Perception of corporate responsibility in the textile sector

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Corporate Responsibility
Perception of Corporate Responsibility in the Textile Sector

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Chapter I

Introduction

Research Problem and Methodology

The textile industry has remained one of the cornerstones of the Egyptian economy. It contributes significantly to the national GDP through foreign exchange income and absorbs large amounts of domestic and foreign investments. The industry plays a substantial role in raising youth employability chances and developing human capacities; it is the largest employer in Egypt in labor-based sector.

The Purpose of the Thesis

The purpose of the thesis is to investigate the potential of corporate responsibility (CR) in companies in the textile sector in Egypt and to explore the understanding of corporate responsibility amongst textile companies in Egypt, the perception of consumers and workers of CR and its benefits to the business, the employees, various stakeholders and the textile sector as a whole. This thesis researches the textile companies’ environmental, social and governance performance, sheds a light on the major challenges facing the industry and CR in the industry, as well as identifies potential opportunities for a sustainable sector development. The thesis discusses the relevance of CR to the industry and illustrates the limitations of CR in practice. It will give a background on CR, the different discourses of CR in the CSR literature. Additionally, the thesis investigates two main problematic questions: How does the ambiguity of defining CR serve its function? Is CR capable of resolving the conflict between corporate profit making and social expectations in the neoliberal order?

A qualitative research design was used to achieve the objectives of the thesis and those are to: 1) Develop an understanding of corporate responsibility from the perspective of private Egyptian firms. 2) Investigate opportunities and challenges related to Environmental, Social and Governance (ESG) issues. 3) Assess the current
level of incorporating and integrating CR into textile firms. 4) Design a strategy to promote the industry and enhance its overall performance to become highly competitive in the global market.

The findings are based on secondary and primary sources through interviews with owners of private textile firms, regulatory bodies, and civil society as well as a qualitative survey with consumers and workers in firms of different sizes and from different geographical areas.

**Overview of the Textile Sector in Egypt**

The textile industry is one of Egypt’s most important industries; it plays a significant role in the Egyptian economy. It contributes to the foreign exchange earnings and absorbs large amounts of domestic and foreign investments. The industry plays a vibrant role in raising youth employability chances and developing human capacities; it is considered the largest employer in the economy, it accounts for 30% of local employment in 2010. It represents 27% of total manufactured production in the country.¹ This makes it the second largest manufacturing sector in the country after food processing. It is the fifth largest source of foreign earnings, coming after oil, remittances, tourism, and earnings from the Suez Canal. According to the Central Bank of Egypt, it accounts for 30% of industrial output and around 14.2% of non-petroleum exports in the first three quarters of 2011/2012. Exports from the industry in 2012 amounted to more than USD 1.7 billion worth of textiles, home textiles and ready-made garments. About 36% of the textile exports went to European countries, 15% to USA and 14% to Arab countries. As for the home textiles, 46% of Egypt’s exports went to Europe, 24% to USA and 19% to the Middle East. The United States represents 55% of Egypt’s exports of readymade garments, having the largest share until June 2012 according to the General Organization for exports and Imports Control (GOEIC).

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¹ Economic Research Division, 2011 Sector Survey, Bank of Alexandria
Egypt has built a brand reputation for its quality of cotton and is the largest producer in Africa and worldwide of long and extra long staple cotton. The country produces some of the highest quality Extra Fine cotton in the world, producing 38% of the world’s extra long staple cotton output. “Egypt’s strength in luxury long and extra-long staple cotton output stands out as the most unique contextual element affecting the cluster. Driven in large part by its strong endowments and commitment to independent grading and appraisal of its cotton products, Egypt is the largest global producer of high-end cotton, which is sold at three times the export price per pound compared to other Egyptian strands of cotton that trade at regular market rates (U.S. Cotton Council, 2011).”

According to the Egyptian Textile Chamber, the number of registered companies in the Chamber is 4,600. However, according to the Industrial Development Authority, there are more than 7,150 textile-related companies registered with the Authority, with total investment of over EGP 43 billion. These companies employ an estimated 1,000,000 – 1200000 employees. It is estimated that at least another 2,500 – 3,000 small companies and workshops operate without a license to operate, and they employ around another 300,000 to 400,000 employees. Moreover, this does not include the number of women working from home, who are also not recognized in the economic cycle. Those informal factors are major contributors to the low quality of products and the inefficiency of labor.

The textile sector in Egypt is multifaceted and complicated, and the sector in Egypt includes numerous small factories (workshops) that do not meet legal obligations. Hundreds, if not thousands of textile workshops in the country lack a license to operate, do not submit an annual budget, do not comply with national laws, pay no taxes, and pay no social insurance. This segment of the industry remains as a part of Egypt’s informal sector, and remains difficult to reach, monitor, or hold accountable for their practices in any form. This situation continues to pose a major challenge to

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2 The Textile Cluster in Egypt, Macroeconomics of Competitiveness, 2012
3 ibid.
the development of the industry, in addition to several other challenges that face the textile companies in Egypt:

- Invasion of imported cheap products to the local market mainly from the Near and Far East;
- Textile products imported illegally harm local competition;
- Scarcity and high price of local raw material drives 90% of textile companies to import raw materials;
- The prevalence of corruption; and
- Financial instability of the Egyptian economy is a hindrance to responsible and sustainable practices.

Moreover, companies encounter difficulty in implementing international social and environmental standards, meeting deadlines and maintaining high product quality at minimum cost due to issues such as:

- Labor culture and lack of worker commitment;
- A business environment that lacks any form of promotion of corporate responsibility, on both the macro and the micro levels;
- Scarcity of local qualified designers for ready-made garments;
- Lack of attention to environmental and social footprints, posing even more challenges to companies striving to operate in a socially and environmentally responsible manner;
- Labor laws being a great source of nuisance to the employer, who is under the belief that it is biased toward the employee at the expense of the employer. It is seen to be a hindrance to the industry as it keeps companies from expanding or from hiring new workers.

In a nutshell; the sector’s existence is under threat, addressing sustainability issues in the Egyptian textile industry and working towards increasing the inclusivity of SMEs is not only a matter of enhancing the industry; it is essentially an effort that is to be focused on survival. The sector’s very existence is under threat, and with the
current trajectory – without fundamental changes to industry practice itself – the industry will not survive in an ever-changing global environment

**Methodology: Stakeholder Identification and Engagement:**

The stakeholder consultations focused on the private sector; consultations were conducted with privately owned companies of different sizes operating in the different stages of textile production, regulatory authorities, and NGOs were identified in consultation with industry experts as potential stakeholders for the research. A participatory approach was used to identify the stakeholders, which involved a process of dialogue with industry leaders to compile a list of relevant stakeholders that would add real value to the exercise. The survey was completed in two parts: A comprehensive questionnaire was developed for the selected companies (see Annex I) and another questionnaire for the survey that engaged both consumers and employees were used to gauge the responses to CR from producer, employee and consumer elements. Face-to-face in-depth interviews were conducted with owners and managers of 18 textile companies in the different stages of production, specifically: spinning, textile, printing, dyeing and finishing, and finished garments. In addition, interviews were conducted with seven regulatory bodies and organizations and three NGOs. A survey with 96 employees and 92 consumers was carried out to discern their perception and levels of awareness, as well as their behavior and commitment toward corporate responsibility and sustainability practices.
The following is a list of companies, regulatory authorities and NGOs visited in the stakeholder consultation:

Participants of the Consultation

1. Textile Companies

   - Egyptian Spinning and Weaving Company
   - Salemco
   - Alfa Tex
   - Nourtex
   - Moursheyd Tex
   - Noun Tex
   - Bashir Brothers for Textiles
   - Ratex
   - Nadim Print
   - Modern Kobba
   - Amir El Wataneya
   - Kabo
   - Tricot El Sayed
   - Perfect Spinning Textile
   - New El Anwar
   - World Trading Company
   - Bishara Textile Manufacturing (BTM)
   - A large company that prefers to remain anonymous

2. Regulatory Authorities and Organizations

   - Egyptian Chamber of Textile Industries
   - Egyptian Organization for Standardization and Quality
   - Industrial Development Authority
   - Industrial Control Authority - Ministry of Trade and Industry
3. Non-Governmental Organizations

- Guardians of the Environment
- Egyptian NGO for Comprehensive Development
- Arab Office for Environment and Youth

Thesis layout:

The thesis has five chapters; the first chapter is an introduction that illustrates the purpose and objectives of the thesis, gives a brief overview of the textile sector in Egypt to clarify why the textile sector and the significance of corporate responsibility to the industry, it presents the research questions and the methodology used to answer these questions. The second chapter is an introduction to CR that defines corporate responsibility (CR), gives an overview about the history and the rise of corporate responsibility. It illustrates as well the driving forces for adopting CR and its benefits. The third chapter is on corporate responsibility and social welfare and the different schools of thought on corporate responsibility. It illustrates how scholars and philosophers like Derrida, Hegel and Pareto associated their work with social responsibility. It will display how philosophers, psychologists, economists and writers highlighted issues and gave way to sharper focus on issues such as social awareness, social responsiveness and social responsibility. Chapter four sheds a light on corporate responsibility in Egypt in general. It illustrates the perception and level of awareness of corporate responsibility amongst companies, workers and consumers in the textile sector in Egypt. It comprises an assessment of the current performance of corporate responsibility in the textile companies in Egypt and touches on issues related to governance and compliance, human rights, product responsibility and consumer safety, the supply chain, the regulatory environment and the role of civil society. It assesses the social and environmental
performance of companies in the sector in general. It also demonstrates the perception of workers and consumers on corporate responsibility, their understanding of it and their priorities as employees and consumers relevant to issues of corporate responsibility. Chapter five discusses the way forward and gives a recipe for enhancing sustainability management in the Egyptian textile sector.
Chapter II

Introduction to Corporate Responsibility

Corporate responsibility, also known as corporate social responsibility, corporate citizenship, responsible business, or sustainable business has become an integral part of business. Corporate responsibility has been growing over the last twenty years whereby the relationship between business and society has undertaken radical changes, driven mainly by issues such as globalization, consumerism, growing strength of civil society, the mounting importance of strategic stakeholders and the rise in social expectations. Those key drives have reshaped the responsiveness of businesses to legal, ethical, social, and environmental issues under the notion known as corporate responsibility and more recently as business sustainability.

There is no standard definition for corporate responsibility; there is a whole range of different perceptions ranging from seizing business opportunities in the market and turning them into profitable business for the company and for the community; to human rights and labor rights, environmental responsibility and businesses giving back to the community directly. However, all accounts capture the role of business in sustainable development and revolve around the idea of businesses integrating social, environmental, and economic imperatives in the way they operate, keeping in mind their shareholders’ and stakeholders’ expectations. All corporate responsibility (CR) accounts recognize there is more than one responsibility of business—beyond its economic responsibility of achieving profits for its shareholders—it has a social and environmental responsibility towards all stakeholders. Businesses are expected to commit to managing and improving the economic, social, and environmental implications of their practices on their stakeholders, and the local as well as the international community.
One of the definitions widely used is the one used by the World Business Council for Sustainable Development (WBCSD) and will be the one definition this thesis builds upon.

The continuing commitment by Business to behave ethically and contribute to economic development while improving the quality of life of the work force and their families as well as of the local community and society at large.

That definition states that businesses’ main goal of achieving profits and maximizing shareholder value is not sustainable without paying attention to the wider range of stakeholders.

CR is, at its core, how an organization manages its relationship with its stakeholders. CR may include issues such as environmental management, eco-efficiency, stakeholder engagement, responsible sourcing, responsible marketing, product responsibility, labor standards and working conditions, employee and community relations, gender diversity, human rights, good governance, and anti-corruption measures.

Stakeholders include consumers, suppliers, employees, external contractors and consultants, the environment, the neighbouring community, and society, in addition to many others such as government authorities, regulators, media, and business partners.

**The Rise to Corporate Social Responsibility**

Solomon in his book *The New World Of Business: Ethics And Free Enterprises In The Global 1990s*\(^4\) discusses the reasons behind the rising expectations of the public with regard to businesses and discusses why corporations—primarily built as legal entities aimed at doing business, producing products and services, employing people and marshalling together resources for further investment and material progress—should be expected to do more. He argues that reasons for the increased

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demands on, and expectations of, business is due to their success in providing public services and solving social problems, which, he says, raises expectations as "enormous success breed extravagant expectations," and due to the traditional demands that society has always made of the richest and most powerful citizens. Historically, the rich would make large contributions to society either out of the sense of fairness, because it was considered their duty to do so, or more commonly because it was in their self-interest. Over time, corporations have replaced the role of powerful individuals and families in previous eras, and as they expanded, so too did the extent of their social responsibilities. In the early days of modern business, when business represented a small part of society, their responsibility was to produce quality products and services, provide employment opportunities, and earn a good return for owners and investors. As corporations became bigger and industries expanded, concerns for environmental issues became a corporate responsibility and as Neil Chamberlain argues, "the corporation has become, by virtue of its size and scope, more of a public institution than a private one" and that is where corporate responsibility began to be largely expected of corporations.

In addition, as the notion of consumerism grew stronger and became vital in societies, especially Western societies, the business became responsible to the consumer in terms of product safety and consumer relations. Today, as businesses and corporations are considered very powerful institutions, the scope of their responsibility expanded to include both environmental and social aspects in the field of education, support of the arts, sports, research and development funding, urban planning, hunger and poverty, and unemployment; areas previously considered solely the responsibilities of government. It can be summed up by saying that the larger the business and the more powerful the corporation, the more responsibility it will be expected to bear.

In the West, large companies are working harder every day to protect their reputation, big scandals like that of Enron\(^6\) resulted in an undermining of trust in big business and government.

CR today is a compilation of many layers. The first layer is basic philanthropy, however, solely giving money to charity is no longer seen enough. Shareholders want to be sure their money is going the right direction and is actually being useful. The second layer is a branch of risk management. After the Exxon Valdez oil spill, the BP Gulf of Mexico spill, the large pharmaceutical companies refusing to make antiretroviral drugs available for the sufferers of HIV/AIDS in developing countries, and companies like Apple, Nike and Gap using sweatshops in developing countries—all this is has resulted in a call for a greater sense of responsibility from business. Large companies have established a dialogue with government and NGOs, created codes of conduct and committed themselves to more transparency in their operations. The third layer is about making a win-win situation for companies and stakeholders, seizing business opportunities, approaching CR in a strategic way, and making a competitive advantage out of it.

Globalization has helped the spread of the concept of corporate responsibility. Globalization has created a new world, businesses operate in new markets where pressing global issues such as human rights, labor rights, technological impact and the environment are of global concern.

The global media has a great influence on the companies and their activities; we find that pollution scandals, governance scandals, corporate fraud, human rights violations, and scandals of companies that do not take necessary precautions to protect their people or the environment often make the 24 hour news cycles, with

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\(^6\) The Enron scandal, revealed in October 2001, eventually led to the bankruptcy of the Enron Corporation, an American energy company based in Houston, Texas, and the dissolution of Arthur Andersen, which was one of the five largest audit and accountancy partnerships in the world. In addition to being the largest bankruptcy reorganization in American history at that time, Enron was attributed as the biggest audit failure.
the scandal unfolding at the top of the hour, every hour. Many of these companies have been forced to pay millions of dollars in compensation and CR serves as a tool of risk management and ensures corporations operate more ethically and responsibly to avoid future compensatory schemes and fines.

Operating in a global market has made issues of ethical supply chain, fair trade, human rights and labor rights central to multinational and transnational companies, with a trickle down effect it has been introduced into the Arab world and Eastern markets primarily through these corporations. For those Western companies receiving their products from the Middle East and the Far East, increased risks associated with managing supply chains around the world became more difficult after the Nike and Gap sweatshop scandals. For developing countries like Egypt, it is becoming, and may fully become a condition for exporting to the international market or becoming part of this supply chain of big Western companies; following all the regulations related to environment, risk management, child labor and so on. They have to guarantee labor standards and product safety, as well as environmental sustainability.

**History of Corporate Social Responsibility**

Between 1920 and 1980 the triumvirate of capital, state and labor where companies were to operate in a capitalist system but at the same time observe labor relations generally and the state played the role of the guard against any corporate abuse, is often referred to as “Fordism.” This cohesive relationship between the three players was disrupted by the spread of globalization in the 1980s. It was the rise of neo-liberalism that brought in the need for CR as neo-liberalism and the elimination of barriers to the means of production and distribution (globalization) brought in fears that excessive state regulation would affect the flow of capital, threaten Foreign Direct Investment (FDI) and thus negatively affecting national economies and international competitiveness. Capitalism’s advantages are tempered by its disadvantages manifested through the increase of inequality in income, distribution of income and stagnant wages. Since there seems to be no other model that
significantly challenges the current capitalist model, then the only viable alternative that is available is modify it into neo-liberal capitalism, and that is why “CR has become increasingly popular in the last three decades as it,” as Derrida says, “acts as a supplement for the existing system.”

The term CR has developed in the USA in the 1950s as corporations were rapidly increasing in size and power. Corporate Responsibility became a big issue as social problems such as poverty, unemployment and race relations became pressing issues. Then CR moved on to European corporations and today, the Middle East and many other developing African and Asian countries are developing this industry.

CR is not a new concept in itself; it has been there since the dawn of business. The history of CR is almost as long as that of companies. We have examples from the West: novelists and critics from the late 1800s to early 1900s used their power to investigate and expose societal issues such as conditions in slums, prisons, factories, insane asylums, sweatshops, mines, child labor and unsanitary conditions in food processing plants. Investigative journalists often wrote about impoverished people and the absence of social programs, sometimes in a scandalous manner. For example, The Jungle, by Upton Sinclair, harshly illustrates the poverty, the unpleasant living conditions, the cruel working conditions and the hopelessness amongst the lower classes. The novel led to the passage of the Meat Inspection Act and the Pure Food and Drug Act of 1906, which established the Food and Drug Administration. This is a typical example of how people of power, through the power of writing, at the time took upon their shoulder the responsibility of revealing pressing social issues and actually took action to change the status and conditions at the lowest levels of society.

CR in its modern concept according to Margaret Stoup and Ralph Neubert of Monsanto (Corporate Social Responsibility, by Jerry Anderson),

Has evolved from voluntarily doing good at a reduced business profits by consuming resources to mandatory pressure from stakeholders to force certain desired social responses and actions at the cost of the business to investments in the future where
social responsibility becomes an investment that improves the long-term performance of a business and that the result of this evolution corporations are beginning to realize that for their survival and competitive advantage, they must evolve from doing good to doing better. Only slowly is recognition growing that long-term value to the corporation of conducting its business in a socially responsible manner far outweighs short-term costs.7

Anderson suggests that given this concept of doing good by doing well or progressing from the “doing good” to the “doing better” concept implies that corporations handle corporate responsibility as a corporate investment that will result in a long-term benefit and not as a corporate expense.

**Driving Forces for Adopting Corporate Responsibility**

There have been key drives that reshaped the relationship between a company and its stakeholders and helped spur the rapid growth of the concept of corporate responsibility; those are, as mentioned earlier, consumerism, increasing affluence, changing social expectation, and globalization. Additionally, in developing countries there has been an escalating need that the private sector supplements the state in supplying services to the poor. Strong consumerism, societal expectations and established civil society have been the driving factors in adopting CR in developed countries. In developing countries it is driven by other measures; in developing countries, governments have failed to provide solutions for many of the existing social problems, business have the necessary talents, expertise, know-how and resources to solve these problems and enhance human capital. In addition, businesses in developing countries that rely to a great extent on the global market are obliged to follow international standards and norms and behave ethically and responsibly in order to fit in the international supply chain.

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Business will benefit at the end because corporations need to create a community where they can grow and thrive, to achieve sustainability; business needs to exist in a sustainable community.

**Benefits of Implementing Corporate Responsibility**

A well managed and a properly implemented CR concept can bring along a variety of competitive advantages and bring in profits and benefits that companies are not aware of. Companies see CR as added cost and it takes away from company resources, however, there are many benefits such as enhanced access to capital and markets, increased sales and profits, operational cost savings, improved productivity and quality, efficient human resource base, improved brand image and reputation, enhanced customer loyalty, waste reduction, and better decision making and risk management processes.

In a global market, competitiveness has become key in everyday operations across the planet, companies are forced to keep up with competitors and what is happening in the market; not engaging in CR means companies are not only left behind, they are missing business opportunities and a competitive advantage.

A successful implementation of a CR program has shown to improve companies’ access to capital in a number of ways. International market indices such as the Dow Jones now look at the social performance index of listed companies as well as its financial performance, including the Egyptian Stock Exchange and listed companies will be asked to report their social performance with transparency, in the hopes of attracting foreign buyers and FDI and thus increasing company profitability. A robust CR program will also attract a growing community of investors interested in Socially Responsible Investments (SRI)\(^8\).

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\(^8\)Also known as sustainable, socially conscious, or ethical investing, describes an investment strategy which seeks to maximize both financial return and social good.
Enhancing brand image has also been shown to be a side effect of implementing CR. By operating in a responsible manner ethically, socially and environmentally companies gain the trust of their stakeholders. Along with an improved brand image comes an improved corporate image, depending on the size and diversity of the company’s holdings. Additionally, a well-managed CR program may open up new markets due to positive national or international feedback, as community support will engender goodwill with local and national politicians, who are gatekeepers of the local and national business markets.

Previously hidden commercial opportunities often come to light when a company decides to work with the community, in ways traditional market research does not. Thus, it is in the best interest of a business to promote and improve communities in which they operate. This will in turn help attract, gain and maintain a loyal consumer base.

Part of that awareness of impact that comes with a CR program can aid cost reduction through efficient use of energy, waste reduction, recycling or reusing resources.

CR helps attract and retain employees, due to improved working conditions, employee engagement in the decision-making process and community engagement, which raise employee satisfaction. A positive work environment has been shown to lead to increased productivity, improved product quality, less defective products, less error, and less lost time due to accidents. It is assumed employees want to work for a company that is doing good for society and is operating in a responsible way, which gives them a sense of pride and satisfaction in their work. What this does for the company is increase its competitiveness in the job market, giving it access to better graduates and experienced workers, and it reduces company expenditure, as high employee turnover costs the company more in terms of training, waste, and efficiency.
The concern over climate is one of the greatest driving forces of growth in the CR industry. Investors are showing steadily increasing interest in the environment, also known as the responsible investment (RI). Employees are also pressing their companies to pursue CR activities as it helps attract, retain, and motivate staff.

Motivating factors for CR in the West are different than those in the Middle East. In the West, most of the rhetoric about CR is concerned with morality, while in reality, it is simple risk management involving limiting the damage to the brand and overall company profits that can be inflicted by the press, consumer boycotts, or dealing with the threat of legal action. The main driving force in the Middle East and Egypt would be philanthropic consciousness of doing good and the desire to gain access and maintain a market share in the global markets. It is believed that often companies fail to see trouble coming; only when they are faced with an issue, a lawsuit or strong public pressure do they recognize the importance of change, management and culture change.
Chapter III

Corporate Responsibility in Theory

Corporate Responsibility and Social Welfare

All theories of the different philosophers, economists and thinkers from the 1700s through the 1800s to the early 1900s support the notion of corporate responsibility that was basically concerned with the welfare of the people. And by people, it referred to workers of the time and also future generations. All these theories revolved around the utmost consideration of employee wellbeing and working conditions. They were all concerned with issues that today’s international organisations like the International Labor Organisation (ILO), the UN Declaration on Human Rights, and other conventions are concerned with. It has always been and will always be about the people.

Many scholars and activists, both European and American, influenced the changing world with their writings about the growth of business, its morals, ethics, action, and its social responsibility. Adam Smith, for example, who wrote the Wealth of Nations strongly supported a laissez-faire policy, and that governments should not get involved in any social matters, except in national defence and public works where necessary. He believed that it was labor that created a nation’s supply and not the government. Smith believed that human motives were often driven by self-interest and used the example of:

It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.

Likewise with business, if a social initiative is good for the business then it can be implemented, and he believed that individuals, like business today, often aid society
without intending to do so. Matthew Boulton (1728-1809) believed that employee's wellbeing is of utmost consideration; he built homes for his workers and part of their wages served as rent. At Christmas, he gave gifts to employees and their families and provided special entertainment for the employees to improve their morale; he also paid overtime wages and made the working environment as pleasant as possible. Many in his time deemed his concept radical, but today it is basically called managing relationships with employees. Charles Babbage (1792-1871) wrote *On the Economy of Management* that emphasized on the division of labor, the use of time study, the observation of the work process so that it could be divided into mental and physical work, and the payment of bonus in proportion to the worker's efficiency and the success of the business. The German philosopher Friedrich Hegel's (1770-1831) notion was that everything was constantly in a state of change—always moving towards a higher and improved state over that previously existing. His philosophy known as "Hegelism" was a concept that if reduced to its core applies to business, ethics, morals and social responsibility. Hegelism contends that everything is in constant state of flux that is continually moving in a direction that is considered an improvement over the past. Karl Marx (1818-1883) builds on that and introduces the class system, including the "proletariat" (the working class) and emphasizes on new words such as exploitation and alienation as he departs from words such as economics, business, ethics, morals and social responsibility.

William Stanley Jevons (1835-1882) contributed to management’s school of thought as he advocated cooperation between labor and management and presented the concept of industrial partnerships and advocated the inclusion of profit sharing and ownership of stock in the company by the employees. Pareto (1848-1923) notably contributed to social economics and social responsibility through his theory of "Pareto optimality." The Pareto optimality concept is still used and has tremendous impact on influence of inputs, outputs and distribution of social welfare and any issue that requires resolving a problem involving two sides. The optimality theory basically implies that any organization is said to be Pareto optimal when every reorganization that augments the value of one variable reduces the value of another.
Similarly, CR is doing something good that may reduce profits. Frederick Taylor (1856-1915) developed a concept of management that the maximum good for the whole of society can be best achieved through the cooperation of management and labor and the application of scientific methods to the operation of business. His plan was to stop using the “whip” approach or the “rule of thumb” approach and to use a scientific approach to management, implementation of conscientious supervision for labor, employee and management alike, and that the working of both management and labor together will result in improved prosperity to both. Henry Gantt (1861-1919) is well known for his contribution to humanistic management concepts through his wages and bonus system. He developed the Gantt chart known as the “time and activity bar chart”. His bonus system was based on a person given a specified salary for producing a given number of items. If the person produced more than the specified number, he would receive a bonus, and if he produced less he was not penalized. This plan permitted the worker to earn a reasonable living and at the same time increase his efficiency. Gantt also felt that management was responsible for working with the employee and training him to be more skilled, efficient, and reliable. He also emphasized the humanistic side when he urged management to be more concerned with the quality of the product and not the profit. His ideas basically introduced the concept of industrial and corporate responsibility into the industry. All those philosophers, psychologists, economists and writers with their broad concepts highlighted issues and gave way to sharper focus on issues such as social awareness, social responsiveness and social responsibility implementation of these issues.

Jerry Anderson illustrates in Corporate Social Responsibility a very interesting example in the 1920s and 1930s when the Western Electric Company showed concern for the welfare of its employees, it provided them with good working conditions, good wages, reasonable working hours, and thus it maintained good relations with its employees. Management, out of its commitment to provide its employees with a good working environment, conducted an experiment to find out if work output is directly related to the working conditions in the workplace and the
experiments showed that the change of work output was related to physiological causes. The company kept experimenting for several years, all for the sake of providing its people with better working conditions.

During the 1930s, 1940s and into the 1950's business' responsibility grew with more focus on employee welfare like pension funds, insurance plans, profit-sharing plans, medical care, retirement programs, safety programs, vacation, and sick leave. It was competition, in some instances government regulations, growing social concerns and responsibility for the employee helped bring about those changes.9

In today’s globalized world and the neo-liberal economy where markets facilitate the mobilization and allocation of resources, CR has become a crucial tool to correct the corporate imbalances caused by this system and cater to the rights of stakeholders other than the shareholders.

Transnational corporations have positioned themselves through CR as partners in ‘poverty reduction’, and becoming more active in ‘standard setting’ and ‘privatized corporate governance’\footnote{Peter Utting, “CSR and Equality”. Source: Third World Quarterly, Vol. 28, No. 4, Beyond Corporate Social Responsibility? Business, Poverty and Social Justice (2007), pp. 697-712 Published by: Taylor and Francis, Ltd. Stable URL: \url{http://www.jstor.org/stable/20454957}. Accessed: 25/03/2012 07:58}. The international organizations, in order to give CR a legitimate course, have tried to link it to the Millennium Development Goals. Many transnational corporations (TNCs) have been associated with philanthropic activities or CR activities in areas of health, education, cultural, sports as well as environmental initiatives. It is estimated that a total of $3 billion went to developing countries as corporate aid in 2004\footnote{Ibid}. This kind of corporate philanthropy associated with developing countries has been increasing over the last decade. In some poor, developing countries, the corporate giving has been higher than the Foreign Direct Investment (FDI) flowing into the country.

Peter Utting contends that CR can cater to such disparities by addressing issues related to equality and equity, such as income distribution, and social justice and fairness. According to Utter, CR contributes to the welfare and wellbeing of workers, customers, consumers, and society. CR activities focus on labor rights and human rights—the communities where companies operate. However, Utter argues that from a social development point of view, the shortcomings of CR are centered in three areas: first, a very small percentage of the TNCs, their affiliates and the millions of their suppliers have seriously embraced this spirit\footnote{Ibid}. The second problem with the CR agenda is that actual implementation of CR does not match with the overstated intentions of corporations. This is very clear as international codes and standards
such as the Organization of Economic Cooperation and Development (OECD), Global Compact (GC), and Equator principles are highly developed, while the implementation and compliance mechanisms remain weak. The third problem is that most of the issues that are thought of in mainstream CR are not relative to real social issues in developing countries such as employee health and safety and human rights. Rather, the focus of CR is on issues pertaining more to the interests of activists and consumers in the Global North such as child labor, environmental degradation and deforestation, issues that are not priorities of many developing countries. Another problem that arises in the CR agenda is that it lacks the attention to specific developmental concerns of poor developing countries such as the costs associated with CR, specifically with regard to medium- and small-sized companies. Furthermore, large corporations burden their suppliers in the developing countries with many of their principles and standards, and yet with no understanding of the accompanying costs of such activities, such as the impact on the operating costs, yet they require specific price levels which makes it very difficult for those small- and medium-enterprises in the poor developing countries. To sum up, Utter says CR attempts to reduce corporate malpractice and improve specific aspects of social performance without much attention to the contradicting codes and policies that have their adverse consequences in terms of equality and equity. A question that the CR agenda poses is the extent to which CR addresses issues of human and labor rights especially those of women and children. International standards such as the Global Compact (GC) Principles and ILO Conventions lean toward human rights issues such as freedom of association, discrimination, and forced labor. On the other hand, many TNCs will pick and choose which issues to take seriously and which ones to take lightly such as freedom of association and collective bargaining.

However, this thesis argues that CR in itself is a self-improving process and although companies will continue to violate the principles of responsible business, that should not direct the CR agenda in a different course, because eventually CR activities will lead to better working conditions and social performance.
Schools of Thought on Corporate Responsibility

There are three schools of thought on the role of CR in development in scholarly literature on the subject. The ‘neo-liberal’ school focuses on market liberalization and self-regulation, risks and opportunities of CR activities, and responsiveness to consumer preferences. The ‘state-led’ school that stresses on stronger state intervention through national and international regulations; and the ‘third way’ school that relies more on the role of NGOs and public-private partnerships and less on businesses hungry for profits or governments in order to ensure social issues are addressed effectively.\(^\text{13}\)

Advocates of the ‘neo-liberal’ paradigm argue that operating in a responsible manner will bring profits in the long-run as social investments, both internally (developing employees) and externally (developing the community they operate in) will both affect company performance in the long and short-term. As a company, this will help them survive better in a healthier, well-educated community that serves as their source for human capital and this community’s demand for their products and services. Responsible businesses, in addition to attracting customers seeking responsible products and services, also attract capital and draw new talent. Advocates of the ‘neo-liberal’ school also believe that such responsible behavior of companies result in increased competitive edge and will encourage other companies within the industry to follow suit. However this is often argued against because of companies’ lack of awareness on CR and its proposed benefits.

Advocates of the ‘state-led’ school believe governments should promote the creation and enforcement of CR obligations on companies. They believe state-led CR and government interventions create positive externalities such as higher employee satisfaction and sense of security, consumer rights and welfare through higher product responsibility and environmental protection. They believe governments

\(^{13}\) Corporate Social Responsibility in International Development: An Overview and Critique. “Bryane Micheal” Linacre College, Oxford University, UK
should actively establish CR awards, tax incentives, subsidize CR programs, set product standards, and policies for consumer protection. However, the draw back of this approach is there will be insignificant pressure on national corporations by governments to operate in a socially responsible manner, the reasons being governments tend to issue recommendations and guidelines instead of real legislation.

The ‘third-way’ discourse basically gives importance to the NGOs because they represent the civil society and seek to influence policymakers, educate the consumer, the business and the policy-makers and work in cooperation with both the government and the private sector. The shortcoming of this CR discourse is basically an issue of funding and income that may be from member organizations, or cross-organizational issues where a non-for-profit organization partners with a for-profit organization in a project or part of a project.

Bryan Michael argues that each of those schools has their own weaknesses when it comes to their role in development. He criticizes the ‘neo-liberal’ school that fails to address the resource misallocations caused by CR: the ‘state led’ school that fails to address the underlying politics behind government-encouraged CR and the ‘third way’ school that fails to address the self-interest involved in CR.

The critique of the different approaches to CR discourses illustrates its economic, social and political consequences through the new relationship between government, business and civil society in the different schools for CR. Critics argue that CR can lead to resource misallocation in the company and distortion of incentives in the economy\(^\text{14}\) manifested by diversion of managerial time and company resources that is typically a marketing function. Second, costs associated with changes, affecting market efficiency by not giving attention to market signals and not providing the market with the most valued goods and services for the right prices leads to price distortions (due to adding extra CR costs to products and services) as well as input and production decisions. Critics also argue that resources

\(^{14}\) \textit{Ibid}
are directed towards CR training and awareness centers rather than being directed
towards the efficient production of goods and services required by the market.

As for the political consequences, critics criticize the CR agenda for allowing the
right to determine social objectives and the means of funding them, however this
thesis contends that in such a case, this conclusion is drawn without taking into
consideration the stakeholder engagement, a practice CR highly recommends. Critics
claim that shaping the CR agenda takes away from the power of the state, giving
companies an ‘upper hand’ in shaping social policies. This only holds true under the
assumption that there is no dialogue between the major players of CR, namely, the
business sector, governments and civil society. Another drawback of the CR agenda
is the shifting of power to international organizations such as the OECD and the UN
Global Compact for example. Critics claim that by adopting international guidelines,
countries give up their right to determine their own corporate practices.

Critics highlight the notion of CR being seen as a technocratic exercise that
depoliticizes the decision of social objectives in business, when it is fundamentally
political at its core and allows CR experts to decide on social objectives.15

As for the social consequences, critics argue that the ‘third-way’ gives a different
form to CR whereby NGOs play an intermediary role between the business and the
government by using the expertise and knowledge of NGOs and thus again
depoliticizing CR, as mentioned earlier, but this time benefiting NGOs. International
NGOs are assuming this role and as a consequence are seen as either reducing
corporate power or reducing the role of the state. Furthermore, the for-profit
organizations are maximizing their portfolios, thus, the ‘third way’ is a discourse
with a highly politicized nature.

Michael contends that CR is a new form of relationship between civil society,
governments and businesses where the business benefits by increasing regulatory
autonomy, NGOs gain through increased policy-making functions and earning money

15 Corporate Social Responsibility in International Development: An Overview and Critique.
from the governments and the private sector. This scenario leaves civil society as the lowest priority, however.  

**Argument For and Against Corporate Responsibility**

There are various arguments regarding the responsibility of businesses, ranging from the very narrow position that corporations are only responsible for making profits and that there are no social responsibilities beyond that, to the position that corporations ought to assume certain responsibilities by having an active role in addressing major social problems.

Boatright believes that as people must be accountable for their actions and how these actions impact others, likewise, companies must be accountable for their doings, and how they impact others, the environment, the people and the community in which they operate. He argues that although the main responsibility of corporations has been viewed for very long as purely economic and legal, a corporation has social and environmental responsibilities to its stakeholders. "The concept of social responsibility is often expressed as the voluntary assumption of responsibilities that go beyond the purely economic and legal responsibilities of business firms." He argues that although a corporation is thought to be mainly responsible for making profits, producing goods and services, providing jobs and good wages, developing new products, researching and discovering new sources and technology; its legal responsibility towards its consumers, suppliers, and employees; and to act as a fiduciary and manage the assets of the corporation to the best interest of the shareholders—a corporation has social and environmental responsibilities to its stakeholders. Corporations must exercise management and culture change and have the principles of CR embedded in its mission and values.

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16 ‘Between profit-Seeking and prosociality: Corporate Social Responsibility as Derridean Supplement’
As Boatright states in his book “Ethics and Conduct of Business”, some accounts of social responsibilities may be:

... the selection of corporate goals and evaluation of outcomes not solely by the criteria of profitability and organizational wellbeing but by ethical standards or judgments of social desirability. The exercise of social responsibility, in this view, must be consistent with the corporate objective of earning a satisfactory level of profit, but it implies a willingness to forego a certain measure of profit in order to achieve non-economic ends.\(^{18}\)

Amongst the different arguments and critics to the CR discourses, Friedman argues that the main objective of business should be to add value to the shareholders through maximizing profit. Milton Friedman argues that the concept of corporate responsibility is a dangerous area. His famous argument against corporate responsibility is that corporations should pursue their economic self-interest, however, he still stipulates that a business can get involved in social investment if the marginal gains exceeds the marginal costs. Friedman argues:

There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say engages in open and free competition without deception or fraud. In fact they are preaching pure and unadulterated socialism. Businessmen who talk this way are unwitting puppets of the intellectual forces that have been undermining the basis of a free society these past decades.\(^{19}\)

Friedman questioned the logic of corporate responsibility and insisted that governments are the only legitimate vehicles for addressing social and environmental issues. Milton Friedman argues that:


In a free enterprise, private property system, a corporate executive is an employee of the owners of the business. He has a direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of society, both those embodied in law and those embodied in ethical custom.\textsuperscript{20}

Friedman argues that the owners of a corporation employ an executive with obligations to them and that it is irresponsible for a business to undertake social programs that it is not prepared to execute. The point is that executives are employed for many other reasons than just making profits such as the reputation they bring to the company and creating the business environment in which their employees become more productive.

In his article in the New York Times, Friedman suggests that corporations do not have social responsibility at all, only individuals do. To that he says that a corporate executive is a person and as a person he may have responsibilities, which we can refer to as social responsibilities, but then in that respect, he is acting as a person not as an agent for the company in which he works. But then it is his individual responsibility not the responsibility of the business. However, this is incorrect, because as a company is responsible for pollution resulting from its operation, the executive is not responsible for it as a person but as a manager of the company, who is a representative of the company. In that case, the company is responsible and the executive is hence responsible in his capacity as a representative of the company, and not in his capacity as an individual. So in the end, it is the company that is responsible for the impact that operations has on the environment or the community.

Corporate Responsibility: Ambiguity of CSR and the Derridean Supplement

Some scholars suggested that CR might become a significant remedy to the imbalance that many see in our current economic system, where it is difficult to harness commercial efficiency while minimizing harmful externalities and inequality. Sandoz outlines the two problems that face this optimistic view. First, CR is still poorly defined. Such comprehensive definitions that define CR as an integration of economic, ethical, social and environmental aspects of a business are behind the ambiguity of CR. The definitions are very broad and lack specificity about how to evaluate whether or not a business is responsible. The lack of a clear definition of what CR is and how issues such as philanthropy, stakeholder engagement, standards of operations, and codes of conduct are interpreted under a CR framework is behind this ambiguity. Sandoz argues that this causes critics to question if CR is really best understood as one concept or as an umbrella term for separate normative and non-normative theories.

The second problem Sandoz refers to is the inability of CR as a concept to authoritatively resolve the fundamental struggle between corporate profit motive and social expectations.

Within all the literature about CR, the debate remains, with the biggest question being: what does a company do when its prime goal of maximizing profit conflicts with the concept of prosociality, or in other words, when the economic performance conflicts with the social performance of the company. It is apparent from the debate about CR that this question remains unresolved within the CR conceptual framework, some scholars like Friedman and Jensen believe maximizing profit is the prime goal of any business, those like Drucker and Siegel find that a good medium may be reached and there are still more scholars that argue on how CR really can benefit the triple bottom line. Others find CR very critical as it legitimizes neo-liberal capitalism and the unfairness of the system.

21 ‘Between profit-Seeking and prosociality: Corporate Social Responsibility as Derridean Supplement’
22 Ibid
23 Ibid
Sabadoz approaches this continuing tension between profit-seeking and prosociality by suggesting that this whole issue of CR conflicting with shareholder value and the ambiguity of its definition can be resolved through the philosophy of Jacques Derrida. He argues that CR is a Derridean “supplement”—that is, a course that assists other discourses that are incomplete, insufficient or troubled. He explains that this supplement does this by adding to the insufficient discourse and/or substituting it for the troubled ones, and CR being that ‘supplement’ will be able to affirm the profit-seeking concept but at the same time, demand companies observe their social responsibility. According to Derrida, CR would be the supplementary discourse that regulates corporate behavior by simultaneously affirming the importance of both the capitalist profit-seeking and prosociality. Sabadoz explains how CR permits us to functionally supplement profit-seeking capitalism, it may amend capitalism by adding to it or substituting in for it, as it demands social responsibility of companies and at the same time retains the capitalist profit-oriented framework. And that is where companies should understand that CR should be closely stitched to the core of a business in order to have a positive impact on the company’s overall financial performance. Sabadoz contends that it is this ambiguity that gives CR its functional role as a ‘supplement’ to corporate profit-seeking. He argues that CR affirms profit-seeking and prosociality by demanding that a company performs responsibly and at the same time maintain the overall corporate structure of shareholder supremacy.

Looking at CR in a neo-liberal capitalist context, we find that many believe significant levels of CR may contribute to global issues such as poverty reduction, environmental degradation and social justice. Unfortunately, CR is not meant to resolve all these issues, it is better thought of, as Sabadoz puts it, a ‘supplement’ as it seeks to supplement the current capitalist system, which is seen as deficient and needs improvement but at the same time indispensable. He believes CR’s fluidity
allows it to serve as an affirmation of the capitalist system as well as a criticism of the solely profit-seeking aspect of it. When the supplement acts as an extension of the original, then it is a good and necessary addition, however, it is deemed dangerous and threatening to the original system if it gains the capacity to substitute it. This raises another problem in the literature of CR, as supporters of the capitalist system see it as a drawback to the system. The challenge remains that admitting that the need for a supplement points out the inadequacies of the present system.

Sabadoz argues that trying to find a clear definition of CR tends to undermine both systems, as one system must be superior over the other, it will be a choice between profit-seeking and prosociality. According to Derrida, it is this ambiguity that supports the logic of the CR discourse. As Sabadoz puts it, a Derridean reading of the present situation would argue that neo-liberal capitalism lacks the social stability of the preceding system, which raises the need for a supplement or an amendment to the existing system, that is, CR will add a humane element to the current neo-liberal capitalist order. Sabadoz also argues that the contradicting desires of demanding a neo-liberal capitalist regime that provides a competitive edge for local companies in the global market and also demands more corporate prosociality can be resolved through the Derridean ‘supplement’ theory. Under the Derridean theory, demands of society to have a vibrant economic activity as well as the demand that companies be more prosocial is met through CR that fills the gaps in the neo-liberal economic system and fulfills the social demands by demanding companies to act in a ‘responsible’ manner.
Chapter IV

Corporate Social Responsibility in Egypt in the Textile Sector

Corporate Responsibility in Egypt

In Egypt, philanthropic traditions are deeply rooted in society. People in power, rulers, statesmen, and the wealthy practiced philanthropic activities through the creation of religious endowments, ‘waqf’ and through ‘zakat’. The waqf system was institutionalized and ensured sustainability and continuity. It could be land or any real estate whose revenues are designated to charitable projects directly related to social development, such as the building of educational institutions, hospitals, infrastructure, or social services.

In modern Egypt, and parallel to the waqf system, the private sector was aware of its social responsibility early in the 20th century. Bank Misr was active in the social arena and allocated part of the stakeholders’ revenue to build industrial establishments such as Egypt’s Print House, the Egyptian Company for Paper Production and the Egyptian Cotton Weaving and Trading Company. It was the paragon of CR, where the reserves from the shareholders’ profits were geared towards development projects that promoted economic and social benefits to society. In the middle of the 20th century, the status of waqf deteriorated due to economic and political reasons. The government diminished its role in the private sector and fully integrated charity and social development into its bureaucratic system. As a result, from that time the private sector in Egypt has contributed to the immediate social needs of the country, through charitable contributions to the poor and the communities surrounding their places of business. However, since the late 1990s, corporate responsibility in its current understanding has been introduced to the Egyptian private sector through multinational and transnational corporations.
The private sector in Egypt today is faced with many challenges ranging from corruption to an exhausting bureaucracy. This results in intricate setup procedures and difficulty to obtain a permits to operate, various market constraints, unfair market competition, the economic restraints, and the absence of effective channels of communication between policy makers and the business community. Moreover, the absence of government support programs and the weak role of regulatory bodies do not provide an encouraging environment for business development and expansion. In the light of this fact, corporate responsibility in Egypt remains to be regarded by many as a luxury.

However, as post-revolutionary Egypt witnesses change on a daily basis, so too does its business environment. An increasing public awareness of business responsibility is clearly observed and as a result, corporate responsibility has begun to gain significance amongst a wider pool of stakeholders according to the Nielsen survey on the level of awareness and perception of CR amongst consumers and employees (see Annex I). Although civil society, the elite business community and policy makers are also becoming more and more aware of the significance of ethical performance in business for more sustainable growth, the actual responsiveness of business to the stakeholders’ demands and concerns is still considerably slow as it continues to face the many economic and bureaucratic constraints mentioned above.

Additionally, in post-revolutionary Egypt, the purely philanthropic understanding of corporate responsibility by the private sector has started to change as well. Businesses are starting to think more about the wellbeing of their employees, and they are now more aware that corporate responsibility can serve as a good risk management tool. Nevertheless, they need to realize it is a value added rather than a cost. This change is driven by two main factors, first, international demand for engaging in Egyptian business partnerships and investments, and second, business sustainability and the realization that without social consent, business is put at risk on both the internal and external levels. In this case, consent is translated into social investments directed towards the employees, workers and surrounding
communities to protect the businesses against operational stoppage, continuous strikes, robbery, or destruction of machinery and equipment.

In 2008, the Ministry of Investment sought to encourage listed companies to report on their social and environmental performance and added an ESG index to the Egyptian Stock Exchange index in order to promote corporate responsibility and ethical operations in the private sector. However, the economic slowdown followed by the 2011 revolution has slowed these efforts to a great extent.

The general perception of corporate responsibility in Egypt still needs to shift from being perceived as an added cost to an imperative business component with an added value and needs to be embedded aggressively into core business and management strategy. It must be said that some large companies in Egypt and specifically in the textile industry already perceive corporate responsibility as such; those that are driven by international market demand are in turn influencing smaller companies in the supply chain, introducing them to environmental and social codes and standards. However, there is still long way to go to get Egyptian companies to adopt sustainability measures and seriously apply binding codes and standards. This requires government intervention and support to create an enabling environment and encourage companies to employ sustainability practices. However, there is a strong drive resulting in a growing willingness of the private sector to adopt sustainability measures: the desire to gain full access to the global market.

There are a few Egyptian companies aware of the concept of sustainability and they are effectively engaging in sustainability practices that encourage the establishment of a profound integrated developmental approach that enhances human development, ensures environmental protection and improves overall business performance.

While it is possible that the trickle down effect will compel smaller companies in the supply chain of larger enterprises to integrate sustainability measures, there is dire
need for building a comprehensive business case. With regards to MSMEs, regional expert on corporate sustainability, Mohamed El Kalla says:

“The biggest problem in getting MSMEs to integrate corporate responsibility in its business operations is the absence of a visible or an attainable business case. The only way to overcome this obstacle is to work on providing entrepreneurs leading MSMEs with an understanding of and access to business cases built on trading of positive sustainable practices with access to international markets, value chain integration, innovation in production, and access to market.”
Diagnostic of Corporate Responsibility in the Textile Sector in Egypt

Ways to Enhance Sustainability Management in the Egyptian Textile Sector.

Perception and Awareness

This study found that firms are not aware of the term corporate responsibility (CR) or how corporate responsibility may affect their performance and thus their sustainability in the long term. The study shows that 39% of the firms visited perceive CR as charity, that is, mostly in-kind or monetary contributions to society, be it employees, workers or neighboring communities and is primarily initiated by the values and good will of the business owners. The study shows that 33% of companies interviewed claim to understand what corporate responsibility is, however, only 15% of the companies visited were implementing initiatives related to sustainability such as adopting social and environmental standards, being aware of their environmental footprint, observing human rights, showing concern about labor satisfaction, and engaging in community initiatives based on value-added concepts. Other companies that claim to understand the notion of corporate responsibility are aware of practices related to human rights, labor rights, community and the environment, regardless of whether or not they implement them; but do not recognize they fall under the umbrella of corporate responsibility. Compliance with the law is one example. Companies consider labor rights and human rights are fulfilled through complying with the national labor law; it is not as an aspect of corporate responsibility. Health and safety is another example: more than 90% of companies, including the ones that claimed they understood corporate responsibility, provide the least required by the law.
For health insurance, they provided state insurance (only 11% provide private health insurance) and for occupational health and safety that is stipulated upon in the labor law, companies provided basic training offered by private centers or public institutes, that they believe is very basic and of no tangible benefit, so companies have done the least required by the law to fulfill their legal obligation and not to really benefit their employees or the workplace.

The relationship between value creation and CR remains unclear to the majority of companies. For example, activities related to labor rights, human rights, and environmental protection are perceived as an added cost and not a value added to the company. Management fails to see the potential returns of engaging in CR activities to the company. The study showed that corporate responsibility is highly related to customer awareness, the majority of firms identified customers/consumers as their priority stakeholders. Building on that, the study shows clearly that companies exporting to the global market are more aware and more inclined to incorporate CR practices into their business. Producers for the local market on the other hand, where reduced levels of consumer awareness results in focus more toward price affordability, are not keen on incorporating corporate responsibility practices, as they do not see the potential value added to the firm. There is a general lack of understanding of how CR can positively affect company value. This is true mostly amongst the small and medium size companies. Larger companies are more aware of the business benefits of incorporating CR practices but feel it is very unfair that they play on uneven playing fields; referring to other companies that do have the same costs incurred on CR initiatives because they are not required to implement them due to a weak regulatory system and the absence of a national strategy for addressing these issues.

SMEs in the textile industry believe they are too small to engage in any environmental, social, or governance initiatives. They lack awareness of the concept of responsible business practice or sustainability management, and do not have an understanding how it can add value to their business. There is little incentive for small and medium sized companies, which usually produce solely
environmental standards or guidelines. Providing low price and achieving profitability is their main concern. However, it is noticed from the interviews that the second generation in those small family owned businesses have a different outlook to business sustainability and are illustrate greater interest in corporate responsibility, with some believing that increased efforts for a better social and environmental management may enhance their overall performance.

**Assessment of Current Practices**

*Governance, Risk Management, and Compliance*

Management tools are necessary to help build and maintain a sustainably successful company. The majority of the companies visited are family owned, and are run by second-generation family members. There is common absence of any form of governance and any hierarchical management control structures. Only 1% of the companies visited believe governance is important to the sustainability of the company and that a governance structure with a professional board will ensure appropriate management decision-making and will ensure strategies and decisions are carried out effectively.

There is clear absence of effectively implemented management systems in most of the companies visited. Despite the size of the company, its market presence, or volume of production, there is serious lack of managerial tools, such as management systems, guidelines, policies and procedures, business strategies, and sustainability strategies. Quality control is inadequate and social and environmental audits are deficient. It must be mentioned that, although most of the companies have the ISO 9001, ISO 14001, and the OHSAS 18001 certifications, actual implementation, if any, of these standards is extremely poor. The large companies show greater interest in adopting some kind of social or environmental standards; at minimum they are certified with management systems such as ISO 9001, 14001 and 18001. The main enticement for them is that most of their business, if not all of it, is exporting to the international market. Large companies that apply management systems and international codes feel that it has had a positive impact on quality, productivity, customer retention. and attracting new customers. However, and due to the fact those
social and environmental initiatives are undertaken only by a few, they are at a
cost disadvantage, as a confluence of lack of government support, incentives and
lack of implementation by national competition. Business owners find it very
important that there should be a firm system in place to ensure the whole sector
is complying with the law, but the bureaucracy and corruption that has been long
since embedded in the system are major deterrents.

Due to many operational obstacles, whether internal or external, management is
compelled to deal with day-to-day issues such as corruption, bureaucracy, and
recurring labor issues and concerns, rather than carry out its original function of
business development and strategic planning, leadership and management
development, and capacity building of its workforce. This in itself is a great
impediment to the development of the industry as a whole.

The study shows that typically, there are no risk management systems to identify,
analyze, and respond to potential economic, environmental, and social risks and
opportunities. Although risk management is crucial to the sustainability of any
business, the industry in Egypt lacks this vision. Companies are unaware of the
risks and rewards of their environmental and social performance. Despite the
strikes that have taken place recently throughout the industry, companies still
fail to see social responsibility and full compliance as an asset rather than a
liability.

It is apparent that legal compliance and weak regulatory systems are key issues
in the textile industry in Egypt. Compliance in the textile industry is minimal,
external compliance with the national laws and regulations and internal
compliance with voluntary adopted guidelines and standards. Specifically, small
and medium sized companies often do not comply with national laws and
regulations, which they are often fined for. They claim that the fines for non-
compliance are far cheaper than the costs of complying with the law. The larger
companies on the other hand may be compliant to an extent with national laws
and regulations, but the larger companies find it costly and resource consuming
(time and money) to comply with additional adopted standards. Nor do they
monitor and evaluate their performance in accordance with such standards to
ensure effective implementation, primarily due to the lack of effective monitoring and control from certifying bodies. Nevertheless, compliance with the national labor and environmental laws is a very challenging issue. Lack of compliance is primarily due to two reasons, first, limited resources whether economical or technical; and second, the inefficiency and corruption in the regulatory bodies in addition to absence of any constructive stakeholder dialogue between companies and regulators, all of which, push companies to resort to illegal solutions to avoid extra costs be it costs of environmental initiatives, taxes, or insurance.

**Social Performance**

The textile industry is a labor-intensive industry. In Egypt, the industry is considered to be the country's largest employer, it accounts for 30% of the labor force in Egypt. It was commonly stated that the availability of skilled workers in the textile industry is a serious issue. One notable statistic is that labor turnover is abnormally high: 90% of the companies visited suffer from high labor turnover that can reach as high as 30% per annum. In that respect, companies prefer to hire young untrained workers and provide the necessary in-house training to ensure efficiency. However, the problem still lies in the worker dissatisfaction and his willingness to move to another employer for an insignificant increase in salary that could be as little as LE20. The unavailability of skilled labor and low productivity are two great impediments to the enhancement of the industry.

From the employers’ perspective, the national labor law\(^2\), despite recent amendments, is a great impediment to the enhancement of the industry. The mediation, arbitration, and collective bargaining systems from the point of view of the employer, are biased in favor of the worker. Employers believe these systems pose serious restrictions on the employer-worker relationship. There are many incidents where the inability to terminate employee contracts is highly

\(^2\) The Unified Labor Law (Law 12 of 2003) provides comprehensive guidelines on labor relations, including hiring, working hours, termination of employees, training, health, and safety. The law grants a qualified right for employees to strike, as well as rules and guidelines governing mediation, arbitration, and collective bargaining between employees and employers. Non-discrimination clauses are also included, and the law complies with labor-related International Labor Organization (ILO) conventions regulating the employment and training of women and eligible children (Egypt ratified ILO Convention 182 on combating the Worst Forms of Child Labor in April 2002). The law also created a national committee to formulate general labor policies and the National Wage Council, which
restrictive and results in employers committing unethical employment practices such as resorting to yearly contracts, excessive overtime, asking newly hired employees/workers to sign resignation “form 6” upon signing the employment contract, amongst others. Employers cited many examples of the unfairness embedded in the system that favors the worker at the expense of the employer.

Human Rights and Labor Practices

Basic Human Rights and Disciplinary Codes

Companies generally comply with the national labor law, conduct the minimum training on health and safety as required by the law, abide by the law in issues related to disciplinary measures, holidays, and working hours. Although the majority of companies visited asserted they do not use forced labor or child labor, there is no system in place to ensure neither happens. For most, there is clear lack of documentation; there are no formal policies and procedures related to human rights or labor rights such as grievances, freedom of expression, discrimination, hiring, termination, promotions, and child labor. Companies are doing the minimum required by the national labor law. Only companies exporting to the international market are applying international standards and guidelines, yet that does not necessarily mean that workers are fully aware of their rights and obligations or receive the necessary training on company policies and procedures.

Workplace Safety and Concerns

Although the textile industry is a relatively minor source of hazardous pollution and physical injury in comparison to other industries, it still emits a wide variety of air pollutants and hazardous chemicals and there are many possibilities for
physical injuries resulting from machines, boilers, and chemicals used in the process. The main pollutants affecting health in the textile industry are: dust and fiber particles from the dry processes, chemical fumes and gases from the wet processes, as well as risk of inhalation of sulfur oxides, nitrogen oxides, and carbon dioxide from combustion of fuel in boilers. Textile production in the spinning, weaving, and knitting phases can contain bacteria, fungi, pesticides, soil, and vegetable matter harmful to workers. The textile industry uses a wide variety of machines, running at high speeds and causing high noise levels that violate the limit allowed by law (90 decibels). The exposure of workers to these pollutants can adversely affect their health in many ways.

Although all firms claimed they comply with the national labor law and implement health and safety measures in accordance with the law and civil defense authority, there is lax implementation of laws and regulations mainly due to cost and worker culture, in addition to poor monitoring and control from the government due to bureaucracy and corruption. This is most common amongst the small and medium size companies more than in the large companies, which are compelled to comply with international standards and guidelines for their export activities though they are still not operating at optimal standards. It has been observed that many of the medium and small firms have very poor working conditions, improper air ventilation, inappropriate working space, and demonstrate minimum compliance with required industrial specifications produced by regulatory bodies. Training on occupational health and safety (OH and S) is minimal and is conducted in accordance with the law that stipulates that 10% of total work force should receive training on OH and S in order to obtain a license to operate.

Worker behavior and labor culture are permanent challenges to the industry. It is a challenge to enforce health and safety measures. Workers face repercussions for not following H and S instructions that are repeatedly communicated as safety requirements, but it remains a challenge to get workers to employ regulations and safety measures to protect themselves against workplace injuries. Failure to do so adversely affects the employer via incurred costs either
in the form of medical treatment or absenteeism due to injury, as well as potential fines for non-compliance.

*Freedom of Expression and Collective Bargaining*

This is a key issue that has been affected by the recent political events. Labor unions in Egypt have had an increasingly active role that empowers workers after the January 25, 2011 Revolution. The companies visited highlighted the increased freedom that workers experience today in expressing their concerns and demands. The large number of strikes witnessed throughout the industry in the past two years is a proof of that. One of the primary reasons why workers have been taking to the streets is the majority of firms have neither collective bargaining agreements nor an internally developed grievance or whistle blowing system for workers to voice their concerns freely and without fear of reprisals. Although the large majority of companies visited assured that they respect human and labor rights, workers in the industry remain highly unsatisfied. Workers have repeatedly expressed their dissatisfaction by going on numerous strikes and have ignored the accepted values and ethics of freedom of expression, resulting in violence in many cases. Companies incurred significant losses due to the strikes; such actions adversely affect the industry’s overall performance and its credibility in the international market in keeping up with desired quality and on-time deliveries.

*Gender Discrimination*

There are several considerations that need to be taken into account when referring to gender discrimination in the industry: first, religious beliefs and societal norms; second, the national labor law that prohibits women from working late night shifts for their own safety. The majority of companies visited did not have a policy on discrimination or equal opportunity. Although it might seem that the textile industry is a contributor to gender discrimination, it is not the case, if we take societal cultures into consideration. There are sectors that mostly employ male workers such as the spinning, dyeing and printing, and weaving, while the ready-made garments mostly employ female workers.
**Working Hours**

In general, companies comply with the applicable working hours in accordance with the national labor law: a maximum 48 hours a week with at least one day off for every seven days. Overtime is normally compensated in accordance with the law; however, working hours in the textile industry is a critical issue due to two reasons. First, lack of skilled labor results in a company preference for operations in 2 shifts (12 hours each), and pay overtime rather than hire more workers and operate on a 3-shift basis. The second reason why this method prevails is purely economic, workers are keener to work longer hours for an extra income. This phenomenon appears most common in the medium and small size firms; large size companies operate on a 3-shift basis, working hours are not a critical issue.

**Wages and Compensation**

Wages in the textile industry are determined by the industry level, the minimum salary offered by the companies interviewed ranged from EGP 700 to EGP 1200, the variation depended greatly on the size of the firm and its geographic location. Companies in the greater Cairo area and the industrial cities like 10th of Ramadan or Sadat City, tend to pay more than those in the Delta governorates. Once more the informal sector in the industry adversely affects the textile companies in terms of retaining and attracting workers. Those companies operating illegally are capable of paying higher salaries because they do not pay taxes and other overhead expenses, attracting more skilled laborers, making it difficult for larger firms complying with the laws and paying their taxes, insurance, and other overhead expenses to retain and attract skilled labor.

**Social Investment (Community Initiatives)**

The study shows that companies throughout the industry are aware of their obligations towards society; however, the view is based on charity and philanthropic endeavors. The majority of the companies visited (85%) do not perceive social responsibility as part of their business strategy; none had a corporate social investment (CSI) strategy, a specific focus, identified criteria for social investment, or a fixed budget. The main drive for community investment went back to the owner’s personal values and beliefs. in no case did it emanate from the sense of business
responsibility and sustainability. One owner stated, “giving back to the community is essential and reflects my own ethical background and religious beliefs as an individual and that it is not a responsibility of the company.” The study showed 15% of the companies visited perceived community investment as a business responsibility that should meaningfully impact society and enhance the company’s sustainability. Those companies had ongoing community initiatives in the field of vocational training, education, job creation, and income generating projects. Those companies gave very positive feedback on the returns of their social investments on the company reputation and performance. On the other hand, the majority of companies had minimal ad hoc based philanthropic activities, many of them interpret it religiously and give out “zakat,” “Ramadan bags,” and bonuses on major religious occasions, but even those have declined over recent years due to the sharp downturn in the textile sector resulting from domestic political unrest, absence of security, and economic recession that drove companies to cut down costs, including charity and philanthropic activities.

The industrial cities in the Greater Cairo area have a “council of trustees” that focus on establishing community investment programs that embrace social and environmental initiatives. Although most registered textile companies in these communities are members in the councils, they believe the councils lack credibility in general.

**Environmental Performance**

Impacts of the textile industry on the environment are not as severe as other industries, however, inadequate controls and a great deal of non-compliance with environmental regulations, whether internally by having environmental management systems in place or externally through regulatory bodies, is prevalent in the industry. The most common environmental issues of the industry are water usage and water waste full of chemicals, common in the dyeing and finishing sector as well as spinning and weaving. There is also solid waste in the textile and ready made garments sectors that is all sold for recycling purposes but not in a formally controlled manner that gives special attention to potential environmental impact. The industry is a big consumer of energy, ready-made garments consume a lot of electricity for air conditioning and lighting,
dyeing and finishing sector consumes more oils and gas for the boilers, and spinning and textiles create packaging waste and solid waste.

1. **Spinning companies:**
   - Solid waste
   - Air particles (OH and S)

2. **Textile production companies (weaving and knitting):**
   - Solid waste
   - Packaging waste

3. **Dyeing and finishing companies:**
   - High water consumption
   - Water waste and absence of water treatment facilities across the sector due to high costs, poor regulatory control, and corruption
   - High fuel consumption for boilers, oil is the primary fuel and is heavily polluting; switching to natural gas is a better option
   - Emissions from boilers

4. **Ready made garments companies:**
   - Work environment, heat, and light (OH and S)
   - Significantly high energy consumption (air conditioning and lighting)
   - Solid waste

The ready-made garment sector of the textile industry is the one that has the highest share of exports and as such it is those factories that mostly follow international standards more than the others in the various stages of production. This sector faces many problems regarding the supply chain, mainly low quality and prices higher than imported equivalents, so many companies producing for the international market in the garment sector prefer to import raw material to overcome these two shortcomings. Reverting to importing raw material is a crucial issue that significantly impacts the spinning, weaving and dying sectors in an adverse fashion. To add to that, and because other sectors are not directly dealing with the consumer market, they are reluctant to apply environmental standards or guidelines and may, at times, try to circumvent environmental
compliance to avoid what they believe is an unnecessary added cost that does not justify the returns.

Small size companies do not have an environmental registry, do not have internal control policies for environmental performance, do not comply with the law, and are largely unregistered, making them hard to regulate.

Medium size companies differ; many of them follow suit with the small companies, others and especially those that export to the international market, do the least required of them, they comply with the applicable national laws, but they believe that the returns from investing in environmental initiatives such as water treatment facilities for the dyeing and finishing sector is too costly. They also have no internal control policies or standards such as a waste management system, waste disposal system, or an environmental policy. However, the companies were all open to environmental initiatives that will reduce energy and resource consumption, which is becoming increasingly expensive. There are two main issues to address here, first, lack of funding: investment in environmental initiatives can be a lengthy and expensive process as harmful techniques are supplanted with more eco-friendly ones and finding the time and money to do so can be prohibitive. Second, technology transfer: the lack of awareness and knowledge of alternative technologies is problematic as well as the difficulty in obtaining such technology, due to either accessibility or cost.

Large size companies that mainly produce for exports especially in the textile and ready made garments find themselves obliged to follow international standards and guidelines related to labor practices and human rights as well as product quality and consumer responsibility. Further to that, guidelines and standards that are related to environmental performance are not as common as social ones throughout the sector. It is mainly a personal initiative of the owner seeking to decrease consumption in order to reduce costs.

Throughout the industry, waste management is carried out in a basic informal manner where solid waste is sold for the purpose of recycling, but there is no system in place to ensure the subcontractors’ compliance when dealing with
such waste. As for disposal of toxic waste and chemicals, especially in the dyeing and printing sectors, only the large companies comply with the law and will have a water treatment plant. A very odd finding is that although some companies may have a water treatment facility that it has installed to comply with the law, it will often be switched off to save energy or to save the cost of spare parts. This is indicative of the lack of awareness and commitment to being an environmentally responsible producer. As for the disposal of oils and effluents, there is no system in place to control the disposal of such waste, let alone proper disposal.

NGOs are committed to helping factories comply with the national environmental laws and regulations, maintain accurate records, obtain an environmental registry, have environmental management systems in place, introduce technology to reduce energy consumption, reduce waste, and ensure proper disposal of different kinds of waste and effluents. However, there are several issues that highly affect the outcome of their efforts, first, funding of NGOs and funding initiatives, second, lack of trust of the NGOs by the companies, and third, lack of proper monitoring and control by the regulatory bodies. This third impediment, alongside corruption, is a major barrier to the improvement of environmental practices in the industry through out its different sectors.

Regulatory Environment

There is a comprehensive national legal structure that embraces laws and regulations related to human rights, labor rights and environmental issues. Those laws and regulations are accessible to all: all companies are aware of them, their stipulations, and the implications of non-compliance. The study shows that there is common non-compliance across the industry and especially in the medium and small size companies. It is due to several reasons that companies are often non-compliant. First, lack of monitoring and control mainly due to inefficient organization amongst the different monitoring bodies. Second, corruption within these regulatory bodies that allows companies to commit acts of non-compliance such as avoiding taxes, insurance, and fines. Third, there is widespread lax implementation of the applicable laws. Fourth, lack of resources, mainly financial, to comply with environmental regulations in matters related to
waste treatment and disposal, and health and safety issues. To wit, it was stated that “the non-compliance fee for not installing a water treatment facility in a dyeing company for example may be only 5% of the total cost of installing it, and in many cases, companies are tempted to pay the fine rather than make such a huge investment they do not believe is necessary”.

On the other hand, there are two main reasons for companies to comply with the applicable national laws. First, personal values and beliefs of the owner, and second, the commitment to international guidelines and standards agreed upon with international customers that encompass compliance with national laws and regulations.

Common challenges and concerns that textile companies face:

• Biased enforcement of the law in favor of the worker;
• Corruption;
• Lack of government support;
• Poor monitoring system; and
• An absence of clear explanatory notes related to industry requirements covering issues such as factory specifications, product specification, and environmental footprint, which open the door for corruption and unethical practices.

Companies visited stated issues the regulatory bodies should aim to:

• Ensure all textile companies obtain a permit to operate to facilitate monitoring and control.
• Ensure all textile companies maintain necessary records and documents.
• Develop a standard for minimum accepted quality standards.
• Ensure strict enforcement of the laws.
• Guarantee proper monitoring of companies’ environmental and social performance and confirm compliance.
• Implement a barcode system to facilitate tracking and tracing of products.
• Ensure proper inspection and testing of material.
It was stated that “the absence of an effective role of the regulatory authorities results in an unfair business environment that drives many businesses struggling to stay afloat and maintain their competitiveness out of business or to resort to unethical practices.”

Role of Civil Society

NGOs have the capacity to gain more credibility and power that will allow them to contribute more to the overall enhancement of the textile industry via engaging in developmental activities related to labor rights, human rights, capacity building and environmental performance.

In recent years, civil society has become stronger and leads a more active role in society as consumers are more aware of their rights, their health and safety and the quality of the products they purchase.

The main emphasis of consumers in the local market continues to be affordability, which drives companies producing for the domestic market to focus primarily on low-cost products, compromising on the quality and giving less attention to quality specifications and standards. Non-governmental organizations play a significant role in raising awareness on consumer rights and creating effective channels for consumer complaints, strengthening partnerships, opening space for substantive stakeholder dialogue, promoting alternative solutions, introducing technologies for energy conservation, raising awareness on CR, promoting labor rights and capacity building, and ensuring compliance. All of which will improve productivity, enhance performance, reduce costs, and decrease environmental footprint, and enhance overall performance of the industry.

Although civil society is playing an increasingly effective role, there remain some impediments to fulfilling their societal role; those are, but not limited to, lack of funding, lack credibility, absence of any implementation strategy, weak influence on the private sector, and little or no governmental support. These issues greatly impact the performance of civil society in playing an effective role in assisting
companies to mitigate negative consequences of business on society and enhance the overall performance of the industry.

Standards, Guidelines, and Benchmarks

The majority of all companies surveyed have ISO certifications, however, it was unanimously agreed that the intended benefits of the certification are not realized due to poor implementation, absence of effective monitoring and control, in addition to the apparent tendency not to believe that implementation of the standard will in any way affect its performance or have any positive returns to the business. Many of those that obtain the ISO claim it is neither effectively implemented nor fully integrated into their day-to-day operation.

The study utilized international social, environmental, and quality standards as benchmarks in assessing the social and environmental performance of the companies (See Annex II). The large companies exporting to the international market and are either encouraged or required by their customers to follow specific social and environmental standards and guidelines subscribe to the following codes or standards:

1. Customer/brand name codes and standards,
2. FLA (Fair Labor Association)
3. ISO 9001, 14001, 18001: Most of the companies visited applied ISO 9000 as a management system, some are the ISO 18000 and very few implementing the ISO 14000
4. OEKO-TEX 100/100
5. EU Flower
6. WRAP (Worldwide Responsible Accredited Production)
7. BSCI (Business Social Compliance Initiative)

The study shows that large companies are the ones applying international environmental and social standards and guidelines are being encouraged to do so by their customers. Such certifications and auditing performed by international customers act as a preventive tool against local corruption and law manipulation. The study shows 39% of interviewed business owners believe the application of environmental standards and codes benefitted or would eventually benefit the overall performance of their companies, cut costs, reduce energy consumption and consequently overall expenses. As for their social performance, the application of social codes and standards also benefited their overall performance; it enhanced labor capacities, improved productivity, reduced production waste, and increased hygiene and health consciousness.

Product Responsibility and Consumer Safety

The Egyptian textile industry produces for the international market and the domestic one. The domestic market constitutes three different channels: the wholesalers, the hypermarkets, and the retail chains. The wholesalers cater for the low-end consumers that are more concerned with the price. The hypermarkets cater for mid-level consumers that are looking for reasonable
quality at affordable prices. Third, the high-end consumer concerned with quality and value for money. The international market is concerned with product quality and the producer’s ethical behavior and compliance.

All companies stated that their customer’s satisfaction is their priority. However, only 30% of the companies had a formal system in place to handle customer complaints. Customer satisfaction surveys are not a common practice amongst the companies visited. Customer-management relations are strong but carried out in an informal manner.

Product quality control is another important issue and there are regulatory bodies specialized in monitoring textile products and ensuring they are in accordance with local or international specifications, however, many stated that due to the inconsistency and poor quality of inspection, companies resort to in-house inspection labs to ensure they meet the specifications required by their customers.

The study shows that companies and especially those producing for the local market do not give much attention to consumer hygiene and safety, factors as such as product components and products being skin friendly, free from all allergenic and carcinogenic substances, are not of importance to producers. Product information is not always effectively communicated to the consumer/end user.

*Supply Chain in the Textile Industry*

There are major challenges the industry is faced with: sustainable profitability, escalating costs of raw materials, currency fluctuations, sustainable quality, as well as the social and environmental performance in the supply chain. Ready-made garments being the final product of the textile industry makes Egyptian textile companies producing final products for the international market are part of the global supply chain, which means they will be required and expected to sustain an internationally accepted level of social and environmental performance.
Exporting companies, as mentioned above, are adamant about applying the internationally recognized social and environmental standards and are compelled to comply with all national applicable laws and regulations. However, companies sourcing locally, whether producing for the local market or the international market do not have any systems in place to identify, map or prioritize suppliers, no system in place to monitor or control the social and environmental footprints of their local suppliers; their criteria for supplier evaluation is not based on its social or environmental performance but only on price and quality, supplier choices are not based on its ability to demonstrate sustainability measures. There is clear absence of relative policies and procedures. Companies are not aware of their responsibility towards their local suppliers, be it guidance, raising awareness on sustainability, monitoring their performance, or helping them develop a sustainability strategy.
Findings on Consumer and Worker Survey Regarding CR Perception and Awareness by Nielsen

Textile Sector Workers

Findings show that 35% of the textile sector workers claimed to know what CR is. This percentage was higher among skilled employees where 45% claimed to be aware of CR compared with only 26% of unskilled employees. Also textile sector workers in Cairo were significantly more aware of CR compared to Delta workers (60% in Cairo versus 15% in Delta).

When asked to spontaneously address their perception of what CR is, workers primarily associated it with employees’ rights, specifically social security and health insurance. They also referred to it as charity and philanthropic activities, ethical supply chain and market dealerships, and the company being environmentally friendly.

Workers believed that companies engage in CR for philanthropy, company reputation, and for economic and tax benefits. However, one more reason for CR shows that 50% of the employees believe that companies engaged in CR because of Egyptian governmental regulations that force them to undertake social and/or environmental responsibilities.
The above figure illustrates the workers’ rating of a number of factors in terms of their importance in general and the performance of the company they work in. They were asked to give a score – on a scale from 1 to 5 where 1 was the lowest score and 5 was the highest.

Although workers agreed on some more general factors to be a “top priority” (having a score of 4 or 5), other factors showed to be significantly high across the different strata and type of workers. In general, these are the factors that are considered “top priorities” among all workers: having proper social security and health systems, having fair laws to protect workers’ wages and working hours, having a competitive work environment, and having management that effectively address and respond to workers’ concerns.
Additionally, Cairo workers gave significantly high importance to: company engagement with workers for improving business performance regularly, health and safety policies and procedures in the workplace, independent workers’ unions, documented disciplinary policies and procedures, solving employee disputes using fair and unbiased policies, and working hours based on the national legal maximum.

Also lower-level employees placed significantly high importance on documented disciplinary policies and procedures, and solving employee disputes using fair and unbiased policies.

Regarding the companies’ performances in these aspects, workers gave their companies quite good scores indicating good performance.

**Consumers**

The survey shows that slightly more than half of the surveyed consumers claimed to know what CR is. This percentage was distinctly higher among SEC AB. They mainly referred CR to charity and philanthropy activities, providing jobs to youth, and illiteracy eradication projects. They also referred to it as bettering the workplace for employees, and the company being environmentally friendly.

The survey demonstrates that 31% of consumers who are aware of CR believed that companies honestly performed CR activities while 38% of the consumers believed that most of the companies spoke about CR activities but actually do nothing, and 31% believed that CR was just to increase publicity.

People in general are aware of the importance of CR activities to companies and that it has to do with the company’s own good as well (and not only society’s
good) where 56% believe that CR is important to companies because it enhances company reputation, 52% believe that it gives companies economic and tax benefits, and 42% believe that CR gives companies a competitive advantage. On the other hand, 54% believe that companies do CR activities just for philanthropy.

**Figure 4: Factors of importance to consumers and textile companies’ performance**

<table>
<thead>
<tr>
<th>Factor</th>
<th>Highest priority top 2 boxes</th>
<th>Highest performance top 2 boxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Whether or not its employees have the right to unionize</td>
<td>53%</td>
<td>71%</td>
</tr>
<tr>
<td>Being involved in charitable and philanthropic activities in the community</td>
<td>53%</td>
<td>71%</td>
</tr>
<tr>
<td>Ensures employees’ rights</td>
<td>55%</td>
<td>73%</td>
</tr>
<tr>
<td>Being environmental friendly using modern practices</td>
<td>56%</td>
<td>74%</td>
</tr>
<tr>
<td>Being financially sound</td>
<td>57%</td>
<td>75%</td>
</tr>
<tr>
<td>Conducting constant research and innovations to improve products</td>
<td>63%</td>
<td>78%</td>
</tr>
<tr>
<td>Their products or services are of top quality/reliable</td>
<td>82%</td>
<td>80%</td>
</tr>
<tr>
<td>Has health and safety measures that minimize workplace accidents</td>
<td>98%</td>
<td>80%</td>
</tr>
<tr>
<td>Offering quality products at reasonable prices</td>
<td>100%</td>
<td>88%</td>
</tr>
</tbody>
</table>

Consumers’ top priorities regarding any textile company are mainly involved with the quality and the improvement of their products, followed by the company being involved in charitable and philanthropic activities in the community and taking care of its workers’ rights.

On the other hand, consumers seemed to be satisfied with the performance of public textile companies. 88% of consumers believed that public textile companies offer good quality products at a reasonable price. 73% of the consumers believed that public textile companies are performing well on taking care of workers’ rights. This percentage was significantly higher among Delta consumers.
CR does not appear to be a very influential factor in consumers’ decision to buy products, where only 54% claimed that they will pay premium prices for products of a company that engages in CR activities, however, it is worth mentioning that SEC AB showed significantly higher tendency to pay a premium price (75%). Moreover, only 21% claimed that they would deliberately look for a product/service that is offered by a socially responsible company.

*Figure 5: Environmental factors importance to consumers and textile companies’ performance*

<table>
<thead>
<tr>
<th>Environmental Factor</th>
<th>Highest priority top 2 boxes</th>
<th>Highest performance top 2 boxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Providing eco-friendly packaging</td>
<td>63%</td>
<td>78%</td>
</tr>
<tr>
<td>Having an efficient waste disposal system</td>
<td>82%</td>
<td>75%</td>
</tr>
<tr>
<td>Having an environmentally friendly manufacturing process</td>
<td>98%</td>
<td>77%</td>
</tr>
<tr>
<td>Using environmentally friendly supplies</td>
<td>100%</td>
<td>77%</td>
</tr>
</tbody>
</table>

Consumers gave relatively moderate scores to the public textile companies’ performance compared to the scores given to the importance of the environmental factors indicating their low satisfaction with their performance.
Chapter V

Conclusion

Enhancing corporate responsibility in the Egyptian textile sector

This study has found that the overwhelming challenges facing the textile industry require an approach that goes above and beyond compliance to voluntary codes and commitments. There are fundamental deficiencies that require the government’s intervention in ensuring equal opportunities and fair competition, and in creating an environment conducive for the social and environmental improvements needed. While the private sector certainly needs to take action to that end, public policy and government intervention is also needed to control practices in the industry through setting the appropriate policies and guidelines for companies. This will begin to formalize a major industry sector in a country where many of the textile companies operate without a license and without having any form of regulation whatsoever. There is a need to create a heterogeneous policy that creates inducement for all businesses that entices companies to operate legally and acquire permits, rather than the current one where these measures incur costs without offering any perceived benefits. The government will need to develop a comprehensive policy framework and a national agenda for sustainability in the textile industry to address gaps in social and legal issues while also increasing the competitiveness of the industry in the global market. This will need to be done through and reinforced via the effective monitoring and implementation of these policies.

The textile industry in Egypt has been, and continues to be, driven by MSMEs. These MSMEs are also one of the biggest employers in Egypt, with thousands of Egyptians depending on the sector for their livelihood. However, the sector is suffering due to a substandard regulatory environment and an increasingly competitive global textile
market (particularly in Asia, as the top five low-cost textile exporters are China, Taiwan, South Korea, India, and Pakistan). This has made it difficult for the local textile industry to expand or sustain itself, with exports steadily pushing them out of business. That is why addressing sustainability issues in the Egyptian textile industry and working towards increasing the inclusivity of MSMEs is not only a matter of enhancing the sector; rather it is essentially an effort that is to be focused on survival. The sector’s very existence is under threat, and with the current trajectory - without fundamental changes to the way things are being done – that existence is destined to crumble under the mounting challenges.

Any intervention that seeks to produce realistic solutions to the challenges at hand have to address the pandemics of the industry as well as offer a new model for doing business; a model which will likely entail tapping into new markets and directly dealing with the problematic functions that this industry suffers from.

This is not to be a rights-based business enhancement of the sector’s sustainability management. Rather, this should be introduced and viewed as an alternative business model that will work towards the survival of the sector through the creation of routes to new markets, and through reforming the business model so that it engages all the stakeholders and improves the productivity and efficiency of the sector. Such measures would ensure that fundamental changes be implemented to handle the current risk. This entails a comprehensive risk management approach, and this aspect should be the sector’s primary focus with regards to its sustainability management approach.

The textile industry's challenges need to be effectively addressed and its regulatory framework overhauled, not only to the benefit of those working in the industry, but the country at large. The impact of this sector in Egypt cannot be understated, with its deep traditions and decades of success having become an integral part of Egypt’s socio-economic underpinning. In post-revolutionary Egypt, where people continue to call for inclusivity, economic empowerment, and entrepreneurship, the textile sector has immense potential to provide and make an impact on Egyptian
communities. It is a sector that is employability intensive, and continues to be an important economic tool for the country. That is precisely why the sector’s management approach needs to be inclusive of MSMEs, which is the area with the highest potential for high-impact change, given that they make up the overwhelming majority of the local sector, as well as employing most of the sector’s work force. Thus, sustainability management in this particular case is about saving an industry that is direly needed by Egypt and its people.

MSMEs need to re-evaluate how they do business and align their practices with global guidelines and standards in order to integrate themselves in the economic cycle of the global market. Effectively integrating these entities into the economic cycle has the potential for a vast impact for the sector, the country’s economy, and for the thousands of workers. For this to be done effectively, cluster development programs should be developed to ensure adequate outreach to a large number of MSMEs. This will also require constructive stakeholder engagement and dialogue between the companies, the workers, and the appropriate government agencies involved in the industry. Furthermore, MSMEs need to be engaged in workshops, awareness seminars, and training programs to improve their skills, make them knowledgeable in sustainability issues, and prepare the companies to tap into new markets.

With this in mind, we are setting up an implementation program for the sector’s sustainability management with the following focus areas:

- Overhauling and enhancing the regulatory environment,
- Creating an inclusive way of engaging with micro-, small-, and medium-sized enterprises,
- Creating pathways to new markets and ethical products.
Focus Area I: Regulatory Framework and an enabling environment in the textile sector

Corporate responsibility is a voluntary commitment by companies to go beyond compliance, and this study has concluded that voluntary codes in Egypt’s current business climate, labor culture, and level of public awareness are ineffective tools. It has been expressively evident throughout conducting this study that the textile business environment in Egypt is facing significant challenges such as: bureaucracy, data scarcity, corruption, weak regulatory systems, lack of funding for CR programs, labor culture, legal and environmental non-compliance, and the absence of a national CR strategy and sustainability policy. CR in Egypt has thus far been driven by the private sector, which is a part of the global supply chain. However in order to see CR widely practiced throughout the industry and effectively contributing to comprehensive development, the government needs to take an interventionist approach and promote an enabling environment to encourage companies to fulfill their social and environmental obligations.

Public policy is a critical factor in working towards promoting CR in the textile industry, and in encouraging private textile companies to adopt CR practices. The private sector is willing to take the initiative, but the government needs to step in to regulate, monitor, and control practices in the industry. The private sector is seeking a fair business environment where all companies in the textile industry are operating legally, have acquired permits to operate, and are at least complying with the applicable national laws and regulations. Companies visited clearly expressed the dire need for policies and guidelines for social responsibility to ensure equal opportunity and fair competition. Furthermore, they stated that the risk of economic losses, and the loss of competitiveness due to electing to operate in a socially and environmentally responsible manner while other companies in the industry are practicing without a license to operate (without any legal obligations and regulatory requirements) are major deterents to engaging in or expanding corporate responsibility initiatives. In addition, in an industry that is seeking a high degree of export orientation while at the same time facing fierce competition in the local
market from products coming from the Far East, and where consumer pressure and civil society are not yet fully developed, it requires further action from the government to take necessary measures.

This study concludes that for CR to be beneficial for both business and development, as well as be feasible, the government needs to play an effective role. It needs to design an industry related sustainability policy, which entails designing a comprehensive policy framework related to development. This entails adopting policy instruments to address economic, legal, and educational issues to support the private sector’s endeavors to practice in a responsible manner. This includes developing policies such as: trade policy, export and import policy, sustainable development policy, environmental policy, energy policy, and social policy. The government also has to ensure the proper monitoring and effective implementation of these policies in order to reduce the risk of economic losses or competitive disadvantage; and to encourage companies to operate in a responsible manner and engage in environmental and social initiatives. The government should design and implement policies to encourage CR practices and enhance national and international competitiveness; that is, the government needs to play the role of a regulator, a facilitator and a supporter.

- **Regulating:** Ensuring legal compliance with regulatory requirements, monitoring and controlling performance, strict law enforcement, and penalties for non-compliance.

- **Facilitating:** Tax incentives, technology transfer, funding CR projects, guidelines and codes, raising awareness and capacity building.

- **Supporting:** Recognition, awards, demonstrating success stories, and encouraging leadership.

**There are three approaches to achieve the desired results:**

- Educational approach (capacity building and raising awareness)
- Capacity building in the private sector (trade unions, private companies)
- Capacity building in civil society (NGOs)

- Legal approach (building a regulatory framework, strict enforcement of laws and regulations)
  - Capacity building in the government and reinforcing governance framework (enforcing the laws, strengthening monitoring and controlling)

- Economic approach (incentives, tax deductibles, recognition, awards)

**Actions that needs to be taken:**

- Develop a national agenda for CR in the textile industry,
- Establish an interagency discourse with existing government agencies such as trade chambers, textile chambers, and textile export councils,
- Constructive stakeholder dialogue between businesses and workers through their respective representatives, being labor unions, textile chambers, and NGOs,
- Conduct workshops and sessions to raise awareness on CR and how it relates to the industry and benefits both employer and worker,
- Agree on binding guidelines/standards for social and environmental performance,
- Integrate CR into education: work with the Ministry of Education to integrate CR concepts into education and approach special textile schools and technical schools to integrate CR into their curriculums,
- Fiscal policies/incentives: carry out dialogue with the tax department on tax incentives for corporate responsibility and community giving,
- Apply industry-led certification schemes, and
- Design a comprehensive regulatory framework.
<table>
<thead>
<tr>
<th>Issues</th>
<th>Policy and Action Needed</th>
<th>Responsibility</th>
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</thead>
<tbody>
<tr>
<td>Absence of a comprehensive CR strategy for the sector</td>
<td>Corporate responsibility/sustainability policy</td>
<td>ECRC, Ministry of Industry and Trade</td>
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<tr>
<td>Absence of a license to operate</td>
<td>Monitoring and control</td>
<td>Government, Industrial Control Authority</td>
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<td>Penalties for operating without a license</td>
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<td>Bribery</td>
<td>Anti-corruption/anti-bribery policy</td>
<td>ECRC, Government</td>
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<td>Whistle blowing policy</td>
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<td>Penalties on illegal practices</td>
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<td></td>
<td>Penalties on legal and environmental non-compliance</td>
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<tr>
<td>Weak regulatory system</td>
<td>Policies to ensure effective monitoring and control</td>
<td>ECRC, Government</td>
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<tr>
<td>Legal non-compliance</td>
<td>Strict enforcement of labor law</td>
<td>Government, Ministry of Labor</td>
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<td></td>
<td>Charges for non-compliance</td>
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<tr>
<td>Environmental non-compliance</td>
<td>Waste disposal policy</td>
<td>Government, Ministry of Environment</td>
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<td>Energy policy</td>
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<td></td>
<td>Penalties for not complying with environmental laws</td>
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<tr>
<td>Tax and insurance evasion</td>
<td>Fiscal policies for tax incentives for CR and community initiatives</td>
<td>Government, Tax Department</td>
</tr>
<tr>
<td>Standards and Guidelines</td>
<td>Binding guidelines and standards (Global Compact, OECD, ISO 26000)</td>
<td>ECRC, EOS</td>
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Focus Area II: Inclusivity for MSMEs

What will responsible practice (corporate responsibility) add to MSMEs in the textile sector, and how will it address their challenges and benefit their businesses?

Integrating business sustainability into MSMEs has become imperative now for the survival of the industry, it is no more a choice; it is no more a business luxury, it has become a prerequisite in the field of international business. In Egypt, responsible business practice is becoming inseparable from the continued existence and sustainability of MSMEs. However, government encouragement and mandate is required to support the industry and realize the desired growth and development. Today’s progressive MSMEs understand what it means to be responsible, and how this contributes to the welfare of the business. It has become certain that a responsible, accountable, and transparent business is a more sustainable business than one that is without these attributes. MSMEs in Egypt have yet to see the benefits of operating in a sustainable manner; there needs to be a business case for them to believe in integrating corporate responsibility practices into their day-to-day operations. Corporate responsibility initiatives and measures such as environmental management, eco-efficiency, stakeholder engagement, responsible sourcing, responsible marketing, product responsibility, labor standards, working
conditions, employee and community relations, gender diversity, human rights, good governance, and anti-corruption measures, when well managed and properly implemented, can bring along a variety of competitive advantages and bring in profits and benefits that companies may not initially be aware of. Egyptian MSMEs need to be aware of this and need to be encouraged to do so and this requires increased awareness and an enabling environment. So far, SMEs in Egypt perceive corporate responsibility as an added cost that depletes company resources. And although it has become a mandatory condition for exporting to the international market and becoming part of the global supply, Egyptian MSMEs still fail to see it as a positive change. This may be because most of the MSMEs producing for the international markets are actually exporting to small companies in undeveloped markets in Africa, the Middle East, and the Near East.

However, in order to gain business opportunities and get access to mature and sustainable markets, MSMEs will have to operate in compliance with international standards and regulations, observe product safety, environmental sustainability, and address social and community-related issues.

There are a number of necessary measures that have to go into the equation in order to successfully reap the benefits of sustainability for MSMEs in particular and society as a whole:

- Creating an enabling environment (policies reforms, effectively functionalize institutions, and building capacities)
- Raising awareness of MSMEs to CR’s benefits
- Building a business case to create a model that is attractive to MSMEs and creating economic drives
- Making available sustainable sources of financing for sustainability initiatives for MSMEs
- Creating routes to new markets

This study identified common features of MSMEs, major challenges, potential solutions, and means for maximum outreach. It also touched upon the economic position of MSMEs and the market vacuum. In order to move forward and put in place a feasible action plan, three main areas need be addressed in parallel with MSMEs’ upgrade and modification intervention:

- Effective functionalization of the industrial development and industrial monitoring authorities,
- Government support and mandate,
- Effective enforcement of the law.
Common Features of MSMEs

- MSMEs are clustered in industrial cities
- High degree of informality and lax business establishment measures
- Absence of a unified classification for MSMEs
- High degree of dependance on imported raw material
- MSMEs are family owned: economic, social and environmental performance depends highly on the owner’s personal values and capabilities
- Lack of unified standards of product quality and implementing processes

Major Challenges facing MSMEs

MSMEs suffer almost the same challenges the whole industry is facing, however, such challenges have a far larger impact on their ability to grow their business and expand. Unless serious intervention and regulation by the government is exercised, the larger part of this industry is in serious danger. The following are the major challenges threatening the industry:

- Difficulty to access the global market due to low quality and lack of knowledge of the international market and its requirements,
- Weak regulatory framework,
- Absence of control over market regulations,
- Distorted understanding of internal laws and regulations by textile companies
• Inability of local producers to commit to business agreements and international specifications and standards due to such as low levels of education, low productivity, labor incompetency, high labor turnover, and labor culture,

• MSMEs are at a competitive disadvantage in the local market; they are unable to compete against products from both the Near East and that Far East that are flooding the local market with higher quality products at lower prices,

• Scarcity of skilled labor,

• Labor culture,

• Labor laws, that companies claim favor the worker

• Corruption on both the macro and the micro levels,

• Limited sources of finance and especially for sustainability initiatives, making it difficult for MSMEs to grow and expand their business. Financial institutions are reluctant to lend MSMEs due to the high risk associated,

• High cost of local raw materials,

• Lax enforcement of the law,

• Lack of transparency,

• Bureaucracy,

• Absence of government support to promote sector development, and
• The existence of an informal illegal sector with companies operating without permit to operate.

**Responsible practice and its return on MSMEs**

Competition has become inevitable; Egyptian companies need to keep up with international competitors. Textile companies of all sizes and composition that do not operate in a sustainable manner will be at a competitive disadvantage, and will miss on business opportunities—they will simply lag behind. Responsible practices developed over the years to expand and encompass external and internal spheres of influence on its stakeholders and the environment. The sustainability of businesses and the textile industry in general depend greatly on the extent of its responsiveness to the increasing global demand for responsible businesses and ethical products.

To achieve the desired outcome and enhance the performance of MSMEs, addressing issues related to environmental and social performance, resource management, product responsibility and transparency and accountability is crucial.

The future of MSMEs depends greatly on what measures will be taken today to support and enhance the industry. There needs to be a new vision towards a profound integration of MSMEs into the local and global supply chain to achieve a more inclusive model. This will need a) redefining business implementation methods and priorities, and b) carefully aligning them with global guidelines and standards. In order to achieve this inclusive model, it is imperative to address four
main focus areas: a) transparency and accountability of companies, b) product responsibility and product safety, c) resource management, and d) environmental and social performance.

**Direct interventions addressing the four main areas:**

- Transparency and Accountability (T&A)
- Product Responsibility (PR)
- Resource Management (RM)
- Environmental Performance and Social Responsibility (ENP and SR)

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<thead>
<tr>
<th>Aspect/Issue</th>
<th>Issue</th>
<th>Action</th>
<th>Responsibility</th>
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</thead>
<tbody>
<tr>
<td><strong>Transparency and Accountability</strong></td>
<td>Unavailability of funds for SMEs to carry out environmental initiatives</td>
<td>Improve Access to capital</td>
<td>DFI, Banks, ECRC, philanthropic funds and donors</td>
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<td></td>
<td>Unavailability of accurate data</td>
<td>Proper data compilation and data tracking</td>
<td>Industrial Control Authority</td>
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<tr>
<td><strong>Product Responsibility</strong></td>
<td>Lack of awareness on CR and how it relates to product responsibility and consumer health</td>
<td>Awareness programs and workshops</td>
<td>ECRC and industrial Control Authority</td>
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<tr>
<td></td>
<td>Scarcity of skilled labor</td>
<td>Coherent educational and vocational training system</td>
<td>Government</td>
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<tr>
<td></td>
<td>Lack of innovative solutions to gain access to market of ethical</td>
<td>Innovation programs</td>
<td>ECRC</td>
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<tr>
<td>Resource Management</td>
<td>Environmental Performance</td>
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<tr>
<td>Lack of quality standards and lack of monitors and controls over product quality</td>
<td>High cost of implementing environmental initiatives</td>
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<td>Routine monitoring and evaluation calls</td>
<td>Centralized service utilities for clustered enterprises</td>
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<tr>
<td>ECRC and Industrial Control Authority</td>
<td>Government, NGOs, INGOs, ECRC</td>
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<td>Lack of awareness on CR and efficient use of resources</td>
<td>Ineffective monitors and controls</td>
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<tr>
<td>Awareness programs and workshops</td>
<td>Routine monitoring and evaluation calls</td>
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<tr>
<td>ECRC</td>
<td>Government, Industrial Control Authority, civil society, industry</td>
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<tr>
<td>Lack of ability of SMEs to incur costs of solutions for efficient use of energy individually</td>
<td>Absence of a coherent understanding between employees and employers</td>
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<tr>
<td>Service utilities for clustered enterprises</td>
<td>Carry out constructive dialogue amongst stakeholders on workers rights’ and obligations, benefits, working conditions</td>
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<tr>
<td>Government, ECRC</td>
<td>Government (labor office), and labor unions, representatives of business community</td>
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<tr>
<td>Lack of knowledge of innovative solutions to promote efficient use of resources</td>
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<tr>
<td>Innovation programs and technology transfer</td>
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<tr>
<td>ECRC</td>
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Lack of awareness on CR in general, hence absence of industry initiatives to create educational and training opportunities for the community

Coherent educational and vocational training system

ECRC

- **Awareness programs, workshops and training seminars:**
  
  a) Raise awareness on industry related international codes and standards,
  
  b) Raise awareness on technology transfer,
  
  c) Raise awareness on product safety and product responsibility,
  
  d) Raise awareness on effective stakeholder engagement,
  
  e) Raise awareness on ethical environmental practices and efficient use of energy and resources.

- **Establish improved access to capital:** Dialogue between stakeholders to facilitate access to capital for MSMEs for specific environmental and social initiatives to assist them in enhancing their social and environmental performance.

- **Enhanced education and vocational training:** a) government support and encouragement of companies to improve their social capital and provide technical training to help qualify workers for industry needs and qualifications, and b) collective efforts of MSMEs to create business clusters to provide necessary training to enhance labor performance to meet international standards.

- **Create centralized service utilities for clustered enterprises:** a central service utility in the industrial zones to improve environmental performance,
waste management, energy efficiency, resource management, capacity building, and cost efficiency.

- **Innovation and Technology transfer**: facilitate technology transfers in order to improve environmental performance and ensure higher product quality and product safety.

- **Labor rights**: Poor working conditions and lack of employee engagement in decision-making also negatively affect the overall performance of the industry. Improving working conditions will positively affect quality and productivity.

- **Stakeholder’s engagement**: hold constructive dialogue with various stakeholders (government, business owners, customers, NGOs, regulatory entities, and unions) to close existing gaps, align efforts, face existing challenges, and maximize business opportunities.

- **Accurate database**: Establish an accurate database of textile companies in order to eliminate the informal sector, avoid illegal operations, and facilitate monitoring and control.

- **Effective monitoring and control**: Government authorities such as the Industrial Control Authority and Industrial Development Authority should ensure effective monitor and control of set KPIs and/or national laws and regulations; fines must be a strong deterrent to non-compliance of the laws.

**Outreach and Potential Outcomes**

Most importantly is how to best reach MSMEs. Promoting Cluster Development Programs (CDP) would be one ideal way to reach the larger number of MSMEs through the assistance of civil society and the government municipality offices. It has been proven through many studies and practices that collective efforts will better achieve major developmental targets. Collective efforts will result in more feasible solutions and increased benefits in many respects:
• Reduced operational cost,
• Improved overall image of MSMEs,
• Improved access to capital,
• Improved brand image and reputation,
• Improved access to international markets,
• Lower employee turnover,
• Optimized operational risk management,
• Increased market transparency and lower corruption,
• Increased business opportunities,
• Increased labor productivity, and
• Improved product quality.

Focus Area III: Route to market and ethical products:

Due to intense competitiveness and the large profits garnered by the textile industry, businesses all over the world had been established under unethical conditions. However, for the past two decades, consumer awareness grew substantially as people started to take notice and even boycott big businesses that demonstrated a lack of ethical behavior. A “fair trade” movement was created as a part of this and it promotes international standards of ethical production, labor, and environmental policies in the trading of textile goods and commodities. Ethical consumerism is steadily on the rise, which is evident with the rapid growth of sales worldwide of human, fair trade, and ecologically friendly goods.

As raw materials worldwide are largely the same, one of the major ways companies have saved production costs has been through reducing labor costs by providing low wages and substandard working environments. However, consumer organizations have been putting considerable emphasis on social responsibility aspects, and standards such as the Global Organic Textile Standard (GOTS) have come to include social responsibility as a core criterion. This includes that wages must be enough to secure a decent life for workers, there must be no discrimination between workers,
no child labor, and safe-working environments must be guaranteed. In Egypt, the social side of ethical production is the most material.

To highlight the extent to which the demand for ethical products has increased over the years, a report from Co-Operative Group—based in the United Kingdom—shows that by 2011 the total market in Britain for ethical consumer goods and services had reached 76.7 billion USD. This is even more impressive when considering that in 1999, that number was only 21.9 billion USD, which illustrates how rapidly this trend is growing in international markets. In Egypt, the study demonstrates how the Egyptian consumer and worker are becoming increasingly aware of their rights and are becoming more active stakeholders in their demand for a better workplace and a more ethical product. There is growing concern over the companies’ environmental and social footprints. Consumers and workers are no longer silent stakeholders in the post-revolutionary Egypt.

Across all sectors in the global market, there is an enormous and still growing market for ethical business practices and behavior, and the textile industry is no exception. Ethical productions must encompass the entire lifecycle of textile products, starting from the raw materials through to the finishing and distribution processes. However, there is little focus on this area in Egypt, despite the fact that the country faces numerous developmental challenges. This creates a situation where there is a potential win-win factor in addressing social issues within the sector: by both improving ethical behavior and engagement with workers, thus increasing worker productivity and loyalty, and at the same time by creating a strong narrative of ethical practice to be utilized in tapping into new markets, and marketing the local industry. This requires gaining access to the right markets that are concerned with workers’ rights and responsible practice, which requires tapping into the right networks and making the appropriate deals to enable the payment for the implementation of such programs. Currently, only the top companies are engaged in such areas, but engaging MSMEs will help create a new business model for them with huge potential impact on the sector, even if this engagement comes in
the form of consortia. Since MSMEs do not have the sufficient networks for this, there will need to be a catalyst from elsewhere to ignite this venture.

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<tr>
<th>Issue</th>
<th>Action needed</th>
<th>Responsibility</th>
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| Limited network for MSMEs and lack of knowledge of ethical markets and their demands | Create a service center to: 1) link SMEs to global ethical markets through individual contracts or clustered services to ensure their ability to provide volume  
2) Certify ethical practices and ensure creating brands that will generate market demand with global suppliers | Chamber of Textiles in cooperation with international organizations such as the Danish Federation of Industries. |
Annex I: Companies’ Questionnaire

This study is intended to highlight issues and opportunities in the textile sector in Egypt, and to set a sustainability strategy, both on the macro and the micro levels, that will enhance competitiveness of the sector domestically and globally and promote sustainable growth and development.

The questionnaire aims at assessing the existing situation in terms of awareness and application of corporate responsibility in the sector.

General

1. What is your perception on CR?
2. Do you integrate ESG principles into your business?
3. Is there a CR strategy?
   a. If yes, how is it integrated?
   b. If no, would you be interested in integrating it?

If YES, answer questions 4 to 7, if NO go to question 8
4. Is there someone responsible for promoting/managing CR?
5. Are there any recognition and/or reward schemes in place to encourage personnel to adopt CR practices?
6. Has the company joined any initiatives to improve/promote CR compliance or gain accreditation (e.g., UN Global Compact)
7. Does the company promote awareness of CR to employees?
8. What are the challenges and opportunities?
   a. Social
   b. Environmental
9. Do you believe integrating environmental, social and governance principles into the business strategy would strengthen the company’s productivity and innovation capabilities?
10. Which one would you give more priority?
    a. Governance
    b. Human rights
    c. Labor rights
    d. Environment
    e. Community
    f. Value chain
    g. Consumer satisfaction
    h. Occupational health and safety
11. Are there any management systems in place to ensure compliance (e.g., ISO9000, ISO14000, ISO26000, SA8000, HACCP)?

If NO, Are you planning to have one?

12. Are there any company policies or guidelines that set standards higher than those required by law? (E.g., any codes or principles of customers, brands, associations)

If YES, answer questions 13 to 15, if NO, go to question 16

13. What are they?

14. How often does management review the adequacy and effectiveness of company policies, procedures and performance results?

15. How does the company communicate key policies and procedures to all personnel?

**Laws and regulations:**

16. Have you been fined for non-compliance with the laws and regulations concerning:
   - a. Fire department
   - b. Labor law (working hours, wages, overtime, child labor)
   - c. Social insurance
   - d. Industrial Health and Hygiene
   - e. Rehab of Disabled Law

**Stakeholder dialogue/reporting regarding CR performance**

17. Does the company engage with stakeholders for improving business performance formally and regularly? Is there an engagement approach?

18. Does the company carry out a stakeholder mapping and prioritization exercise?

19. Does the company routinely ask its stakeholders how it is perceived in relation to CR or ask them how it can improve its performance in relation to key social and/or environmental issues?

**Workplace**

20. Are there occupational health and safety policies and procedures in place?
21. Do you have a health and safety officer at production plants and/or office premises?

22. Is there a system in place to detect, avoid and respond to potential threats to health and safety of all personnel?

23. Do all personnel receive regular and recorded health and safety training?

24. Do you have a fire fighting plan and training?

25. Do you have smoke detector, fire alarm and automatic sprinkler system?

26. Do you have a water tank to be used in case of fire?

27. Does an independent union represent your workers? If so, is there a collective agreement? If no, why not? Are there workers’ groups, committees or other similar mechanisms for negotiation with management?

28. Are there procedures in place to ensure management effectively address and respond to concerns of employees (grievance procedures)?

29. Do workers have the opportunity to file a complaint anonymously? Is there a process in place to ensure this operates effectively?

30. Do you have documented equal opportunities or anti-discrimination policies or procedures?

31. Do you have documented disciplinary procedures? Is it in accordance with labor laws?

32. Are working hours less than 48 hours per week or less than/equal to the national legal maximum hours?

33. Do you give your workers a one-hour break during the working day?

34. Is all overtime work always paid at a premium as per national labor laws?

35. Does the company pay workers a national minimum wage or union-agreed wage level? Please detail what the minimum wage is.

36. Does the company policy include some benefits, allowances and/or programs to help its employees socially? (Marriage grant, newborn grant, school grant)

37. Have you been fined for non-compliance with laws and regulations concerning the provision and use of products and/or services?

38. Do you have policies/guidelines regarding responsible and fair marketing of your products/services?

39. Do you have any initiatives to potential health and safety or environmental risks arising from the use of your product or services above and beyond the legal requirements? (Consumer
labeling, information campaigns)

40. Do you market any products for their additional environmental or social benefits?

41. Is the company a part of a multinational and/or foreign textile company supply chain?

If YES, answer questions 42 to 45, if NO, go to question 46

42. What are the social and/or environmental issues you have/had to implement?

43. Do you have to be in compliance with any kind of environmental or textile standard?

44. Do you have to be inspected by your importer/buyer?

45. Do you have to have any certificate to be qualified as a part of their supply chain?

Business partners/suppliers

46. Are there appropriate procedures in place to evaluate and select suppliers and subcontractors according to their social and environmental performance?

47. Do you engage with suppliers/business partners to encourage them to adopt standards in relation to labor, human rights and the environment?

48. Do you have an anti-bribery/anti-corruption policy in place with business partners and suppliers?

49. Do you provide a “whistle-blowing” facility? (The means for business partners and others to report incidences of bribery and corruption)

Environment

50. Do you have a cleaner production approach? (Prevent, minimize, reuse and recycle)?

51. What are the potential opportunities from implementing cleaner production?

52. What are the challenges accompanying implementation of a cleaner production?

53. Have you been fined for non-compliance with environmental laws?

54. Do you have Environmental Register (ER)?

55. Do you have an environmental policy in place?

56. Do you have a resource/waste management policy in place?

57. What kind of environmental problems do you face:
   a. Noise
b. Gas emission
c. Industrial water treatment
d. Airborne particles
e. Chemicals, toxic and/or hazardous waste disposal
f. Others

If YES, answer questions 58 to 61, if NO go to question 62

58. Do you have systems in place to ensure efficient use of resources? Water or energy consumption?

59. What are the production processes, systems and technologies in place to ensure efficient use of resources?

60. Are there any action plans to reduce water waste? Are there any water treatment plants?

61. Are there any action plans to reduce greenhouse gas emissions?

62. Are there any action plans to reduce waste?

63. Are there any systems to treat or adequately dispose of waste?

64. Do you deal with chemicals or have toxic waste?

65. Are there any systems to treat or adequately dispose of hazardous waste?

66. Are there any safety measures in place to prevent leaks, spills or fires in the storage, use of handling of chemicals in liquid, solid or gaseous states? (if applicable)

67. Are employees trained on the storage, handling and disposal of chemicals?

68. Are there any systems to treat or adequately dispose of toxic waste?

69. Are there any action plans in place to reduce energy consumption?

If NO, have action plans to reduce energy consumption been contemplated?

70. Do you have measures in place to encourage employees to recycle equipment/paper, reduce paper/electricity usage, or cut down on business travel?

71. Are there noise reduction systems within the plant?

72. Are there measures in place to minimize disruption/noise from traffic to and from the plant?

73. What standards, local, international, or self-developed codes do you comply with?

74. Do you take any measures to protect biodiversity?

75. What kind of protective clothing and/or equipment do you provide your employees, if any?
Community

76. Does the company take an active role in addressing key issues affecting the sector in terms of public policy and lobbying?

77. Do you have charitable activities/community initiatives?

78. Do you make any *ad hoc* cash or in-kind (e.g., products, use of premises) contributions to support the local community?

79. Do you make any longer-term community investments (e.g., supporting education, health, environment)?

**If YES, answer questions 80 to 83**

80. Do you have set criteria for selecting which community projects to support?

81. Does the company carry out community initiatives linked to its core business? Or are they *ad hoc* activities?

82. Are employees given the opportunity to participate in community initiatives carried out by the company and do you encourage employees to volunteer in the community?

83. Do you have systems in place to measure the impact/effectiveness of your community activities?
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