DECISION SCIENCES INSTITUTE

Garment Suppliers' Strategies to Manage Commercial and Social Tensions: An Institutional Logics' Perspective

Marc Mueller
University of St.Gallen
Email: marc.mueller@unisg.ch

Joerg S. Hofstetter
University of St.Gallen
Email: joerg.hofstetter@unisg.ch

Anthony Goerzen
Queen's University
Email: anthony.goerzen@queensu.ca

ABSTRACT

Many scholars suggest that firms decouple standard adoption and compliance. This study focuses on the compromising strategy and presents the conditions under which decoupling and compromising strategies are pursued. The analysis is based on social audit reports of the BSCI for 90 emerging market producers supplying garments to Western buyers.

KEYWORDS: Social issues, Strategy process, Strategic management/operations interface, Operations strategy, International markets

INTRODUCTION

The imposed character of social standards for ensuring acceptable working conditions along with the requirement on inexpensive production relates to the question proposed by Jay (2013): How to react when facing explicitly conflicting demands? We believe institutional theory is an appropriate lens to study this phenomenon. The literature on institutional logics, as a notion of institutional theory, emphasizes the distinguished influence of competing logics on organizations (Thornton & Ocasio, 2008).

A tension exists between commercial and social aspects (Margolis & Walsh, 2003). Appropriate strategies to deal with competing commercial and social logics are decoupling, compromising and combining (Pache & Santos, 2013). Decoupling refers to adopting policies while not implementing them (Meyer & Rowan, 1977). Compromising involves meeting the institutional prescriptions by creating a balance between the goals of the competing institutional logics (Oliver, 1991). Combining concerns the selective coupling of elements of each logic (Pache & Santos, 2013).

We adapt our study to Jay's (2013) call and guide our research by the following question: How do emerging economy suppliers react when confronted with explicitly conflicting demands? The analysis utilizes social audit reports of the Business Social Compliance Initiative (BSCI) for 90 suppliers from Bangladesh, China, India and Turkey in the clothing and textile industries which have completed two full audits between September 2012 and March 2015.

This study offers three major contributions. First, we observe organizations pursuing the compromising strategy which has received little scholarly attention (Pache & Santos, 2013). Second, we find that the strategy selection depends on whether the conflict between the competing institutional logics is salient or not. When the tension between commercial and social demands emerges, garment producers from emerging economies decouple by prioritizing the commercial over the social logic. When growth indicates prosperity on the economic dimension, emerging market suppliers balance the competing demands by reaching the goals of the social logic. Third, we build a bridge between institutional logics and institutional isomorphism as notions of institutional theory. Our results suggest that growing exposure to the social logic through more on-site assessments leads organizations to establish an isomorphic strategic behavior.

THEORETICAL DEVELOPMENT

Strategies to solve conflicts between competing institutional logics are decoupling, compromising and combining (Pache & Santos, 2013). When pursuing a decoupling strategy organizations symbolically accept external demands while not effectively implementing them (Meyer & Rowan, 1977). It follows that decoupling is an appropriate strategy for situations, in which the tensions between competing logics become salient but it can hardly be sustained in the longer run (Pache & Santos, 2013). When following a compromising strategy organizations balance between the goals of the competing institutional logics (Oliver, 1991). According to Pache and Santos (2013), this strategy is less explored than the others. When pursuing a combining strategy organizations build a new organizational identity through combination of logics (Battilana & Dorado, 2010; Jay, 2013).

Decoupling Between the Commercial and the Social Logic

Hypothesis 1: A high performance against the goals of the commercial logic is negatively associated with likelihood to meet the obligations of the social logic, which represents the decoupling strategy.

Compromising Between the Commercial and the Social Logic

Hypothesis 2: The higher the performance improvements against the goals of the commercial logic the greater is the likelihood to meet the obligations of the social logic, which represents the compromising strategy.

The Relationship between the Commercial and the Social Logic Attributed to Exposure

Hypothesis 3: The higher the exposure to the social logic, the more significant is the pattern of choosing a decoupling or compromising strategy to manage the conflicting demands of the commercial and the social logic.

METHODOLOGY

Sample

The BSCI serves as empirical setting for this study. The BSCI (2014) aims to provide its membership companies (i.e., buyers) with a system to improve working conditions in global supply chains (i.e., at the suppliers' sites in risk countries) by offering a code of conduct and an implementation process consisting of recurrent audits and subsequent corrective action plans. According to the BSCI audit methodology, full audits constitute the starting point of the supplier social audit cycle. Therein, the suppliers' compliance is evaluated against the BSCI's code of conduct, which is based on the International Labour Organization (ILO) Conventions, declarations of the United Nations (UN), the Organisation for Economic Co-operation and Development (OECD) and national laws (BSCI, 2009).

Our dependent and independent variables are obtained from social audit reports and such monitoring results are not without criticism. Accordingly, the theoretical sampling of relevant garment suppliers is based on a careful analysis of the audit data and the social issue in question, working hours, is evaluated based on documentation over longer periods of time covering peak and low season. The fashion industry is known to be volatile and we considered suppliers, which doubled or halved sales turnover between two full audits at the most, leaving 90 suppliers for analysis.

Table 1 offers an overview of the sample by outlining the number of producers per country and the percentage of emerging market suppliers meeting the working time requirements as well as the average sales turnover at the time of the latest full audit.

Table 1: Overview of the sample

	Bangladesh	China	India	Turkey
n	12	45	21	12
% of suppliers meeting the working time requirements	75.00	93.33	90.48	41.67
Average sales turnover in EUR	10,382,747	5,557,046	2,364,795	12,953,333

Dependent Variable

The likelihood to meet a social standard's requirements on working time serves as independent variable of this study. It is a dichotomous variable, in which 1 represents an emerging market supplier achieving a 'good' rating in this category and 0 characterizes an emerging market supplier scoring 'non-compliant' or 'improvement needed' on this social issue.

Independent Variables

Sales turnover and sales turnover change are the independent variables of this study, for which we computed z-scores following Bloom et al. (2011). For each independent variable, we subtracted the sample mean and divided by the sample standard deviation as follows:

$$z_i = \frac{X_i - \overline{X}}{\partial_{X_i}} \quad (1)$$

The computation of z-scores allows to set the absolute values into perspective to the entire sample and eases interpretability of the results. A one unit increase in the z-score changes the probability that a garment suppliers fulfils the minimum requirements on working hours by one standard deviation. The analysis builds on the raw data obtained from the social audit reports.

Control Variables

The control variables are country, year of the audit, share of female managers to all managers, share of managers to all workers and auditing company.

RESULTS

Descriptive statistics

The correlations are summarized in table 2.

Table 2: Correlations

	1	2	3	4	5	6	7	8
1 Odds working time requirements	1							
2 Sales turnover z-score	-0.43^{**}	1						
3 Sales turnover change z-score	0.36^{**}	-0.41^{**}	1					
4 Country	-0.26^{*}	0.04	-0.18	1				
5 Audit year	0.13	-0.16	0.22^{*}	0.06	1			
6 Auditor	-0.17	-0.15	-0.04	0.26^{*}	0.12	1		
7 % Female managers/managers	0.24^{*}	-0.01	-0.01	-0.06	0.05	-0.30^{**}	1	
8 % Managers/workforce	0.20	-0.07	0.09	-0.01	0.15	0.12	0.08	1

** $p < 0.01$; * $p < 0.05$.

Hypothesis tests

Table 3 illustrates the results of the logistic regression analysis for the influence of sales turnover z-score and sales turnover change z-score on the probability to fulfill a social standard's requirements on working time, which refer to the hypotheses 1 and 2. Model 1 contains the control variables, of which country ($p < 0.05$) and share of managers to all workers ($p < 0.1$) inhibit a significant influence on the likelihood of a garment producer to meet the working time obligations. Hypotheses 1 and 2 are tested through the models 2 and 3, in which the independent variables are entered individually. Model 2 refers to the cross-sectional analysis, in which the influence of the sales turnover z-score on the probability to live up to a social standard's requirements on working hours is tested. Model 3 assesses the effect of sales turnover change z-score on the odds to meet the working time obligations in a longitudinal model.

In the cross-sectional observation, sales turnover z-score is associated with a negative significant effect on the likelihood to adhere to a social standard's requirements on working hours (Model 2: $b = -1.62$, $p < 0.01$, $\chi^2 = 34.61$). Accordingly, sales turnover is negatively associated with the likelihood to meet the obligations on working time supporting hypothesis 1. In a situation, in which the conflict between the commercial and the social logic becomes salient, the garment producers follow a decoupling strategy by prioritizing commercial over social demands. Amongst the control variables, we record significant influences of the auditing company, the share of female managers to all managers and the share of managers to all workers. The auditing company exercises a significant negative influence ($p < 0.05$) on the likelihood of a garment producer to meet the working time obligations. This supports Short et al.'s (forthcoming) observation that the auditor affects monitoring results. We also observe a positive influence of share of female managers to all managers ($p < 0.1$) on labor practices as suggested by Bloom et al. (2011). The share of managers to all workers ($p < 0.05$) inhibit a significant positive influence on the likelihood to meet the working time obligations.

Table 3: Results of the logistic regression analysis for the likelihood of compliance with working time requirements (H1 & H2)

	Model 1		Model 2		Model 3	
Variables	b	s.e.	b	s.e.	b	s.e.
Control Variables						
Country	-0.79*	0.38	-0.63	0.40	-0.66	0.41
Audit year	1.15	0.79	0.44	0.96	0.81	0.85
Auditor	-0.13	0.09	-0.27*	0.13	-0.17	0.11
% Female managers/managers	2.40	1.58	4.05†	2.09	2.93*	1.71
% Managers/workforce	8.73†	4.79	11.61*	5.61	8.08	5.05
Independent Variables						
Sales turnover z-score			-1.62**	0.58		
Sales turnover change z-score					0.71*	0.32
Constant	1.03	1.83	3.31	2.52	1.94	1.84
n	90		90		90	
χ^2 (df)	17.86** (5)		34.61** (6)		23.75** (6)	

b = Unstandardized regression coefficient; s.e. = Standard error;
** $p < 0.01$; * $p < 0.05$; † $p < 0.1$.

In the longitudinal observation, higher sales turnover change z-score, representing the delta in sales turnover between the last and the second to last social audit, is significantly positive associated with the probability to live up to a social standard's requirements on working hours (Model 3: $b = 0.71$, $p < 0.05$, $\chi^2 = 23.75$). It follows that the higher the growth in sales turnover, the greater is the likelihood to meet the obligations on working time providing support for hypothesis 2. Amongst the control variables, share of female managers to all managers has a significant positive effect ($p < 0.05$) on the likelihood to meet the working time obligations.

While hypothesis 1 illustrates that emerging market suppliers are strongly driven by the commercial logic, particularly in conflict, the behavior adjusts when the conflict eases. Sales turnover growth provides a positive economic outlook, which allows to balance the demands of the competing logics by reaching the obligations of the social logic.

To test hypothesis 3, which states that the higher the exposure to the social logic, the more significant is the pattern of choosing a decoupling or compromising strategy to manage the demands of the commercial and the social logic, we split the sample. On the one hand, the 36 suppliers, which have recently been introduced to the BSCI as indicated by up to two audits, and on the other hand, the 54 suppliers with three and more on-site assessments. All of the 36 suppliers, which have less exposure to the social logic, meet the requirements on working time, implying that the decoupling and compromising strategies cannot be observed for this sub-sample. Table 4 contains the results of the logistic regression analysis for the effect of sales turnover z-score and sales turnover change z-score on the likelihood to meet a social standard's requirements on working hours for the sub-sample of the 56 suppliers with more exposure to the social logic. In the cross-sectional observation, the sales turnover z-score is associated with a negative significant effect on the likelihood to adhere to a social standard's requirements on working hours (Model 4: b = -1.20, $p < 0.05$, $\chi^2 = 22.36$). In the longitudinal observation, higher sales turnover change z-score is significantly positive associated with the probability to live up to the working time obligations (Model 5: b = 0.61, $p < 0.1$, $\chi^2 = 16.98$). In both models, we also observe the positive influence of share of female managers to all managers ($p < 0.1$) on working time requirements. The results support hypothesis 3.

Table 4: Results of the logistic regression analysis for the likelihood of compliance with working time requirements with higher exposure with the social logic (H3)

	Model 4		Model 5	
Variables	b	s.e.	b	s.e.
Control Variables				
Country	-0.54	0.39	-0.47	0.38
Audit year	0.49	1.09	0.93	0.93
Auditor	-0.21	0.13	-0.16	0.12
% Female managers/managers	$4.21^{\dagger}$	2.31	$3.37^{\dagger}$	1.96
% Managers/workforce	7.84	6.10	4.03	5.47
Independent Variables				
Sales turnover z-score	-1.20^{*}	0.57		
Sales turnover change z-score			$0.61^{\dagger}$	0.32
Constant	2.14	2.61	0.71	2.01
n	54		54	
χ^2 (df)	22.36^{**} (6)		16.98^{**} (6)	

b = Unstandardized regression coefficient; s.e. = Standard error;
** $p < 0.01$; * $p < 0.05$; † $p < 0.1$.

DISCUSSION

Emerging market suppliers in the clothing and textile industries face competing demands for low-cost production as part of a commercial logic and compliance with working time requirements attributed to a social logic, which are both imposed by their buyers. This study suggests that after garment producers have gained experience with the emerging social logic, they pursue decoupling and compromising strategies, which are enacted depending on whether the tension between the commercial and social demands are salient or not.

Decoupling to Overcome Salient Tensions between Competing Institutional Demands

Consistent with the predictions, emerging market suppliers in the clothing and textile industries follow a decoupling strategy by prioritizing commercial over social demands when the conflict between the commercial and the social logic becomes salient. In such a situation, the tension between the competing logics constitutes a perfect trade-off, in which the adherence to the prescriptions of one logic does not allow for compliance with the goals of the respective other.

This study complements Bloom et al.'s (2011) and Ortiz-de-Mandojana and Bansal's (forthcoming) non-significant observations for a positive and a negative association between workplace practices and economic performance outcomes. The diverging observations between our and previous investigations can be attributed to dissimilar institutional contexts: emerging markets and developed countries. While the emerging market suppliers in this study operate in an environment characterized by weak regulation allowing for exploitation (Locke et al., 2007), the firms in Bloom et al.'s (2011) and Ortiz-de-Mandojana and Bansal's (forthcoming) investigation are subject to the directives of powerful regulative institutions such as the European Union (EU) and the United States (US) law, which ensure workplace practices at a high and stable level.

Compromising to Ensure Legitimacy of Institutional Referents

As predicted, garment producers follow a compromising strategy when sales turnover growth signals a lessening of pressures on the commercial logic as indicated by an increased likelihood of meeting a social standard's requirements on working hours. This is likely to be attributed to garment producers employing additional workers when customer orders increase, as we find a significant positive correlation between sales turnover growth and workforce growth ($p < 0.05$). We provide empirical evidence for firms pursuing a compromising strategy to manage competing logics, which has received limited scholarly attention (Pache & Santos, 2013).

With Experience Comes Manifestation of the Relationship between the Competing Logics

Supporting the predictions, we observe fundamentally different behaviors to address the institutional logics' conflictive demands for garment producers with more and less exposure to the social logic. The emerging market suppliers with less exposure to the BSCI all comply with social logic's prescriptions while the garment producers with more exposure to the BSCI exhibit consistent strategic behaviors that differs depending on whether the tension between commercial and social demands is salient or not. These findings support the argument that tensions between the competing logics are not always salient allowing for different strategies to be pursued (Smith & Lewis, 2011).

The findings suggest further that strategy variation attributed to competing institutional logics is impermanent because increasing exposure to a new institutional requirement triggers the manifestation of an isomorphic strategic behavior across organizations. Such a process can be described as settlement (Helms et al., 2012).

Limitations and Future Research

Following the decoupling strategy entails to prioritize the commercial over the social logic, and, thus, to infringe the social's logic's prescriptions. While non-compliance with a social standard's requirements can be attributed to audited firms selectively choosing the level of compliance with the standard (Christmann & Taylor, 2006) or to the composition of the auditing team (Short et al., forthcoming) it can also be related to shortcomings inherent to the functioning of the standard which does not comfort the development needs of the audited companies (Reinecke & Ansari, 2015). In line with that, we obtain dissimilar results focusing on a social standard that is designed as an improvement system compared to Jayasinghe (2016) who analyzes a social standard that is designed as a certification. Accordingly, we encourage future research to compare compliance across different social standards, and to investigate how the design of a social standard influences the intensity of tensions between the commercial and social logics.

Our study finds garment manufacturers from emerging economies to enact decoupling and compromising strategies. We could not observe the combining strategy because we focus only on one element of each logic. Thus, we invite scholars to address more elements of the commercial and the social logic to further investigate the combining strategy and its implications for the upholding of labor issues at suppliers' sites in emerging markets.

CONCLUSION

The literature on institutional logics, as a perspective of institutional theory, focuses on the influence of the competing logics on organizations (Thornton & Ocasio, 2008). The commercial and the social logic are characterized by conflictive tensions (Margolis & Walsh, 2003). We approach this tension by studying 90 emerging market suppliers, which are challenged to meet demands for low-cost production as part of a commercial logic and compliance with minimum working time requirements attributed to a social logic, which are both imposed by Western buyers.

The results suggest that emerging market suppliers follow different strategies to cope with the institutional logics' conflicting tensions. When the conflict between commercial and social demands becomes salient, emerging market suppliers embrace the decoupling strategy. When sales turnover growth eases the pressure on the commercial logic, emerging market suppliers follow the compromising strategy by meeting a social standard's working time requirements.

While more work needs to be done to investigate how the design of a social standard can influence the intensity of tensions between the commercial and social logics, as well as the combining strategy and its implications for the upholding of labor issues at suppliers' sites in emerging markets, we have provided a new perspective on competing institutional logics by shedding light on the pursuit of different strategies for (non-) compliance with a social standard's obligations on working time attributed to the conflict between commercial and social demands.

REFERENCES

Battilana, J., & Dorado, S. (2010). Building sustainable hybrid organizations: The case of commercial microfinance organizations. *Academy of Management Journal, 53*, 1419-1440.

Bloom, N., Kretschmer, T., & van Reenen, J. (2011). Are family-friendly workplace practices a valuable firm resource. *Strategic Management Journal, 32*, 343-367.

Business Social Compliance Initiative. (2009). *Code of conduct*. Available at: http://www.bsci-intl.org/resources/code-of-conduct (Accessed: 5 January 2014).

Business Social Compliance Initiative. (2014). *The BSCI approach to good working conditions*. Available at: http://www.bsci-intl.org/about-bsci/bsci-approach/bsci-approach-good-working-conditions (Accessed: 10 December 2014).

Christmann, P., & Taylor, G. (2006). Firm self-regulation through international certifiable standards: Determinants of symbolic versus substantive implementation. *Journal of International Business Studies, 6,* 863-878.

Helms, W. S., Oliver, C., & Webb, K. (2012). Antecedents of settlement on a new institutional practice: Negotiation of the ISO 26000 standard on social responsibility. *Academy of Management Journal, 55*, 1120-1145.

Jay, J. (2013). Navigating paradox as a mechanism of change and innovation in hybrid organizations. *Academy of Management Journal, 56*, 137-159.

Jayasinghe, M. (2016). The operational and signaling benefits of voluntary labor code adoption: Reconceptualizing the scope of human resource management in emerging economies. *Academy of Management Journal, 59*, 658-677.

Locke, R. M., Qin, F., & Brause, A. (2007). Does monitoring improve labor standards? Lessons from Nike. *Industrial and Labor Relations Review, 61*, 3-31.

Margolis, J. D., & Walsh, J. P. (2003). Misery Loves Companies: Rethinking Social Initiatives by Business. *Administrative Science Quarterly, 48*, 268-305.

Meyer, J. W. & Rowan, B. (1977). Institutionalized organizations: Formal structure as myth and ceremony. *American Journal of Sociology, 83*, 340-363.

Oliver, C. (1991). Strategic responses to institutional processes. *Academy of Management Review, 16*, 145-179.

Ortiz-de-Mandojana, N., & Bansal, P. (forthcoming). The long-term benefits of organizational resilience through sustainable business practices. *Strategic Management Journal, forthcoming*.

Pache, A.-C, & Santos, F. (2013). Inside the hybrid organization: Selective coupling as a response to competing institutional logics. *Academy of Management Journal, 56*, 972-1001.

Reinecke, J., & Ansari, S. (2015). When times collide: Temporal brokerage at the intersection of markets and developments. *Academy of Management Journal, 58*, 618-648.

Short, J. L., Toffel, M. W., & Hugill, A. R. (forthcoming). Monitoring global supply chains. *Strategic Management Journal, forthcoming*.

Smith, W. K., & Lewis, M. W. (2011). Toward a theory of paradox: A dynamic equilibrium model of organizing. *Academy of Management Review, 36*, 381-403.

Thornton, P. H., & Ocasio, W. (2008). Institutional logics. In R. Greenwood, C. Oliver, R. Suddaby & K. Sahlin, (Eds.), *The Sage Handbook of Organizational Institutionalism* (pp. 99-129). London: Sage.

(The current version of this work in progress is available from the authors.)