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How a Supply Chain Stumble Changes a Company's Policies and Progress 20 years Later: A Case Study of Gap Inc.

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Submitted to Professor Hilary Appel

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I. Introduction: **Overview on Gap Inc. and Child Labor in the Apparel Industry**

The Gap Brand was founded in San Francisco in 1968 by Don Fisher, a wealthy real estate developer who could not find a pair of jeans that fit in a department store. He came up with the name The Gap in reference to the generation gap between boomers and the silent generation. Only two years after opening its doors it became a publicly traded company and was valued at $100 million. The current brands Gap Inc. holds are Old Navy, Banana Republic and Athleta. Gap Inc.'s four brands span diverse audiences across the retail industry. Gap brand offers iconic All-American style to customers of all ages. Sub-brands under the Gap Brand include Gap outlet, GapKids, babyGap, Gapbody, and Gapmaternity. Old Navy is a family retailer that produces basic and trendy items at low prices. Banana Republic is a luxury brand designed for upper middle class working male and female professionals. Athleta is a women's athletics brand designed for female athletes of all shapes and sizes. Athleta's products as well as its message of female empowerment, have led it to be one of Gap Inc.'s fastest-growing brands since its acquisition in 2008. (In this thesis, Gap Inc. refers to Gap Incorporated, holding all four brands and The Gap or Gap Brand refers to the singular Gap brand.) Today, Gap Inc. has a presence in the US, UK, Japan, Italy, China, France, Canada, Ireland, Hong Kong, Taiwan, and Mexico. As of February 2021, Gap Inc. operates 3,715 stores globally.

This thesis explores Gap Inc's corporate governance policies, specifically, its ethical supply chain practices. Ethical supply chains in the fashion industry first gained attention in 1995 when a multitude of name-brand retailers were involved in a child labor scandal. Since then, Gap Inc. has been working to develop practices and policies to ensure that the vendors it does business with are not using child labor and other poor labor practices in the production of its clothing. This thesis aims to dive into how bad press related to supply chain impacts company goals surrounding ethical business. The first chapter of this thesis will provide definitions and context of child labor and ethical labor practices across the apparel industry. It will also briefly discuss the industry-wide instances of child labor. The second chapter will discuss Gap Inc. specific instances of child labor in the press. It will also discuss Gap Inc.'s inaugural social responsibility report in 2004 and how that transparency impacted the industry. The third chapter will explain the different initiatives Gap Inc. has launched in its effort to ensure the ethical processing of its products. The fourth chapter will discuss why these matters, whether customers really care about these initiatives, and how Gap Inc. Inc. compared to its competitors. This chapter will also answer how Gap Inc. stays competitive in an industry that does not play fair and does not have universal policies or execution of those policies for ethical production. The fifth chapter will discuss future risks to its ethical labor requirements and fulfillment of the E.S.G. goals. This chapter will discuss how Gap Inc. fared through the pandemic, the supply chain pressure points and how it plans to mitigate these risks in the future.

Child Labor: Definition and Context in Apparel Industry

The *United Nations Convention on the Rights of a Child* (1989) defines child labor as all work done by children under the age of 15 or hazardous work done by children under the age of 18 (Theuws et al.) The child labor definition also includes any work performed by children that is likely to interfere with the right to education or be harmful to their physical, mental, spiritual, moral, or social development. This convention has been ratified by almost every country in the world. Although child labor is almost universally illegal, children work throughout all ends of the supply chain. Child labor has been decreasing over the years but remains a problem throughout globalized supply chains.

The agricultural industry is the worst culprit for child labor (International Labor Organization). As cotton is used in many textiles, abuses in the agriculture industry are related to apparel. However, supply chain tracing in the apparel industry does not usually go as deep as sourcing the fibers like cotton, therefore abuses in the apparel industry will not be discussed in this thesis. Child labor in raw materials extraction and production, is an issue that is outside of the scope this thesis.

Children in some supply chains are not only expected to work, but also subjected to horrible living and working conditions (International Labor Organization). One of the largest hurdles facing the elimination of children in apparel supply chains is the many layers and subcontractors making products hard to trace. Supply chain transparency and tracing are very important to ensure that a supply chain does not involve child labor (Theuws et al.)

Child labor is driven by a few key factors, one being low adult wages and another being a high demand for cheap labor (Theuws et al.) Low adult wages force children to work to support the family, driving the adult price of labor lower. If there were no child labor to exploit, the price of labor would become scarcer and therefore the price of labor would go up. Unfortunately, this practice is not as simple in reality. The accelerating fashion timeline and increasing popularity of fast fashion promote quicker buying practices at lower prices which crunches the profit margin and increases the demand for low-wage, unskilled work that sometimes, smaller children with more agile hands are suitable for. This cheap, fast turnaround structure of apparel orders worsens the conditions of workers (Theuws et al.)

The *United Nations Guiding Principles on Business and Human Rights* expect governments as well as corporations to ensure the enforcement of the accepted human child labor principles. In addition, businesses are expected to

> Avoid infringing on the human rights of others and should address adverse human rights impacts with which it is involved… The responsibility of business enterprises to respect human rights applies to all enterprises regardless of its size, sector, operational context, ownership and structure. In order to meet its responsibility to respect human rights, business enterprises should have in place policies and processes, ("Guiding Principles on Business and Human Rights.")

From a corporate perspective, ensuring this compliance is impossible without performing extensive and expensive due diligence throughout many layers of complex supply chains, to ensure avoidance of adverse impacts (Theuws et al.). Often, employers and manufacturers who use child labor are very good at hiding it. Corporate or government audits often do not detect illegal and child workers as employers have become skilled at cleaning up its act when auditors visit its workplaces (Theuws et al.)

Supply Chain: Definition and Context in Apparel Industry

Supply chain management is a term used to describe the way a product gets managed from the ground to the storefront. Supply chain management practices are under constant shift due to newer technologies and increasing social awareness (Anirudh). Managers of supply chains deal with everything from procuring raw products to finding textile mills and organizing logistics. The actual process of a product being made is quite complicated. It includes sourcing textiles from raw mills and transporting the textiles, as well as different materials like buttons and zippers, all to the same factory for them to be put together. Once the items are put together in cut and sew factories, they are sent to distribution centers where they are sent to customers or storefronts (Anirudh). Supply chain managers are responsible for getting the product from textile to storefront, “Supply chains for multinational corporations represent 80% of global trade and engage over 1 in 5 workers. Supply chain management, therefore, has a significant impact on key social and environmental challenges.” (Thorlakson). This statistic shows that supply chain management practices throughout a variety of multinational corporations’ impact much of the global workforce. Deep supply chains are entrenched in today’s products. For example, almost every garment is made of fibers that come from the ground, once these fibers are harvested they are sent to a mill that turns them into textiles or usable fabrics. Then these textiles are sent from the mills to the cut and sew suppliers. Typically, companies make garment orders with cut and sew suppliers. It is in these factories where pieces of fabric turn into wearable garments. It is in this factory where textiles, buttons, zippers, fabric labels, plastic/paper labels, and silicon logos, are typically added to the product. However, as transportation networks in the places where the garments are being produced become better, cut and sew factories further subcontract out (even though some codes of conduct inhibit that practice). After a garment is ‘finished’ at a cut and sew factory, quality controllers come in and inspect the product before it is shipped to distributing centers, then to storefronts, and into a customer’s hands (FittDesign Studio). Just like the complex journey a garment makes, apparel brands need equally as complex governance systems to ensure its commitments are reflected in its practices.

After surveying almost 500 publicly listed multinational corporations in a variety of industries one study found that at least 50% of companies use one sustainable sourcing practice, 71% of those practices relate only to one or few input materials and 60% apply to only first-tier suppliers (Thorlakson). The study also found that sustainable sourcing practices rarely address the broad social and environmental challenges outlined in the UN Sustainable Development Goals (SDGs), rather it primarily focuses on sustainable development goals related to working conditions in compliance with national laws (Thorlakson). In addition, the same study found that large, branded companies that were exposed to consumer pressure are significantly more likely to adopt sustainable sourcing practices. The calculation of this exposure was made by considering the NGO density of where the company is headquartered. This company study estimated that those with high densities of NGOs were more exposed to backlash from unsustainable practices and consumer response. However, one issue with these commitments on a brand-wide level is the many tiers in the supply chain. While the first-tier suppliers may be following certain labor and environmental standards, it is often the suppliers further up the supply chain, typically in non-consumer-facing businesses, that commit the worst offenses (Thorlakson). The globalization of production makes working conditions even harder to track. While this study finds that many companies' sustainability efforts are focused largely on workers' rights and national law compliance, other important social and environmental issues are not usually at the forefront of concern. This can raise the question, are companies more focused on following laws than the actual well-being of its workers? Is it just remaining 'virtuous out of necessity' or out of practical concern?

Regardless of intention, codes of conduct became commonplace for apparel companies in the late 1990s. Generally, a company's code of conduct should be used to spell out general expectations for every manufacturer it uses. Codes of conduct are a great start but are only effective when there is follow-through and resources available to execute and monitor the outlined expectations (Reich).

Supply Chain: Compliance vs. Commitment

Traditional supply chain governance models include compliance and commitment models. Compliance approaches typically outline rules and standards for suppliers to meet. The level of compliance is determined by auditors who come through practice factories looking for missed protocols and inspecting the working conditions and documentation of workers. This type of auditing can produce an us-versus-them dynamic and pits the factory manager against the auditor (Locke). Companies can be audited two to three times a year depending on the bandwidth of auditors. Managers are motivated to meet compliance in order to avoid negative punishment such as a withdrawal of orders. The commitment approach to supply chain management is one that looks to uncover, analyze, and correct the root causes of current issues. It uses problem-solving techniques and information sharing to help address each problem found in an audit. In this approach, the relationship between an auditor and a factory manager is one of collaboration. Where the auditor is *mentoring* the factory manager to help employ best practices throughout the entire factory (Gereffi). These factory managers are empowered to change practices to meet supplier standards and are consistently learning how to improve its business model and incentivize through mutual respect and empowerment by its suppliers (Locke).

While the commitment approach may be more thorough and holistic, it is a much larger capital investment in the beginning of this process, as buyers often have many suppliers and assigning a specific auditor to every factory can be very costly. To avoid this cost, some companies choose to go the compliance route as explained.

The codes of conduct used to audit factories face criticism as the results of audits can rely heavily on individual employees whose judgment can vary greatly. In the relationship between global buyers and various suppliers, there is asymmetric power which the buyer holds. It holds the economic leverage of the ability to go anywhere globally and look for the best options. This can fuel abusive relationships between buyers and suppliers who can move on to a different supplier at any given moment. This leaves suppliers who fail to meet audits with truckloads of unusable outputs that it cannot use anymore and a bad reputation (Gereffi). However, this relationship can be used for good if all suppliers are on the same page and mandate similar strong enforcement of codes of conduct. Then, all suppliers would be held to very similar standards by a variety of companies, making it more worthwhile for suppliers to adopt codes of conduct to attract the market. “Transparency combined with the constant threat of customer (and investor) sanctions will induce firms to compete for higher rankings, gradually “ratcheting up” labor standards (Fung et. al.) In short, once the proper information system is in place, firm incentives can be structured in a manner that is consistent with consumer preferences. Once this incentive system is operational, “global brands will use its superior bargaining power vis-à-vis its suppliers to improve labor standards” (Walton et al.)

This asymmetric power between buyers and suppliers can be used for good in the right circumstances. It can also be used for bad if not used effectively or universally. For example, reducing labor and environmental abuses in supplier factories increases the cost of manufacturing. If a company is not universal and its policies among suppliers, often suppliers that have the most ethical work conditions will be more expensive than those that employ child labor or use overtime unethically (Walton et al.) Therefore, if companies are not universal in its policies and do not halt business with factories that cannot meet compliance, buyers will be favoring unethical standards. As those companies can produce for less whereas companies that follow its codes of conduct cannot achieve the same on an ethical playing field. Therefore, for a while it might be detrimental to manufacturers if buyers move on from them rather quickly after not making an audit, it helps maintain consistency throughout the supply chain. Other buyer-supplier relationships that have been successful include ones where auditors and factory managers are more like partners in a team. The auditors uncover all the facts no matter how glamorous or unglamorous they are, and then they work together with the factory manager to improve the factory until it meets the standards. These auditors instead of visiting once or twice a year are in the factory multiple times a week and are on a journey with its factory managers to bring the factory up to standard. This type of relationship requires a lot of capital. Factory auditors are usually spread very thin and are visiting and reporting on up to four factories all week.

The quickening fashion turnover rates are making it more difficult for companies to establish relationships with suppliers, as the quick turnaround and small production costs are becoming even more important. “The crunch to get orders out on time is exacerbated by the fact that customers increasingly demand shorter lead times and higher quality products,” (Locke). Quick turnaround times for products can lead to overtime especially when variables like input delays and manufacturing errors occur. However, while these labor abuses are currently in place, studies have shown that companies who care enough to facilitate positive change at manufacturers through more than just incentives, but by building relationships with managers and those on the ground and "facilitating cross-divisional collaboration" create more sustaining change (Locke). While employees' longer-term relationships may seem like the obvious alternative to shorter-term, sometimes unethical relationships, there are a variety of reasons that these relationships are not utilized. For example, "social influences and cognition, intercompany power relations, implicit and explicit exemptions about human and organizational behavior, and some very real difficulties of actually measuring benefits associated with these new work systems all together" prevent the diffusion of these practices even after significant proven documentation of these types of labor practices being more ethical and equally if not more effective (Locke). There are many intricacies and difficulties that arise when attempting to manage a supply chain in an ethical way

Apparel Industry: Labor Standards Context

At the turn of the 21st century, after labor abuses particularly in garment factories hit mainstream Western news, consumers have been paying increasing attention to social issues in the supply chains of what they consume. Increasing globalization around this time made regulating supply chains very difficult. As transportation networks in developing countries improved, supply chains became even more complex. This made labor regulation much weaker. At this time the International Labor Office (ILO), an agency whose mandate is to advance social and economic justice through setting international labor standards, had strong regulatory ideas but weak ability to implement and enforce these ideas, and the strength of NGOs in this area was not yet strong. Though it lacked the ability to enforce these principles, the ILO still recognized four principles when it came to workers' rights: "(1) freedom of association and the effective recognition of the right to collective bargaining; (2) the elimination of all forms of forced or compulsory labor; (3) the effective abolition of child labor and (4) the elimination of discrimination in respect of employment and occupation" (Fichter).

The responsibility to regulate supply chains fell largely on multinational corporations, many of which still do not have transparency past 15% of its supply chain (*The Economic Times*). One of the main drivers for creating decent working conditions for workers in the supply chain in the early 2000s, was the fear of backlash from consumers and damage to the brand of apparel companies. It was around this time that becoming good corporate citizens was a conversation among board members. "The political handling of the issue of global labor standards has been broadened beyond the realm of established international institutions such as the ILO and the WTO, mainly through the nationally tested instrument of social dialogue or tripartite negotiations and agreements." (Fichter). Since the turn of the 21st century, there have been many different non-governmental organizations as well as regulating associations that help bridge the gap between brands and their suppliers to ensure that acceptable labor conditions are being met.

Employing auditors and certification agencies for a supply chain is the equivalent of having insurance for a company's supply chain. Some of these monitoring and certification associations for the supply chain include "The Fair Labor Association (FLA) which emerged out of the Clinton administration's Apparel Industry Partnership. Another is the Social Accountability International (SAI) which was created by the Council on Economic Priorities, a non-profit organization concerned with socially responsible investment and purchasing. The Worker Rights Consortium (WRC) was developed by labor activists and United Students Against Sweatshops as an explicit alternative to the Fair Labor Association. The Worldwide Responsible Apparel Production (WRAP) program was developed by the American Apparel Manufacturers Association." (Bartley) However, before all of these workers' rights organizations and certifications, labels came to be, there was a news broadcast that brought labor abuses to light through mainstream media.

Why did people start paying attention to supply chain abuses?

The US Department of Labor as well as apparel manufacturers began paying attention to the child labor abuses in supply chains after 1995 when an American television news channel reported stories of young children in Bangladesh working on garment sold in Walmart stores (Reich). Since 1995, there have been a few more news stories on child labor in mainstream brands supply chains such as Nike, Levi Strauss, H&M and more. Specifically, for Gap Inc. two more significant stories on child labor broke in 2000 and 2007, as elaborated in chapter 2.

Since 1995 when these abuses were brought to the mainstream spotlight, the use of codes of conduct by apparel brands became common. The U.S. Government produced a document in 1996 that "focuses on the use of child labor in the production of apparel for the U.S. market and reviews the extent to which U.S. apparel importers have established and are implementing codes of conduct or other business guidelines prohibiting the use of child labor in the production of the clothing they sell" (Reich).

However, aside from executive orders condoning the use of child labor in supply chains, it seems limited action by the U.S. government to address or take action on products made unethically.

A report from 2005 finds that codes of conduct originally emerged as a strategy for multinational corporations to avoid or limit public accountability. However, apparel manufacturers and retailers, have adopted voluntary labor standards to limit its vulnerability to the lack of enforcement or prevalence of domestic labor laws. Apparel manufacturers were finding themselves in trouble when the suppliers it was using were not complying with national government labor laws. Therefore, to mitigate this risk, it adopted its own codes of compliance that would be diffused through the factories it used around the world (Bartley). In addition, around this time (early 2000s) corporate boards were recognizing its supply chain as a potential vulnerability. Therefore, more capital was invested in the act of monitoring factories and supply chains to make firms less vulnerable to the risk of bad press as well as no legal action for not meeting its own codes of conduct (Bartley). Thirdly, activists began to use these codes of conduct that were originally made to shield companies from bad press, against the companies when it was failing to meet its own commitments (Bartley). This not only became a problem for individual companies but also made companies and corporate boards act and make commitments that were more realistic to its monitoring and change abilities (Bartley). Finally, the increase of these codes of conduct throughout apparel companies began to crowd out different regulations made in the public sector (Bartley). When Western companies (buyers) imposed higher private regulations than the local governments, local governments' power in the industry decreased as it was taken over by private regulations

(Bartley). "A commitment approach is only possible if buyers work with factories for more than just a few months and there is a strong connection between the desire among both buyers (and suppliers) to cultivate long-term business relationships and adopting a commitment approach" (Locke).This is only possible if auditors are trained and empowered to engage in commitment rather than compliance.

An apparel industry codes of conduct report put together by the US Department of Labor in 1996 explored trends in different apparel companies and its policies for limiting child labor (Reich). This conversation on supply chain and child labor is particularly pertinent to the United States is there the world's largest importer of garments. The United States imports garments from all over the world. This was the first comprehensive United States government document addressing child labor and how to curb its use in the apparel supply chain. The report promotes the use of codes of conduct by major apparel companies in its third-party manufacturers.

Gap Inc. in 1996

As early as 1966 Gap Inc. indicated it had adopted policies specifically addressing child labor in overseas production facilities (Reich). In this code of conduct report, Gap Inc. also indicated it required workers in all its manufacturers to be at least 14 years of age, and that factories maintain official documentation verifying the date of birth for each worker (Reich). Gap Inc. encouraged manufacturers to develop lawful workplace apprenticeship programs for the educational benefit of its workers as long as all participants are at least fourteen years of age and in compliance with the minimum legal age requirement (Reich). It also encouraged clauses for vendors to support night classes and work-study programs for young workers (Reich). Gap Inc. also reported it did not permit contractors to subcontract any production without approval. This is a strong clause considering subcontracting is where a lot of untraceable abuses take place.

Gap Inc. indicated it goes over codes of contact with facility manufacturers to ensure these individuals understand them; Gap Inc. required that its code, which has been translated into 39 languages, be posted in each contractor facility. Gap Inc. indicated that at the bottom of the code it provides the phone number of a buying agent or a source in compliance personnel. Gap Inc. also included sections of its code of conduct in the annual report to shareholders (Gap Inc. 2021 Annual Report).

Of the four types of monitoring, internal, external, outside auditor and NGO, most companies had at least one type of monitoring, with most having 2 and some having zero (Reich) Only one other company besides Gap Inc. having three types of monitoring (Reich). In this labor survey, Gap Inc. reported using internal, external and NGO labor monitoring (Reich).

> Gap Inc. also reported working with U.S. based and local NGOs to develop ways to increase transparency in the implementation of its codes, mainly through end go monitoring… Gap Inc. also reported that once it places an order with the contractor, its in-country staff is constantly monitoring for quality and compliance with its code, sometimes three or four times a week. These visits are both announced and unannounced. They also indicate its senior field representatives also conduct formal compliance evaluations every 18 months (Reich).

In the study, the Gap Inc. was one of four companies to confirm child labor and its production facilities (Reich). It reported that when it discovered the child labor and the facilities it either immediately corrected the problem or severed business relations with the supplier (Reich). This report found unauthorized use of subcontractors for Gap Inc apparel orders. This means that factories were subcontracting out parts of production to other unauthorized facilities. Using unauthorized contractors means an increased risk for facilities to not be up to the code of conduct.

II. **Chapter 2: Gap Inc. and Child Labor: Record of Abuse and Stakeholder Strategy**

Journalists exposed Gap Inc. in the media for human rights abuses in its supply chain in 1995, 2000 and 2007. Between these instances Gap Inc. had changed the way it handled the findings of such abuses through an evolving stakeholder engagement strategy that has not only helped keep its supply chain cleaner, but also reduce the public relations risk.

In 1995, the Mandarin International Garment factory in El Salvador put Gap Inc. and many other leading American retailers under pressure by bringing unethical practices in manufacturing in the apparel industry to light for many in the world. “A cross-border campaign in 1995 against Mandarin International, a Taiwanese-owned plant in the San Marcos Free Trade Zone in El Salvador, uncovered stories of abuse involving the employment of minors, death threats, physical violence, forced overtime, starvation wages and mass firings of workers who joined unions. Mandarin subcontracted for a number of US companies including JCPenney and J Crew.” (Thanhauser)

It was after this instance that Gap Inc. began to examine its supply chain more closely and assembled teams that could help ensure that the suppliers it used complied with basic human rights. Gap Inc. put a team together to assess human rights in its supply chain, but a few years later it was involved in another lawsuit with many other US retailers. Another El Salvador factory it was contracted with was caught using forced labor (Smith). Gap Inc. was caught with another supplier using seedy methods in 2000 in a BBC documentary that also targeted Nike (Kenyon). This offense led Gap Inc. to be consistently under fire from advocacy groups throughout the US and Europe. Protesters drew negative attention to the abuses through protesting at headquarters for weeks on end. This exposure led the company to double down on creating and implementing a strategy to avoid negative headlines and ensure that its supply remain as ethical as possible (Gap Inc. *2004 Sustainability Report*).

This strategy involved five steps to strengthen engagement with its stakeholders. The five steps included first, drawing a stakeholder map, second, identifying its most pressing material issues, third, defining objectives of its plan, fourth, resolving its issues collaboratively and, fifth, engagement for the future.

The first step, *drawing a stakeholder map*, helped the company prioritize improving its relationship with key stakeholders. By drawing this map, Gap Inc. focused on making tangible progress. Its stakeholders included manufacturers in its supply chain, its legal team, relationships with non-government organizations who could help them, the press, its investors, etc. Once Gap Inc. managed to identify the most important stakeholders, many of which were workers advocate groups and NGOs, it began to engage with the stakeholders about issues that were pertinent to Gap Inc. as well as stakeholders' interests. After it *identified the material issues it had in common* with each stakeholder, it began to address these issues together. Next, it *defined its objectives* for its partnership as well as what it wanted to accomplish together and then *resolve the issue collaboratively*. As Smith writes, "One top priority that emerged: increasing transparency. A major milestone for Gap Inc. in this regard was the publication of its first social responsibility report in 2004. The warts and all report focused on code of conduct violations regarding labor rights and the supply chain and the measures being taken to prevent future violation" Though this was the case, some of Gap Inc.'s toughest critics praised the effort (Smith).

In the initial stages of this engagement process Gap Inc. was still under fire by the press. When more child labor was found in its supply chain in 2007, it used this approach to identify and address this issue swiftly. In 2007, the *Britain Observer* exposed child labor in manufacturers in India. This case has been more severe than any other than faced in the past. Not only were the children much younger, but children were subject to forced labor in a horrible working environment (Smith). When this story made headlines, Gap Inc. utilized all the stakeholders that it had built good relationships with to address the issue. Smith continues, “The key message the company wanted to convey was that in the reality of an issue as complex as child labor, clearly no single company can change a societal situation, so it’s going to take an industry response," according to Bill Chandler, Gap Inc's Vice President of corporate communication.” (Smith). This engagement strategy also helped the company learn how it can adjust its communication timelines to provide manufacturers with enough time to complete its orders.

First Social Responsibility Report in 2004

Almost every year since 2004, Gap Inc has released a sustainability report. The reports cover issues from supply chain to corporate governance to environmental impact. Large portions of the earlier reports covered supply chain issues. Later reports have larger sections on corporate governance and environmental impacts. The first sustainability report displayed the findings of internal investigations, ‘warts and all’, looking for various social responsibility and metrics and conditions throughout its supply chain. In these reports, Gap Inc. admitted to shortcomings and outlined goals and metrics on how to overcome them. Gap became one of the first few public companies to release data that had previously been kept private, increasing its transparency to a new degree

Even since 2004 when the first report was published, Gap Inc. has been caught with problems like child labor and unsafe working conditions. However, the earlier reports admit to not being able to audit every factory, and there are factories that do not meet all factory standards. Gap Inc. preserves its contracts with factories that don't meet standards for a grace period while they work with them to improve conditions. If the factory fails to increase standards, Gap Inc. will terminate its working relationship. Gap Inc. preserves its contracts with factories that don't meet standards for a grace period while they work with them to improve conditions. If the factory fails to increase standards, Gap Inc. will terminate its working relationship.

In the early 2000s it seemed that it was the unaudited factories that caused Gap Inc. the most criticism in the news (Tether). In 2004 when Gap Inc. made headlines again for child labor its chief compliance officer, Anne Gust, stated, "When we find problems, we work with management to try to resolve them as quickly as possible... We will stay with a manufacturer as long as we believe it is committed to making ongoing improvements." (Tether). When companies make high volume apparel orders, its commitment to ethical production has more value because the company has more economic pull on the manufacturer.

Gap Inc. engaging in long-term relationships in the earlier stages of its compliance and auditing journey shows that it is committed to sustainable change. The biggest compliance issues Gap Inc. faces is unauthorized subcontracting within its suppliers. Since these reports have been published, Gap Inc. has found the most trouble with unauthorized subcontracting.

In this social responsibility report, Gap Inc. addressed how its sustainable compliance methods have evolved. Starting with establishing a strong vendor code of conduct around 1992, it established different operating requirements while recognizing that no manufacturer follows all requirements all the time, and there are levels of compliance issues. Gap Inc. acknowledged that ongoing relationships and commitment to achieving the compliance is also taken into consideration. Gap Inc. highlighted eight areas where offenses are taken much more seriously, and severance of contracts are much more likely with the violations in these areas (Gap Inc. *2004 Sustainability Report*). These areas included abuses in (1) local labor laws, (2) environmental, (3) discrimination practices, (4) forced labor, (5) child labor, (6) wage and hour requirement, (7) working condition, and (8) freedom of association (Gap Inc. *2004 Sustainability Report*). With these eight expectations, Gap Inc. realized that to create better results it needed to drive greater ownership by garment manufacturers to take charge of these issues (Gap Inc. *2004 Sustainability Report*). It cited one of the more important factors in empowering garment manufacturers is longer-term relationships with manufacturers, "We believe these efforts, coupled with our ongoing monitoring, will help create and support more sustainable solutions. Critical to this goal was continuing to drive greater ownership by garment manufacturers of labor, health and safety standards in its own factories, rather than having standards imposed by apparel brands and retailers" (Gap Inc. *2004 Sustainability Report*). Gap Inc.'s 2007 annual report cited that nearly all of its merchandise is produced in third-party vendors overseas and it acknowledges that contractors may not always be in compliance with its standards or local laws. And it cited that "significant or continuing noncompliance with such standards and laws by one or more contractors could have a negative impact on our reputation and a material adverse effect on our result of operations" (Gap Inc. *2007 Annual Report*).

III. **Chapter 3: Different initiatives launched since 2006 and do they matter?**

Gap Inc. has a variety of different documents and sections listed on its website with various sustainability initiatives and goals. This chapter is a summary of the most important initiatives that are relevant to Gap Inc. These documents were inspired by the child labor abuses in the late 1990s and early 2000s and have greatly expanded to cover much more than child labor. It is unclear when most of these documents were first published however, it seems to have been updated in the last few years. These documents are important to consider because they represent part of the concrete governance system used between the buyers and manufacturers of the clothing. While many of these documents are standard for large retailers, the level of detail and execution is telling of how effective these policies are in practice.

Code of Vendor Conduct (COVC)

The COVC is a 38-page document on the Gap Inc. website that describes the basic requirements manufacturers must meet to conduct business with Gap Inc. ("Code of Vendor Conduct"). This code is based on international labor standards and guidance from the International Labor Organization (ILO) and other prominent organizations. The COVC touches on a wide variety of issues, such as provisions and standards, compliance with laws, environment, labor, and occupational health and safety and management systems. The report prohibited vendors from using any other facilities aside from those that are approved by Gap Inc. In order to use other subcontractors the manufacturers must obtain written authorization from Gap Inc. To get a subcontractor verified the manufacturer must monitor and verify the facility and address any risks ("Code of Vendor Conduct"). The report also has a special one-page section on child labor. Some of the key requirements cited in the section include an age requirement of at least 15 years or higher if local laws indicate. It also cites protocols in case there is no official proof of age documents present in the countries which it does business ("Code of Vendor Conduct"). This combination of clauses creates a strong anti-child labor policy. Considering subcontracting has gotten Gap Inc. in trouble with the media in the past, it makes sense that clauses against subcontracting are present in the current COVC. Other notable sections in this COVC include the prohibition of forced labor, freedom of association of workers, guaranteed safe working conditions, humane treatment and disciplinary practices and unfair wages. This document also states that facilities that are granted the bids for product manufacturing need to have sustainable management systems to continue to ensure that everything outlined in the COVC is continually followed ("Code of Vendor Conduct"). The biggest take away from this code of conduct is how thorough it is especially compared to Gap Inc.'s biggest competitors.

Gap Inc.'s initial effort to make a more ethical supply chain was through its COVC, however, it quickly realized it needed to empower its own suppliers to be ethical. It is especially important to empower suppliers because of how easy it is to hide labor abuses in particular when it comes to children. Gap Inc. describes the first five years of its compliance program as being "predominantly reactive model of monitoring" (Henkle). Gap Inc. quickly realized this type of governance without an effort to empower suppliers to care about these issues was going to be very difficult. Gap Inc. encouraged suppliers by implementing capacity building programs to achieve sustainable change. These efforts included, evolving the monitoring process, working with factories to embed social accountability into its own operations, increasing the use of third-party certification programs and training factories to engage with stakeholders (Mcyntire).

Gap Inc. Human Rights Policy

Gap Inc.'s human rights policy was last updated in 2020. The policy outlines Gap Inc.'s commitment to follow and enforce human rights as determined by the following groups: the Universal Declaration of Human Rights, International Covenant on Civil and Political Rights, International Covenant on Economic Social Cultural Rights and the ILO's declaration on fundamental principles and rights of work. The document claims that Gap Inc. has performed due diligence aligned with guiding principles on business and human rights, and that corporate human rights assessments are performed by internal and external personnel. The three key areas of impact include: working conditions in our supply chain, the rights of employees and women's empowerment ("Human Rights Policy"). In the supply chain impact area, Gap Inc. claims to ensure safe, healthy, and fair conditions through a supplier sustainability program as well as the COVC. It also has collaborative initiatives such as the ILO's better work program, the sustainable apparel coalition, the discharge of hazardous chemicals initiative and the UN global compact ("Human Rights Policy").

Supply Chain Working Conditions

This section of Gap Inc.'s sustainability website discusses how it plans to improve supply chain working conditions. It includes information on its capacity building initiatives in various capacities

It describes the approach to capacity building initiatives as working to "develop and implement a robust program for assessing and remediating issues in sourcing facility." ("Improving Supply Chain Working Conditions"). It indicates that one of its goals is to implement industry-leading programs that can help drive innovation that transforms the apparel manufacturing sector. It also discusses the launch of its supplier sustainability program launched in 1994. It describes the supplier sustainability program as having two important elements: Assessment and remediation and capacity building ("Improving Supply Chain Working Conditions"). Assessment and remediation necessitate that the company can accurately evaluate where it is in its commitments across key targets. Capacity building means developing initiatives to further improve working conditions across the supply chain.

Assessment and remediation are only possible with the willingness of the facility management to provide access to facility grounds records and workers. This website states that Gap Inc. primarily evaluates facilities through internal field teams as well as partnerships with the ILO's better work program as well as the Social and Labor Convergence Program ("Improving Supply Chain Working Conditions").

Gap Inc. also focuses on expanding beyond the issues of child labor, to general capacity building initiatives that is centered around women and girls. The P.A.C.E. program "aims to give women training and support to advance its professional and personal lives" ("Improving Supply Chain Working Conditions") . The P.A.C.E. program attempts to solve root problems that contribute to the oppression of women garment workers. The holistic design of the P.A.C.E. program educates not just about skills that would empower women in the workplace, but also skills that would empower women in its day-to-day lives. The mistreatment women experience does not end with the workday.

Oftentimes it is a cultural norm, which is why it is essential that this program is so holistic to address the root issues.

Gap Inc. supplier sustainability and goals include (1) 80 percent of Gap Inc sourcing will be allocated to green-rated factories by 2025 (2) All Tier 1 suppliers transition from cash-based payments to digital payments by 2020 and (3) 100 percent of Gap Inc. Tier 1 facilities and Tier 2 strategic mills will participate in industry-wide efforts including SLCP and/or ILO Better Work by 2025 ("Improving Supply Chain Working Conditions").

The most recent progress update towards this goal was in 2020, where only one of its factories it used was in the red zone in terms of COVC compliance. This website also has a helpful interactive chart that lists all of the countries and factories Gap Inc. sources from as well as the number of open issues present in each country and how long it took for them to be remediated. Of the 2050 issues presented as of May 2020, 85 percent of those issues were closed as of February 2021.

Supplier Partnerships

The supplier partnership section of the Gap Inc. website has several tangible goals each with unique deadlines. These goals include first, 100% of tier 1 and tier 2 facilities participating in capacity building programs. Second, for all factories to achieve gender parity at the supervisory level. Third, to enforce representative in gender equitable workplace committees where all employees have their voices heard. The fourth is to have a 100% of transactions with your one suppliers be through digital wage payment systems. (Digital wage payments allow wages to be much easier traced and more accountability on all ends,) ("Improving Supply Chain Working Conditions"). All of these goals have deadlines at or around 2025.On Gap Inc.'s website, each of these goals was followed by a significant assessment of the current status, as well as its overall progress ("Improving Supply Chain Working Conditions"). Many of these goals have charted progress since at least the year 2016. The third goal was newly instituted after Gap Inc. had already met the previous goal of 200 factories.

Know the Chain

Gap Inc. also has a strategic partnership with Know the Chain, a non-government organization which is a resource for companies as well as investors to investigate and evaluate labor practices in supply chains. The company has benchmarks and rankings to help incentivize companies to protect workers and identify gaps in its management. Gap Inc. is ranked fourth out of 37 companies and has an overall score of 70 out of 100 on disclosing information on its forced labor policies (Know the Chain). It ranks ahead of most of its peers in terms of transparency. Know The Chain notes that while Gap Inc. has greater transparency than most of its peers it is not always transparent about how it fixes its problems (Know the Chain). Gap does not always provide the information of how it follows-through or remediates problems. Know the Chain reports the company has an "opportunity to improve on the themes of purchasing practices recruitment and remedy." The report finds that Gap Inc. is highlighting a traceability technology that may allow it to increase supply chain visibility. This is showing that Gap Inc. is taking the lead of finding solutions to industry wide problem. The reporting cites room for improvement in categories such as purchasing practices and recruitment. The report mainly takes issue with the lack of addressing forced labor risks in raw materials, especially high-risk raw materials like cotton.

This report also helps us understand where Gap Inc. fits with its competition. The biggest fast fashion companies are Gap Inc., H&M, and Zara (parent company Inditex), this will be elaborated on later. Figure 1 compares Gap Inc. with Inditex (Zara's parent company) and H&M on various components of ethical supply chain. Overall Gap Inc. scores highest at 70 while the others both score at 55. This figure shows that while Gap Inc. does not lead every area, it is overall more well-rounded than both Zara and H&M. While Gap Inc. excels at some things it does not completely falter and others like H&M does in remediation practices and Zara does in recruitment practices. All three of these companies need to get better in respective areas and as industry leaders in fast fashion perhaps all of them could help each other.

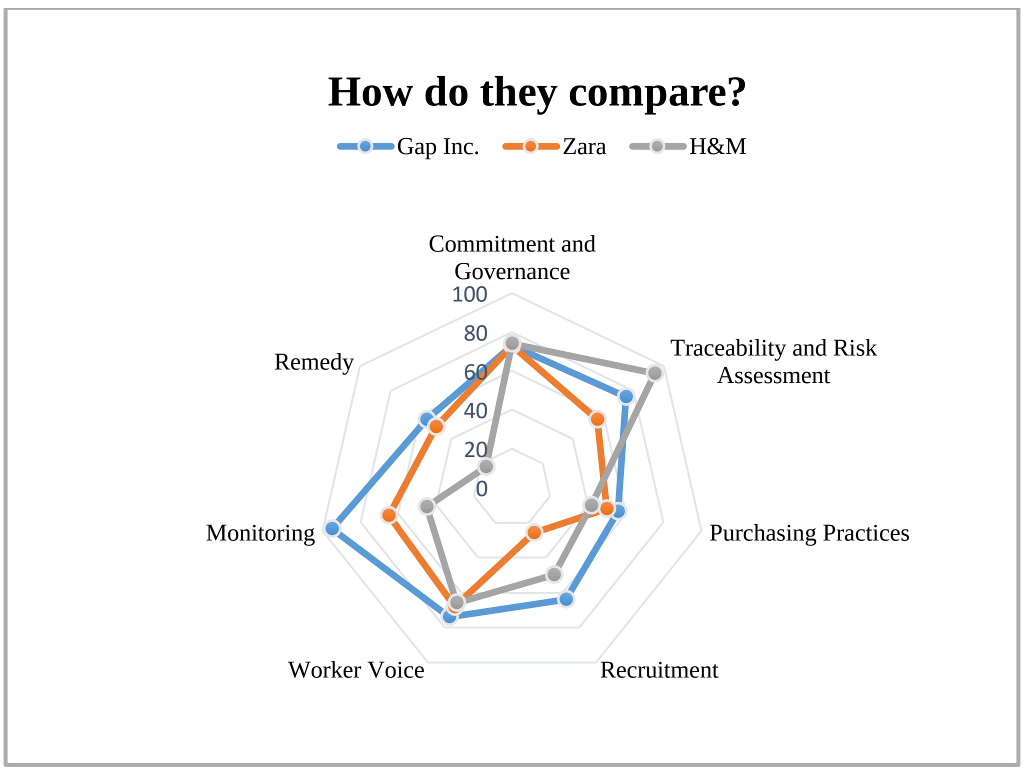

Fig 1. A comparison of Gap Inc., Inditex (Zara's parent company) and H&M on various components of ethical supply chain. (Data from Know the Chain)

Gap Inc. has taken several steps to ensure that the products it sells are made ethically with workers in mind. While this may be what consumers say they want, when it comes down to it do these kinds of commitments and transparency impact consumer decisions at the end of the day?

How do Gap and H&M Policies compare?

Aside from know the chain comparing various supply chain metrics, according to individual research on the H&M website and their supply chain policies, I have gathered that, in comparison to Gap Inc., the H&M code of conduct document available on its website touches only on eight key points and it's only six pages long ("Code of Conduct "). While it may accomplish similar things to Gap Inc.'s code of conduct, it is hard to address a lot of the nuances of the supply chain in such a short document. H&M's Human Rights Policy was last updated in 2021. It identifies key human rights and even so far to acknowledge land rights as human rights. This document seems to be more comprehensive than Gap Inc.'s code of conduct document and speaks more to what its rights are a less to the remedy and solution to violation of rights ("Salient human rights issues 2021"). Finally, the H&M website goes into long detail about how it makes sure garment workers are paid fairly, it even goes so far to explain to consumers reading "why the price tag doesn't always reflect the pay slip." This coverage on supplier partnership is easier to consume for typical consumers with no knowledge of supply chain though the level of information is the same.

The influences of ethical trading policies on consumer apparel purchase decisions:

Gap Inc. is considered one of the leading retailers to act against abusive practices in its supply chain (Iwanow). Though the business may be doing the right thing, is this reflected in its consumer perceptions and bottom line? While mainstream media can play a large role in how a company is perceived, a company's marketing strategy also plays a huge role, as the marketing team has the most frequent touchpoints with its most loyal customers. Due to the complex nature of supply chain management and relationships with international manufactures, it can be difficult to boil down the most important aspects and initiatives to consumers. Therefore, the communication of the effectiveness of one's policies and execution can be very difficult for average consumers to differentiate among brands. A study done in 2003 that studied customer purchase decisions using face-to-face questionnaires found that the main influences for those shopping at Gap brand were price, product quality and style (Iwanow). Almost all surveyed (92%) were aware that child labor had existed in the Gap Inc. supply chain (Iwanow). This survey found that it is rare for consumers to look at the label when shopping for apparel regardless of its household income (Iwanow). Knowledge of manufacturing location did not appear to impact decisions. In fact, only 6% of those in the survey stated they would consider where a product was manufactured on a regular basis before purchase (Iwanow), whereas almost 30% of respondents stated that price is more important than ethical issues (Iwanow). The findings indicate that large capital investments in being an ethical company may not be worth the investment. While it is almost universally agreed-upon that a child should not be put to work and sacrifice their social emotional well-being as well as their education, consumers were willing to look past that in buying clothes. Clearly the negative press Gap Inc. received was not of issue for those looking to make purchases in the survey. While the survey was completed in 2003 and many consumer behaviors have changed since then, there may be more people concerned about the impact of its purchases. As the use of social media continues to skyrocket, the desire to wear all the new trends as soon as possible will only continue.

While this study was among Gap brand consumers, another paper completed a general survey in the same year and found that “sales rose by 10% for items labeled as being made under good labor standards. Furthermore, the demand for the labeled products actually rose with price increases of 10% to 20% above pre-test (unlabeled) level” (Hiscox). This raises the question that while generally people want more ethical clothing, does Gap Inc’s specific customer base care? Perhaps if Gap Inc’s customer base cares more about price, and it is competitive on price with similar brands, providing clarity and visibility to its sustainability practices could set Gap Inc. apart.

IV. **Chapter 4: How does Gap Inc. stay competitive in an industry with an uneven playing field?**

Investopedia defines fast fashion as “the term used to describe clothing designs that move quickly from the catwalk to stores to take advantage of trends. The collections are often based on styles presented at Fashion Week runway shows or worn by celebrities. Fast fashion allows mainstream consumers to purchase the hot new look or the next big thing at an affordable price” (Investopedia). When one thinks of these fast trendy brands one may think of newer brands with mostly an online presence such as Shein, Romwe, Asos, Boohoo, Miss Guided etc. These online brands have much more trendy and cheaper and typically lower quality clothing than brands Investopedia deemed fast fashion. The examples for fast fashion companies in Investopedia include Zara, H&M Group, UNIQLO, Gap [brand], Forever 21, Topshop, Esprit, Primark, Fashion Nova, and New Look.” MarketLine cites the four big players in the fast fashion market, Zara, H&M, Gap, Inc. and Uniqlo (“The Gap Inc SWOT Analysis”).

It is important to make a distinction between the first category of brands and the second category of brands. The first category of brands is in a league of its own, with Shein just being valued at 100 billion in a recent investing round (“Shein’s $100 Billion Valuation Is Fast Fashion’s Big Moment - Bloomberg.”). The first category of brands are newer brands that people go to purchase the latest trends. The second category of brands, on the other hand, is more flagship. Gap Inc. is an All-American brand with a classic and timeless identity. The latter type of clothing is held to a different standard. So, while all these brands may be considered fast fashion it is important to make the distinction between the two categories of brands *fast* fashion and *faster* fashion. Regardless of the two distinctions of fast fashion, child labor is an issue in both sets of supply chains. It seems and that the *fast fashion* category seems to be doing more to limit child labor in their supply chain than the latter category of brands.

Now that we have established Gap brand's main competitors, we can investigate how it is supposed to stay competitive in an industry that doesn't always play fair. It is important to note that this section refers to the Gap brand not Gap Inc., the collection of brands. The Gap brand was focused on the section because the other three brands have not suffered in loss of profits for the same strategic reasons that the Gap brand has. After sifting through some of the websites of some of these comparable brands, it has become routine to display a sustainability page and list some initiatives. However, some of these initiatives are more detailed and fruitful than others. The average consumer who glances over the websites and sees each one having scattered sustainability promises across its pages, would find it very hard to differentiate what each brand is doing. Even experts have a hard time differentiating between what is real and what is fake (Nast). While the sustainability and ethical practices these companies pursue are important, it seems that they are more likely to be called out for violating such promises than for consumer behavior to be determined by them. It seems that as long as companies *seem* to be doing good, that is all that matters. The absence of industry standard or transparency where one can judge companies against one another for its sustainability natural promises leads to an unlevel playing field.

This being the case, how does Gap brand stay competitive with companies that may not be going the same length to be sustainable? The answer to this question lies in its business strategy Its sales do not seem dependent on how well it is doing compared to other brands. Therefore, to stay competitive with other brands that may not be doing as much, it needs to make sure its business strategy is cutting edge and is doing its best to attack its target markets better than its competition. Gap can only be leader in supply chain governance and eliminating child labor as long as they stay in business.

As Joslin writes, “A key component to success in Gap Inc.’s highly competitive and diverse environment is to select a target market in which the retailer focuses its products. Although Gap, Inc. professes to have this focus, it has essentially five brands attempting to effectively create value for a number of target customer groups.” (Joslin et. al)

According to the 2021 Gap Annual Report, Gap Inc’s “success is largely dependent upon our ability to gauge the tastes of our customers and to provide merchandise that satisfies customer demand in a timely manner.” (Gap Inc. 2021 Annual Report). The COVID-19 disruptions in the supply chain make quick apparel turnaround times hard to achieve. One of Gap’s weaknesses in its business model is its dependency on merchandise vendors. Because of its high dependency on vendors outside the US, the increase in unpredictability and volatility in the global supply chain since the COVID-19 pandemic, MarketLine considers this dependency as a weakness. Gap Inc. does its best to mitigate this risk by limiting the share of apparel each vendor can take on; For example, no vendor can have more than 3% of the firm’s overall purchases (Joslin et. al). While increasing suppliers diversifies risk per supplier, this also comes with high logistical risk. While the clothing is coming from all different facilities, because almost all of these facilities are overseas in foreign countries, there are high political risks, however the diversification of factories limits compound risk. Even though the risk from the vendor level is relatively low due to the small percentage of marketing each vendor is allowed to have.

Gap Inc.'s success over other brands also relies on its business strategy and ability to effectively judge the market for its merchandise. As consumer tastes are changing so quickly due to the rise of social media, it is important that Gap Inc. invests in technology that will allow them to predict trends far enough in advance to ensure ethical production and account for risks and delays in supply chain. Staying on top of these fast changing trends encourage shortened ordering timelines that are not conducive for good working conditions. The quick turnaround times increase demand for cheap and child labor. Judging these consumer tastes can be very difficult, especially given Gap brands history of being an all-American authentic brand that is not necessarily producing clothes in the hippest patterns and shapes. Gap brand is known for its simple and classic all-American look, its ability to maintain this class and quality. While new patterns and Y2K trends are all the rage right now, if Gap brand can manage to stay true to its brands and incorporate some trends they will be able to compete with these other fast fashion brands. However, Gap Inc. may falter if it does not find a way to balance its classic brand identity with hit pieces that keep customers coming into stores every season.

The 2021 annual report also mentions that E.S.G. policies impact brand image and not achieving commitments can hurt brand image. The 2021 Annual Report displays E.S.G policies as to avoid negative press rather than in order to ensure they have a responsible business. The acknowledgment of this risk means it is important for Gap Inc. to learn to manage how to stay on trend, within their brand and be committed to business practices that are beneficial for their employees.

V. **Chapter 5: Gap Inc. and COVID-19, future risks to ethical labor**

The COVID-19 pandemic and the lockdowns that ensued wreaked havoc on the world's global supply chains. The entire planet was in different phases of lockdown for a year and a half after the pandemic started. Almost overnight, demand for some products became obsolete while the demand for others skyrocketed. The various timing of lockdowns throughout countries in the supply chain has drastic impacts throughout the economy. For a variety of reasons, the ability for a company to put products on its shelves became much more difficult than before. While shipping and logistics became a nightmare, ethical practices in factories have decreased over the pandemic. Supplier audit data shows the number of critically noncompliant factories increased by 10% between the year 2020 and 2021 from 18% to 28% after having a downward trend for the previous three years ("QIMA 2021 Q3 Barometer"). To comprehend the complexity of a supply chain, it is important to understand that while the label may say made in Vietnam that is not the whole story. For example, the thread used to make the textiles, the buttons, the zippers, the label, and the plastic wrapped packaging may all come from different countries. If one of these parts of the final product are delayed the entire process of getting the item on the shelf is delayed as well. These complexities of supply chains led to pressure points, especially post-pandemic. According to industry experts, unpredictability continues to be the main pressure point in the supply chain. ("Steadying the Ship"). Other pressure points include inflation in supply chain pricing, delivery costs, as well as the length of time to receive deliveries ("Steadying the Ship"). To mitigate these unpredictable challenges of offshore supply, some companies are considering moving operations on shore (“Steadying the Ship”). Another way to mitigate these risks is to diversify your supplying locations to hedge your bets and risk with one supplier.

In the fall of 2021, Gap Inc. invested over $100 million in supply chain infrastructure by expanding fulfillment capacities for the holiday demand (Berthiamue). They expanded the company’s facility in Texas and Arizona as well as opening a customer experience Center specifically for the Old Navy brand (Berthiamue). This document also cites Gap Inc. increasing the use of artificial intelligence in its fulfillment centers (Berthiamue). While these changes seem to be made domestically, it is getting the products to ensure that Gap Inc. and all brands seem to face the most challenges.

To avoid shortages in the 2021 holiday season, Gap Inc. decided to put its products in the air in order to avoid delays at shipping ports especially on the West Coast. This decision cost $450 million that the company absorbed to put its products on the floor. In defense of the decision, Gap Inc. CEO framed the move as an investment in order to sustain customer loyalty (Ryan). A critic of this decision cites that Gap Inc. has always focused on prioritizing unit costs over anything else in its production, and instead insists that in times like these flexibility is much more valuable (Ryan).

After this major cost significantly into the companies margins Gap Inc. is in the long term looking to reduce its supply chain risk by adjusting the geographic spread of its manufacturers planning. They plan to grow its manufacturing base into countries like Mexico and Central America (Unglesbee). Gap Inc.’s COVC and ethical labor practices will be put to the test again as the company navigates a newer region and attempts to relocate more vendors. Shifting production to Central and South America may help issues of child labor as child labor in Latin America has been declining substantially in the region ("Child labour in Latin America and the Caribbean"). Aside from supply chain issues a trend noted throughout Gap Inc. documents in the last two decades is attempting to reinvent themself and stay relevant. Regardless of its efforts in its supply chain which seem to be more than any other in the industry, it is not enough.

One of the biggest risks to child labor is the pure demand for apparel. "Worldwide the average number of times a garment is worn has decreased by 36% compared to 15 years ago and now amounts to only 7 – 10 wears." (Gubensek). While it is important that companies and brands take individual responsibility for the various ethical and environmental issues raised by the production of its products, it will take both consumers and companies to transform the industry. It is not the fault of the consumer who is shown an advertisement for new cheap clothing every time they open their phone for purchasing such clothing. It is up to brands to continue doing more, but consumers also educating themselves on the brands they are buying from but also be a more conscious consumer when it comes to making purchasing decisions (Gubensek).

COVID-19 in Apparel Supply Chain

As Gap Inc. continues to manage its ESG commitments throughout its supply chain, its labor commitment will need to remain flexible and adaptive to the significant changes occurring in the global supply chain especially in the apparel market. As the COVID-19 pandemic finally begins to subside almost two years later, changes in the apparel market are noticeable in many different aspects. "In the year [2022], discount and luxury fashion will continue to outperform, as recovery will be uneven across value segments, and the mid-market will be squeezed" (Amed). There is a rise of changes in consumer behavior even though the pandemic lockdowns seem to finally be subsiding for good. The global supply chain has been completely disrupted for many different reasons. The impacts of this pandemic vary greatly by country as different countries had different rates of community spread, vaccination and government-imposed lockdowns. These impacts affect every link in the supply chain. One of the biggest things to come out of the pandemic that may impact the industry for years to come is logistical bottlenecks and manufacturing delays that have shot up the cost of shipping. This has led companies to look to move manufacturing to limit its exposure to these risks. While these prices remain high and companies are looking to invest in alternatives, it looks like an increase in price will fall on the consumer and profit margins will be squeezed. Shipping costs today are up to six times higher than they were pre-pandemic with no signs of them dropping anytime soon (Rao).

According to the 'BoF-McKinsey State of Fashion 2022 Survey' 87% of fashion executives expect supply chain disruptions to negatively impacted margins through 2022. The traditional fashion supply chain was highly globalized and very logistically complicated. When the pandemic hit, the supply chain suffered from risk it wasn't even aware of. This is also part of the reason for production being encouraged to move nearer to the shores of final retail locations. "Over 70 percent of companies plan to increase the share of nearshoring close to company headquarters, and roughly 25 percent intend to re-shore sourcing to its headquarters' country, according to McKinsey's Apparel CPO Survey 2021" (Amed). Just as the pandemic was beginning, Mckinsey's state of fashion report on navigating uncertainty cited 'deeper supplier partnerships' as being important through navigating the pandemic and supply chain disruptions. Specifically, "moving away from transactional supplier relationships in favor of deeper partnerships that bring greater agility and accountability” (Ahmed). If Gap Inc. has been establishing a good relationship with its suppliers already, it may more easily be able to adapt to the disrupted supply chain aspect of the pandemic.

VI. **Chapter 6: Conclusion**

Ethical labor in the supply industry is not going to be solved by one retailer. However, together large monthly national corporations can make collective impact. Gap Inc. is the third largest American retailer. This poses the question what is Gap Inc.'s responsibility as a large multinational corporation to make a difference and continue to innovate and promote sustainable and ethical policies. In an apparel industry that is not all held to the same standard, how much can customers expect of its brands, and how many customers really expect anything other than good prices and trendy clothes. For 20 years the number of children being put to work has declined, until the COVID-19 pandemic (UN News). In a historic worldwide event that has taught empathy and flexibility, it does not seem this has trickled down to the production of goods. While we enjoyed pandemic purchases, we did not see the hidden cost of the new stand-up desk or matching work from home sweatsuit set.

The increase in number of children put to work is due to the economic squeeze of the COVID-19 pandemic (UN News). The highest concentration of this increase occurred in sub-Saharan Africa among children between the ages of 5 and 11(UN News). Ninety percent of the labor occurs in agricultural industries, where one extracts raw materials at the source (UN News). These sobering statistics point to some of these issues which were outside the scope of this thesis. That being said, all consumers need to continue making strides to voice against these labor practices. At the same time, companies need to take on this responsibility to investigate which practices are most ethical.

It is common consensus that a ten-year-old should not be working. Children are some of the most vulnerable members of our human population and it is up to consumers to protect them with our words as well as our wallet, and companies who have access to vastly more resources to make it easier for consumers to do so.

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