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Understanding the effect of ethical actions on the economic performance of a company: The case study of Inditex

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► **To cite this version:**

Elisa Prin, Emmanuelle Reynaud. Understanding the effect of ethical actions on the economic performance of a company: The case study of Inditex. International Vincentian Business Ethics Conference, Oct 2023, Dublin, Ireland. hal-04431028

HAL Id: hal-04431028

<https://amu.hal.science/hal-04431028v1>

Submitted on 1 Feb 2024

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Context

According to McKinsey, textile industry is responsible for the emission of 2.1 billion tons of GHGE per year; **equivalent to France, Germany and UK emissions combined**¹.

In 2013, the Rana Plaza building (Dacca) collapses, killing **1133 textile workers** making clothes for international brands².



¹Berg, Achim, Anna Granskog, Libbi Lee, and Hendrik Magnus. "How the Fashion Industry Can Reduce Its Carbon Footprint | McKinsey." *McKinsey*. August 26, 2020.

²Motte, Muriel. "5 ans plus tard, ce que le drame du Rana Plaza a changé pour le monde du textile." *L'Opinion*, 22 Apr. 2018

Research Question



1. Through which actions can a fast-fashion company reduce its environmental and social impact while improving its economic performance ?

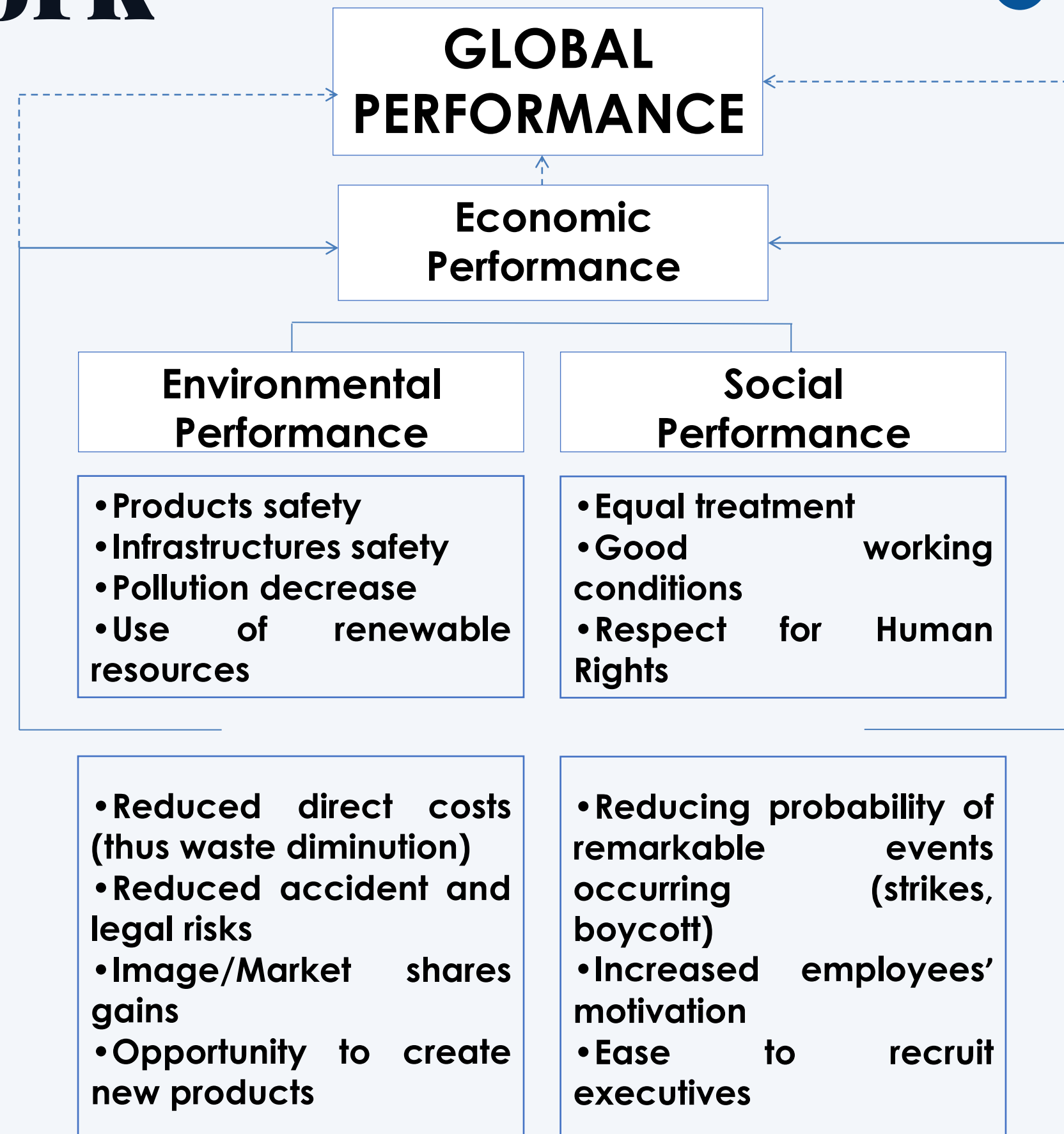
Theoretical Framework



Global Performance Model (Reynaud, 2003)

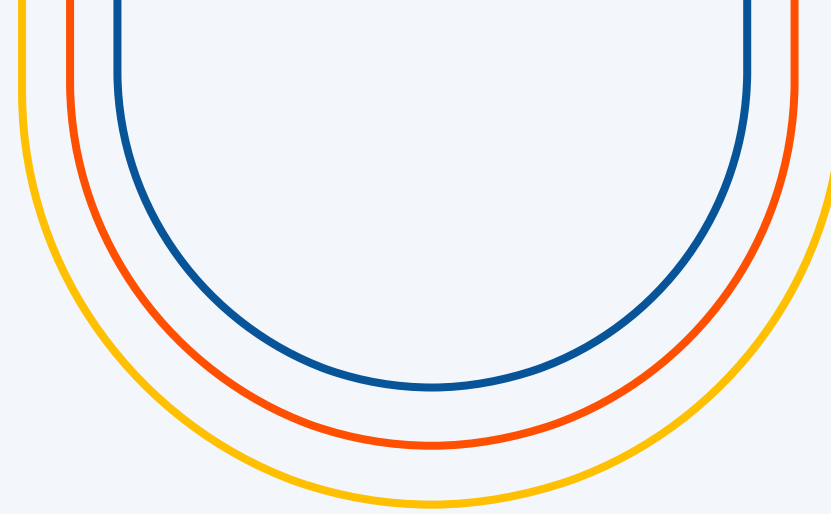
Researches on the relationship between CSR and economic performance highlighted the following:

- Improved productivity (Siegel, 2010)
- Competitive advantage (Porter et Kramer, 2006 ; Wagner, 2009)
- Buffering effect during a crisis (Lins, Servaes, et Tamayo 2016)
- Waste and energy consumption reduction (Reynaud, 2003)





Methodology



Why Inditex?



Scope of the company

Extensive CSR strategy

Large quantity of information available

Actions considered



Actions for which direct economic benefits are
precised or easily quantified

Actions for which the resulting economic benefits
reach consensus in the scientific community

Support: CSR Report 2019



Results

Environmental Performance

Logistic flows optimisation

Unsold clothing donation

Energy consumption optimisation

Good habits implementation

Material use reduction



Environmental benefits:

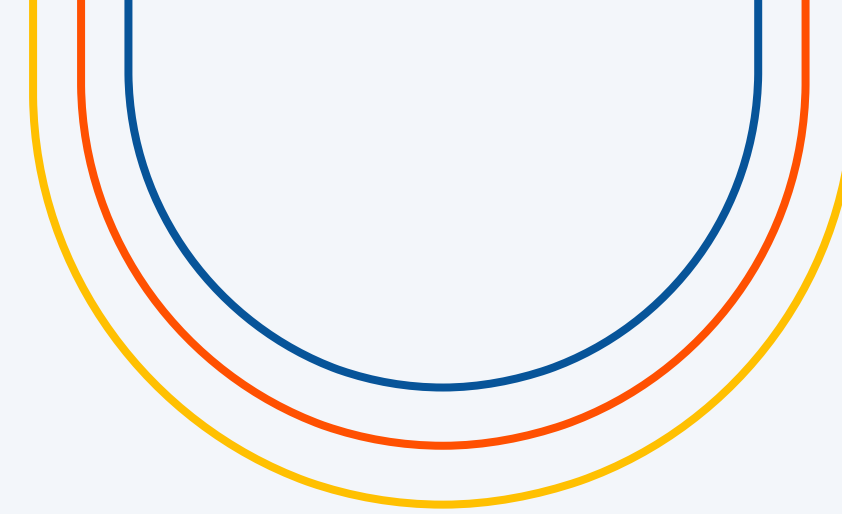
- Reduced waste
- Reduced GHGE

Economic benefits:

- Reduced direct costs
- Inventory costs reduction



Results



Social Performance

Employees participation in community actions

Encouraging internal mobility

Encouraging professional and sustainable trainings

Improving working conditions along the supply chain

Suppliers training regarding health and safety matters



Social benefits:

- Increased employees' satisfaction
- Increased sense of belonging
- Increase of prosocial behaviour

Economic benefits:

- Increased productivity
- Increased retention rate
- Reduced absenteeism
- Reduced transaction costs



Results

Environmental Performance:

- **Logistic flows optimisation**
 - 12,600,000 km saved in one year
- **Unsold clothing donation to caritative organisations**
 - 13 million garments donated
- **Electrical efficiency improvement**
 - Absolute electrical consumption reduced by 4.3%
 - Relative electrical consumption reduced by 6%
- **Water consumption reduction**
 - Absolute water consumption reduced by 3.59%
 - Relative water consumption reduced by 9%
- **Good habits implementation**
 - Relative electrical consumption reduced by 1.58%
- **Reusing carboards**
 - Relative cardboard consumption reduced
- **Receipts removal**
 - 232 tons of paper saved

Social Performance:

- **Employees participation in community actions**
 - 122,000 hours (+4% when compared to 2018)
- **Encouraging internal mobility**
 - 25% of HQ new hires come from other Inditex' entities
- **Encouraging professional trainings**
 - 3 million hours of professional trainings for 300,000 employees
- **Encouraging sustainable trainings**
 - 10,000 employees received sustainable training
- **Improving working conditions along the supply chain**
 - 96% of workers consider their working conditions have improved, and that they can work more comfortably
 - 80% saw their communication with their managers improved
- **Suppliers training regarding health and safety matters**
 - 47% of trained suppliers saw their risks reduced

Discussion



The necessity to inform consumers

In order to reap the benefits of using sustainable materials, consumers need to be made aware of the advantages of using them, or the drawbacks of consuming as always.

Including of supply chain in the global performance model

The initial global performance model didn't include the supply chain in the scope of actions considered. In the case of Inditex, improving the working conditions along its supply chain is beneficial to its economic performance.



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