warehouses, order entry and tracking, distribution, and delivering to the customer. The flow begins with the suppliers of raw materials and components, which are then transported to the manufacturers, who in turn manufacture the finished products and ship them to manufacturer's distribution centers or wholesalers (Sanders, 2012, p.3).

Christopher (2011, p. 3) defines supply chain management (SCM) as the management of upstream and downstream relationships, with suppliers and customers, in order to deliver superior customer value at minimum cost to the supply chain. According to Harvard Business School's Professor Michael Porter (1985),

effective supply chain management is a source of competitive advantage. Porter (1985) points out that in order to gain competitive advantage over its competitors, a firm must guarantee to deliver value to its customers by performing underlying activities more efficiently than its rivals, or by performing them in a unique way that delivers differentiation (Christopher, 2011, p. 10). Additionally, Porter believes that it is important to assess whether a genuine competitive advantage is being achieved at each step, and if not, the firm should consider outsourcing that activity to a partner that can offer that cost or value advantage (Porter, 1985). This view has been widely accepted by a huge number of organizations, leading to increased demand for outsourcing, thereby extending the value chain beyond the boundaries of the business (Christopher, 2011, p. 11). Consequently, the supply chain is becoming the value chain; since, the value is being created not only by the firm itself, but also by all the entities connected to it (Porter, 1985).

In conclusion, organizations have adopted Porter's view of the supply chain by focusing on cost reduction and/or achieving a value advantage at each step of the chain.

VALUE CHAIN IN THE FASHION INDUSTRY

The fashion industry involves textile design, manufacture and sale of all types of apparel (men's, women's and children's), and accessories, such as shoes and handbags (Encyclopaedia Britannica, 2013). Thus, the value chain in the fashion industry combines different types of activities and functions (Lane & Probert, 2009, p. 34), as illustrated in the figure 3.1 with explanations following:

FIGURE 3.1 STEPS IN THE FASHION INDUSTRY VALUE CHAIN



Source: Lane and Probert, 2009

1. Development and planning a collection requires the input of skilled individuals with knowledge of market trends and of fabric availability, the integration of both of these aspects into development of product lines, and the costing of the planned collection.
2. Design and prototyping of new models requires creativity and technical skills in addition to an understanding of market demand and cost structures.
3. Production design and sample-making relates to the production of the item in the most cost-efficient way, while meeting quality standards and taking fit into consideration. Additionally, decisions on manufacturing location and fabric sourcing are also considered.
4. The manufacture and assembly of garments involves sewing and assembly using simple machines and fairly elementary skills.
5. Marketing activities requires matching the sales channels to the quality and character of the clothes, with the aim of achieving the largest market share in a given segment.
6. Distribution involves sophisticated logistics operation, often based on computerized order tracking and inventory control systems.
7. Retailing is the final step, at which point garments reach consumers via a range of retail channels.

According to Lane and Probert (2009, p. 35), this value chain can become fragmented at any step, and its activities distributed to various locations. The motivation for this may not necessarily depend on cost

considerations and competencies but also on the nature of the final product required, changes in market demand and in the supplier base.

INTERNATIONAL SUPPLIER PARTNERSHIPS

Working with international supplier partnerships has attendant risks, such as potential loss of control (Sanders, 2012). Efficient management of these buyer-supplier relationships is crucial to overall performance and can be achieved when trust and commitment is an integral part of the supplier relationship (Sanders, 2012, p. 314).

Sanders (2012, p. 314) identifies various types of international supplier relationships according to two dimensions. The first dimension is the *scope*, which relates to the degree of responsibility assigned to the supplier, thus the dependency on the supplier. The second dimension is the *criticality* of the sourced item or task, in terms of the extent to which it impacts on the ability of the organization to perform its core competencies. In addition, the author implies that four types of buyer-supplier relationships also exist based on these dimensions:

1. Non-strategic transactions – both scope and criticality are low, since these relationships are purely transaction oriented, involving exchange of commodities where standardization prevails and an alternative source of supply is available, making it unnecessary to develop a relationship.
2. Contractual relationships – scope is high, whereas criticality is low. The level of communication frequency is modest; although there is a need to control the suppliers' activities, the relationship is strictly based on a formal agreement.
3. Partnerships – low in scope, but high in criticality. Such relationships enjoy high levels of trust and strong commitment between the buyer/supplier despite the lack of frequent interaction.
4. Alliances – both scope and criticality are high, which means that comprehensive buyer-supplier relationships are present. The characteristics of such relationships are frequency of interaction, trust and commitment between the supply chain partners, which leads to the need to manage such relationships rather than merely monitoring.

Maynard (1996), however, found out that business relationships are best described according to the degree of collaboration between the buyer and the supplier, ranging from low to high degree of collaboration. The former is met within the premises of preferred supplier arrangements, which means that firms develop a special relationship with a key supplier; such relationships offer long-term security for firms, despite low levels of collaboration. Partnerships that require a high degree of collaboration are strategic alliances with or without equity participation.

The supplier relationships are built on trust and commitment, as this encourages reciprocity, provides long-term beneficial rewards such as the development of joint objectives, greater information sharing and coordination, which then becomes easier to implement (Sanders, 2012, p. 324). In addition, in today's business environment, organizations use various partnership strategies to embrace competition and cooperation simultaneously (Daft, 2008, p. 257).

According to Sanders (2012), quality and reliability are fundamental to being considered a good supplier, which is important for those companies that compete on quality.

CONCLUSION

The theoretical framework emphasizes what previous researchers in this field have established and contributes to the methodology chosen for this research paper. From the reviewed literature it can be concluded that quality management is an integral part of a firm's activities when its goal is to deliver quality. In order to achieve the ultimate organizational goal of "zero defects", a TQM model should be implemented, emphasizing collaboration between managers and employees across departments and functions, as well as between customers and suppliers, in order to identify new areas for improvement continuously (Daft, 2008). The literature about supply chain management stresses the need to fragment the traditional supply chain and outsource activities that can be done in a more cost efficient and/or value added way, to partners. This helps an organization to heighten its competitive advantage over its competitors and to generate value, not only from the firm itself but also from the entities to which it is connected (Porter, 1985). Managing an efficient supply chain requires management of the relationships that arise within it. This leads to consideration of the various types of supplier relationships that exist; each of which varies depending on the degree of collaboration between buyer-supplier and the dependency on the supplier. Companies that compete on quality build supplier relationships based on trust and commitment, as this encourages reciprocity. The long-term beneficial rewards achieved when pursuing such an approach (i.e. trust and commitment) are the achievement of desired quality and reliability (Sanders, 2012). The partner relationships as identified in the theory provide a guideline to the survey which was administered to the fashion firms (please refer to chapter 3, Methodology, for the survey used).

3.4 METHODOLOGY

The purpose of this thesis is to understand quality control mechanisms within the fashion industry's international supply chain and production partners. This chapter details the research procedure employed in order to answer the research sub-questions provided at beginning of the paper. Both primary and secondary data is used to ensure the validity and reliability of the findings.

RESEARCH DESIGN AND APPROACH

The purpose of a research design is to transform the research question and objectives into a research project with valid and reliable results. Validity measures whether the findings are, as they appear to be, whereas reliability determines whether the data collection techniques would yield consistent findings if repeated (Saunders, Lewis & Thornhill, 2009, p. 156).

This research requires the adoption of an exploratory approach, since little was known about the research problem and thus it was necessary to gain more knowledge about quality and control mechanisms. The research design implemented for this study is an exploratory sequential mixed method study, since qualitative and quantitative data has been collected over two sequential phases (Creswell & Clark, 2011).

The research first phase involved collecting and analyzing exploratory qualitative data in order to determine what is happening, to seek new insights, and to generate questions (Robson, 2002, as cited in Saunders et al., 2009, p. 139). From the exploratory results obtained during the first phase, a second quantitative phase followed in order to test or generalize the initial findings (Creswell & Clark, 2011).

Since this study is a mixed method study, it requires a mixed approach. The qualitative part of the research adopts an inductive approach: the data itself is first explored and then theories are developed from it, whereas the quantitative part adopts a deductive approach, which is necessary to identify theories and ideas and then test these (Saunders et al., 2009, p. 41). Thus, from this study it is induced that quality control is an issue of concern for fashion firms; and it is deduced (i.e. tested) that various measures of quality control have an impact on the number of quality problems that firms encounter with their international production suppliers.

RESEARCH STRATEGY

The research strategy chosen for the qualitative section of the study was multiple case study, which emphasizes empirical investigation of a particular contemporary phenomenon within its real life context, using multiple sources of evidence in order to establish whether the findings of the first case arise in the other cases, leading to the generalization of these findings (Saunders et al., 2009, p. 146). The research strategy chosen for the quantitative part of research is a survey questionnaire (see appendix 3), which allows the collection of a large amount of data from a sizeable population in an economical way (Saunders et al., 2009, p. 144).

SAMPLE POPULATION

Selecting a sample is more cost and time efficient than analyzing the entire population (Saunders et al., 2009, p. 214). The population for this study is fashion SMEs with less than 250 employees and less than €50 million an annual turnover.¹⁴ A sample was drawn from this population consisting of fashion firms registered at the Netherlands' Chamber of Commerce, whose activities relate to design, production and distribution of fashion items.

SAMPLING METHOD

According to Creswell and Plano Clark (2011, p. 88), a sequential exploratory study implies identifying the qualitative sample during the first phase. The sample is drawn using non-probability purposive sampling technique, which means that personal judgment has been used when selecting those cases that enable answering the research question while each firm does not have an equal chance of being included in the sample. The latter means bias is introduced into the sample, which in turn means it is not a representative sample and so the results cannot be generalized to the larger population (Saunders et al., 2009, p. 213, 237). However, since the intention of qualitative phase was to understand a phenomenon in more depth, statistical generalization was not the aim. There are no strict requirements applied to the size of a non-probability sample due to the considerations that "validity and insights gained from the data are related to the data collection and the analysis skills rather than to the sample size" (Patton, 2002). The qualitative sample size for this study is 4 firms since enough knowledge was gained in order to move to the second phase.

For the quantitative portion of the study a simple random probability sample was chosen; meaning that the probability of each case selected from the population is known and each member of the population has equal chances of being selected; hence the sample is representative of its population (Saunders et al., 2009, p. 213). The minimum sample size required should be at least 30 in order to conduct a statistical

14 The definition of SMEs by EU Commission, (2005).

analysis (Dr. Greener, 2008, p. 51). This condition was met: 300 fashion firms were selected from Bureau van Dijk's Database "REACH" and from the LinkedIn group "vLm Community Fashion Logistiek"; from which 30 agreed to participate in the quantitative research.

DATA COLLECTION TECHNIQUES

The data for this study was collected using both desk and field research. The secondary data (i.e. desk research) was gathered from industry reports done by NGO Made-BY¹⁵, about the fashion industry's international supply chain and production partners. Additionally, newspapers were used to investigate the most recent developments in this topic. The primary qualitative data (i.e. field research) was collected using semi-structured interviews (see appendix 1) with a predetermined list of themes and questions, and probing questions to be asked depending on the flow of the conversation. These interviews were audio recorded and later transcribed into interview transcripts. The primary quantitative data was collected¹⁶ via means of a structured survey (see appendix 3), administered by phone (i.e. in order to increase the response rate) and electronically using Survey Monkey digital survey tool.

The advantage of primary data over secondary is that it is more recent and more applicable to the research question itself, since it was collected for this particular research. Nevertheless, biases must be taken into account when collecting primary data; these include respondent bias, which emphasizes having a fashion firm representative provide information that benefits the overall image of the company, rather than being objective. In addition, to increase the reliability of the findings, triangulation was used to benefit from using different data collection techniques in a single study in order to assess the validity of the findings and reduce the biases (Berg 2009). For this reason, Made-By NGO report was used in order to have an independent third party's opinion about fashion industry.

PRIMARY DATA ANALYSIS

As a sequential exploratory study, the analysis begins by evaluating the qualitative data in order to gain knowledge about the research problem. Afterwards, an analysis of the quantitative data is conducted using SPSS software (i.e. software for statistical analysis). Descriptive statistics are used in order to summarize the quantitative data sample. In addition, the type of analysis undertaken is univariate analysis, which investigates the behavior of a single variable, and bivariate analysis, which investigates how two variables relate to each other.

The data type used within the scope of SPSS was categorical data with nominal variables. The categories were coded as binomial variables 1 (i.e. the presence of categorical condition) and 0 (i.e. the absence of categorical condition). Additionally, for the data analysis several methods were employed: contingency tables were used in order to determine which variable(s) indicated within the group is (are) occurred most frequently; cross tabulations were used to address the relationships between two or more variables; and last but not least; graphs are used to illustrate the relationships.

15 EU NGO that advises fashion firms how to achieve a sustainable supply chain.

16 Collected together with Charelle Felix investigating "Corporate social responsibility: international supplier's labour issues".

The analysis ends by incorporating the results deduced from the quantitative data with the results retrieved from the qualitative data, to find out how the former supports the latter (Creswell & Plano Clark, 2008, p. 71).

3.5 FINDINGS

To answer the research sub-questions it was required to find out how fashion firms perceive quality, what types of quality control mechanisms do they use, how is supply chain monitored and relationships within it managed. Accordingly, this chapter presents the findings obtained from desk and field research. The first section is based on documentary evidence retrieved from the NGO report. The primary data findings illustrate how various control mechanisms pursued by firms and the types of relationships chosen, impact quality.

DESK RESEARCH

From the report provided by Made-BY (Annual report, 2011), it was found out that to achieve an efficient international supply chain it is necessary to establish partnerships that are built on trust, commitment, and transparency. Made-By proposes various control mechanisms such as the implementation of credible and transparent control tools (i.e. scorecards, benchmarks) that both the firm and the supplier can use. This results in clear communication between the parties and increases the chances of achieving the proposed quality since this concept becomes in line with the activities of the production supplier.

FIELD RESEARCH FINDINGS

The findings from the analysis of the qualitative data interviews reveal that there are discrepancies between the firms when it comes to defining quality (e.g. free of defects, good fabric, following specifications, sustainable supplier relationships). Additionally, it was revealed that in order to prevent quality issues becoming a problem, companies pursue different control mechanisms (i.e. reliance on contractual terms and conditions clauses or on local policies, auditing suppliers with a regular frequency). Furthermore, firms enact different types of supplier relationships depending on how far they are willing to invest in terms of time and money and which corporate objectives they aim to pursue. Some firms choose to build long-term supplier relationships and establish partnerships based on trust and commitment (i.e. partnerships with or without equity participation, fully owned subsidiaries), as well as to invest in suppliers' operations, while others opt for relationships that do not require a high degree of involvement or collaboration (i.e. preferred supplier agreements, no long-term contractual agreements).

The findings deduced from the interviews were then generalized as the basis for the survey, the results¹⁷ of which are addressed applying two types of analysis; first the behaviour of each variable is analyzed using contingencies tables and graphs, second the relationships between the two variables are assessed. It is assumed as the basis for understanding the analysis that different quality control measures increase or decrease the likelihood of quality issues arising as a problem for companies.

17 Total amount of 30 respondents, total amount might vary due to multiple answer questions, referred as responses.

UNIVARIATE ANALYSIS

The results¹⁸ of the survey show that 35% of respondents have an average annual production of less than 100,000 units, 35% produce between 100,000 and 1 million units, whereas the remaining 30% of respondents indicated more than 1 million units. The majority of respondents (63%) have 10 or less international product suppliers, while the remaining 37% have more than 10 product suppliers. The top production countries indicated are China (70%), India (40%), and Bangladesh (33%).

The most common relationship type between fashion firms and their international production suppliers are: preferred supplier agreements, with 57% of all responses indicating this to be the case; followed by 47% with no-long term contractual agreements; and 23% favoring partnerships without equity participation. In addition, partnerships with equity participation and fully owned subsidiaries indicated 3% each.

Investments in international supplier's operations have been made by 57% of firms, among whom, investing in suppliers' employee training/skills is the most common type of investment, with 87% of responses indicating this, followed by 43% (i.e. responses) investing in capital equipment.

The majority of firms (80%) had experienced conflicts with their international production suppliers. The conflict types mentioned the most are late deliveries which are mentioned 18 times, defective products mentioned 15 times, specifications not followed mentioned 11 times, unacceptable lead time being mentioned 8 times. Furthermore, the least common conflict types are labor non-compliance, production scheduling and other (non-identifiable) conflict types.

The most common control mechanisms identified for monitoring international production suppliers are identified in the contingency table 3.1¹⁹, explained below; the percentage of responses indicates the percentage or total number of responses in each category, whereas the percentage of cases indicates what percentage of respondents indicated a response for each category (e.g. on-site audits by the firm itself occur 19 times out of the 28 firms answering to this question; giving 68%). Thus, for interpretative purposes the column heading Percentage of Cases is used.

18 A snapshot of the survey's results.

19 The contingency table illustrates how cases are distributed across the values of the variables.

TABLE 3.1 TYPE OF CONTROL MECHANISMS

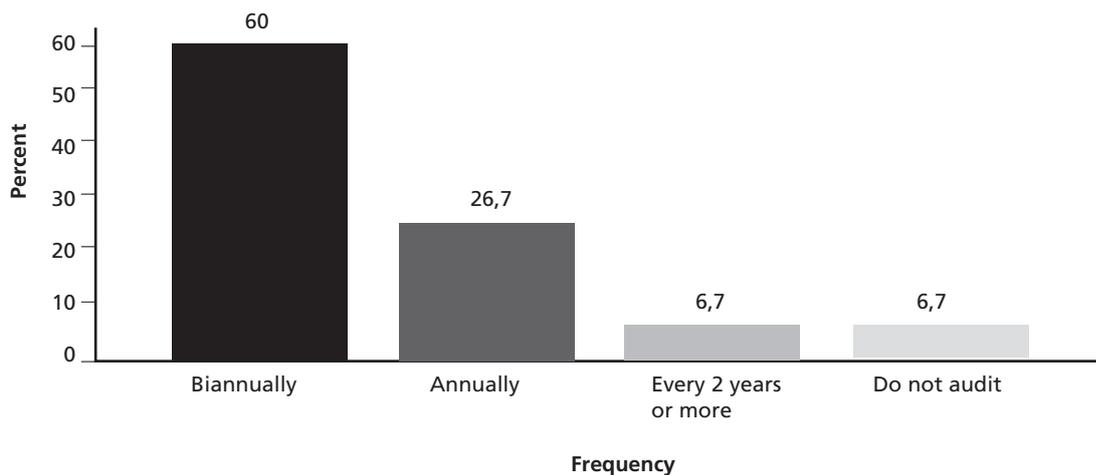
	Responses		Percent of Cases
	N	Percent	
Policies for local labor compliance	7	12,1%	25,0%
Terms and conditions for orders	13	22,4%	46,4%
On site audits by firm itself	19	32,8%	67,9%
On site audits by local agent	7	12,1%	25,0%
On site audits by 3rd parties	11	19,0%	39,3%
Other	1	1,7%	3,6%
Total	58	100,0%	207,1%

*28 respondents to this question, 58 total responses due to multiple answers question

Based on the table 3.1, the top three most common types of control mechanisms for monitoring international production suppliers are on-site audits, performed by the company itself, with about 68% indicating it; followed by terms and conditions for orders (47%), and on-site audits by third parties (39% of responses). The least favored control mechanisms are on-site audits by local agent and policies for local labor compliance, as indicated by 25% of responses for each type.

The frequency with which audits are conducted is twice per year (biannually) indicated by 60% of respondents, on annual basis indicated by 27% of respondents. The remaining 7% of firms conduct audits every two years or more, while 7% of firms do not audit their suppliers at all, as illustrated in figure 3.2 below:

FIGURE 3.2 FREQUENCY OF ON-SITE AUDITS OF MAIN SUPPLIERS



In summary, it can be asserted that the majority of those respondents who outsource their production to Asia (i.e. China, India, Bangladesh), face quality issues (i.e. defective products, specifications not followed), invest in their suppliers' employee training, choose different types of supplier relationship (i.e. preferred supplier agreements, no long-term contractual agreements, partnerships with no equity participation) and pursue quality control mechanisms (i.e. on-site audits by firm itself, terms and conditions for orders, on-site audits by 3rd parties) with a regular frequency.

BIVARIATE ANALYSIS OF QUALITY MANAGEMENT

In this section, the analysis focuses on quality issues related to defective products and specifications not being followed. It will also cover how these failings relate to the type of relationship that exists between the buyer and the supplier, the types of control mechanisms used to monitor product suppliers, and the frequency with which the latter occurs.

The relationship between quality issues and the type of supplier relationships as seen in table 3.2 below, indicates that within the category defective products, quality issues occur more often when preferred supplier agreements and partnerships with no long-term contractual agreements form the principal relationships. Within the category specifications not followed, quality conflict persists mainly in cases where there are no long-term contractual agreements. Moreover, both of these quality issues are less likely to occur when partnerships with no equity participation are the basis for the relationship, implying that the likelihood of quality concern decreases when there is a higher degree of collaboration between both parties.

TABLE 3.2 QUALITY – TYPE OF SUPPLIER RELATIONSHIP

		Type Relationship			Total
		Preferred supplier agreements	Partnerships no equity participation	No long term contractual agreements	
Defective products	Count	9	5	8	15
Specifications not followed	Count	6	3	9	11
Total	Count	9	5	13	20

*Totals are based on respondents that have answered to this question

These results can be compared to what Company D²⁰ (see appendix 4) has stated as their approach to ensuring quality, the firm chooses preferred supplier agreements “we have a broad network of suppliers in China and India, and we just look for perfect supplier” and also non-strategic agreements “some are actually sub-contractors”.

The relationship between the type of control mechanisms and the quality issues, as seen in table 3.3 below, indicate that defective products are most likely to occur when terms and conditions are used as control mechanisms and are less likely to arise when the firm itself is monitoring the supplier. Whereas, specifications are generally not followed when audits are done by third parties and are less likely to be

20 Specializes in fashion accessories.

applied when terms and conditions for orders are set by control mechanisms. On average, when the firm itself audits the supplier the likelihood of quality issues arising reduces.

TABLE 3.3 QUALITY – TYPE OF CONTROL MECHANISMS

		Type of Control Mechanisms			Total
		On site audits by 3rd parties	On site audits by firm itself	Terms and conditions for orders	
Defective products	Count	6	5	8	14
Specifications not followed	Count	7	6	5	11
Total	Count	9	10	8	19

*Totals are based on respondents that answered to this question

These results can be compared with the control strategy chosen by Company D, which states that the most effective mechanism of quality control is auditing conducted by the firm itself: “we have our own office in China and India and it is easy to control quality... have people on ground in China to check production and control quality”, “do in-line production check...get in the factory”, by third parties “many of them are sub-contractors themselves so they work with a lot of factories”.

When connecting the relationship between quality issues and the frequency of on-site audits, as shown in contingency table 3.4 below; defective products were indicated by 15 firms and specifications not followed by 11 firms. Issues tended to increase the more often supplier checks took place, which implies that regardless of audit frequency problems are still present or that auditing more frequently uncovers the problems.

TABLE 3.4 QUALITY CONFLICT – FREQUENCY OF ON-SITE AUDITS

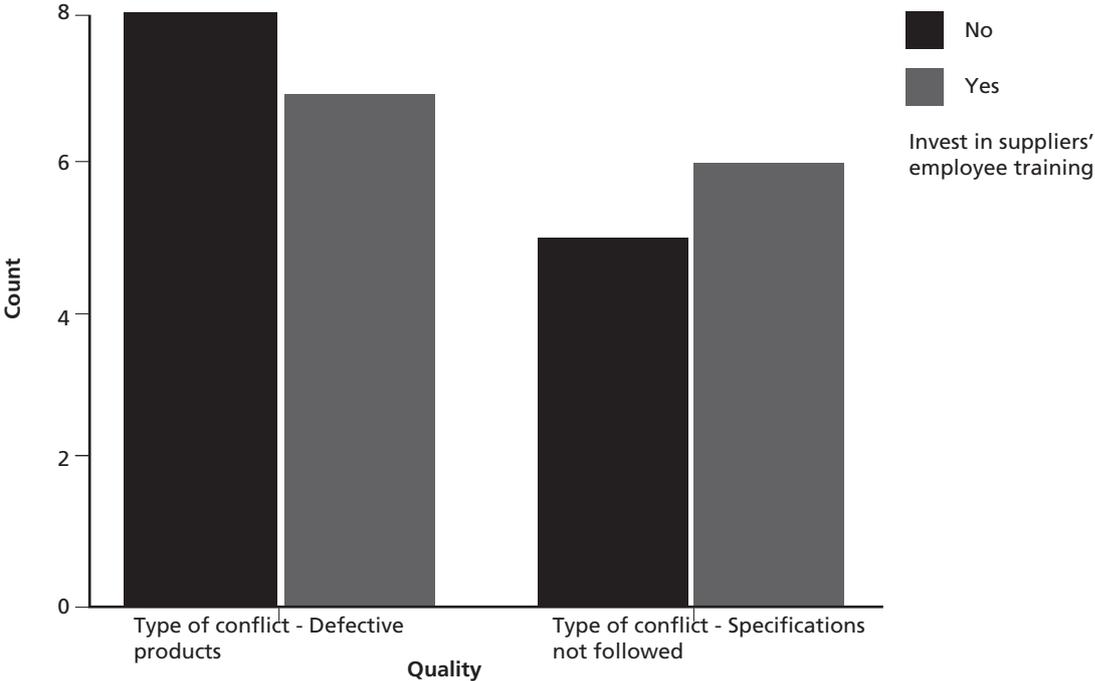
		Frequency of on-site audits of main suppliers				Total
		Biannually	Annually	Every 2 years or more	Do not audit	
Defective products	Count	8	5	1	1	15
Specifications not followed	Count	6	5	0	0	11
Total	Count	12	6	1	1	20

*Totals are based on respondents that have answered to this question

The relationship between quality problems and investment in suppliers’ employee training, as seen in figure 3.3 below, shows that when a firm is investing in suppliers’ employee training, defective products are less likely to occur. Investment is less likely to decrease the occurrence of specifications not being followed. This implies that suppliers investing in employee decreases the likelihood defective products.

These results are supported by the interview with Company A²¹ (see appendix 4), which stated that the company invests in its suppliers' employee relationships in order to benefit from good quality: "step I took with the relations, is to take them with me into the passion for the product...in the end what counts, is that we are growing with the quantities...If you take them with you in your passion for the product, and they seen 6 months later that the orders are growing because the do a good performance, then you can see and show them...if you pay a little more attention on quality or on detailing that is going to work" [Make production suppliers understand that if they care about producing a quality product, is it better for everyone: more sales, more production, more revenue for all parties.]

FIGURE 3.3 QUALITY – INVESTMENT IN SUPPLIERS' EMPLOYEE TRAINING



3.6 DISCUSSION AND IMPLICATIONS

The aim of this research was to determine how fashion firms should use quality control mechanisms to monitor quality in their international supply chain and production partners. The investigation of the topic concerned required an understanding of quality as understood by fashion firms, in particular how this can be managed efficiently. Secondly, for competitive advantage to be achieved and/or maintained, management of an efficient international supply chain and production partners must be established by adding value at each stage of the chain's activities and to the relationships within. In addition, relationships must be chosen thoughtfully and managed accordingly to ensure the target quality is achieved.

21 Specializes in formal clothing for men.

This chapter presents the findings and discusses the implications it has for Dutch fashion industry and industry stakeholders. The strategies suggested ensuring efficiency of quality control mechanisms and supplier relationships' management are presented below.

QUALITY CONTROL MECHANISMS

Theory has shown that while quality can be easily recognized, it is hard to define (Gomes, 2004), and that quality management in its narrowest sense means being free from defects (Armstrong & Kotler, 2009). Similar findings were obtained from the field research carried out, which proved that quality can be understood differently among fashion firms emphasizing not only the quality of the final product but also the quality of the relationships established between all involved parties.

Furthermore, the theory implies that those companies competing on quality must ensure that the quality principle is well communicated to, and understood by, all of the company's stakeholders. In addition, these stakeholders would be expected to collaborate with each other in order to identify those areas that require improvement (Daft, 2008). This TQM philosophy seems to be a valuable model for this research and is supported by Company D (see appendix 4), which communicates with its customers using a rating system for orders, to identify areas of production that need improvement. This theory is also embraced by the NGO, which advises its clients (i.e. fashion firms) to depict those areas needing improvement, by means of a scorecard to be used by both the fashion firms and their suppliers. Such an approach to relationships' management requires clear communication and high level of collaboration between the company and the supplier. These relationships must be built based on long-term trust and commitment to achieve successful results.

Furthermore, the primary data findings suggest selection of a control mechanism "on-site audits by the firm itself", thereby reducing quality problems. In addition it has been found out that the frequency with which audits occur does not tend to reduce quality issues, suggesting the possibility that the audits conducted by the firms are not done properly with a remit to reduce problems or that these more frequent audits actually uncover more problems. This requires more research in terms of how relationships and control mechanisms reduce quality issues, aspects outside of the scope of this study. Thus, it can be concluded that relying solely on audits is not sufficient to reduce quality related problems.

SUPPLIER RELATIONSHIPS' MANAGEMENT

Porter (1985) suggested that achieving an efficient supply chain requires adding value not only to the activities of the chain but to the relationships within it as well; these requiring proper management. The buyer-supplier relationships require a degree of cooperation in order to retain control over the quality of final product. On the one hand, the relationship is best described in terms of close coordination and cooperation. On the other hand, fashion firms are constantly searching for cost reduction due to persistent price pressure (Lane & Probert, 2009).

This research implies that since the location of production suppliers is geographically distant, difficulties arise in regards to control over the production process. In order to confront such difficulties, it is implied that trust and commitment are needed, as these encourage reciprocity, provide long-term beneficial rewards and ensure quality and supplier reliability (Sanders, 2012).

One of the conclusions from this study is that the choice of supplier relationships and the management of these relationships also affect quality issues. The primary data findings suggest that quality is achieved when collaborative partnerships without equity participation exist between the firm and its production supplier. This is supported by the theory that implies supply chain relationships should be built based on trust and commitment (Sanders, 2012).

Furthermore, in contradiction to the theory that implies preferred supplier agreements provide long-term security for firms, despite low levels of collaboration (Maynard, 1996), the findings suggest that although the majority of participants indicated that preferred supplier agreements are the most common type of relationship, this failed to offer security to the companies in the form of reduced quality problems. Hence, fashion firms are advised to build partnerships based on trust, commitment and high degree of collaboration so that quality needs can be fulfilled

Moreover, the primary data findings show that the best method to reduce quality problems is to invest in training suppliers' employees (i.e. invest time in teaching the supplier about the targeted quality level). Such an investment can be done by taking the time to teach the supplier with regards to quality as perceived by the company.

LIMITATIONS

These findings are subject to several limitations, which need to be considered. Firstly, due to short time frame during which the data was collected, the number of participants in this study (i.e. sample size, response rate) resulted to be small which implies that generalizations about the entire population might not be appropriate. Moreover, more research would need to be done to uncover differences or similarities in firms' behaviour across countries. Also, there is another limitation to generalization to other industries (e.g. the manufacturing industry), since industries have different sets of stakeholders and actors, have different industry dynamics and have different definitions of quality.

3.7 CONCLUSION

The fashion industry is a labor intensive industry for which production costs represent a significant part of the firms' overall profitability and success. The constant price pressure in developed countries led to shifting the production to low-wage countries worldwide, leading to difficulties in controlling quality in their international supply chain.

To overcome such difficulties, companies engage in various types of supplier relationships and pursue different types of control mechanisms. This study looked at investigating how fashion firms should use quality control mechanisms so that quality can be maintained.

This exploratory research was conducted in two sequential phases. Initially, qualitative data was collected by means of interviews with fashion firms. As consequence, it was induced that quality control is an issue for fashion firms. To generalize on these findings, a survey was administered to the quantitative sample. Accordingly, it was deduced that various measures of quality control have an impact on a number of quality problems that firms encounter with their international production suppliers. In addition,

triangulation was used by gathering both desk and field research in order to reduce the biases and increase the reliability of the findings.

The results of this study suggest that small and medium-sized Dutch fashion firms do not use sufficient quality control mechanisms since these firms lack to manage their relationships which proves to be crucial. The implications of this study suggest that relying solely on audits and investments in suppliers' training is not enough, what is required is selecting the right type of supplier relationships, especially taking into account the need of establishing an efficient supply chain. This is accomplished when the chosen relationships involve high degree of collaboration, trust and commitment between the buyer and the production supplier such as in the case of collaborative partnerships without equity participation being the relationship between the firm and its production suppliers.

To achieve the desired quality, total quality control mechanisms have to be implemented by the company at each stage of its activities and business processes. This can be done by designing scorecards that measure the quality issues concerned and monitor any resultant improvements. To do so, it is advisable to work together with NGOs, in order to benefit from independent opinions and advice, as regards the necessary improvement in supplier relationships management. The Dutch policy makers are advised to create open source platform that is transparent and objective to provide with all the necessary data that is needed to support the Dutch fashion SMEs.

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4

CORPORATE SOCIAL RESPONSIBILITY: INTERNATIONAL SUPPLIERS' LABOR ISSUES

Charelle Felix

4.1 EXECUTIVE SUMMARY

This research was conducted to inform the Centre for Applied Research on Economics and Management (CAREM) and policy makers of Dutch fashion firms. It investigates the ability of the Dutch fashion industry to control labor issues relating to their international production suppliers, since there is increasing pressure on the fashion industry to be accountable for and tackle social issues within their supply chain.

Since this industry is profit-driven and labor intensive, companies often outsource production to low-cost countries. Even though most companies have a code of conduct or other control mechanisms in place, they nevertheless encounter labor issues within their international production suppliers. Chapter 4.2 introduces the research problem: How can the Dutch fashion companies have control over labor issues at their international production suppliers?

To understand the concept of corporate social responsibility (CSR), Chapter 4.3 discusses the different theories relating to CSR. It begins with definitions of CSR, and a review of the stakeholder theory. The human rights framework is then reviewed, as this forms the basis of labor issues. The different CSR reporting mechanisms are also discussed followed by the CSR governance theory. Finally, the chapter shows how CSR is connected with the fashion industry.

Chapter 4.4 illustrates how the research strategy was chosen to collect and analyse the data. The research onion was used to help identify the research purpose, philosophy, and approach used. Based on this, the survey research strategy was chosen, where both quantitative as qualitative data were collected through semi-structured interviews and structured questionnaires.

Chapter 4.5 analyses the data gathered from the interviews and surveys. It shows that labor issues are connected with the number of suppliers, production volumes, relationships with suppliers, and the guidelines used. It also shows that over time labor non-compliance can be related to late deliveries.

The findings and their implications are discussed in chapter 4.6. Also examined are three aspects that managers might look at to solve the research problem: suppliers, labor non-compliance, and guidelines. Finally, the research conclusions are drawn in Chapter 4.7.

4.2 INTRODUCTION

Since research is one of the important skills required to improve the practice of professionals at universities of applied sciences (HBO), the School of Economics and Management/HES (SEM) has launched its first research program. This vision of expanding and professionalising research and integrating this in education is shared with the lecturers of the Centre for Applied Research on Economics and Management (CAREM).

The research program is titled 'Innovation and participation in the knowledge economy', which reflects the central notion that the economy evolves in the direction of a knowledge economy. The idea behind a knowledge economy is that Europe cannot compete on costs, therefore it focuses on knowledge and innovation. Within the program, themes are revealed which are central in the contribution to innovation of and participation in the knowledge economy. The themes are also meant as a first step in the development of the joint vision.

There are four themes chosen within the School of Economics and Management: innovation of services, HRM and leadership, the economy and management of cities, and internationalization. Each theme has its individual type of actor: within innovation of services the actors are the business and the consumer; for HRM and leadership they are the employee and the manager; for the economy and management of cities it is the geographical entity such as the region, city, district or area; and internationalization is of importance in all areas.

In implementing the research program, there are two starting points: 1) research in the School of Economics and Management is practice-based, which involves close dialogue with professionals and 2) the research will be interrelated as much as possible with education. Point 2 suggests that to integrate the research within education, teachers have a key role to play in the incorporation of research into courses. This role can take different forms, such as letting students participate in professorships, linking thesis subjects to the research program, developing research learning pathways and linking this to the thematic focus in the research program.

PROBLEM INDICATION

To implement the research program and link it with the theme 'Internationalization', the fashion project was created by one of the CAREM lecturers, Dr. Willem van Winden, as an incorporated 'student' project in the course 'Current Issues in Business' during the 2011 autumn semester.

The fashion project was created because policy makers in Amsterdam (Amsterdam Economic Board) would like to have a clearer understanding of the creative industries and how they could be more internationalised. Of all the creative industries, the fashion industry was chosen as it is relatively important in Amsterdam. The aim of the project is to investigate how small and medium firms learn and develop competitive skills from their international partners. Since the supply chain is the most common partnership in the fashion industry, this developed into an important subject in the project.

As CAREM aims to involve students in their research projects, they were involved in interviews with fashion firms in Amsterdam and investigated several topics relevant to the fashion industry. Different Dutch brands were interviewed in this project, and several topics arose that needed further investigation. In the interview with the Dutch brand, J.C. Rags, it became apparent that they were involved in a corporate social responsibility (CSR) issue regarding unsatisfactory labor conditions at their supplier in Turkey. J.C. Rags received a complaint that employees of their Turkish supplier had experienced several forms of discrimination, such as unjust dismissals and threats by supervisors. This initiated an investigation into CSR for labor conditions within the fashion industry's supply chain.

Fashion is a growing industry in the creative sector with growing pressure on companies to be accountable for their supply chain abroad. This means companies are held responsible not only for their own actions, but also for those of their suppliers. Fashion companies often outsource their production in order to keep costs down and prices competitive. Company managers are responsible for determining the policies regarding corporate social responsibility in their outsourced production. Over the last few years CSR has become one of the issues most likely to influence brand image within the industry. Despite the fact that the fashion industry has committed to socially responsible conduct policies, labor issues nevertheless arise involving "sweat shops" in the supply chain.

PROBLEM STATEMENT

This thesis will investigate the fashion industry on behalf of CAREM and Amsterdam policy makers, who would like to reach a deeper understanding of this matter and how it could be better regulated, thereby answering the following problem statement for CSR policymakers in the fashion industry:

How can the Dutch fashion companies have control over labor issues at their international production suppliers?

RESEARCH QUESTIONS

To answer this problem we must first examine the following:

1. What is CSR?
2. How are human rights related to CSR?
3. How is CSR governed and reported?
4. Why is CSR significant in the fashion industry?

5. What standards are frequently used in the Dutch fashion industry?
6. What are the most common social labor issues in the Dutch fashion industry?

RESEARCH METHODS

This is a descriptive research study conducted using a positivist philosophy to test the CSR theory. It has been carried out using a deductive approach, where the theory is identified before the data is collected.

For this quantitative research, the survey strategy was chosen to gather primary data during the months of March, April, and May. Both quantitative and qualitative data collection methods were used. The field data consists of two parts: the qualitative, which comprises two semi-structured interviews conducted in person at the interviewees' offices; and the quantitative part, consisting of structured questionnaires for a telephone survey.

The survey data gathered was analysed using the Statistical Package for Social Science (SPSS). Two types of analysis were carried out: a univariate analysis that analysed each variable of the survey individually, then a bivariate analysis that analysed the relationship between the variables.

RESEARCH LIMITATION

This research was limited to small and medium Dutch fashion companies. From the selected sample of 300 fashion companies, there were 30 respondents. Although all efforts were made to increase the response rate, some companies were unwilling to participate in the survey. Consequently, it may not be appropriate to generalise the findings.

4.3 THEORETICAL FRAMEWORK

This chapter will provide a review of the different CSR theories, starting with the stakeholder theory, followed by Ruggie's human rights framework. The theory of CSR governance and reporting will also be reviewed, concluding with CSR in the fashion industry.

CSR AND THE STAKEHOLDER THEORY

For years there has been discussion over the definition of CSR. Until now, there have not been one but several definitions of CSR, varying from those proposed by academics to those put forward by organizations, with overlap between these.

One of the frequently cited academic definitions is Carroll's (1979), which takes into account society's expectations of an organization, describing CSR as "the economic, legal, ethical and discretionary expectations that a society has of organizations at a given point in time" (Carroll, 1979 as cited in Jones, 1999).

While Carroll gives a broader definition of CSR, a more formal definition is supplied by the World Business Council for Sustainable Development (WBCSD): "Corporate Social Responsibility is the continuing commitment by business to contribute to economic development while improving the quality of life of

the workforce and their families as well as of the community and society at large” (WBCSD Stakeholder Dialogue on CSR, 1998, as cited in World Business Council for Sustainable Development, 1999: p.3).

In contrast to the WBCSD’s more detailed definition, the European Commission gives a simpler definition of CSR as “the responsibility of enterprises for their impacts on society” (European Commission, 2011: p. 6). Another thorough definition of CSR is supplied by Werther and Chandler, who examine each word within the term Corporate Social Responsibility, and subsequently define it as; “A view of the corporation and its role in society that assumes a responsibility among firms to pursue goals in addition to profit maximization and a responsibility among a firm’s stake- holders to hold the firm accountable for its actions” (Werther & Chandler, 2011: p. 5).

Examining all these, it can be noted that every definition includes a part of the term Corporate Social Responsibility. In every definition, “Corporate” can be understood to mean the business or organization, and Social Responsibility can be perceived as the commitment or responsibility that is assumed by society to achieve certain goals related to society.

Even though no general definition of Corporate Social Responsibility exists, one aspect that academics agree upon is the relationship with the corporation’s society or stakeholders. As Valor (2005) states, CSR complements and reinforces the concept of stakeholders. Werther and Chandler define a business stakeholder as “any group or individual who can affect or is affected by the achievement of the organization’s objectives” (2011: p. 3). A more thorough definition is supplied by Freeman, which also refers to the rights of the groups and individuals that could potentially be violated or respected by corporate actions (Freeman, 1998 as cited in Branco & Rodriguez, 2007). To identify these stakeholders and consider the business and social issues, a useful structure to use is the stakeholder framework (Wood & Jones, 1995 as cited in Rowley, 1998).

According to Werhane and Freeman (1999, as cited in Branco & Rodriguez, 2007), the stakeholders’ perspective suggests that a company’s activities affect not only their shareholders but also other groups or constitutions, which are equally important and therefore have to be considered by management when making decisions.

Donaldson and Preston justify the stakeholder theory in three different ways: as a normative theory, where the interest of all stakeholders are considered in management decisions; as a descriptive theory, which is used to describe management behaviour towards stakeholders; as an instrumental theory, which shows the connection of a firm’s performance and its decisions with stakeholder management; and finally, as a managerial theory, which concerns management actions (1995, as cited in Freeman & Velamuri, 2008).

Phillips agrees with the normative stakeholder theory, and describes these stakeholders as “those to whom the organization has a moral obligation, an obligation of stakeholder fairness, over and above that due other social actors simply by virtue of them being human” (2003, as cited in van de Ven, 2005: p. 52). Phillips also includes the derivative stakeholders, which “are those groups whose actions and claims must be accounted for by managers due to their potential effects upon the organization and its normative stakeholders” (2003, as cited in van de Ven, 2005: p. 52).

Even though the descriptive and instrumental are significant, Donaldson and Preston agree that the normative stakeholder theory is fundamental (1995). They argue that both normative and instrumental theories might point towards the decision maker’s appropriate choices, but that they remain on different foundations. They explain the instrumental approach as; “If you want to achieve (avoid) results X, Y, or Z, then adopt (don’t adopt) principles and practices A, B, or C” (1995: p. 72), and the normative approach as; “it says, in effect, “Do (Don’t do) this because it is the right (wrong) thing to do.”(1995: p. 72).

CSR AND HUMAN RIGHTS FRAMEWORK

A universal statement of human rights has not always existed, but was created by the UN General Assembly on 10th December 1948 after the Second World War (United Nations). After the international community created the United Nations at the end of the war, the universal statement was adopted guaranteeing the rights of every individual the world over with the Universal Declaration of Human Rights (UDHR).

The UDHR includes 30 articles, which describe the fundamental human rights and freedoms to which every man and woman in the world is entitled. Almost all countries have accepted it as a contract between the government and their people. The articles of the Declaration also serve as a basis for several human rights protection organizations.

The Universal Declaration of Human Rights includes several labor rights (see table 4.1), which are used by states or international organizations as a framework for human rights, even though Alston leaves it for readers to decide if labor rights are really best promoted within the framework of human rights (2005).

TABLE 4.1 LABOR RIGHTS OF THE UDHR 1948

The right to be free from slavery, broadly defined to encompass the modern forms thereof (Art. 5)
The right to non-discrimination and equal protection of the law (Art. 7)
The right to freedom of association (Art. 20)
The right to social security (Art. 22)
The right to work, to free choice of employment, to just and favorable conditions of work, and to protection against unemployment (Art. 23)
The right to equal pay for equal work (Art. 23)
The right to form and to join trade unions (Art. 23)
The right to reasonable limitation of working hours (Art. 24)

Source: UDHR, as cited in Alston, 2005.

It was not until the two reports by John Ruggie, the UN Secretary-General’s Special Representative (SRSG) on business and human rights, were published that human rights began to play a more prominent role in the conceptualization of CSR (United Nations 2008a & 2008h as cited in Wettstein, 2012). According to Wettstein (2012), human rights’ increasing contribution to CSR literature can be divided in three stages; the first in the mid-1980s, the second in the early to mid-1990s with the sweatshop and child labor controversies, and finally the third stage in 2005 with the creation of the position of the SRSG. After being appointed to the SRSG in 2005, John Ruggie presented a framework in 2008 entitled “Protect, Respect

and Remedy” on business and human rights to the Human Rights Council (Wettstein, 2012). The principles of this framework are based on recognition of: a state’s obligation to respect and protect human rights; corporate responsibility to comply with all applicable laws and to respect human rights; greater access to appropriate and effective remedies for victims (United Nations, 2011).

CSR GOVERNANCE AND REPORTING

Another area of concern within business ethics is that of corporate governance. There is no single general definition for corporate governance, but several definitions ranging from the shareholder’s approach, such as the Walker Review definition: “The role of corporate governance is to protect and advance the interests of shareholders through setting the strategic direction of a company and appointing and monitoring capable management to achieve this” (2009 as cited in Solomon, 2010).

A more stakeholder-oriented approach is adopted by Solomon who defines corporate governance as a guarantee of the accountability of companies to all their stakeholders via an internal and external system of “checks and balances”, as well as the pledge that all their business activities should be conducted in a socially responsible way (2010). Solomon also stresses the growing importance since the global financial crisis of linking corporate governance and stakeholder accountability, and he argues that corporate governance should not be an isolated issue, but relevant to the companies and their shareholders (2010).

In a study about thought leaders by Strandberg (2005), six different links between governance practices and corporate social responsibility principles are presented: disclosure, accountability, transparency, board diversity, risk management, and compensation. His study also shows the emphasis placed by thought leaders on the importance of governance-oriented disclosure, whereby they review the progress of CSR integration. However, he points out that even though disclosure is important, “companies first need to go upstream and develop policies on the spectrum of CSR issues and then report on policy implementation” (Strandberg, 2005: p. 10). CSR reporting is thus seen as “end of pipe stuff” by Strandberg’s interviewees (Strandberg, 2005: p. 10).

O’Rourke (2004), on the other hand, views CSR reporting as essential for evaluating the impact of corporate activities, identifying optimum company performance, and promoting the continuous improvement of performance.

There are also several trends recognised by O’Rourke in CSR reporting, and he makes a distinction between mandated and voluntary reporting (2004). The current trends identified in government mandated reporting are financial disclosure requirements, environmental disclosure, and social reporting (O’Rourke, 2004). The International Labour Organization is an example used by O’Rourke as the world’s first social reporting and labelling regulator. The International Labour Organization has four core labor standards, which apply to all its member states and include freedom of association, forced labor, child labor, and non-discrimination in employment (Alston, 2005).

Voluntary reporting can be carried out under several initiatives, including non-governmental organizations (NGO) and multi-stakeholder reporting, firm reporting, and international initiatives (O’Rourke, 2004). The multi-stakeholder initiative is used by NGOs to develop company reporting, because they have been critical of reporting coverage (O’Rourke, 2004). To respond to these reporting debates, some major initiatives

have emerged on labor practices reporting (see table 4.2: Labor practices reporting initiatives): the Fair Labor Association (FLA), Social Accountability International (SAI), the Worldwide Responsible Apparel Production (WRAP) certification program, the Workers’ Rights Consortium (WRC), the Ethical Trading Initiative (ETI), and the Fair Wear Foundation (FWF) (O’Rourke, 2004). These initiatives were established in response to pressure brought by activists and the public around “sweatshops” conditions, and they each contain codes of conduct based on the International Labour Organization’s standards, as well as codes for compliance monitoring systems (O’Rourke, 2004).

TABLE 4.2 LABOR PRACTICES REPORTING INITIATIVES

	Fair Labor Association (FLA) <i>www.fairlabor.org</i>	Social Accountability International (SA8000) <i>www.sa8000.org</i>	Worldwide Responsible Apparel Production (WRAP) <i>www.wrapapparel.org</i>	Worker Rights Consortium (WRC) <i>www.workersrights.org</i>	Ethical Trading Initiative (ETI) <i>www.ethicaltrade.org</i>	Fair Wear Foundation <i>www.fairwear.nl</i>
Scope	Apparel and footwear companies. Licensees of affiliated universities.	Factories producing a wide range of products.	Apparel industry.	University Licensed Goods.	Wide range of industries: agriculture, wine, apparel, electronics, etc.	Apparel industry (initially only firms sourcing to Dutch retailers).
Reporting	All internal and external monitoring reports be provided to the FLA staff. The FLA evaluate audits, jointly develop remediation plans, and then publish summary reports of audit remediation results.	Audit reports go to the companies and to SAI. Other parties can only receive them after having signed a confidentiality agreement with the company and the audit company.	Audit reports are provided to factories and the WRAP board.	Firms do not directly report to the WRC. The WRC sends investigation teams to areas of controversy and conducts its own evaluations.	Firms report the results of auditing and pilot studies to the ETI board and member organizations.	Companies submit audit reports and corrective action plans to the FWF office.
Public Disclosure	Annual reports on each company based on internal and external monitoring. Participating companies are publicly listed on website. No disclosure of locations of certified factories.	Public disclosure of factories granted certification.	No public reporting. No mention of sites that receive, fail, or lose certification.	Full public reporting of investigation findings.	Disclosure of aggregate results to the public. Detailed reporting only available to members of the ETI.	Disclosure of brands participating in FWF, the countries of operation, and the number of suppliers in each country. Business data and worker interviews are kept confidential.

Source: O’Rourke, 2004. “Opportunities and obstacles for corporate social responsibility reporting in developing countries”.

Another initiative is where a firm does its own reporting, gathering data about factory performance, labor compliance and environmental compliance (O’Rourke, 2004).

An international initiative mostly used by multinational companies (MNC) is the guidelines laid out by the Organisation for Economic Co-operation and Development (OECD). O’Rourke states that these guidelines are “the only comprehensive, multilaterally endorsed code of conduct for MNCs, and establish a range of non-binding standards and principles for corporate practice including recommendations for advancing corporate social accountability through disclosing environmental and social performance information” (2004). Another voluntary international initiative is the Global Compact initiative made by the United Nations: this includes several principles which companies are asked to follow and to report on annually

(O'Rourke, 2004: p. 17). In this way businesses are committed to align their strategies and operations with the UN Global Compact's ten universally accepted principles (see table 4.3), which vary in the areas of human rights, labor, environment, and anti-corruption (UN Global Compact).

TABLE 4.3 THE UN GLOBAL COMPACT TEN PRINCIPLES

Principle 1	Businesses should support and respect the protection of internationally proclaimed human rights.
Principle 2	Make sure that they are not complicit in human rights abuses.
Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
Principle 4	The elimination of all forms of forced and compulsory labor.
Principle 5	The effective abolition of child labor.
Principle 6	The elimination of discrimination in respect of employment and occupation.
Principle 7	Businesses should support a precautionary approach to environmental challenges.
Principle 8	Undertake initiatives to promote greater environmental responsibility.
Principle 9	Encourage the development and diffusion of environmentally friendly technologies.
Principle 10	Businesses should work against corruption in all its forms, including extortion and bribery.

Source: Reproduced from UN Global Compact (<http://www.unglobalcompact.org/>)

Recent CSR reporting reveals the emergence of a new assurance industry, which verifies the information, presented in CSR reports, in other words, auditing them (O'Rourke, 2004). As a result, the British NGO Accountability has developed an assurance standard named AA1000 (O'Rourke, 2004). O'Rourke explains that the standard was created to improve "the quality, consistency, and comparability of reporting information by establishing a standard for assessing, attesting to, and improving the credibility of CSR reporting" (2004: p. 16).

Patricia Quinn agrees with this, and presents three factors that contribute to the credit-worthiness of CSR reporting: "external independent verification; candour about failures to live up to expressed standards or targets; and adherence to some widely recognised code or standard such as the UN's Global Reporting Initiative Guidelines" (Quinn, 2007: para. 17).

CSR AND THE FASHION INDUSTRY

The fashion industry can be generally described as "all companies and individuals concerned with the design, production, and distribution of textile and apparel goods" (Jarnow & Dickerson, 1997). The familiar parts of the industry are businesses making women's clothing, menswear, children's wear, and accessories (Jarnow & Dickerson, 1997).

The processes involved in the textile and clothing industry begin with natural fibres or man-made fibres, which forms an input for the textile industry and becoming a textile-manufactured output (Jackson & Shaw, 2006). The textile-manufactured output becomes raw material input for the clothing manufacturing industry, where they are finally converted into garments and delivered to wholesale and distribution firms, who are mostly an intermediary of suppliers and customers (Jackson & Shaw, 2006).

Thus, the difference between the textile and apparel industries is that the textile industry is capital-intensive with high investment, while the apparel industry is labor intensive with less capital investment (Jackson & Shaw, 2006). Since the apparel industry is labor intensive, labor costs are therefore an important aspect in the manufacture of clothing (Jarnow & Dickerson, 1997).

Since the production phase in the apparel industry requires minimal technology use and mainly unskilled labor, transferring this phase to countries where labor regulation is still in its infancy has been relatively easier than in other industries (Tully, 2005). Supply chain production systems in the industry are therefore part of an internationally competitive setting and seek the lowest production costs, and producers who promise the lowest prices are likely to be subcontracted (Tully, 2005). Tully explains this further by describing the system's "insecure commercial ties" (2005: p. 303), where commercial entities wield negotiating power over the producers to achieve lower prices and higher quality, resulting in maximised profits and costs and minimised risks (Oxfam International, 2004 as cited in Tully, 2005).

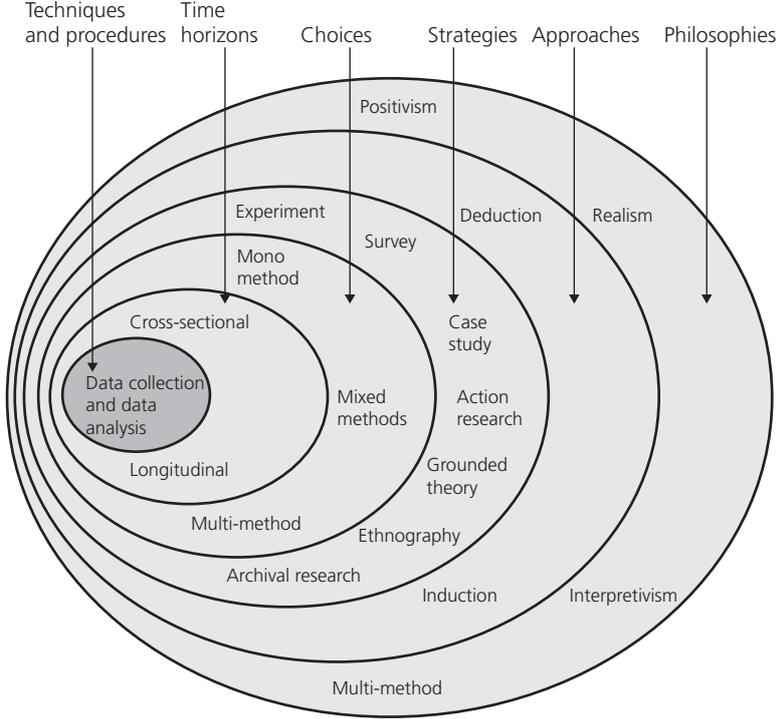
The authors Wills and Hale (2005) concur that there has been this shift in global manufacturing, stating that production in the garment industry moves from one country to another, thereby transferring from high- to low-cost production countries (Dicken, 2003 as cited in Wills & Hale, 2005). Consequently, the use of cheap labor is an issue that arises in countries where workers would accept any level of pay (Jackson & Shaw, 2006). The move to low-cost production countries has often involved "a race to the bottom in labor, social, and environmental standards" (Wills & Hale, 2005: p. 12).

Consequently, protests came from several non-governmental organizations and social movements, who started the discussion about corporate social responsibility and workers' rights, and criticised the fashion businesses for not taking responsibility for their supply chains' workers (Wills & Hale, 2005). This has put these companies under pressure to change and in a position where social and environmental responsibility have become bottom-line issues which could influence a company's reputation, brand value, attraction and retention of staff, and success in the market (Wills & Hale, 2005).

4.4 RESEARCH METHODOLOGY

Before commencing discussion of the research design, different research studies will be examined to help identify the purpose of research in reference to research strategies (Saunders & Lewis, 2012). After identifying the research objectives, different research philosophies will be taken into consideration to help clarify the research design and thereby facilitate the choice of a suitable design (Saunders & Lewis, 2012; Blumberg, 2011). A route map "The research onion" will also be used as a guide (see figure 4.1) to map out the different stages of the research process, where the outer layers contain the research philosophies and approaches, the central layers reflect the research strategies and choices, and the core of the onion reflects the central importance of data collection and analysis (Saunders & Lewis, 2012).

FIGURE 4.1 THE RESEARCH ONION



Source: Mark Saunders and Philip Lewis 2012. "Doing Research in Business and Management An Essential Guide to Planning Your Project."

Subsequently, the two approaches will be considered; deductive or inductive (Saunders & Lewis, 2012). Then, based on the research philosophy, studies and approach, the research strategies will be clarified, and the research design may include more than one strategy (Saunders & Lewis, 2012). Finally, the time frame will be taken into consideration (Saunders & Lewis, 2012).

RESEARCH DESIGN AND PURPOSE

For the purpose of this research different studies will be discussed which are classified as reporting, descriptive, explanatory, and predictive (Blumberg, 2011). Saunders and Lewis also include the exploratory study (2012). For this research, reporting is not relevant, as a reporting study comprises a summary of data used to produce statistics (Blumberg, 2011). Predictive studies are also excluded from this research, since they are used to find explanations for an event after its occurrence and to predict when and how it might recur (Blumberg, 2011).

An explanatory study "focuses on studying a situation or a problem in order to explain the relationships between variables" and answering the questions raised, therefore it does not meet the objectives of this study either (Saunders & Lewis, 2012: p.113). Comparing explanatory with exploratory studies, an exploratory study's purpose is to gather general information, which in this study has been achieved by the theoretical framework (Saunders & Lewis, 2012).

In summary, after examining and comparing different research purposes, it can be concluded that the purpose of this study is descriptive. Descriptive research collects information about people, events or

situations, thereby answering questions such as who, what, when, where and how (Saunders & Lewis, 2012; Blumberg, 2011).

RESEARCH PHILOSOPHY

Research philosophy is seen as the critical analysis of beliefs and assumptions that are fundamental to an individual, and it supports the research strategy and data collection methods chosen as part of that strategy (Saunders & Lewis, 2012). A number of research philosophies exist as identified by various authors. Blumberg (2011) categorises two of the most recognised philosophies as positivism and interpretivism. Saunders and Lewis (2012) add two more to these, realism and pragmatism, which also rely on some of the positivist and interpretivist philosophies. Since a detailed discussion of each philosophy is beyond the scope of this research, the two most well known, positivism and interpretivism, will be compared.

Interpretivists claim that it is impossible to hold an objective view of the social world and to understand its complexity, which renders fundamental laws inadequate (Blumberg, 2011). Blumberg (2011) also reasons that interpretivists try to understand subjective realities and offer explanatory justifications for the research participants.

On the other hand, positivists view the social world objectively and externally, where the emphasis is on predicting research outcomes so they can be controlled in the future (Blumberg, 2011; Saunders & Lewis, 2012).

This research aims to test the existing theories, in this case the CSR theories. Therefore, the positivist philosophy is appropriate, because this research is more concerned with theory testing than theory building, and positivists often use an approach of rejecting or supporting explanations.

RESEARCH APPROACH

The next step in the research design is to select the most suitable approach; either deductive, suggesting a “top down” approach, or inductive, suggesting a “bottom up” approach. For this research the deductive approach will be used, so a clear theoretical background can be established before the collection of the data (Saunders & Lewis, 2012).

RESEARCH STRATEGY

Now that the research purpose, philosophy, and approach have been identified, the research strategies can be chosen. These are usually selected in accordance with the research study and approach, the research question, existing knowledge, available time and resources (Saunders & Lewis, 2012). The strategies identified by Saunders and Lewis (2012) are; experiments, surveys, case studies, action research, grounded theory, ethnography, and archival research.

Since the purpose of this research is to answer ‘what and how’ type questions and this is a descriptive piece of research, this indicates that the research is quantitative, and therefore the survey strategy will be used (Saunders & Lewis, 2012). The survey strategy was selected as it allows the collection of data of identical things within a large group in a manner that is cost- and time-effective (Saunders & Lewis, 2012).

SAMPLING

Next, it is necessary to choose a sample design to collect the relevant data for the research. Using a sample is more practicable than collecting data from the whole population as it achieves quicker and cheaper results (Saunders & Lewis, 2012). Before identifying the sample selection of fashion firms, the sampling method and appropriate sample size need to be determined, before the target population is defined.

The fashion industry, which is the population of this research, is generally described as “all companies and individuals concerned with the design, production and distribution of textile and apparel goods” (Jarnow & Dickerson, 1997). For this research the sampling frame constitutes all chamber of commerce registered companies in the Netherlands concerned with the design, production and distribution of apparel goods, excluding the companies concerned with textile goods, and companies without e-mail or listed telephone numbers. Therefore, the total sampling frame consists of 300 Dutch fashion companies.

The sampling method used is dependent on whether or not the total population is known and if a full list of its members is available (Sanders & Lewis, 2012). These methods can be divided in two categories: probability and non-probability sampling. Probability sampling techniques can be used when a full list of the population is available, while non-probability sampling techniques are used when it is not possible to obtain a complete list (Sanders & Lewis, 2012). For this research the simple random probability sampling technique was used, since the total population was known and the full list of its members, the Dutch fashion companies, was available through Bureau van Dijk’s database “Reach”. In addition, a list of professionals working for the CSR or production departments of Dutch fashion companies was available through the LinkedIn network.

According to Dr. Greener (2008), the sample size to conduct statistical analysis should be at least 30. In this research the sample has met the minimum requirement with a sample size of 300 and a total of 30 respondents, thereby giving a response rate of 10%. The respondents were small to medium sized fashion companies (<250 employees and turnover ≤50 M. Eu) registered with the Dutch chamber of commerce. The companies were specifically concerned with the design, production, and distribution of apparel goods and outsourced their production phase internationally.

DATA COLLECTION TECHNIQUES

Desk research

Company social reports and non-governmental organization reports were examined in preparation for the survey questionnaire.

Field research

The field research, which consisted of a qualitative and quantitative part, was conducted in March, April, and May. The qualitative part consisted of two semi-structured interviews (see appendix 5) and the quantitative consisted of a structured questionnaire survey (see appendix 3). These two techniques were used to confirm the research findings using independent data sources and data collection methods (Saunders & Lewis, 2012).

Using semi-structured face-to-face interviews with two experts in the CSR field provided additional insight and detail in preparation for the survey's structured questionnaire. The questionnaire was prepared using the Survey Monkey instrument and it contained structured closed questions, which aimed to establish the effectiveness of CSR control mechanisms in the Dutch fashion firms' international suppliers. The survey was conducted by telephone and e-mail in order to increase the response rate.

DATA ANALYSIS

When determining how to analyse data, the first thing that should be considered is which type of data has been collected; quantitative or qualitative? In this case, quantitative data was collected.

The next step is to establish whether the type of quantitative data collected is categorical or numerical, and in this case there was only categorical data, which includes nominal variables. The information was gathered in the format of a data matrix using Statistical Package for Social Science (SPSS), where the first row of the spreadsheet contained a short description of the variables, and each of the remaining rows contained the data relating to these variables for each respondent.

Firstly, a univariate analysis was conducted, which looked at the behaviour of each individual variable using frequency tables and bar charts. Once a clear picture of the individual variables had been obtained, a bivariate analysis was carried out to look for relationships between the variables using cross-tabulation.

4.5 RESEARCH RESULTS AND ANALYSIS

After exploring the social reports of fashion companies and NGOs and conducting two interviews with CSR experts, the survey questionnaire in appendix 3 was written. Before conducting the quantitative analysis, some aspects of the survey questionnaire that were based on data from the reports and interviews will be explained: firstly, the definition of labor issues, and then the comparison of guidelines. Analysis of the quantitative data from the survey will then follow, with a univariate analysis and a bivariate analysis. Univariate analysis is conducted to look at the behaviour of each individual variable, then a bivariate analysis will be used to study the relationships between fair labor issues and the other survey variables.

LABOR ISSUES DEFINED

Labor issues can be defined as non-compliance with the UN's human rights principles of labor rights, or standards that deviate from the Universal Declaration of Human Rights, such as the International Labour Organization's labor standards. As an example, the labor standards from the Fair Wear Foundation are used in table 4.4, together with the labor issues mentioned in the survey:

TABLE 4.4 FWF LABOR STANDARDS AND LABOR ISSUES

FWF Labor Standards	Labor non-compliance/issues term
" Employment is freely chosen"	Forced labor
" There is no discrimination in employment"	Discrimination
" No exploitation of child labor"	Child labor
" Freedom of association and the right to collective bargaining"	Preventing association or collective bargaining
" Payment of a living wage"	Paying wages under the level of "living wages"
" No excessive working hours"	Persistent overtime
" Safe and healthy working conditions"	Poor working conditions

Source: Reproduced from FWF (www.fairwear.org)

GUIDELINES COMPARISON

From the interviews conducted and after examining reports from various organizations, three different types of guidelines used by fashion companies were noted: supra-national governmental agencies, national government agencies, and non-governmental organizations. In table 4.5 an example of each is given:

TABLE 4.5 GUIDELINES

	Supra-National Government Agencies	National Government Agencies	Non-Governmental Organizations
Name	International Labour Organization (ILO)	CSR Netherlands (MVO Nederland)	Fair Wear Foundation (FWF)
Who are they?	Specialised agency of the UN.	National knowledge centre and network organization for CSR in the Netherlands.	Independent, non-profit organization.
What do they do?	They adopt conventions and assist governments in realising decisions and conventions.	Assist entrepreneurs by providing information via the website, workshops and lectures, events, and specific CSR tools.	Work closely with fashion companies and factories to improve garment workers' labor conditions.
Members	Countries	Dutch companies	Fashion companies

UNIVARIATE ANALYSIS

The survey shows that 63% of Dutch fashion companies have up to 10 international production suppliers, while 37% have more than 10. The top 3 production countries mentioned were China, India, and Turkey. 63.3% of companies reported having an average production of less than 1 million units per year, while 36.7% produced an average of more than 1 million units per year.

Companies that had switched production suppliers amounted to 76,7% of the sample. 43% of companies had ended relationships with production suppliers 1-3 times, 20% of companies had ended such a relationship 4-6 times, and 13.3% more than 6 times. Three main relationship types between the companies and their international production suppliers were mentioned: preferred supplier agreements

were the most common (42.5%), followed by partnerships without long term contracts (35%), and the least popular were partnerships without equity participation (17.5%).

Investments in international suppliers' operations are made by 56.7% of Dutch fashion companies. Of this, investment in suppliers' employee training accounts for 66.7% and investment in equipment 33.3%.

When asked if they had ever experienced any conflicts with their international suppliers, 80% of companies answered yes. The most common types of conflict described were "late deliveries" which was mentioned 18 times, then "defective products" mentioned 15 times, "specifications not followed" mentioned 11 times, "fair labor issues" mentioned 9 times, "unacceptable lead times" mentioned 8 times, and the remainder were "production scheduling" or other unidentified types of conflict. Of the different conflicts mentioned, 9 companies stated that they had experienced fair labor issues, and persistent overtime and poor working conditions were the most common conflicts, as can be seen in figure 4.2.

The top 3 control types used to monitor the international production suppliers were on-site audits carried out by the firm itself (33%), followed by terms and conditions for orders (22%), and on-site audits carried out by third parties (19%).

FIGURE 4.2 TYPE OF LABOR CONFLICTS

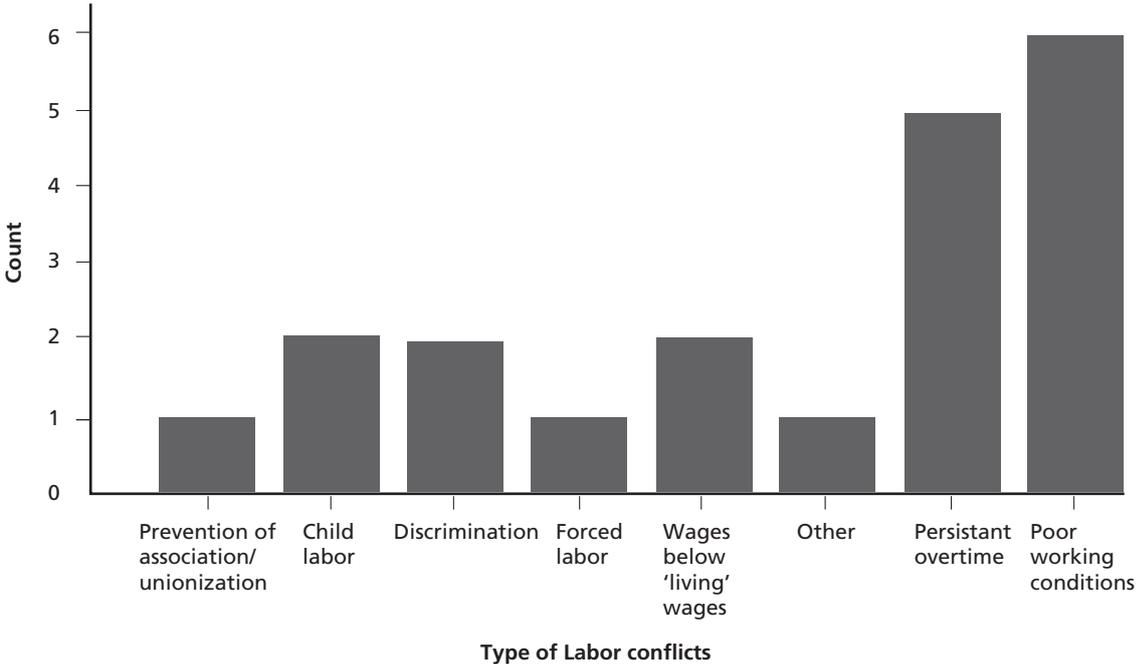
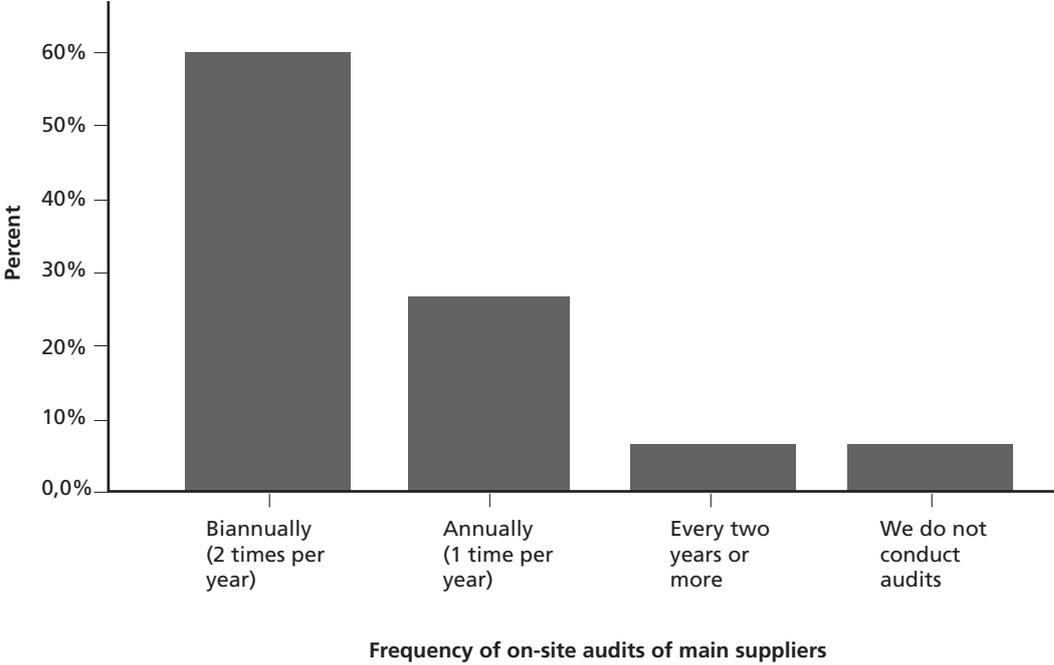


FIGURE 4.3 ON-SITE AUDITS OF MAIN SUPPLIERS



As can be seen in figure 4.3, on-site audits of the suppliers were conducted twice a year or more by 60% of companies, while 27% did so annually, and 13% every two years or longer or did not do this at all. The most frequently used guidelines were from the national governmental agencies (27.8%), followed by supra-governmental agencies (25%), and the least used were those of non-governmental agencies (19.4%).

BIVARIATE ANALYSIS

The bivariate analysis will include an in-depth analysis of fair labor issues in general, and a separate analysis of the two most frequently mentioned fair labor issues, which were poor working conditions and consistent overtime. They will be analysed by examining the relationships between them and other variables in the survey questionnaire.

FAIR LABOR ISSUES

Fair labor issues were one of the issues most commonly encountered by companies at their international production suppliers, and they were mentioned 9 times out of the 30 respondents. The relationship between fair labor issues and the number of international production suppliers shows that fair labor issues decrease when there are more international production suppliers, even though there is only a difference of 4 to 5 companies, as can be seen in table 4.6.

TABLE 4.6 FAIR LABOR ISSUES – NUMBER OF INTERNATIONAL SUPPLIERS

		Type of conflict – fair labor issues		Total
		No	Yes	
Number of international production suppliers	1 to 5	8	2	10
	6 to 10	6	3	9
	11 to 20	2	2	4
	20+	5	2	7
Total		21	9	30

The number of production suppliers was also related to the average annual production volume, as can be seen in table 4.7, which shows how labor issues are related to the amount of production suppliers combined with production volume. The table shows that the higher the company’s annual production volume, the more international production suppliers the company has. Results show that 15 companies with a production of up to 1 million units had less than 10 international production suppliers. While only 4 companies produced the same amount with more than 10 international production suppliers. And 4 companies produced more than 1 million units with a maximum of 10 international production suppliers, compared to 6 companies with more than 10 production suppliers.

Looking at the relationship between fair labor issues and supplier relationship type in figure 4.4, it can be noted that the less strategic the partnership, the more labor issues there were. Preferred supplier agreement scores the highest regarding fair labor issues, followed by partnership without long-term contracts, then partnership without equity participation, and finally fully owned subsidiaries have the least fair labor issues.

TABLE 4.7 NUMBER OF INTERNATIONAL SUPPLIERS – AVERAGE ANNUAL PRODUCTION VOLUME

		Average annual production volume (in units)			Total
		less than 100,000 units	between 100,000 and 1,000,000 units	more than 1,000,000 units	
Number of international production suppliers	1 to 5	5	5	0	10
	6 to 10	3	2	4	9
	11 to 20	1	0	2	3
	20+	1	2	4	7
Total		10	9	10	29

Finally, when examining the relationship between fair labor issues and guidelines used, the results show that there are fewer fair labor issues with non-governmental organizations’ guidelines, while using national governmental agencies’ guidelines correlate with the fairest labor issues.

FIGURE 4.4 FAIR LABOR ISSUES – SUPPLIER RELATIONSHIP

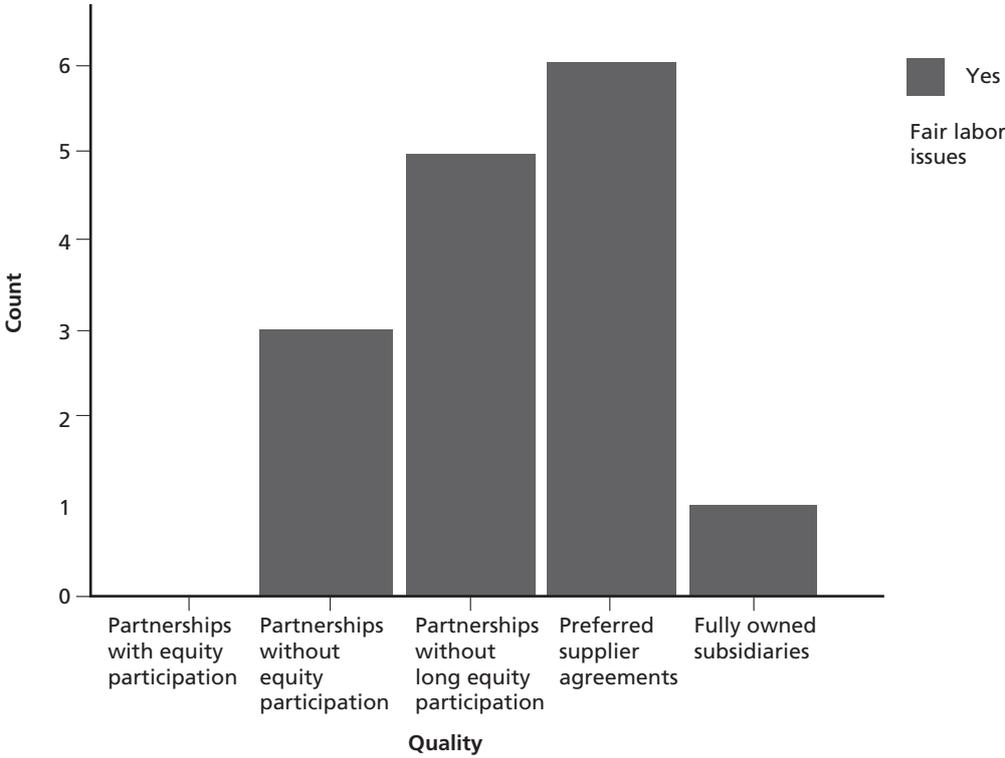
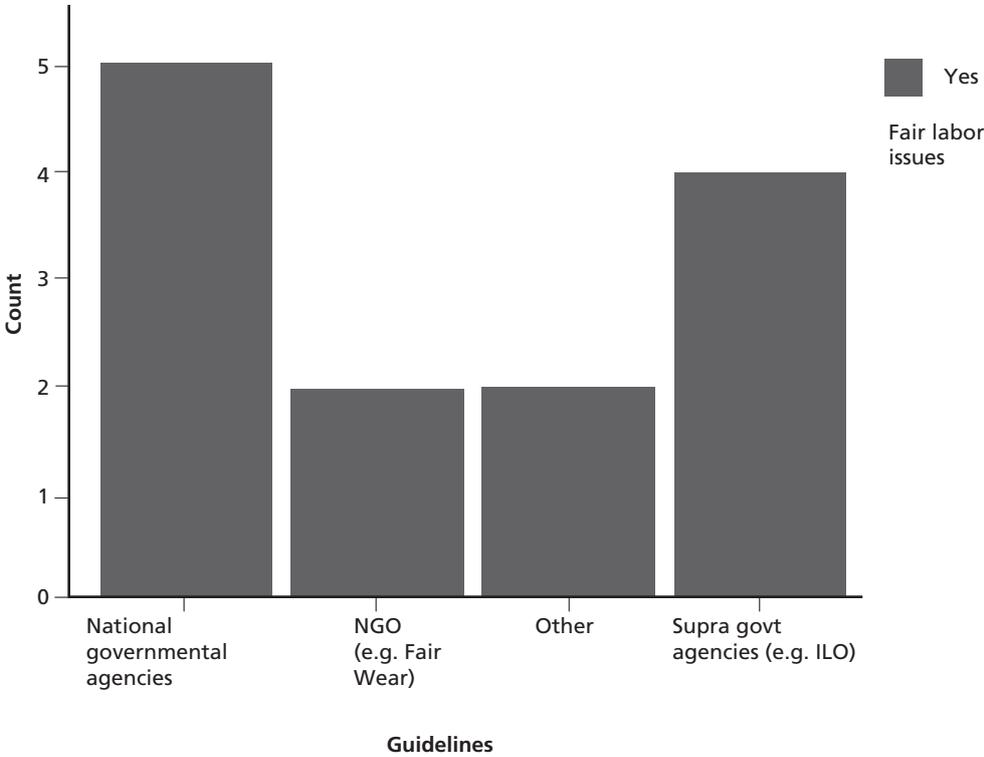


FIGURE 4.5 RELATIONSHIP FAIR LABOR ISSUES – GUIDELINES



POOR WORKING CONDITIONS & PERSISTENT OVERTIME

Poor working conditions and persistent overtime were mentioned the most out of all the fair labor issues. Figure 4.5 shows the relationship between average annual production volume and poor working conditions and persistent overtime. It shows that suppliers with production below 1 million units per year had 4 cases with labor non-compliance in poor working conditions, while those with production over 1 million units per year only had 1 case of poor working conditions. Persistent overtime also seemed to decrease as production volume increased, as can be seen in figure 4.6.

Persistent overtime can also be linked with late deliveries, and table 4.8 indicates that there are more late deliveries if there is no persistent overtime. The table shows that when there was no overtime labor non-compliance experienced, 14 companies experienced late deliveries, while when there was persistent overtime there were only 4 late deliveries.

FIGURE 4.6 PRODUCTION VOLUME – PWC & PO

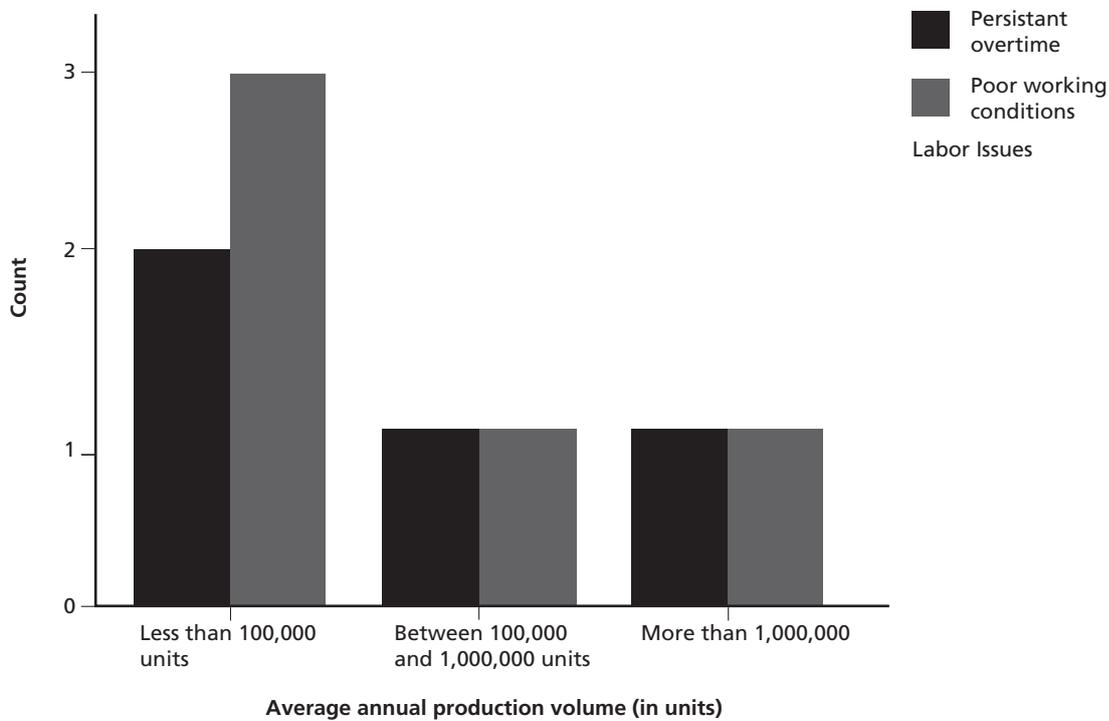
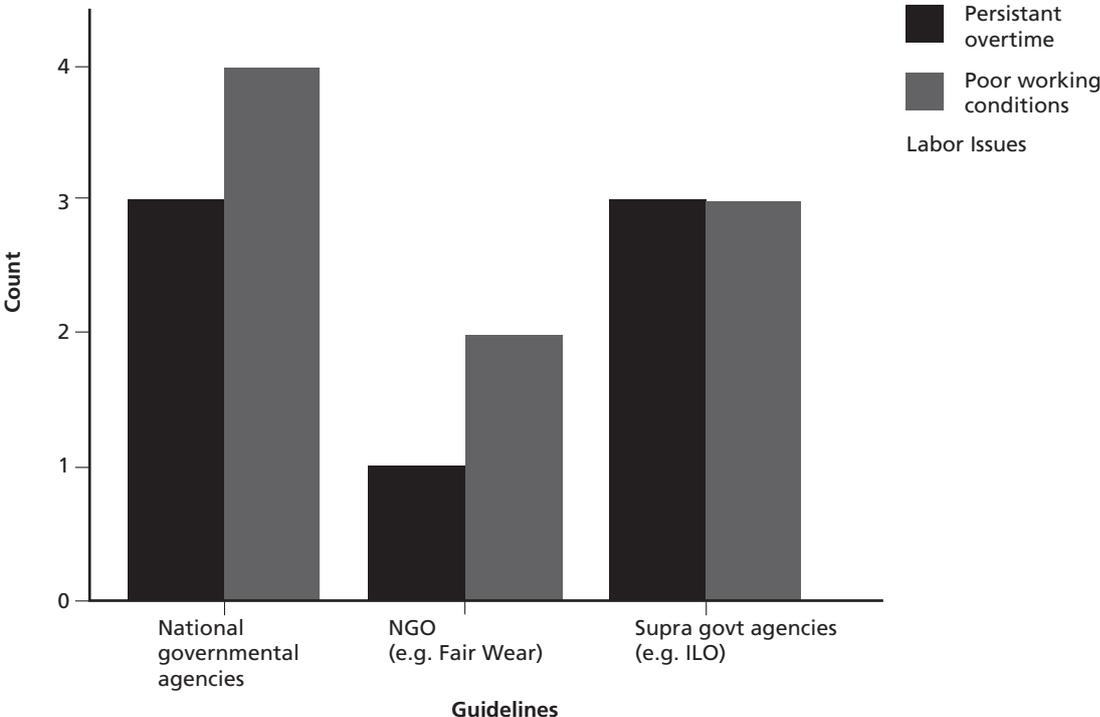


TABLE 4.8 PERSISTENT OVERTIME – LATE DELIVERIES

		Late deliveries		Total
		No	Yes	
Persistent overtime	No	11	14	25
	Yes	1	4	5
Total		12	18	30

When comparing poor working conditions and persistent overtime with the guidelines used, the two guidelines which stand out are national and supra-governmental agencies, while non-governmental agencies have the least connection with persistent overtime and poor working conditions (see figure 4.7).

FIGURE 4.7 GUIDELINES – PWC & PO



To conclude the findings and analysis, it is noteworthy that labor issues depend on the number of suppliers, the production volume, relationship with suppliers, and guidelines. As production volume grows, production is divided between more suppliers. Since production is divided between more suppliers, less production is required of each supplier, with the consequence, as the results show, that there are then fewer fair labor issues.

Moreover, the results show that if the company has had a more long-term relationship with its suppliers, there are also fewer fair labor issues encountered. Also, the type of guidelines should be taken into consideration, as the findings show, that more fair labor issues are encountered by companies using governmental or supra-governmental guidelines, than with those using NGO initiative guidelines.

Furthermore, it would be beneficial to examine in more depth the different kinds of labor conflicts, as the results show a connection between more overtime and no late deliveries.

4.6 DISCUSSION AND IMPLICATIONS

This section discusses the implications for Dutch fashion companies of the research problem: How can the Dutch fashion companies have control over labor issues at their international production suppliers?

Before implementing CSR, the governance of the company should be considered. Although governance is more concerned with the interest of shareholders, a stakeholder's approach of governance also exists which is directed towards CSR management. CSR governance is more stakeholder-oriented, where the company's responsibility to all its stakeholders is guaranteed with both internal as external checks, thereby ensuring that its business activities are carried out in a socially responsible way. CSR governance therefore starts at the top with the shareholders ensuring that the whole company is responsible for its activities. In other words, if shareholders or top management are not interested in being socially responsible, why should the rest of the company? So fashion companies should use CSR governance as a guiding line, where objectives and policies are finally based upon.

SUPPLIERS

In order to demonstrate corporate social responsibility, Dutch fashion firms are required to achieve certain goals relating to society, in addition to simple profit maximization. As the stakeholders theory suggests, companies have to consider all stakeholders who are affected by the achievement of their objectives, not only within their own company, but also outside it. They are also responsible for labor issues that occur at their international production suppliers.

This research shows that fewer fair labor issues are encountered when the number of suppliers increases, which can be related to production volume, because when this increases, it is divided between more suppliers. This implies that companies would benefit from examining production at a supplier level rather than total production volume. So here the company should first look at the size of the supplier and at amount of employees available at the supplier. With this information they can already note if the company's demanded production would match the supplier.

The results also show that supplier relationship and fair labor issues are associated. Where there are preferred supplier agreements, as a less strategic option, more labor issues arise than with a fully owned subsidiary. This means that companies should engage in partnerships with their suppliers. By building a long lasting partnership, companies get to know their suppliers better and are able to work together on improvements in all aspects, including labor issues. Here again the governance stakeholder's approach applies, as this approach must begin with the top. This is a decision that the top management need to make, asking themselves are they willing to invest more in a partnership or is their governance based only on profit maximization? So aside from their organizational objectives of target sales volume or sales, they should incorporate a more stakeholders' objective.

Sarah Murray, Financial Times

"Companies must stop thinking in terms of corporate philanthropy or traditional CSR (corporate social responsibility) and devise strategies that add greater social value to their profitdriven commercial agendas"

LABOR NON-COMPLIANCES

Implementing CSR must begin by looking at human rights, as the Universal Declaration of Human Rights (UDHR) states different labor rights or labor conformities. In essence, social standards are derived from the UN's declaration. The ten principles in the UDHR include the rights to be free of slavery, non-discrimination, freedom of association, social security, work, equal pay, to form and join trade unions, and to reasonable working hours. Looking at the principles of the UDHR, which forms the basis of CSR standards, policies and control mechanisms, it shows the labor guidelines that need to be followed.

Since the distribution of clothing by the fashion industry is labor intensive, the UDHR principles have to be taken into consideration by the fashion firms' CSR policies. As the fashion industry is seeking profit maximization, they have tended to move their production phase to other countries where prices are more competitive; however, in these countries labor regulation is still in its infancy. Therefore, it is important for the companies to establish CSR policies and regulations with their suppliers to avoid labor non-compliance.

The labor non-compliances that have been identified in this research are; forced labor, discrimination, child labor, preventing association or collective bargaining, paying wages below the level of living wages, persistent overtime and poor working conditions. This research shows that the most frequently encountered labor issues are persistent overtime and poor working conditions.

It also shows that persistent overtime is most common when there are fewer late deliveries, which implies that suppliers push their employees to work overtime in order to avoid late deliveries. This may result from pressure by the fashion companies to deliver on time, or perhaps because the suppliers do not employ enough workers to meet production demands. With all this in mind, it is recommended that companies should apply less pressure on their suppliers regarding delivery times, or they should spread the overall production between more suppliers so there is less pressure on individual suppliers. Or if the company wishes to have their production at only one supplier, it is advised to invest in this supplier as mentioned above. By investing into a long-term relationship with the supplier, the company can tackle the problem of persistent overtime by investing in employees. Investments can be made to increase the labor force or to increase labor productivity, which leads to fewer overtimes.

GUIDELINES

The theory regarding CSR reporting relates to CSR governance, since this is an important factor in evaluating the impact of corporate activities and for identifying optimum company performance and promoting continuous improvements. CSR reporting can be done through government mandated reporting, such as social standards of the International Labour Organization, or it can be done voluntarily as part of a non-governmental organization and multi-stakeholders' initiative, such as the Fair Wear Foundation, through a company's own reporting, or under international initiatives such as the Organization for Economic Co-operation and Development.

Company reporting is the gathering of data about factory performance, labor compliance, and environmental compliance. The multi-stakeholder initiative goes further, as these guidelines include more reporting coverage. International initiatives are mostly used by multinational companies, because they benefit from their multilateral code of conducts.

This research groups these initiatives' guidelines into: non-governmental organization policies, national government agencies' policies, and supra-national government agencies' policies. Currently, the most commonly used guidelines in the Dutch fashion industry are those from the national government agencies, followed by the supra-national government agencies' guidelines, and finally the non-governmental organization policies. This research shows that, compared with the other guidelines, more labor issues are encountered while using the national government agencies' guidelines. This implies that companies need more guidance regarding the standards. National government agency initiatives give less personal guidance to companies, and as the research shows, this has the effect that companies encounter more fair labor issues. It stands in contrast to non-governmental agencies, which work directly with companies and provide more guidance. Non-governmental agencies can help the companies in implementing CSR in their strategies or advice them on a specific issue they are encountering at the moment. Therefore, companies should consider going into partnerships with NGO's, as this will also promote continuous improvements in their CSR implementations.

4.7 CONCLUSION

This research was based on the difficulties encountered by the international production suppliers of Dutch fashion firms concerning labor issues. Although some firms have created a CSR policy or another type of CSR control mechanism, they nevertheless encounter labor issues due to lack of planning at the production facilities. The thesis therefore addressed the following research problem: *How can the Dutch fashion companies have control over labor issues at their international production suppliers?*

The research was descriptive and used a positivist philosophy to test the CSR theory. A deductive approach was used, as the CSR theory was established before the data was collected. The survey strategy was then chosen, where primary data was gathered using mixed data collection methods of both quantitative and qualitative data. Two CSR experts were interviewed and a survey was conducted investigating Dutch fashion firms. The data was analysed using SPSS, starting with a univariate analysis, which analysed each variable of the survey, and ending with a bivariate analysis, which analysed labor issues in general, and also poor working conditions and persistent overtime.

The findings showed that labor issues are connected with the number of suppliers, the production volume, relationship with suppliers, and guidelines. They showed that there are fewer fair labor issues when there is higher production and more suppliers. They also revealed that fewer fair labor issues arise when companies have a more long-term relationships with their suppliers and when companies use guidelines from NGOs. Furthermore, companies had no overtime when there were late deliveries.

The implications of the study suggest that managers of Dutch fashion firms should look at suppliers, labor issues, and guidelines. They should also consider dividing up production between suppliers so there is less pressure on individual suppliers. Moreover, they could engage in more long-term partnerships to improve relationship with their suppliers and put less pressure on suppliers regarding late deliveries to avoid overtime issues. Finally, the results imply that companies need more guidance regarding standards, and it is proposed they could work together with non-governmental agencies to receive more guidance.

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CONCLUDING REMARKS

Lori DiVito

The studies presented in this book represent an initial inquiry into the effects of internationalization on small and medium-sized Dutch firms in the creative industries. The goal of the research program, within which these studies have been conducted, is to shed light on several aspects of internationalization in the creative industries. First, we aim to understand how internationalization affects local resource endowments and whether local resource endowments (e.g. skill specific labor) change due to the internationalizing of these small creative firms. To this end, Toyah Siegel investigated how creative entrepreneurs (fashion designers) accessed resources in two creative cities, Amsterdam and Berlin, and only touched the surface of the broader research intention. Secondly for the broader research program, we aim to understand how the internationalization of specific value chain activities affects the capabilities and core competence of creative firms. Here, Gabriela Suruceanu and Charelle Felix investigated the internationalization of supply chain activities, focusing on how small creative firms manage quality control and corporate social responsibility in an increasingly complex network of international production partners.

In this concluding chapter, we discuss the main findings and their implications for three main audiences: i) academics, ii) industry practitioners, namely fashion firms, designers and entrepreneurs, and iii) policy makers. As these studies represent an initial inquiry conducted within a limited time frame and with limited means, we close by discussing future avenues of research: the unanswered questions and intriguing directions that the findings give rise to.

5.1 SUMMARY OF THE FINDINGS

This section is structured into two main parts: the findings from Siegel and then the findings from Suruceanu and Felix. As Siegel's study is significantly different than the studies by Suruceanu and Felix, it is summarized separately.

FINDINGS FROM SIEGEL

Siegel conducted a comparative study of Amsterdam and Berlin. She looked at a common set of local resource endowments (finance, government or local industry support, network and customers) and focused her analysis at the level of fashion designer or entrepreneur. The study investigated the question: why would a fashion designer *choose* to start their fashion firm or label in a specific city and how do they do that? The word 'choose' is highlighted, as it sounds as though this may be a conscious decision that the fashion designer makes. However, from the interviews that Siegel conducted, designers do not seem to make a conscious choice about the 'place' of their creative firm. It is a taken-for-granted variable, dependent on the past decisions and the background of the founder or designer.

Furthermore from Siegel's study, fashion design entrepreneurs faced the same kinds of resource constraints in both cities, financing being the most obvious constraint. Young fashion designers needed funding to start and develop collections and in both cities they relied on informal sources of financing, namely their own second job, family or friends. Given the highly individual nature and high risk in funding fashion designers, banks are very reluctant to offer funding in the form of credit or loans to these entrepreneurs. Bank financing along with grant funding were the least used sources of financing. It is worth noting that none of the designers indicated the use of newer forms of fundraising, such as crowdfunding (e.g. Kickstarter), which, given the product these entrepreneurs produce, could be a viable source of funding. Instead, the designers relied mostly on close, personal, strong ties (Granovetter, 1985) to find and secure financial resources.

From Siegel's findings and in concurrence with other studies (Granovetter, 1973; Walker, Kogut and Shan, 1997; Wenting et al, 2011), the designer's network of strong and weak ties is of central importance in accessing resources. The rich social capital of designers is 'sticky' and embedded in the social structure of their location (Uzzi, 1996). Social capital is garnered from prior work or school experiences and there are limits to its mobility. Designers used their social capital not only for financial resources but also for 'entrepreneurial services' or 'favors', drawing on other local creatives, as noted in the findings, for services in photography, modeling, and website design and programming. The stickiness of this social capital acts as a centripetal force and encourages agglomeration around a location where networks are highly interconnected and interdependent (Cooke, 2004; Nahapiet and Ghoshal, 1998). Also from the findings, it seems that fashion designers view each other as collaborators rather than competitors, perhaps because at this stage of their growth, they still consider themselves and their product as highly unique and inimitable.

The last set of findings from Siegel's study to discuss relates to local, industrial and governmental support. Siegel looked at the different policy initiatives and local, regional or national industry associations in each city. Both cities offered schemes to support network building, knowledge sharing, low-cost work studios and trading platforms (such as Fashion Week trade shows). Each city held contests and awards to cultivate promising talent. One major difference between the cities was found in education, specifically in the

availability of English language fashion programs. As a bigger city, Berlin has more schools with fashion studies, yet only a few offer English language programs. An additional difference is that Amsterdam has initiated policy to support the attraction of expatriate talent and the retention of creative diversity by simplifying immigration processes.

In summary, on an individual designer level, Siegel finds a great deal of similarity in the way creative entrepreneurs access resources. On a city level, she also finds similarity between the cities in how they support creative entrepreneurs. However, on this level, she also finds differences in policy to attract international talent, thereby establishing diversity upon which creativity can flourish.

FINDINGS FROM SURUCEANU AND FELIX

Suruceanu and Felix conducted studies on international production partners. Suruceanu's study investigated quality control and international production partners. Felix's study is similar in that she also investigates international production partners but then in terms of managing corporate social responsibility, specifically labor non-compliance. As the production process in the fashion industry becomes more and more dispersed among partners, countries and activities, fashion firms struggle to manage the quality of their products and the social responsibility of their partners. Suruceanu and Felix worked together and used a sample of Dutch fashion firms to conduct a survey. Suruceanu also drew on in-depth interviews from four fashion firms.

The descriptive statistics from the survey tell us several things. First, outsourcing production is pervasive, even firms with low volume (less than 100,000 units per year) outsource production to international partners (30% of the firms). Also, nearly 40% of the firms have more than 10 international production partners and thus are managing complex international networks. China is the country where most outsourcing takes place, followed by India, Bangladesh and Turkey. Surprisingly, 75% of the firms terminated or changed production partnerships at least once, of which 43% of these changed up to three times and 13% more than six times. This coincides with the finding that these firms entered mostly 'transactional'²² type of partner relationships (78%) that are easier to terminate rather than more long-term strategic partnerships (19%) or fully-owned subsidiaries (3%). More transactional types of partnerships are harder to manage and control and this corresponds to the finding that 80% of the firms encounter supplier conflicts, the majority of which are related to quality and corporate social responsibility issues. Yet, even though fashion firms have relatively short-term partnerships (as measured by termination and type of relationship) and have a high level of supplier conflict, 57% of the fashion firms invested financial resources in their production partners, mostly in terms of supplier employee training (87%), but many also invested in capital equipment (43%).²³ Lastly fashion firms monitored their supply partners primarily by conducting supplier audits by themselves (33%) and by third parties (19%). A significant percentage relied solely on contractual terms and conditions (22%). These findings describe the sample of fashion firms in terms of the type of supplier relations they engage in and some of the key characteristics of these relations.

22 Transactional partnerships are characterised by low-commitment, 'arms-length' relations (Sako, 1992), meaning that firms invest less in partnerships, experiencing less asset specificity, less lock-in and run less intellectual property risk (Nooteboom, 2004). However, there is a trade-off in partner commitment, control and reciprocity.

23 These options were not mutually exclusive which is why the percentages amount to greater than 100%.

In looking at quality management of international production partners, Suruceanu conducted bivariate analysis (cross tabulations) and found that quality issues (primarily late deliveries, defective products and specifications not followed) were more prevalent in the 'transactional' type of supplier relations and were less likely in more strategic partnerships. She also found that increased auditing (on a biannual basis) corresponded to increased supplier conflicts, suggesting that a higher level of on-site inspection uncovers more quality related problems. She also analyzed whether investment in supplier employee training reduced supplier conflicts and found that it did decrease defective products but had no effect on whether specifications are followed.

Felix conducted a number of bivariate analyses on the variables related to supplier conflicts and labor issues. She found that labor-related conflicts decreased when the number of international suppliers increased. She also found that labor-related conflicts increased with more transactional partnerships. There were less labor-related conflicts when the firm had a fully-owned subsidiary. These findings are completely in line with expectations and evidence from prior work (Folta, 1998; Gulati and Westphal, 1999; Zollo, Reuer and Singh, 2002), which suggest that the greater the (strategic) commitment and ownership the more coordination and control the partners have.

Furthermore, Felix makes some interesting findings in regards to conditional factors and the type of labor-related conflict. She found that when firms had low volumes of production (less than 100,000 units per year) there were a higher number of conflicts involving poor working conditions and persistent overtime. These had some interesting correlations. As volume increased, the occurrence of these types of conflicts decreased. Similarly, persistent overtime seemed to be related to the occurrence of late deliveries. As late deliveries increased, the occurrence of persistent overtime decreased, whereas when persistent overtime conflicts increased, the occurrence of late deliveries decreased.

Felix also looked at the type of guidelines that firms used for labor compliance finding that national governmental guidelines were used the most (28%), followed by supra-national guidelines (25%) and then by non-profit organizations (20%). (see page 91 for an explanation of these guidelines). She finds that there were less labor-related conflicts when firms followed guidelines from non-profit organizations. A greater number of labor-related conflicts occurred when firms relied on national government guidelines.

5.2 DISCUSSION OF THE FINDINGS

There is much in the three studies that corresponds to or confirms findings from prior literature on internationalization. Building on extant knowledge, the findings from these three studies offer insights into specific forms of inward and outward internationalization pertaining to a specific creative industry: fashion design. They bring to light how internationalization impacts what small and medium sized fashion firms *do* for three distinct activities that involve networks: access to start up resources, control of quality management and control of social responsibility compliance. The creative and manufacturing process in fashion is a series of complex and inter-related processes, involving much low-skilled labor and spanning different firm and country boundaries. While the findings in these studies are specific to the fashion industry's complexities, they are also relevant for other industries characterized by low-skilled labor, fragmented value chains and fast-changing consumer demands.

Discussing Siegel's study first, it is not surprising that the strength of designers' networks is integral to accessing key resources (Granovetter, 1973; Uzzi, 1996). Nor is it surprising that Amsterdam and Berlin as locations offer a seemingly similar array of local or city-level government support and infrastructure to the budding designer. However, the findings illuminate the role of fashion designers networks. They suggest that the stickiness of designers' networks has profound effects on decisions that designers make. These networks start to take form in the early stage and development of the designer/artist's career. The findings suggest that the choice of location is not a rational one but an emotional one that is path dependent based on prior choices (Aspellund, Berg-Utby, Skjevda, 2005; Hite and Hesterly, 2001). Indeed, the qualitative evidence shows that designers chose location by default; it was where they lived, studied, or in other words, where they had ties and these ties are difficult to replace or replicate. This highlights two interesting points, first regarding the trajectory of fashion start ups and secondly, the mobility of fashion designers.

Considering that product production in the fashion industry is highly internationalized, it is reasonable to think that fashion start ups would be 'born-globals', firms that from the start operate internationally (Karra, Phillips and Tracey, 2008). Yet, Siegel's findings reveal a strong tendency to 'source' locally and primarily in the form of barter exchange or favors among friends. There is little known about the trajectory of creative industry start ups, where the early developmental stage is intrinsically linked to the artist's emotions and sensibilities, where the networks consist largely of artists helping artists and where there are no competitors (from the artists' viewpoint) because each artist is unique. The development trajectory from artist (albeit fashion designer or otherwise) to entrepreneur to sustainable firm growth is still vague and ambiguous; yet Siegel's findings show that the very early stage is highly embedded in the local context. The implications of this will be discussed shortly in this chapter.

The second point is related to the highly embedded nature of these networks in that it brings into question the cross-border mobility of fashion entrepreneurs (fashion design firms at the early stage of firm development). On the one hand, it is well known in the literature that mobility and diversity breed creativity and inventiveness as actors within a region benefit from knowledge spillovers (Almeida and Kogut, 1999; Florida, 2002) and they are essential for sustainable cluster development and growth (Lundvall and Maskell, 2000; Maskell and Malmberg, 2007). However, we might expect, given the findings, that the mobility of fashion entrepreneurs is limited and unlikely to occur across national borders, constraining the inward internationalization of creative industry clusters. Along this thinking, we would also expect that larger, metropolitan cities would have agglomeration advantages over smaller, regional cities and would therefore encourage more regional or domestic mobility. However, it is still questionable if this mobility could contribute or encourage cross-border mobility, either inwardly or outwardly.

Moving on to the studies of Suruceanu and Felix, many of the expectations that we have about cross-border inter-firm relations are echoed in their findings. The fact that small and medium sized fashion firms engage in transactional, arms-length type of partnerships is expected given the strategic intent and resource constraints of these types of firms (Sako, 2004). In arms-length inter-firm relations, firms have limited coordination and control over partners' activities and, as the findings from Suruceanu and Felix show, a greater level of conflict between partners arises. If firms were to internalize international activities, then they are able to exert more coordination and control over their international operations. However, internalizing international activities is no option for small and medium sized fashion firms.

Here, the findings from Suruceanu and Felix suggest that these firms increase their inter-firm partnership commitment (in terms of investment) and involvement (in terms of partner management) without increasing ownership control (in terms of equity participation) implying that they face various moral hazard and intellectual property risks. As firms increase investment in their supplier relations they would naturally expect some form of reciprocity from their supplier. Yet the majority of the supplier relationships were of a transactional and arms-length nature, suggesting that fashion firms are willing to incur higher transaction costs in quality and CSR management to maintain a level of flexibility in adapting to market changes and switching suppliers.

Another main finding from Suruceanu and Felix is that the more a firm manages its partners (by overseeing effort and involvement), the more quality and CSR issues are uncovered. This seems counterintuitive since one would expect that better oversight and management would reduce problems and conflicts in the production process. It suggests that in transactional arms-length inter-firm relations there is positive correlation between the level of investment, commitment and involvement and the frequency of supplier-related problems; or in other words as the level of involvement increases, the number of conflicts increases accordingly. One would expect a decrease in conflicts and therefore a negative correlation or downward sloping line as involvement increases. As firms invest in training and problem resolution with their suppliers, they may open up a can-of-worms, so to speak, and discover additional issues and problem areas. It is necessary to understand and evaluate the potential payoff of continued investment and commitment in learning and problem solving with partners, as it is conceivable that continued investment would lead to continued learning and process improvements eventually resulting in less conflicts. Here, prior literature offers very little guidance and many questions remain unanswered, such as what factors influence the turning point of when resource investment pays off, or how do firms prevent free-riding or benefit spillovers to other (competitive) firms or are there advantages on an industry organization level from which all firms gain. These findings unveil a need for future research to dive further into transactional, arms-length inter-firm relations and clarify the mechanisms of partner commitment and learning that affect partner conflict.

Lastly from Suruceanu's findings, there is a curious relationship between increased commitment to supplier training and the type of product quality issues. The evidence shows that as a firm invests in training the suppliers' employees, quality issues regarding defective products decreases. However, the positive effect of increased supplier training is absent when it comes to following specifications. Problems with defective products, such as poor stitching or trimming or detailing, may be easily resolved by explicit demonstration, learning by doing or trial and error. However, the misinterpretation of product specifications may occur from the cultural distance of the partners. One of the fashion firms explained that even though the specifications of the neckline were clear, the seamstress continually cut it higher as she thought it couldn't possibly be so low. This suggests that when investing in supplier training, fashion firms need to consider the cultural distance with their suppliers, understand how this might impact product quality and find ways to bridge the distance.

5.3 IMPLICATIONS OF THE FINDINGS

IMPLICATIONS FOR INDUSTRY PRACTITIONERS

There are numerous managerial implications that can be derived from the three studies. First for fashion designers that are aspiring entrepreneurs, Siegel's findings imply that entrepreneurs facing resource constraints, especially in financing, need to make sound investment decisions and gain a better understanding of the value of their intangible assets, such as their brand and design potential. Making sound investment decisions extends into the evaluation of the (transaction) costs associated with geographically distant partners as well as participation in high-profile trade shows. This implies that, due to their limited resources, fashion designers/entrepreneurs need to apply better costs-benefit analyses to their decision making. Siegel's findings also imply that the strength of a fashion designer seems to lie in the strength of their network, which is bounded by location and past events (as previously discussed). As individual fashion designers rely heavily on their network's strong and weak ties, the choice of location is difficult to change. Designers should consider carefully where they choose to locate themselves by evaluating the local context, and this starts with the decision of where to attend school. These types of decisions have path dependencies due to establishing network ties and the embeddedness or stickiness of these ties in the broader locational context (Visser and Boschma, 2004). The path dependence of certain key decisions will shape future decisions, such as whether designers become entrepreneurs, where they choose to establish firms and where they expand operations (Boschma and Wenting, 2007; Engstrand and Stam, 2002).

From the studies by Suruceanu and Felix, fashion designers, entrepreneurs or firms can more fully understand the trade offs they face when making decisions about international production partners. It behooves firms to first consider their own capabilities in managing supplier relations and then make a careful selection and evaluation of production partners. The varying levels of coordination and control that firms may aim to have over partners will affect the firm's ability to be flexible and adapt to market changes. Partnering decisions will also be influenced by a firm's competitive strategy; firms competing on higher quality with longer-lasting fashion products may sacrifice market flexibility for a higher commitment and investment in partner learning and quality improvement. The findings from Suruceanu and Felix imply that even though fashion firms can easily exit supplier relations, an increased level of oversight and involvement to improve quality or CSR problems requires a long term commitment if any benefit is to be realized. This commitment involves frequent site audits, shared understanding of terms such as quality, and reducing the cultural distance by not only improving communication but also the use of local agents and third party intermediaries. There also seems to be interrelatedness between quality and CSR problems; problems in quality, such as late deliveries, affect problems in CSR, such as persistent overtime. Although firms may vary in the extent that they have insight into these problems at supplier locations, they could create control measures to monitor orders. Ideally, firms could work collectively through third party organizations to affect changes at supplier locations. Lastly, the qualitative findings from Suruceanu show that the firms that have dedicated functions and personnel to manage supplier relations have also experienced quality and CSR problems that triggered a higher commitment to improving these relations. To be able to integrate learning back into the fashion firm, personnel or managers dedicated to supplier management is needed.

IMPLICATIONS FOR POLICY MAKERS

The above discussion of particularly Siegel's findings has alluded to implications for policy makers. Three main areas of these implications are highlighted: networking, funding and education. First, Siegel's findings clearly call for policy schemes aimed at helping the fashion designer/artist become a firm. Even though there are networking and trading platforms in each city, the designers included in this study do not benefit substantially from them. More opportunity should be provided or created to link fashion designers/artists with the complementary resources that they need to run a business, not just develop a fashion label or collection. Fashion designers have strong ties linking them to other artists, but lack ties that link them to business expertise. Instead of market places, policy makers and industry associations could consider creating spaces for exchange to match the firm's early growth stage, where they can link to complementary resources and skills as well as to potential buyers of their products.

There is also a need for policy schemes to aid fundraising. Banks are notoriously reluctant to provide debt financing to fashion entrepreneurs and fashion is an industry that does not attract much traditional venture capital. The lack of venture capital is a real disadvantage, as venture capitalists tend to have industry experience and provide much needed business expertise to young firms. Fashion designers/entrepreneurs would benefit from being paired with business 'coaches', much in the same way that technology transfer offices or incubators connect scientists with industry professionals with managerial expertise. Additionally, crowdfunding is gaining in popularity and policy schemes that encourage this type of funding, through awareness of it or incentives to use it, could prove useful. However, crowdfunding is still not well understood and further research is needed (addressed in next section).

Lastly, for policy makers, the role of the educational institution (fashion institutes) should be leveraged and established as an anchor for attracting talent to the metropolitan area. The educational institution needs to be well connected and integral to the designer networks and the fashion industry at all levels, local, regional, national and global. Safeguarding quality education is essential; however, to increase global reach and attract and form young talent, educational programs not only need to be world-class, they need to be offered in English. If a creative city flourishes from diversity, then attracting that diversity from beyond the local, regional and national contexts becomes imperative. Given that networks are locally sticky, it stands to reason that once talent is attracted to the area, it stays. This implies that cities can reap benefits from economies of agglomeration. The educational institution has a central role in attracting talent to the metropolitan area and acts as a catalyst to the creation and stickiness of designers' local networks. Local but also national policy should reinforce and support this role of the educational institution by providing, for example, infrastructure, funds and immigration assistance. Furthermore, networks of educational institutions in peripheral regions (such as Arnhem Fashion Institute) should be integrated more structurally into the core metropolitan area. Peripheral regions cannot offer the same network externalities as metropolitan areas; however they may attract regional talent and can provide a pathway to the larger metropolitan network, embedding more talent to the metropolitan area.

Furthermore, the policy implications from the studies by Suruceanu and Felix are primarily related to sustainability. The small and medium sized fashion firm lacks scale and supplier compliance is very difficult for these firms to monitor. Also suppliers have second and third tier suppliers exacerbating transparency problems for fashion firms. There is also the matter of free riding, where one firm, that does nothing, benefits from the actions of another one that resolves the issue. These are just a few reasons why small

and medium sized fashion firms might hesitate to tackle sustainability issues in their supply chain. Policy schemes could be created to coordinate collective action to improve sustainability in outsourced fashion production. Presently, this type of collective coordination is in the realm of non-governmental agencies (e.g. Made-By) and non-profit firms (FairWear Foundation, Greenpeace). While these organizations have made progress, they charge a membership fee and much of the service and information they provide may be inaccessible to young firms. Greenpeace's Detox Campaign, which aims to reduce the use of hazardous chemicals in textile production to zero, focuses on involving the large fashion firms, purely as a means to affect change. Policy could help to stimulate more proactive collective action among small, young firms by providing a platform for coordinated action and guidelines on sustainable practices, especially information about labor and safety regulations in various countries as non-compliance issues are more likely when firms rely on national government regulations.

5.4 FURTHER RESEARCH

These three studies have led to many more questions that deserve further attention and research. First of all, a much deeper understanding of the growth trajectory from the individual artist or designer to the start up, entrepreneurial firm to the young growing firm is needed. Each of these phases needs more elucidation as well as the transitions between them. What kinds of artists become successful entrepreneurs? Which complementary assets are beneficial and at which stage? How does social media interact with their growth trajectory? Where and how does online business influence their growth trajectory? At what stage is crowdfunding a feasible funding option and does it pay off? What types of fashion firms are successful with crowdfunding? Studying this trajectory of growth opens up many areas of inquiry that deserve further investigation.

The fashion industry network formation and development also deserves more thorough attention, first by mapping the extent of the strong and weak ties of the industry. One question to explore is whether the implications of stickiness hold for smaller cities, such as Arnhem, or whether stickiness is a big city phenomenon. Another avenue to investigate is the mobility within in the network, the increase and decrease in network participants, and the antecedents of network changes.

Lastly, there is much to learn about how firms develop international production partnerships that enable learning to take place to decrease partner conflict. In transactional, arms-length relations, there are questions that remain in regards to the payoff of continued investment and commitment in learning and problem solving with partners. What factors influence the turning point of when resource investment pays off? How do firms prevent free riding or benefit spillovers to other (competitive) firms? Are there advantages on an industry organization level from which all firms gain?

The studies in this book investigated the inward and outward internationalization of small and medium sized fashion firms. They provide important insights into i) how the young fashion designer accesses critical resources in two comparable cities, Amsterdam and Berlin, and ii) how international supplier relationship characteristics and control mechanisms affect quality management and social responsibility issues.

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APPENDIX 1

This interview guide was used for qualitative data collection that was used for all three studies.

A. Nature of the business

A.1.1. Please explain your business

- Understand the founder
 - o Background: education, motivation, skills, leadership, ambition
- Understand the founding
 - o The details: when, where, why, how (particularly financing and people), with whom
- Understand the product/service they sell
- Understand who their customers are
- Understand how they make money (revenue model)
- Understand their positioning / brand / competitive advantage
 - o Not just product advantages but also employee or skill advantages

For all of these points, probe the answers with the question: Why?

- Why did they choose those types of products?
- Why did they choose those customers?
- Understand motivation for their strategic decisions

A.1.2. Has the nature of your business changed since you started? If yes, please provide examples? Where in the business did the changes occur and why?

B. International activities in the value chain

We should have an understanding of where they are in the value chain after hearing about the firm.

B.1.1. Confirm where we think they are in the value chain

B.2 Suppliers

B.2.1. What types of international partners do you have for sourcing and production?

- Understand where in the value chain the partners belong
- Understand the complementary services/assets/capabilities the partners provide
- Know where (which countries) they're located in
- Who has contact with suppliers?

B.2.2. When did you first start working with these partners?

B.2.3. Explain how the partnerships have grown or declined? Why?

B.2.4. What difficulties have you had with international partners?

B.2.5. Do you still experience these difficulties? Or any other difficulties?

B.2.6. Did you change your business processes/procedures to deal with difficulties?

B.2.7. How were they resolved?

B.2.8. Did you hire additional personnel to handle international transactions/activities? When?

B.2.9. Did you seek external advice regarding international activities? If yes, what kind of advice? Where were these advisors located?

B.2.10. Do you think you've learned and improved by using international partners? How? What?

- Local market knowledge (competitors, customers, distributors)
- Manufacturing processes
- Efficiency measures

B.2.11. How do you finance your operational activities? Or how do you finance producing new collections or buying inventory?

B.2.12. Would you change anything in your supplier/production channel and why?

B.3. Customers

We should know who the customers are and their position in the value chain from section A.

- Confirm our understanding of who their customers are.

B.3.1. How do you build relationships with your customers?

- Mechanisms, types of activities: tradeshow, showroom, etc
- Frequency of contact
- Type of contact – sales, service

B.3.2. Who, in your organization, has contact with customers?

B.3.3. Are there differences between working with international suppliers and working with international customers.

- Elaborate, explain differences with examples

B.3.4. Did you hire additional personnel to handle customer relationships?

- What specific skills do these people have?
- When were they hired?

B.3.5. How many customers do you have (roughly)? What is the allocation of sales to customers? Or, how many customers represent the largest proportion of sales? Are these international customers?

B.3.6. How do you access consumer information? Is it sufficient information?

- Provide examples

B.3.7. Would you change anything in your customer channels and why?

B.3.8. How does e-commerce affect your sales channels?

C. Branding and international partners

C.1.1. Explain how your product/company is branded.

- Understand the emotions they are trying to convey

C.1.2. What values are attached to the brand?

C.1.3. Are there advantages or disadvantages for the brand from the partnerships you've established?

Provide examples.

D. Changes in strategy

D.1.1. Can you identify any changes to your company's strategy that is a direct result of working with an international partner? Please provide examples.

- Changes in product / offering
- Changes in competitive position
- Changes in customer orientation
- Changes in the firm's position in the value chain (vertical integration or movement up- or downstream)
- Changes in markets (entered / exited markets)
- Changes to staff – hiring or firing of personnel (which functions)

D.1.2. How have you financed internationalization?

E. Additional/ specific questions; thesis sub-questions for Toyah Siegel

E.1. What kind of resources did the firm need and use to start (key resources)?

E.2. What key resources were available to the firm in Amsterdam or Berlin?

E.2.1. How accessible were these?

E.3. What made (makes) Amsterdam or Berlin attractive for the firm?

E.4. Do you think that other fashion cities offer better/other/more opportunities to start a fashion business? Or what makes Amsterdam or Berlin unique?

E.5. To what extent is it important to be geographically close to manufacturers/customers/suppliers for your company?



APPENDIX 2

Interview summaries from the thesis by Toyah Siegel

AMS1

AMS1 designer is a menswear designer who studied fashion design at the Amsterdam Fashion Institute (AMFI). She graduated with cum laude in 2005. After AMFI, she first worked for two commercial brands. There, she gained a lot of experience and that enabled her to do freelance jobs on the side later on. However, she didn't enjoy the power structures and the loss of her own style. Therefore she started her own sustainable menswear label in 2007. She started that with own savings, salary of a side job, and a grant from the Fund Kunst Amsterdam. First, she worked from home and then started to use anti-kraak studios. Those are cheap enough to afford, but not permanent. Therefore she had to move several times over the last years. Moreover, the designer realized several fashion shows at Amsterdam Fashion Week (AFW). She got into AFW by applying the normal way and then being selected by the jury. Her third collection was even selected to be the opening show at Amsterdam Fashion Week and was therefore sponsored by ABN/AMRO Bank. She has 7 partner shops in Vienna, Italy, Milan, and The Netherlands. All of them she found and approached herself because she finds it difficult to find a suitable sales agent. Her clothes are produced in India, Morocco, and Macedonia. She found her partners through friends and people in her network. However, communication and quality problems forced her to change production to somewhere closer. Hence, the designer will produce in Romania in the future because she is able to visit the production house easily and import/export becomes easier. Since she is also keen on creating long lasting relationships, the closer production will make this easier for her as well. Concerning competitors, the designer doesn't feel pressure from competition. In fact, she has a network of other designers who support each other, e.g. they share costs of shipping garments if possible. Moreover, AMS1 designer took a break because she didn't have the financing to continue and she wanted to re-think her business strategy. Being so focused on creating her designs, she did not have enough time for the business side of her brand and needs to expand her network here.

AMS2

AMS2 designer is from a small town in The Netherlands and moved to Amsterdam to study fashion design at Amsterdam Fashion Institute (AMFI). She graduated in 2010 and also founded her label that year. It was not her plan to start a label right away but more an opportunity that came along for her. The PR agency Dutch Fashion Foundation invited her to join their showroom after seeing her graduation collection show. She worked with them for one year and then changed to another agency that approached her and that didn't take any showroom fee. Throughout, her main focus was on designing the collections. The rest was handled by her agents. The plan was to first establish the brand name. Therefore AMS2 was not selling to any stores or having any producers. All her pieces were handmade and unique. Also, she found her fabrics in regular fabric stores rather than on fairs since her quantities were very low. She financed her brand with the help of her mother and boyfriend. For fashion shows at the Amsterdam Fashion Week Downtown program she teamed up with fellow designers. In general, she received help from friends with her collection, website, or photo shoots. Hence, she and other designers were a supporting system rather than competitors. In her opinion Amsterdam has too many designers trying to be successful with their own label. And the ones who have a better knowledge for doing business are more successful. After over two years of establishing the brand name but not making any profits she decided to stop the label and find other work first.

AMS3

AMS3 designer studied communications in Amsterdam and graduated in 2012. He founded his label AMS3 in 2010, next to his studies. Before the start of his label he was a fashion blogger and therefore created a good network for him to start a fashion brand. In general he says his network is one of the most important elements to succeed. All of his partnerships, from production over website creation to customers, he retrieved through existing contacts. On top of that, having close friends with own fashion labels helped him by learning from their mistakes and successes. In general, he puts emphasis on the business side of the label as one of his main goals is to make a living of this. He started his label with denim for men only because this is more challenging for small brands than for example a t-shirt line. In the future he plans to expand into non-denim mens and womenswear. The clothing are produced in The Netherlands, Turkey, and Portugal. At the moment he is working on his first capsule collection. He finances his business with own savings, part of his salary from his fulltime job, and money from his family. Furthermore the designer does all his work from home at the moment but hopes to have a studio in the future.

AMS4

The founder of AMS4 studied video art in Utrecht. After acquiring a starters grant she decided to use that money to fulfill a longtime dream. First she started by customizing vintage clothes in Utrecht. Then AMS4 founder moved to Amsterdam where she opened her own vintage shop and started to design pieces from scratch. After three years she left the act of customizing vintage behind. In 2009 she participated in the Tv show "Project Runway" and ended up being the winner. With the prize money, a loan from "Cultuur-Ondernemen", and freelance jobs she finances her business. On top of that she tried to get a bank loan but was refused. The Tv Show gained her a lot of attention and a large network which she draws on. Through a fellow designer she found her production company in Poland. Moreover, she produces in China with a factory she found through online sourcing. Besides presenting her collections at fashion shows, she also participates at trade shows in The Netherlands and Germany. Germany because she wants to expand

to there. For now, she sells to 19 shops in The Netherlands and Belgium. All of them she found herself. Also, she works with PR and sales agencies, who she found through existing contacts. Lastly, she hired interns to help her. These, mostly contacted her by themselves.

BER1

BER1 founder started her women's wear label in 2005. Before, she studied fashion and product design in the South of Germany. After her studies she went to Beijing to work as a graphic designer. After three years she decided to return to Europe and that it was time to start an own company in fashion. Before starting, she decided it was vital to create a good network in the fashion scene first and therefore started working for various brands. Having lived in Beijing, the designer got used to big cities, so she decided Berlin was a city that was big enough to satisfy her. On top of that her boyfriend lived in Berlin. After acquiring enough connections in the fashion scene, she started her label with her savings, and a family loan. The majority of her customers she found at trade shows where she presents her collections. She sells to stores worldwide, and has many customers in Japan. A Japanese sales agency who approached her made that possible. Moreover, she produces in Germany, Romania, and Portugal. In her studio in Berlin, she works with one full time assistant, interns, and part time help. The interns usually approach her, and the rest of the staff she found through word-of-mouth. At the moment, she plans to restructure her business a bit. She wants to get more support with the business side, so she can focus more on the part she enjoys most: designing.

BER2

The fashion label BER2 was founded in 2011 by two former fellow fashion design students. Before BER2, one of the founders had another fashion brand, which failed. Both founders work full time other jobs and invest all of their money into the label. On top of that they borrowed money from friends for their venture. Financing was declared as their biggest struggle. Also, attempts to acquire loans or grants failed. The two designers share a working space with other designers, and thus, share costs. Those other designers are their only contact to similar labels; it was said that they do not feel to have a support network consisting of other brands in Berlin. In general their network in the fashion scene appears to be rather small. It was mentioned that they do not know enough people who they can draw on and that is frustrating them. Attempts to network were made at two trade shows, but they did not turn out to be of great success for BER2. It was felt that the buyers at trade shows are more interested in more established labels. Generally, the two founders do not have enough time to network or take care of the business side. Their full time jobs keep them very busy, and the rest of their time they spend on designing. The designers wished they had more contacts to help them with marketing, sales, and finances. Berlin is their place of choice since it was their home already. On top of that they believe it is one of the few creative cities that are cheap enough to do this. For now, BER2 has found two shops who will stock their next collection. Also, they were featured in a few magazines. These events keep them motivated to keep going with their business.

BER3

The fashion label BER3 is an eco-brand, which was founded in 2008. The owner is from a small town in Germany, and moved to Berlin to study fashion design. She graduated in 2008 and since there were hardly any jobs available in the eco-fashion sector, she decided to start her own label after her studies. Besides only using certified sustainable fabrics, all production is done in Germany. An element the designer said to be very content with, as she observed from fellow designers that they have many struggles with producing

further away. Her plan was from beginning on to develop slowly but surely. Her first collection only consisted of five pieces, which she then took to shops herself. Now, she still sources customers herself, and also works with a sales agent who she met at a tradeshow. BER3 was financed with a family credit, which the designer pays back since 2012. Moreover, the designer had other jobs to make money to invest in the business. Generally, she said working a job and creating an own business is only possible in Berlin because it is cheap compared to other cities and countries, but still a metropolis. Also, she never felt any hard competition, but more that the small brands are a collective against the big players in the market.

BER4

A designer duo founded the menswear label BER4 in 2012. Both studied graphic design in different cities in Germany and met while working for the same company in Munich. After having worked for some years they realized their network and abilities to create a label are sufficient and just gave it a go. They used savings to finance the start up and are both still full time employees as graphic designers. The decision to start it in Berlin was because it is highly affordable in this city and also there are many creatives and a kind of creative vibe that leaves room for experimentation. On the downside, it was stated, that there are too many people trying to succeed with a fashion label in Berlin. Still, in their own network the designer duo does not have any fellow fashion brand owners. Their network consists primarily of web-designers, photographers, and models, who they draw on to get work done for free or in exchange for favors. Also, through their former employment the designers were able to acquire valuable contacts like their production firm in India. To find customers, the founders do online sourcing and participated at one trade show. However, it was stated they regret investing in a trade show this early, as it appeared that buyers are more interested in labels which existed for a longer time already. Generally, they wish to have a better network of stores.



APPENDIX 3

Below is the survey that was used to gather information for the quantitative analysis.

1. How many international production suppliers do you have?
 - a. 0-5
 - b. 6-10
 - c. 11-20
 - d. 20+
2. In which countries does your production take place? Please rank according to the level of production in that country.
 - a. China
 - b. India
 - c. Bangladesh
 - d. Sri Lanka
 - e. Southeast Asia
 - f. Turkey
 - g. Tunisia
 - h. Eastern Europe
 - i. Southern Europe
 - j. Western Europe
 - k. Colombia
 - l. Other _____
3. On average, what is your approximate annual production volume (in units)? (Open numeric question)
4. Have you ever switched production suppliers? Y N
5. If yes, how many supplier relationships have you terminated?
 - a. 1-3

- b. 4-6
 - c. >6
6. Please indicate what type of relationships you have with your most important production suppliers. (Multiple answers possible)
- a. Preferred supplier agreements
 - b. Partnerships with equity participation (e.g. joint venture)
 - c. Partnerships without equity participation (e.g. alliances)
 - d. Fully-owned subsidiaries (e.g. 100% ownership of factories)
 - e. No long-term contractual agreements (non-strategic transactions)
 - f. Other _____
7. Do you invest in your international suppliers' operations? Y N
8. If yes, what kind of investments? (Multiple answers possible)
- a. Capital equipment
 - b. Suppliers' employee training / skills
 - c. Other _____
9. Have you ever had conflicts / problems with your suppliers? Y N
10. If yes, what kind of conflicts have you experienced? (Multiple answers possible)
- a. Fair labor issues
 - b. Late deliveries
 - c. Unacceptable lead times
 - d. Production scheduling
 - e. Defective products
 - f. Specifications not followed
 - g. Other _____
11. What kind of labor non-compliance have you experienced with your suppliers? (Multiple answers possible)
- a. Persistent overtime
 - b. Discrimination
 - c. Child labor
 - d. Forced labor (working against will or with threat of punishment/sanctions)
 - e. Poor working conditions
 - f. Preventing association or collective bargaining (unionize)
 - g. Paying wages under the level of "living wages" (the minimum or sufficient to meet basic needs of workers)
 - h. Other _____
12. What type of control mechanisms do you have in place to monitor your production suppliers? (Multiple answers possible)
- a. Policies for local labor compliance
 - b. Terms and conditions for orders / product defects
 - c. On-site audits of suppliers by you
 - d. On-site audits of suppliers by local agents
 - e. On-site audits of suppliers by independent 3rd parties
 - f. Other _____

13. How often do you conduct on-site audits of your main suppliers? (Only 1 answer possible)
- a. Bi-annually (2 times per year)
 - b. Annually (1 time per year)
 - c. Every two years or more
 - d. We do not conduct on-site audits
14. Which guidelines do you use in creating policies for international production suppliers? (Multiple answers possible)
- a. Non-governmental organization policies (Fair Wear Foundation, Fair Labor associations, Greenpeace, etc.)
 - b. National government agencies
 - c. Supra-national government agencies (e.g. International Labour Organization (ILO), UN Global Compact, BSCI)
 - d. Other _____



APPENDIX 4

Interview summaries from the thesis by Gabriela Suruceanu

Company A

Interview date 2011

Size: medium

Founded: over 60 years ago and taken over in 2005

Company positions itself as a lifestyle brand for men by offering a full coordinated collection from suits to socks. The firm is present in ten markets such as USA, Canada, Holland, Belgium, Denmark, Sweden, Norway, Germany, Middle East, and England via its wholesale distribution channels. About 60% of the sales are international, which requires adjusting to the specifics of local markets in terms of size and fashion trends. Thus, in Holland it targets the middle segment of the market, whereas in Scandinavian countries – the upper market segment.

The core business of the company is formal clothing – tailoring (suits, jackets, trousers). Forty per cent of its tailoring production takes place in China where it has two suppliers, the other sixty per cent in East Europe. Besides tailoring, company A is producing other product areas such as shirts, knitwear, denim and trousers in countries as Turkey and Tunisia. For additional suppliers the wholesaler is appealing to fairs or specialized agencies; once a potential supplier for tailoring purposes is met, company A is visiting the factory itself to determine the fit between them and the supplier. For those already established supplier relationships the company opts for long-term relationships. Further on, when working with China, the company experienced problems in terms of different perceptions about quality on behalf of the supplier. In order to overcome such barrier, company A invested time in making its suppliers understand the required quality standards.

In addition, the value chain of company A stretches from planning and development, to design and prototyping, and to sample making which is being showed to agents and distributors prior production itself, which starts only after orders are being received from buyers. Thus, the main goal of the company is decreasing its lead times, which are currently twelve months.

Company B

Interview date 2011

Size: small

Founded: 2004

Company B positions itself as a lifestyle brand for women. Its market exposure is Belgium and Holland.

It develops its own fabrics from yarn to end product. Its suppliers are spread between Italy for yarn, Portugal for printing the fabric and Colombia for jeans production. The international suppliers are being searched via Internet, phonebook or personal network. The firm visits those factories that are located in geographic vicinity of Holland such as Portugal, whereas when working with China the supplier check is done via agents only, and no check is undertaken with Colombia since the later is being chosen for the good name and reputation (information take from personal network). The advantage of China over Portugal is lower minimum orders volume.

The quality is measured in terms of fit, specifications followed and sustainability. The later emphasized using eco friendly fibres (bamboo yarns) and eco friendly leather. Additionally, in terms of child labor, the agents for Chinese suppliers are ensuring it. Company B uses r

Company C

Interview date: 2011

Size: small

Founded: 2007

Company C is positioning itself as sustainable high-fashion men wear brand and it is present in markets such as The Netherlands, Austria and Italy.

It outsources fabrics from Southern Europe, Western Europe and Japan. The suppliers are chosen through the intermediary of agents. The most encountered difficulty when searching for a supplier is the large minimum quantities such as experienced with India. Additionally, when outsourcing the production to Macedonia, Morocco and India conflicts in terms of defective products were experienced. As result, company C is taking into consideration working with production suppliers that are geographically close located to Holland such as Romania, so that it can conducts audits by itself to ensure quality.

Another measure undertaken by the company to ensure its quality standards are being met and lead times reduced is to hire local tailors for sample production so that a 'perfect' sample can be created and later sent to production factories that remake it perfectly. With these tailors, it maintains long-term relationships in order to ensure all the appropriate specifications are followed.

It measures quality in terms of end product being as expected and in terms of sustainability, it uses sustainable fabrics such as organic, recycled, high-tech since it does not require intensive wash or stain resistant since it does not require intensive care or usage of substantial amounts of water. Additionally, it defines sustainability as maintaining sustainable relationships with suppliers in terms of long-term relationships.

Company D

Size: large

Founded: 2006

Company D is a wholesaler specializing in fashion accessories such as jewellery, belts, bags and scarves. It sells its products only to big retail chains in markets such as Europe, USA, Canada, Mexico, South America, Russia, and Asia and it targets low-end market segment.

The majority, eighty per cent, of production takes place in China where it works with 30 suppliers some being sub-contractors and among which are factories. In some factories it invests under 'joint-venture' premises in order to boost sales. The other twenty per cent of production takes place in India for items such as scarves and specific jewellery and it works with the 10 to 15 suppliers. The conflicts experienced with Chinese suppliers are due to fact that many suppliers are sub-contractors, which leads sometimes to quality inconsistency, whereas when working with Indian suppliers quality and production control are an issue due to low factories' capacity, which results in orders being dispersed among various factories. Additionally, India compared to China has poor infrastructure which leads to increased times of production. To ensure quality and environmental standards are being met, the firm visits the factories themselves via its buying offices located in both China and India. Additionally, it has rating systems on orders via short interviews sent to customers and their teams to grade aspects such as shipment on time. In case of conflicts, company C chooses to reconcile rather than switch the production suppliers. The firm defines a 'perfect supplier' as being able to deliver quality searched for within the proper delivery time; with 2 suppliers it has long-term relationship of over 15 years.

The value chain is entirely company's responsibility. It sources its product design and the manufacture process but also ensures logistics to its customers.



APPENDIX 5

Interview guide for informal interviews from the thesis by Charelle Felix

A. Semi-structured interview questionnaire

Introduction

1. Could you tell me about yourself and the department, position, and responsibilities?

Suppliers

2. Could you give a brief overview of where the suppliers were in the company's value chain? And what were exactly their services for the company?
3. How much suppliers did the company have?
4. Where were the suppliers located?
5. Who had contact with the suppliers?
6. What were the criteria's used in selecting and sourcing the suppliers?

Implementing & Monitoring

7. How was CSR implemented? How was it communicated? Such as any specific manuals and codes for the suppliers to follow?
8. How was CSR monitored at the suppliers, how did you make sure that principles and rules were followed? Did you have any specific monitoring systems?

Difficulties

9. What were the most frequent challenges encountered to monitor the suppliers? What made it difficult to monitor the suppliers?
10. What were the encountered labor violations at the suppliers at that time?

11. How were they resolved? Were the business processes/procedures changed to deal with them? Did you seek external advice? If yes, what kind of advice? Where were these advisors located?
12. After this experience were there any more of these difficulties? Or any other difficulties?
13. Do you think you've learned and improved from this experience? How? What?

This publication is issued by *The Centre for Applied Research on Economics & Management (CAREM)*, the Research Centre of the School of Economics and Management / HES, Amsterdam University of Applied Sciences. CAREM is a centre of expertise for practice-oriented research focused on knowledge development. This publication on *Internationalization and The Dutch Fashion Industry* was conducted within the Amsterdam Knowledge Economy Research Group.
<http://www.carem.hva.nl>

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Economics and Management (CAREM)

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ISBN 9789059728349

