

Business Case No. (2)



Business Case

**Orta Anadolu,
Direct communication channels
between a supplier and its consumers**

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INTRODUCTION

A business case has two primary objectives:

- To present decision-makers with key information about social initiatives in term of responsible supply-chain management in a consistent, balanced format that facilitates the evaluation, comparison and prioritization of competing initiatives.
- To guide a group of suppliers, buyers and managers in developing their vision and plans to prepare for responsible initiatives.

A RESPECT Business Case is designed to provide a common starting point for discussion and illustrations during the RESPECT training and coaching sessions. However, no two business cases are the same.

This case study shows a company example having a great return on investment through CSR and innovative collaborative practices. Through innovative communication channels, suppliers can increase stakeholders' knowledge for a more positive impact in the supply chains.

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EXECUTIVE SUMMARY

Orta Anadolu, a Turkish denim manufacturing company, is a good model for best practice business strategies, both in social and environmental initiatives. The company has adopted CSR in a holistic approach by integrating CSR practices into its every day operations. With its innovative, pioneering, and responsible business plan, Orta Anadolu commits to more sustainable industrial practices, decent work conditions, and a more sustainable cotton supply.

Over the past few years, Orta Anadolu has improved its CSR strategies in a variety of ways. First, it has established productive relationships with its stakeholders; including customers, suppliers and within the society it operates. For example, it became a part of the Better Cotton Initiative (BCI) in 2011, which works to create a more sustainable cotton supply chain. Orta Anadolu also offers a program to its customers, called Denimacademy, which helps customers understand the denim production process from start to finish, providing corporate transparency. Working with society at large, they listen to the community and try to develop projects to overcome challenges, including providing jobs for women in need.

In order to provide up to date information on CSR, Orta Anadolu disseminates relevant information on their website Ortablu.org. Here consumers can follow Orta Anadolu's CSR strategy, projects with NGOs, and activities promoting sustainability. In the "Denim Stories" section, consumers and stakeholders are encouraged to share their views on the company's policies and actions. Their CSR approach stands as a model and can be adopted both nationally and internationally by other companies.

The application embodies the RESPECT philosophy, promoting dialogue between the company and the stakeholders, further strengthening their relationship and developing practical and innovative CSR policies.

1 BUSINESS NEED AND CURRENT SITUATION

The textile sector is one of the largest economic sectors and is reliant on a large supply chain. The \$580 billion global market (2009) is expected to grow to about \$700 billion by the year 2012. There are 50 – 60 million estimated people worldwide working in the textile sector, but China remains the largest producer and exporter of garments.¹

The textile industry can be divided in two: the high-quality fashion sector, which includes innovation, technology, relatively well paid workers; and the other half, which involves the mass production of low-quality products. The latter sector is supplied by companies in developing countries, which employ mainly unskilled female workers.² It is a demand-driven industry, where consumers determine production. The demand flows along the chain: from retail stores to distribution centres, to apparel plants, to textile factories and raw material production. All of these “links” are at risk for poor CSR.

Non-compliance to labour laws is more likely in the textile industry due to the following reasons: the fast paced production, seasonal demand, high competition among producers, little loyalty (factories, countries), intensity of labour, complex supply chains, use of chemicals, geographical shifts, international corporations, fast fashion and increasing number of collections each year.

Companies in the textile sector often fail to uphold social and environmental working standards, including adequate working condition, decent wages, and worker protection from chemical residue, pollution and noise. Overall, the industry does not comply with labour and environmental laws. From a food safety perspective, cotton is unsustainably produced and cultivated, often depriving access to arable land that provides the needed food for the local population.

Fortunately, because CSR issues are becoming more important amongst customers, companies are putting more pressure on the whole supply chain to ensure compliance with labour and environmental laws. But, this only works if CSR remains an important criterion for customers, becoming dependent on customer’s willingness to hold companies accountable to CSR. The big challenge for suppliers though, is how to ensure that the whole supply chain remains compliant. Thus, communication channels between suppliers, customers and buyers must be created to improve CSR.

¹ Extracted from the “ILO’s CSR Principles and International Labour Standards” training at the International Training Centre of the ILO, Turin, 22 -25 February 2011.

² Hildegunn Kyvik Nordås¹ Discussion Paper No:5 The Global Textile and Clothing Industry post the Agreement on Textiles and Clothing, World Trade Organization.

Various social auditing, verification and certification initiatives have been developed to improve the social and environmental standards at every step of the supply chain. But there are still some major challenges that make universal CSR difficult. First, CSR is perceived as the responsibility of the companies that are most prominent in the public eye. Because these companies attract the most attention from stakeholders, there is little motivation for other companies on the chain to improve their CSR. Thus, the most public brand must put pressure on the whole chain. Second, few large companies can control where all their products come from, making it difficult for companies to apply pressure beyond the first tier of production. Third, companies cannot expect to improve CSR and keep costs down. Fourth, if only one company demands improvement of CSR, companies along the chain will take their business elsewhere. Thus, the supply chain often shows resistance to change. Therefore, the whole industry needs to support CSR policy, and create a business model that encourages companies to integrate CSR into their business strategy.

2 COMPANY DESCRIPTION

Orta Anadolu is a Karamancı Holding affiliate, established in 1953 as a spinning & weaving factory. In 1986, it was restructured and began manufacturing denim. Since then it has been operating and marketing globally. In 2011 they produced 50.000.000 meters of denim, in a 156.000 m² operation area, with 1170 employees. The addition of the Orta Bahrain plant in Manama has increased Orta's production by 10 million meters.

Renowned as an innovative leader in jeans and sportswear production, Orta Anadolu has representative offices in Brussels, Germany, Italy (in Veneto), United States, Australia, Colombia, Tokyo and Malaysia and globally markets Ordenim, Orcotton, Denimus and Denimperial brands.

With a long-term vision to become the preferred supplier of leading global clothing brands, Orta Anadolu exports its denim fabric to internationally recognised brands like G-Star, Mavi, Levis, Little Big, Tommy, Diesel, Replay, J Brand, Miss Sixty, D Squared, Paige, GAP. The General Manager of Orta Anadolu is Mr. Atilla Kiyat. Orta Anadolu is increasing its profits by developing good relations with stakeholders, garnering effective communication channels and developing practical tools to understand their business partners.

3 HISTORICAL BACKGROUND

A short history of Orta Anadolu is mentioned above. Here is the history of Orta Anadolu and Better Cotton Initiative (BCI):

- Orta Anadolu purchased its first organic cotton in 2003.
- Between 2005-2007 the company used contract farming in Aegean Region of Turkey
- In 2008, Orta Anadolu committed using 3% organic cotton in all Orta's products, without a price difference to their customers
- Between April and October 2011
 - Orta Anadolu made it's first BCI purchase from Mali
 - Orta Anadolu became member of BCI
 - Orta Anadolu decided to become an implementing partner for BCI Turkey
 - Orta Anadolu commissioned a "Scoping Report for Potential BCI Implementation in Turkey", criticizing the existing current situation of Turkish cotton production and proposing a roadmap for BCI implementation in Turkey.
 - Orta Anadolu has been appointed a member of the Global BCI Council
 - BCI held it's initial multi stakeholder meeting for BCI Implementation in Turkey (October 2011).

4 ENVIRONMENT AND THE CONTEXT

As mentioned previously, various social auditing, verification and certification initiatives have been developed to improve the social and environmental standards at every step of the supply chain.

As a pioneering company, Orta Anadolu is a proponent of global cotton initiatives to achieve sustainability and the cultivation of organic and fair-trade cotton, for example Made in Africa Cotton and Better Cotton Initiative. The company has decided to adopt the Better Cotton Initiative because of its good track record and parallel vision to support social, environmental and economic responsibility.

BCI is similar to “Good Agricultural Practices,” which has been supported and subsidized by many governments. The main target issues of the BCI are:

Environmental issues

- Taking care of soil conservation and biodiversity
- Taking care of water conservation
- Taking care of active pesticide management.

Economic issues

Enhancing the productivity and profitability of farming communities by measuring the effects of BCI in improving agricultural practices.

Social and labour issues

- Promoting decent work for farming communities.
- Preventing child and forced labour.
- Implementing the use of health and safety precautions

5 BEST PRACTICES PRESENTATION

Orta Anadolu is a good example of best practice both in social and environmental responsibility. The company has adopted and integrated CSR into its every day operations. The CSR strategy of the company can stand as a model for national and international companies.

Orta Anadolu provides its customers with an informational online program called DenimAcademy- dedicated to all aspects of the production of denim. The program began as a reaction to customer complaints regarding the quality of denim, which was often not the fault of Orta Anadolu. Orta Anadolu sends its denim to washing companies following production, and mistakes can occur in this process that reduce the quality of the product. Hence, the company developed a solution: providing customers information about the whole process. It is mainly intended for Orta Anadolu corporate customers, but everyone's online questions are welcome. The original training program encompassed a two-day workshop and walk through of the production lines. The program could be customized to the attendees' demands, and topics included cotton storage, weaving, dying, and laundering. Attendees were certified by the end of the workshop, and received a breadth of literature on the subject. The workshop's goal is to raise awareness of how all the partners in the supply chain work together, how and why problems arise, and to ensure improved communication with clients. With the creation of their CSR website, ortablu.org, Orta Anadolu expanded the information on production to the online community. The hope is that DenimAcademy will become a sort of Wikipedia for denim production, allowing anyone with questions about the industry to access quality information. This initiative has become a valuable vehicle for creating and sustaining relationships with customers, and ensuring transparency.

Orta Anadolu is supported in its CSR campaign by its customers, especially multinational companies like H&M® or Levi's®. They work closely together and develop programs and strategies for more sustainable development in their respective Research and Development Departments. Above all, these projects are implemented with intention to improve the quality of their product, and not to increase their profits.

The company works with suppliers who also support the same environmental and social sustainability strategies. Orta Anadolu believes that the whole chain must share common ethical codes; only then can CSR be ensured.

In terms of environment, the company ensures sustainable industrial operations and production lines, protecting and promoting clean water, energy, waste management, recycling and AlchemyOne. These initiatives have resulted in significant reductions in energy, impact on the environment, and operating costs. In addition, the company produces recycled denim from post-consumer products. Orta Anadolu shares its knowledge and collaborates with its suppliers to encourage recycling.

Orta Anadolu only works with suppliers who have an Oeko-Tex[®] certificate, which is an international certification ensuring the limitation of certain chemicals. In addition, they control chemical usage by using customized machines. Thus, the company provides transparency and accountability to its partners.

Orta Anadolu invests in the local community where it operates. By investing in the basic needs of the community, they have established a strong relationship with the people. Orta Anadolu works closely with the local community by offering training and providing practical skills. It has placed a particular emphasis on training and hiring women in need.³ Orta Anadolu supports the community, so the community supports Orta Anadolu. They have created the “Orta Blue Life-Loop”, which provides training and supplies NGOs with advice on how to better improve the community. They also look for partners, whose business could help solve new problems, connecting communities and solving problems. For instance, it has enabled the Women’s Association in Lebanon to build a sustainable manufacturing model, providing uniforms for children in around the world. Orta Anadolu also organized the “Jeans & Pizza” event for homeless youth in in New York, where youth could select a new pair of jeans and exchange an older pair to be recycled and used in future programs. In November 2012, Orta Anadolu will publish a children’s book entitled “Eco-fun with Mr. Blu,” with tips, games and information on eco-friendly and sustainable living.

³ Orta Recycled denim is actually certified by Control Union

6 RESULTS AND RECOMMENDATIONS

Orta Anadolu believes in developing partnerships rather than only having traditional customer-supplier relations. They are innovators, searching for new strategies and business models. As a result, they have become role models in their sector.

Although the company has good communication practices, there is not organized data about their whole CSR strategy and activities. Thus, information regarding their practices has been researched by the CSR Turkey team and is based on an interview with the company. CSR Turkey believes that the company should publish a CSR report and open the data to public. With that, they could increase awareness, attract collaboration and inspire other companies.

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For further information, please consult:

- The Orta Anadolu website: www.ortaanadolu.com
- The Orta Blu website: www.ortablu.org
- The RESPECT website www.responsible-practices.eu
- The case studies: www.responsible-practices.eu/index.php/m-r-factory/m-cases