

**CONDITIONS TO AUTHORISE  
SUBCONTRACTING IN THE  
FASHION AND APPAREL  
INDUSTRY-  
A BRANDS' PERSPECTIVE**

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**Title:** Conditions to authorise subcontracting in the fashion and apparel industry – a brands' perspective

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## **Abstract**

In current supply chains, the context of subcontracting is majorly connected to unauthorised subcontracting with negative conjunction which has created the fear of discussing subcontracting. However, previous research presents subcontracting as a common practice within fashion and apparel supply chains, however, nearly no study has focused on elaborating the authorisation process. Therefore, this thesis explores the potential of authorising subcontracting to bring benefits for fashion and apparel brands, and aims to identify conditions from a brand's perspective which need to apply for the authorisation process. Underpinned by the social exchange theory, circumstances within buyer-supplier relationships are discussed in which the ideal balance of power-dependence may lead to an open and effective communication environment for the treatment of subcontracting. Empirical data is collected through seven interviews with a qualitative research outlook. This revealed the significance of buyer-supplier relationships within which honesty, trust and transparency are building the basis for the discussion of subcontractors. Moreover, the findings further indicate that brands may have the benefit of having better capacity availability, more effective lead times, and the potential to have a broader production specialisation when embedding and authorising subcontractors. However, the conditions of keeping full control of the subcontracted production needs to be ensured by the brand directly or through the supervision of the tier 1 supplier to ensure high production quality standards. This study provides a starting point to understand the process of communicating and authorising subcontracting within brands and tier 1 suppliers which provides worthwhile insights for scholars and practitioners. From a theoretical perspective, this research aims to highlight the positive aspects of subcontracting for brands while leading the research stream towards the context of authorising subcontracting which has been lacking so far. In addition, from a practical perspective, this study aims to support brands and additional stakeholder groups in understanding and supporting the authorisation process. This may be the solution to tackle the issue of unauthorised and hidden subcontracting within the fashion and apparel industry.

**Keywords:** fashion and apparel industry, supply chain management, social exchange, buyer-supplier relationship, subcontracting, unauthorised subcontracting

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# 1 Subcontracting in the fashion and apparel industry

## 1.1 Background on supply chain dilemmas in relation to subcontracting

In terms of subcontracting, the three main dilemmas which are the negative conjunction to unauthorised subcontracting (Caro, Lane and Cuenca, 2020), the lack of transparency and traceability in global supply chains (Garcia-Torres et al., 2019), and the missing potential to identify the risk of unauthorised subcontracting (Bair, Anner and Blasi, 2013) are mainly discussed. These are building the basis for highlighting the existing issue and the background for this research and are further aligned below.

Although more investments have been arranged for sustainable compliance, multiple brands have been connected to scandals related to breaches in their sustainability claims (Bair, Anner and Blasi, 2013). This issue can predominately be seen when sourcing from emerging countries with low regulatory standards (Khurana and Ricchetti, 2016; Garcia-Torres et al., 2019). According to the literature, the main reason for its occurrence may be the lack of focus of brands on the environmental and social pillars at down- and upstream stages in supply chains (Garcia-Torres *et al.*, 2019). It has led retailers to be exposed to severe reputational risks and consequences, especially when being connected to scandals bearing the keyword unauthorised subcontracting (Busse et al., 2016; Khurana and Ricchetti, 2016; Caro, Lane and Cuenca, 2020; Caro, Lane and Sáez de Tejada, 2021). For instance, the Rana Plaza incident in 2013 in Dhaka, Bangladesh has led to the death of 1,129 workers after the collapse of the factory buildings (Bair, Anner and Blasi, 2013; Khurana and Ricchetti, 2016; Caro et al., 2018; Caro, Lane and Cuenca, 2020; Caro, Lane and Sáez de Tejada, 2021). However, the issue of ambiguity within involved brands' supply chains and involved subcontractors occurred where no full insurance was able to be made on the involved supply chain network and respective production factories (Kerppola et al., 2014). The same phenomenon occurred only three months later in 2013 at the fire outbreak at the Tazreen Fashion factories in Dhaka, Bangladesh where approximately 100 people has lost their life. In this case, products which were found at this factory have been led back to a major fashion brand which originally has placed the order at an authorised supplier (Donaldson, 2015). In the quote below, the public interest on shaming and blaming brands after a global scandal is highlighted by Rico (2012):

*When consumers think of a brand they rarely distinguish between the suppliers, subcontractors and other business partners. In case of violation of ethical or environmental standards they will hold the brand responsible.* (Rico, 2012, pp. 6, 7)

In this sense, when facing global scandals connected to unauthorised subcontracting, brands bear a higher risk of reputational damage than the involved suppliers. According to Bair, Anner and Blasi, the sensitivity of brands being connected to negative publicity related to non-compliance in sustainability claims may be representable through the Achilles heel (2013). Similarly, Plambeck and Taylor (2016) highlight an increased risk for brands to face reputational damage in comparison to suppliers as they are further situated in the spotlight. In addition, Lee, Plambeck and Shao (2009) report brands with high profile status to be more likely to be connected to *name and shame* schemes (Lee and Plambeck 2009) whereas penalties are to be taken by brands even though non-compliances occur at the suppliers' side (Guo, Lee and Swinney, 2016; Plambeck and Taylor, 2016; Caro et al., 2018; Huang, Song and Swinney, 2021). This has led to an increased focus of customers and non-governmental

organizations to investigate in sustainability claims of brands (Plambeck and Taylor, 2016). These factors have had a direct influence in leading sustainable supply chain management to be a core practice where brands are being held responsible for their products related practices and supply chain histories with the risk of bearing unauthorised subcontracting (Carter, Rogers and Choi, 2015; Busse et al., 2016; Khurana and Ricchetti, 2016).

Nevertheless, to be able to surpass the reputational risk connected to unauthorised subcontracting, companies and stakeholders are working towards proactive solution finding. For example Khurana and Ricchetti (2016) and Pureza and Lee (2020) describe the increased focus on corporate social responsibility as well as the identification and development of sustainable alternatives on production practices, especially in developing countries. In addition, NGOs and other stakeholder groups are increasingly working collaboratively through certifications and schemes towards sustainable working habits. This includes pioneers such as the Greenpeace DETOX solution commitment, the Sustainable Apparel Coalition, the Fairwear Foundation and the ZDHC Group in addressing sustainability related issues while going beyond tier 1 level (Khurana and Ricchetti, 2016).

In terms to supply chain transparency and traceability, a similar request for more product related transparency by customers and NGO's is given whereas brands may find themselves in a struggling position in offering full visibility. According to Wilhelm et al. (2016) and Busse, Meinschmidt and Foerstl (2017), brands face the issue of having a lack of clarity for the production and distribution chain of their products. Reasons for it may be the advent of globalized sourcing practices where suppliers are having long locational distances to the brands and end consumers as well as evolving supply chain complexity up- and downwards with nearly no given visibility beyond tier 1 suppliers, including subcontractors (Boström *et al.*, 2012). This bears the issue and inability of identifying environmental and social related concerning safety circumstances in factories and led companies to be connected with global scandals and tragedies (Busse et al., 2016; Khurana and Ricchetti, 2016; Wilhelm et al., 2016). In addition, high supply chain complexity and poor regulated standards within the fashion and apparel industry may bear difficulties and barriers in fulfilling and guaranteeing the sustainability claims (Garcia-Torres et al., 2019). In the subcontracting context, Lazerson (1990) highlights subcontracting networks of bearing the issue of the cascading effect which is causing an exponential increase on supply chain partners and complexity. In this situation, a supplier is subcontracting parts of the production to another manufacturer who sequentially subcontracts parts to another facility. Through this effect, a multichain of subcontracting is being created where one actor is put into the positions of contractor and subcontractor as one, hence bearing the risk of an increased lack of visibility and traceability (*ibid*).

However, academics highlight benefits of a spatial concentration of manufacturing facilities in terms of supply chain transparency (Lazerson, 1990). This has a positive influence on the cascading effect with the possibility for having a high level of transparency and traceability. Consequently, it enabled the creation of internationally recognised areas such as the Capri knitwear district in Italy or the Toyota City in Japan where the production capability and broadness of specialised know-how is given (*ibid*). In this subcontracting network, the main supplier remains having control and the oversight of the network performances while enabling a joint creation and introduction of new production activities (Kooli, Tiu Wright and Wright, 2010). In recent years, higher levels of transparency and traceability are aimed to be fostered. The European Commission as an example appealed to foster traceability within the fashion and apparel industry in order to reach a better control over divided productions and the identify the potential risk of unauthorised subcontracting (Heinen, 2017).

Moreover, in terms of increased investigation beyond tier 1 level, brands still fail to fully identify subcontracting through the common practices and procedures such as factory audits. However, according to academia, audits may remain insufficient in fully identifying the risk of subcontracting even though the number of audits has been augmented since the occurrence of more and more scandals (Locke, Qin and Brause, 2007; Bair, Anner and Blasi, 2013). According to Plambeck and Taylor (2016), supplier audits are the main source in observing and controlling the responsibility effort at supply facilities which are located in countries with a high locational distance to the brands location. Related procedures in supplier audits are visits at facilities, the examination of documents and interviewing of factory employees (Wong, 2007). In addition, the installation of anonymous whistleblowing set-up in factories is mandatory for suppliers according to brands' guidelines. Nevertheless, consequences on potential reveal of secret information may lead to physical or monetary punishments when being allocatable to specific factory employees which further reduces the potential of identifying unauthorised subcontracting (Egels-Zandén, 2007). This leads to Bair et al. (2013) finding criticism in the approach of brands which play a significant role in the detection process as their proposal of solutions may not fully address the root cause of hidden unauthorised subcontracting.

## **1.2 Different forms of subcontracting as verticalization alternatives**

Subcontracting has been a common practice within fashion and apparel supply chains since many decades. Historically, before the 18<sup>th</sup> century, *putting-out* or *outside production* have been initially used for industrial productions as synonym for subcontracting (Lazerson, 1990; Bair, Anner and Blasi, 2013). Lazerson (1990, p. 1) identifies subcontracting as being “*an alternative form to vertically-integrated production*”, whereas it may also be seen as a process for vertically integrating cross border productions according to Kooli et al. (2010). In the production context, main suppliers are predominately in charge of import and export relations with brands whereas subcontractors are dependent on the main suppliers. This is due to their predominately existing lack of knowledge and capability to operate with brands directly (Kooli, Tiu Wright and Wright, 2010). Moreover, according to Lazerson (1990), a clear distinction of degree of verticalization is being drawn between companies located in Western countries and less developed countries. While Western organizations, here related to buying firms, are majorly having a higher degree of verticalization, manufacturing firms in less developed countries still have a higher share of small sized companies. This required them to outsource parts of the productions to other companies which bear the necessary degree of specialization. In addition, caused by reoccurring economic instabilities, vertically integrated firms have found the favour of shifting parts of the production to other companies. This strategy was mainly used to share risks which were occurring through uncertainties in demands, non-manageable seasonal fluctuations with high inventory costs and inefficient usage of labour (ibid). This strategy of using subcontractors is being recognised as having been the crucial factor for the international recognition and establishment of the countries Italy and Japan related to fashion and apparel productions as explained before (Sabel, 1982; Dore, Taira and Office, 1986; Sabel, Kern and Herrigel, 1989).

In current supply chains, the practice of outsourcing parts of the production is still existing in is referred to the synonym subcontracting (Bair, Anner and Blasi, 2013). In this sense, a subcontractor is being initially defined as a person or company which produces commodities for another company which is in a contractual agreement with a main firm, so-called latter

firm. According to Lazerson (1990, p. 5), subcontracting may find its occurrence when “*the cost of organizing an extra transaction within a firm become equal to the costs of carrying out the same transaction by means of an exchange in the open market or the costs of organising in another firm*”. Nevertheless, depending on the form of subcontracting, the extend, power dependencies, risks in demand and related vulnerabilities may vary. First, in case of specialised subcontracting, a product or service is being provided by the subcontractor as the contractor himself has a lack of specialisation and expertise in producing the good. This type is also occurring when a compartment is being patented or trademarked. In this case, the subcontractor holds a higher level of power with a higher dependence of the contractor on the subcontractor. Second, when making usage of capacity subcontracting, the contractor makes mostly poor investments in machinery and labour while subcontract and level above. The subcontractor bears a higher risk of job loss in case of a drop in demand, as they mostly have a high dependence on the contractor. Third, the subcontractors of components, similar to the specialised type, own a high level of security in demand as they are involved in the development process with the latter firm on a specific part of the commodity which is required to complete the product (ibid).

Moreover, when discussing subcontracting, the business approaches of cooperation or competition may be chosen (Lazerson, 1990). Cooperation within the context of operations is being described as having a centralised and shared contribution of all players where the most rentable solution is being chosen with mutual benefits which outdoes any other alternative option. In comparison, competition is being led by the subcontractors which communicate rules to contractors which then chose the amount of work they seek to be subcontracted. Within both operational types, the factors price and value for subcontracting are embedded (ibid). In addition, Jiang (2009) also draws a connection with cooperation and increased incentives of suppliers to further develop sustainability efforts if the threat of competition and short-time operations is omitted.

Subcontracting may be further distinguished between its authorisation and non-authorisation of fashion and apparel brands. In this sense authorised subcontracting is defined as outsourcing parts of the production to another supplier with the brand’s consent (Bair, Anner and Blasi, 2013) whereas unauthorised subcontracting refers to the hidden practice of outsourcing parts of the production without the brands consent (Caro, Lane and Cuenca, 2020). Historically, subcontracting may have been used for the benefits of surpassing higher safety instructions existing at larger sized companies and were able to be circumvented by subcontractors as governmental business benefits were existing at smaller business which’s size was predominately existing at those. This size advantage also included a lower frequency of occurrence of unionisation and social organizations (Lazerson, 1990). However, these benefits have led to a global focus and discussion with the occurrence of multiple scandals bearing an unauthorised conjunction (Caro, Lane and Cuenca, 2020). When sourcing globally, through locational distances between brands and suppliers, the issue of unauthorised subcontracting makes it difficult for brands to fully operate ethically and have full control over operations (Lazerson, 1990; Garcia-Torres et al., 2019; Caro, Lane and Cuenca, 2020; Majumdar, Shaw and Sinha, 2020; Caro, Lane and Sáez de Tejada, 2021).

In this case, manufacturing processes face the issue of not being fully traceable as unauthorised subcontractor are mostly hidden. Despite multiple attempts by different stakeholder groups to tackle the issue through the communication of rules and regulations stated in the code of conducts, auditing practices and compliances with national and international working standards and regulations (Donaldson, 2017), the hidden network still

exists (Bair, Anner and Blasi, 2013; Drennan, 2015). The research by Caro et al. (2020) reveals the occurrence of unauthorised subcontracting with a risk of 36 percent in supply chains whereas the risk of state dependence and therefore reoccurrence rises by 87 percent if the practice has been used before by tier 1 suppliers.

Multiple factors play a crucial role in influencing the risk of illegitimate subcontracting whereas the degree of market volatility, (Bair, Anner and Blasi, 2013) price, capacity planning, production lead time and the brand awareness have the highest significance (Caro, Lane and Cuenca, 2020). First, production price reductions of 25 percent have been identified as increasing the risk of hidden subcontracting by 9 percent. Reason for this may be the decrease the profitability of suppliers in the case of price reduction which brings the incentive of suppliers to divert to more rentable alternatives with potential breaches in non-compliant working practices (Jiang, 2009; Goodman, 2013; Pinedo and Vaughan-Whitehead, 2017; Anas, 2019). Second, when overstraining existing capacities and therefore reaching the status of under capacity at production facilities, the risk of using unauthorised subcontracting rises (Labowitz and Baumann-Pauly, 2014, 2015). This may be motivated by a potential higher revenue, the fear of future rejection if customer orders are not accepted (Caro, Lane and Cuenca, 2020) and increased attraction of the supplier for additional buyers which are requesting their production services (Greenhouse, 2013; Plambeck and Taylor, 2016). In addition, inaccurate production planning and forecasts may force suppliers to outsource parts of their productions where customers' consents may not be given (Hurst, Murdoch and Gould, 2005). Third, lead times are bearing a higher risk in their extreme poles. On the one side, fashion and apparel brands postponed purchasing decisions and ergo shortened the lead-times by 8 percent between 2011 and 2016 (Anner, 2020) of which insufficient time for product completion leads to a risk of 31 percent being subcontracted unauthorised (Pinedo and Vaughan-Whitehead, 2017). On the other side, Caro et al. (2020) discovered a higher risk of unauthorised subcontracting on productions with lean supply chain strategies and therefore longer lead-times. Fourth, the benefit of high recognition of the brands decreases the risk by 22 percent as higher penalties are to be expected when unauthorised subcontracting is identified (ibid). This is supported by the freedom of press in the relevant countries which defines the power of risk of bad publicity (Toffel et al. 2015). According to the given literature, additional factors which influence the illegitimacy of products are the supplier age and the type of relationship which is chosen (Delmas and Montiel, 2009; Garcia-Torres et al., 2019).

### **1.3 Brands and suppliers' motivations and intentions in global fashion and apparel supply chains**

Historically, motivations for the initiations of subcontracting were mainly economic incentives for suppliers (Kooli, Tiu Wright and Wright, 2010) with high labour costs and the need of initial investment on production plants labour. This led subcontracting to be an alternative solution to bundle specific competences and capabilities for the creation of products (Lazerson, 1990). In current and more globalized supply chains, a shift of motivation for subcontracting towards price- and time efficiency as well as supply chain flexibility has occurred (Bair, Anner and Blasi, 2013). In the literature, Vairaktarakis (2013) and Jiang (2009) describe the increased interconnectedness of contractors and subcontractors whereas contractors outsource parts of the productions to multiple subcontractors while subcontractors have business deals with multiple contractors. This creates a capacity issue where successful

allocation of capacity may only happen with overlapping objectives and interests at both sides. In general, the economic benefit nowadays is highly dependent on effective capacity planning where primarily under-and/or overcapacity is decreasing the rentability of one's business (ibid). However, a common practice of tier 1 suppliers is the overbooking of production capacities where subcontracting supports to reach and controls short lead time productions where inhouse capacities are not sufficient (Aouam and Kumar, 2019).

In comparison, in current fashion and apparel supply chains, buyers and first tier suppliers are thriving to achieve different goals while having contractual business agreements and the production of their collections. However, a buyer dominating situation is existing which makes them dominate over decisions which has a direct influence on unfair disseminations of responsibility and risk with unachievable targets on suppliers (Smith, 2003; Carter and Jennings, 2004; Garcia-Torres et al., 2019). Mainly, fashion brands incentives in productions are led by factors such as price, quality, lead times and flexibility (Bair, Anner and Blasi, 2013). In the case of pricing, brands strive to reach margin targets while lowering the production prices and reaching cost savings when sourcing from developing countries with low labour costs (Bair, Anner and Blasi, 2013; Caro, Lane and Cuenca, 2020; Majumdar, Shaw and Sinha, 2020). If the minimization of price is the driving incentive for brands, a higher risk of unethical practices within their supply chains may be given according to academia (Clark, 1989; Human and Provan, 1997; Van Tulder and Mol, 2002; Caro, Lane and Cuenca, 2020). This further has a direct effect on the suppliers' incentives where no investments in work condition improvements are made and no development goals are targeted (Jiang, 2009). Similarly, in the case of production flexibility, brands strive to have the possibility of last-minute adjustments and just-in time productions with the implementation of latest trends (Locke, Qin and Brause, 2007; Pinedo and Vaughan-Whitehead, 2017; Anner, 2020). However, in the case of exceeding the pressure on suppliers due to production flexibility with shortened lead times, last changes in order quantities and an increasing number of small production runs, shortcuts with a negative effect may be expected (Dyer, 1996). Those may be the pressure to speed up production lines with extensive overtime hours for workers which puts them to their physical limits and bears a higher risk of accidents (Spurgeon, Harrington and Cooper, 1997; Jiang, 2009; Bair, Anner and Blasi, 2013). These circumstances result in an existing lack of capacity, lack of possibility to plan due to short-term changes as well as the supplier's habit to exceed their possibilities to fulfil the buyer's requirements (Plambeck and Taylor, 2016).

Nevertheless, due to the given drive for rentability in business relations where the highest motivation lies in economic incentives, the risk of coping the rentability may bear drawbacks and the risk of unauthorised subcontracting if exceeding the limits. According to Kooli et al. (2010) and Plambeck and Taylor (2016), the economic stimulus may also predominate the need of being transparent and leads to the risk of hiding information and following non-compliant practices. Rubery and Wilkinson (1981) further oppose this by defining the direct relation of payment and output in a business relation where suppliers are more successful in hiding information if the costs of hiding are lower than having full compliance in business operations. In addition, the likelihood of withdrawal of brands of business relations with suppliers where a red flag has been observed is high as brands fear the risk of being connected to global scandals (Lee, O'Marah and John, 2012). Therefore, while facing the issue of potential loss of business cooperation and high compliance costs with brands' requirements in terms of responsible practicing, the suppliers' attempt to hide information rises (Plambeck and Taylor, 2016). This is being supported by high costs in fulfilling responsibility efforts and low

regulatory standards which may better secure ethical practicing at the supplier's location (Egels-Zandén, 2007).

## 1.4 Problematisation and research gap

Even though Lazerson (1990) describes subcontracting as being a common practice and alternative solution for fashion and apparel organizations to verticalize the production since many decades, no further attention is given on positive aspects of subcontracting. Existing literature is examining the term subcontracting with major connection to unauthorised subcontracting where its usage is being disputed by industry practitioners and researchers (Bair, Anner and Blasi, 2013; Caro, Lane and Cuenca, 2020; Caro, Lane and Sáez de Tejada, 2021). This highlights that the fashion and apparel industry is facing the issue of unauthorized subcontracting whereas research has gotten into focus only in the latest years. For example Bair et al. (2013) address the root-cause of labour violations in subcontracting networks in order to identify the given circumstances which lead suppliers to use subcontractors with non-compliant working practices. Garcia-Torres et al. (2019) examine in their research the existing lack of transparency and traceability which leads to the risk and potential of unauthorised subcontracting to occur. Similarly, Khurana and Ricchetti (2016) reveal the necessity of exceeding the current scope of supplier monitoring, investigate beyond the tier 1 level of suppliers and implementing a better level of transparency into brand's core business. Plambeck and Taylor (2016) highlight the necessity of brands of motivating suppliers to follow a transparent and collaborative direction during production practices with the focus on social and environmental responsibility and mitigating unauthorised subcontracting. Further on, Caro et al. (2020) have delineated the issue of ambiguity of brands which has caused them to have a high degree of reputational risk when being associated to scandals related to unauthorised subcontracting. This research has further contributed to the identification of factors which lead to the usage of illegitimate subcontracting, and predictability of potential risk of unauthorised subcontracting. Similarly, Caro et al. (2021) aim to provide more clarification on four myths connected to unauthorised subcontracting which have circulated throughout publications.

Moreover, even though buyer-supplier relationships are having a clear influence in the procurement process, a clear lack of research is given to fully understand the respective motivations to potentially authorise subcontracting. For example, Vairaktarakis' (2013) research on the Nash equilibrium concept, originating of gaming theory, evaluates a long term and stable relationship within the subcontracting network as being the most effective of reciprocal success when initial strategies are not being revised depending on the given competition in the market. Kooli et al. (2010) demonstrate the subcontracting network as being a high competitive market within fashion industry whereas an imbalance of power within buyer-supplier relationships may lead to non-cooperative measures. Similarly, Jiang (2009) and Caro et al. (2018) reveal the effectiveness of cooperative buying governance in comparison to threat imposing strategies on suppliers compliances to standards introduced by brands. This cooperative approach on audits in a shared and joint manner reveal a high level of effectiveness on developing supplier compliances (ibid). Paulraj, Lado and Chen (2008) evaluated that long term relationships and network governance have a positive influence on effective buyer-supplier communication which consequently has a positive influence on buyers' and suppliers' performance. Liu, Luo and Zhao (2012) estimated a high impact of the factor fairness within procedural and informative justice on the buyer-supplier relationship

performance. However, the focuses of these papers have a more general approach on presenting the findings and fail to address a direct relation to the authorisation context of subcontracting.

## 1.5 Research relevance

As indicated by previous research before, the given academia lacks in addressing the context of communicating subcontracting within buyer-supplier communications and examining the potential authorisation process. Therefore, the existing academia fails to connect the buyer-supplier relationship literature to the subcontracting context, even though the main communication in relation to procurement processes takes place between brands and tier 1 suppliers which includes the discussion on subcontracting.

Moreover, even though the European Commission highlights the necessity to foster transparency (Heinen, 2017), a clear lack of governmental regulations and rules on the usage of subcontracting is given and is expressed by the European Union (Scheffer, 2012). The majorly small and medium size of subcontractors makes them vulnerable of being connected with low-profit images, poor possibilities for financial stability and provides burden for them to establish themselves as international export and import producers (Lazerson, 1990; Kooli, Tiu Wright and Wright, 2010). This issue is so-called the *subcontracting trap* and impedes on the one side the establishment as explained before and hinders small-sized suppliers to be internationally recognised as suppliers even though high expertise and knowledge may be given. Moreover, on the other side, this trap enables main suppliers to have a highly complex subcontractor network while not having full visibility over the involved supplying facilities with involved practices which may be a trigger of the issue of non-sustainable and unauthorised type of subcontracting (Scheffer, 2012).

However, subcontractors are highlighted to contribute with a large share to the fashion and apparel industry and their significance is expressed by governmental institutions such as the European Commission. This is supported by the arguments of potential competitive advantage due to specialisation in subcontracting mini-mills, their high level of innovation potential, and the quick-to-market reactions due to the accumulated and district location of subcontractors. Highest benefits may be reached if the subcontractor gets into the position of a co-contractor with close relationships to the main suppliers (Jiang, 2009; Scheffer, 2012). In this sense, the Inditex group is especially highlighted in making usage of this strategy which enabled their global success and growth (Scheffer, 2012).

This shows the significance and potential of subcontractors in providing benefits and market opportunities for fashion and apparel brands. However, a full understanding of this context may yet not be given due to the given lack of research which provides potential for further examination for this study.

## 1.6 Purpose and research question

The purpose of this study is to generate a larger understanding of the subcontracting context with the exploration of how the processes of authorising subcontracting can positively affect

fashion and apparel brand's supply chains. This leads to the examination of conditions which need to apply from a fashion and apparel brand's perspective and lead to potential benefits when authorising subcontracting. In this sense, this research is based on the following research questions:

*RQ: Under what conditions may fashion and apparel brands authorise subcontracting within their supply chains?*

To further be able to prove an in-depth analysis of this issue, two sub-questions are created:

*RQa: What circumstances need to apply within buyer-supplier relationships to communicate the potential authorisation of subcontracting?*

*RQb: What are the brands perceptions of benefits through the authorisation of subcontracting within their supply chain performance?*

This study is aiming to provide contribution to existing research while exploring the context of authorising subcontracting from a brand's perspective in three ways. First, based on the findings by Lazerson (1990) which highlight subcontracting as a common practice in fashion and apparel supply chains since multiple decades, this study is examining the root-cause of the subcontracting network to provide theoretical understanding of the given context with a neutral perspective which may so far not be sufficiently given. Second, with the usage of the social exchange lens while focussing on the social exchange framework with power-dependence relations, this research considers the fundamental influence of buyer-supplier relationships and needed power-dependence balance for the ideal communication and cooperation measures on subcontracting. Insights for this direction are drawn from existing literature, which indicates the core for authorising subcontracting lying in the network and communication of brands and tier 1 supplier (Sisco, 2012; Khurana and Ricchetti, 2016). This builds the basis for understanding the respective motivations and intentions of brands and suppliers to potentially communicate subcontracting and may lead to the authorisation. Third, and most significantly, this research aims to identify the aspects of motivation and intention of brands to potentially authorise subcontracting to highlight the authorisation process as being a potential solution to tackle the issue of unauthorised and hidden subcontracting within the fashion and apparel industry. This provides the basis to understand the circumstances around subcontracting and enables to extend academia with a complementary stream towards positive aspects and following potential of authorising subcontracting in fashion and apparel supply chains.

Furthermore, a practical contribution is given through the examination of previous experiences and cases of brands when communicating and authorising subcontracting. This enables fashion and apparel brands as well as additional stakeholders in understanding the given context and potential of benefits resulting of the authorisation process. More detail about theoretical and practical contributions may be found at *chapter 7*.

## 1.7 Research outlook and given synonyms

This study is separated into eight main chapters. In the first chapter, an overview of the existing background is given in order to give an overview about the given research on the context of subcontracting related to this study. In addition, the respective motivations and intentions of brands and suppliers are identified which build the basis for understanding the required circumstances which need to apply for the potential authorisation. The second chapter is presenting the given theoretical framework for the examination of the given context. It is demonstrated how subcontracting is depending on social exchanges and social relations within buyer-supplier relationships and behaviour to reach their distinctive goals. In the third chapter, the methodological approach is given which outlines the research design and conducted steps in collecting and analysing the gathered data. Afterwards, in the fourth chapter, the findings of the conducted interviews are being presented which show the brands' understanding and perception of subcontracting. This builds the basis for understanding the given requirements in buyer-supplier relationships and potential benefits for brands through its authorisation. In the fifth chapter, the gathered empirical data is being analysed while highlighting the suitability of theoretical framework in examining the given context. In the sixth chapter, the discussion of the empirical findings and theoretical framework on the existing literature within the context of subcontracting is given. In the seventh chapter, a summary of the research with given theoretical and practical contribution of this research on the lack of existing literature. In the eighth and final chapter, future research directions of this study are outlined which may further support the contribution of research being conducted within the given field.

In this research, *brands* and *buyers* are used interchangeably, as buyers within fashion and apparel brands are in direct contact with suppliers and are used in the existing literature when explaining buyer-supplier relationships. Moreover, the term *suppliers* and *main suppliers* are generalised in this paper and is referring to the level as *tier 1 suppliers*. When explaining relationships between subcontractor and main suppliers, the *main supplier* is also referred as the *contractor*. Moreover, a clear distinction needs to be drawn between the terms related to *subcontracting*. While subcontracting is used as a general term in the given context, the terms *authorised* and *unauthorised subcontracting* each refer to the situation when the brand's consent is given or not. In addition, the terms *adulterated* and *illegitimate* are used as synonyms to express the given condition of unauthorised subcontracting.

## 2 Theoretical framework

*Due to the broadness and complexity of the social exchange theory, it is used as the theoretical framework of this paper and is based on Skinner's and Homans' research on behaviourism when presenting the social exchange theory. Through this, the respective motivations and intentions within a relationship to conduct business is explained (Emerson, 1976). However, to create a further limited context to explain subcontracting and behaviours within buyer-supplier and supplier-subcontractor relationships, Emerson's power-dependence relation theory is used (Emerson, 1962). This enables to explain the cohesion of power and dependency which is resulting in balances or imbalances which are highly relevant within the communication and authorisation process of subcontracting. In the end of this chapter, the context of subcontracting is explained in relation to the theoretical context.*

## 2.1 Theoretical background and recent developments

The social exchange theory is an accumulation of multiple sociological theories on a micro as well as macro scale and therefore may be used as a frame of reference. According to Emerson (1976), the origin of the social exchange theory may be traced back to the 1950's with the sociologists George Homans, John Thibaut, and Peter Blau. Through their contribution, a new sociology and social psychological relevant approach on social relations has been created. As defined by Blau (1986), social exchange are actions which are contingent on reactions from others in a rewarding format. This frame of reference is ergo aiming to quantitatively analyse non-numerical social situations as visualised by Emerson:

*The social relation, minimal as it might be in some respect, is a good example of what will be called a social exchange relation, meaning simply that in studying the relation we pay special attention to the reciprocal flow of valued behavior between the participants.* (Emerson, 1976, pp. 346, 347)

In this sense, the aim of the study is highlighted of the social exchange theories with the focus on the behavioural and communicational flow between different parties. However, in social exchange theories, Skinner's three propositions (1-3 below), which are resulting of the well-known Skinner box research are used as a basis for explaining and developing social exchange theories. Based on Skinner's research on behaviourism, Homans (1974) has further explained social behaviour with additional two developed approaches (4 and 5 below):

- (1) Success proposition: *For all actions taken by persons, the more often a particular action of a person is rewarded, the more likely the person is to perform that action* (Homans, 1974, p. 16)
- (2) Stimulus proposition: *If in the past a particular stimulus, or set of stimuli, has been the occasion on which a person's action has been rewarded, then the more similar the present stimuli are to the past ones, the more likely the person is to perform the action, or some similar action, now.* (pp. 22,23)
- (3) Deprivation-Satiation Proposition: *The more often in the recent past a person has received a particular reward, the less vulnerable any further unit of that reward becomes for him.* (p. 29)
- (4) Value Proposition: *The more valuable to a person is the result of the action, the more likely he is to perform the action.* (p. 25)
- (5) Rationality Proposition: *In choosing between alternative actions, a person will choose that one for which, as perceived by him at the time, the value,  $V$ , of the result, multiplied by the probability,  $p$ , of getting the result, is the greater.* (p. 43)

However, in academia, the five propositions in social exchange relations face four major issues with clear relevance to understand the sociological behaviour. Moreover, even though Homans' developments are established in the 70s and still dominating in the frame of reference, more recent developments need to be acknowledged. First, Homans' fifth proposition on rationality, followed by Blau (1986), is not in accordance with other sociologists' opinion. Bierstedt (1965) and Emerson (1976) disagree with the definition of voluntary actions with preliminary considerations to be the driver of motivation of social

exchange. Similarly, critics may be found on social exchange theories in terms of rationality as it “*combines roots in behaviorism [...] with concepts and principles borrowed from microeconomics*” (Cook, 2000, p. 687) whereas sociological and anthropological aspects are excluded (Zafirovski, 2005). However, recent theorists further counter this issue with the justification that people in social exchanges simply do not always behave rational (Shafir and LeBoeuf, 2002; Cropanzano and Mitchell, 2005). According to Kiser and Hechter (1998), in the framework of social exchange the issue of lack of rationality is aimed to be covered through the inclusion of alternative theories such as the power-dependence relation theory introduced by Weber (Emerson, 1976, 1993). Second, Skinner’s (1) and (3) propositions are criticized as being tautologous. This assumption has been tested multiple times, however no scientific proof could so far be given due to the given lack of testability by nature (Emerson, 1976). However, this criticism may also result of the level of broadness of the social exchange theory in general being synonymously defined as the “*theory of everything*” (Hodgson, 1998, p. 168) while describing “*everything and nothing*” (Ackerman, 1997, p. 663). Third, the propositions may be used for explanatory purposes, but show insufficient capability of future predictability and leads to circular reasoning and may lead back to the second issue (Bierstedt, 1965). The last and fourth issue is connected to reductionism whereas Blau is to be attentive on potentially unforeseeable emerging phenomena (1986) while omitting the potential bias of a potential “*premature sense of comprehension*” (Emerson, 1976, p. 344). This finds agreement with Thomas and Iding (2011) who explain the issue of stereotyping in social exchange relations where bias may occur when grouping and categorising the involved parties. Nevertheless, a general categorisation is also reported as being crucial when entering social relations as it gives a guideline on the expectable behaviours (ibid).

## **2.2 Recent developments of social exchange theories on a macro level**

The original version of the social exchange theory was predominantly based on interactions within a small group (Zafirovski, 2005) which has led sociologists such as Levine and White (1961) to focus on the macro level with organizational interactions. As defined by Levine and White (1961) exchange is defined as any optional actions between two organizations which has effects on the execution of pertaining targets wherefore exchange relations include sequences of transactions (Emerson, 1976). On a macro level, the environment has a causal role in more opened system which lets social interactions of organizations exist and builds the frame of organizational construct and included processes (Zafirovski, 2005). Initial thoughts on the social exchange theory reports relationships to occur within the given environment mainly due to two main reasons which are specialisation and scarcity (Emerson, 1976) and are established through successful previous interactions and transactions (Mitchell, Cropanzano and Quisenberry, 2012). As companies are specialised in their task and function, they must exchange with other organizations to be able to market their product or service due to their limit of resources (Cook, 1977). Through the scarcity of products, the interdependence and need of specialization is created and fostered. The interdependence of the involved organization depends primarily on the function of the company including the level of interaction and type of exchanged commodity which leads to the number of required exchanges (Levine and White, 1961). Through taking exchange relationships, organizations put themselves into a more predictable position within the given environments and create

reciprocal benefits as explained before. Through this, a better knowledge of environmental circumstances and the access to scarce resources may be secured (Cook, 1977).

However, altered and developed views of social exchanges define the establishment of relationships resulting of exchange. According to Mitchell, Cropanzano and Quisenberry (2012), individual contribution may also be stimulated and motivated to conduct further transactions. For example Foa and Foa's resource theory (1974, 1980) focuses on defining the different resources which may involve "*any commodity – material or symbolic*" (1974, p. 36) type which provide contribution in exchange relationships. In their framework, the resources love, status, information, money, goods, and services are defined and placed according to their contribution on value and degree of tangibility or intangibility and are located within the two dimensions of particularism and concreteness. While particularism refers to the provided value of the resource, concreteness explains the level of tangibility and intangibility. Another example is Clark and Mills' (1979, 1993) perspective on communal and exchange relationships who categorise relationships into exchange relationships and communal relationships. On the one side, exchange relationships are defined as occurring in a short-term relation context in the case of business transactions wherein a specific benefit of a service defines the need. On the other side, in communal relationships the respective party aims to provide benefit for the other party in which the personal input is not in the focus. In these, direct reciprocal exchange is not likely to be demanded. In comparison to the resource theory by Foa and Foa (1980), Clark and Mills framework focusses more on (1993) how the exchange of benefits takes place rather than the format of the benefits. In this sense, the communal benefit is in the focus which determines the degree of involvement in communal relationships (Clark and Mills, 1993; Lambert et al., 2010). Cropanzano and Mitchell (2005) further provide an interdisciplinary review as they highlight the social exchange theory as being "*one the most influential conceptual paradigms in organizational behavior*" (2005, p. 1).

### **2.3 Power-dependence relations in social exchange**

*[...] social exchange theory seems to be forming specifically towards the analysis of such real but imperfect social structures – that is, social structures involving fairly long-term relations between people, in which power is neither diffuse nor equally distributed, as perfect competition implies. (Emerson, 1976, p. 351)*

Within social exchange theories power-interdependence, the positioning within coalition networks, and balancing operations are in the focus (Emerson, 1962; Cook, 1977). The intercorrelation of power, authority, legitimacy, and power structures are defining terms in the theoretical development led by multiple sociologists with the example of Max Weber, Floyd Hunter, and Richard Emerson (1962). The research by Weber has focused on observing the power structure within social relations with the example of X having the power over Y, but being subordinated to Z. Therefore, the question is aimed to answer who has power over whom wherefore multiple definitions on power are given in relation to the social exchange theory. For example, Weber considers the aspect of power to be treated as an attribute of a relation rather than of an individual alone in the sociological context (Emerson, 1976). Similarly, Zafirovski (2005) highlights the conjunction of power in social exchange theories with the ownership of resources and the subsequent exchange which defines the respective wealth. This finds agreement with Fararo (2001, p. 266) who is admitting that the "*power*

*concept is a generalization of the wealth concept in economic theory*". Emerson (1962) defines power as the amount of resistance given by A over B's actions. However, within the power-dependence perspective, Emerson's propositions are still predominately used within modern social exchange theories under the synonym Emerson's power-dependence theory and is therefore predominately used for this research (Molm and Peterson, 1999). Similar findings are presented in Cook and Yamagishi's research (1992) who test Emerson's assumption on power-dependence distributions. The researchers however agree on the remaining significance of Emerson's power-dependence relation theory (ibid).

Within social exchange relations, different types of relations may appear between person-to-person, person-to-group or within group-to-group constellations. Social relations in this sense appear with reciprocal dependence on each other where the goal aspired by one party is only reachable through the contribution of actions executed by the other party (Molm, 1997; Cropanzano et al., 2017). This leads to the ability to have influence and control on each party's contribution when mutual dependency is given (Emerson, 1962; Zafirovski, 2005). However according to Emerson (1962), dependency is conditional on two major factors: "*The dependence of actor A upon actor B is (1) directly proportional to A's motivational investment in goals mediated by B, and (2) inversely proportional to the availability of those goals to A outside of the A-B relation.*" (Emerson, 1962, p. 32). At this point, goals contain consciously wanted direct rewards, but also unconsciously and indirectly maintained through the relationship. With regards to the factors power and dependence as discussed above, possible balances and imbalances of dependence and power within the given social relationships are crucial while reaching mutual goals. Emerson (ibid) demonstrates their correlation as follows:

$P_{ab} = D_{ba}$ $= \quad =$ $P_{ba} = D_{ab}$	$P_{ab} = D_{ba}$ $> \quad >$ $P_{ba} = D_{ab}$
---	---

Figure 1: Emerson's (1962) balance/imbalance formula on power-dependence relations

In the equation to the left, a fully balanced correlation is demonstrated where the power of actor A over B ( $P_{ab}$ ) and the dependence of B on A ( $D_{ba}$ ) are equal to the power of B over A ( $P_{ba}$ ) and the dependence of A on B ( $D_{ab}$ ). However, as visible to the right, if the two relations  $P_{ab}$  with  $D_{ba}$  and  $P_{ba}$  with  $D_{ab}$  find inequalities, an imbalance within the social relations is given (ibid). In this case, Emerson (1962) impels to have a case-by-case analysis of involved power advantage/disadvantage and possible balancing operations on the given power dependence relations. According to Emerson (1962), cost reduction is the process which includes reducing the input and so-called pain in meeting the requirement while changing the values which may be of personal, social or economic nature. In an organizational context, this may involve an increase in plant efficiency and/or using a more efficient technology while decreasing the cost of production (ibid).

In addition, Emerson's (1962) typology suggests four balancing operation strategies for balancing the power-dependence relations which are the following: First, the extension of power network enables an improved balance of power with the decrease of strong power of actor A with the expansion into multiple, but still connected, power-dependence relations.

This situation may be comparable to a monopolistic market situation. Second, through the formation of coalitions, the position of the weaker members is strengthened through the formation of a group. This type of operation finds its success, if the reached reward is sharable between the formed group constellation (Hechter, 1992). Third, the emergence of status leads the weakest actor to gain power through an increase in motivational investment in the relation enables him a better control over the strongest actor (Emerson, 1976). This may be accomplished through ego-gratifications with a prestige positioning as well as through a distinguishable offer which makes him desirable by other actors. For the most appropriate evaluation of status, the value of the given actor on the group as well as the availability of the input of this player in the market should be considered (Zafirovski, 2005). The fourth, and also least favoured type of operation is related to withdrawal. In this sense, the motivational investment, power, and dependency of one actor are disengaged as the disadvantage is too significant and may not be recovered. The withdraw of operations is only meant to be used when the three before mentioned types were not suitable to the circumstances given to the situation and therefore required a more drastic approach. This balance operation is favoured if one of the actors is experiencing a shift in motivation and values which may not be suitable to the ones of the other involved actors and/or groups (ibid).

Thus far, Emerson's typology has argued over four strategies on balancing power-dependence relations, however, general imbalances may be also caused through the non-compliance of role-prescriptions and group norms with related authority (Cook, Cheshire and Gerbasi, 2006). The theory connotes that the players of a group or relation and involved power processes support its emerge and maintenance. Further stabilisation of the group dynamic may be reached through group norms which include the specification of requested shared behaviour by the group on all members (Zafirovski, 2005). In addition, specific role-prescriptions are extended required norms and behaviours of the groups on a singular or small share of group members only. This enables the group with included members to have a voice on specific roles and authorizes them to have limited authority and therefore legitimate power on speaking up if those are not fully accomplished. However, if the border of the legitimate power is surpassed and misused with a lack of focus on contributing to the shared goal with the occurrence of opportunistic behaviour, consequently a re-formation of the coalition may occur. This risk of opportunistic behaviour may also be described through the oedipal conflicts which are another source of imbalance on power-dependence relation as described by Emerson (1962). These issues might have the highest risk to occur in operation type one with the network extension. It originated in Greek mythology with the tragedy of Oedipus and has been implemented by Sigmund Freud into psychoanalytic literature (Britton, Feldman and O'Shaughnessy, 1989). In an organizational context and based on the Greek mythology, the oedipal conflicts are described in *Figure 2* below.

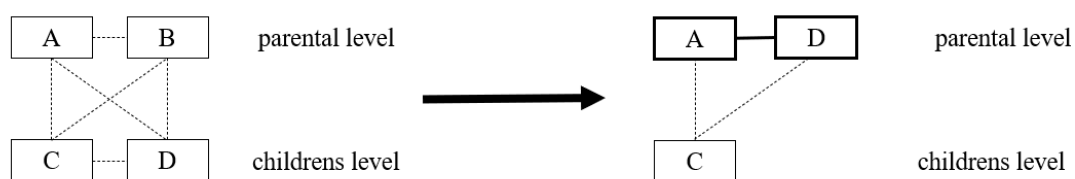


Figure 2: Oedipus conflict explained by Emerson (1962)

When extending the structure on a vertical level as visible on the left side, imbalances in given relations may be encountered. However, through the risk of opportunistic behaviour, one of the later added actors may take the potential of surpassing and eliminating one of the parenting actors, in this case actor B, while taking its position. This eliminates the power of the party B and the dependence of A, C and D on the contribution of B on the group constellation.

## 2.4 Social exchange theory in the subcontracting context

Within the context of subcontracting, the reciprocal benefits in exchanges may be reached through a closer partnership whereas suppliers in buyer-supplier relationships and subcontractors in the contractor-subcontractor relation are identified as partners rather than clients (Kooli, Tiu Wright and Wright, 2010). Moreover, according to Paulraj et al. (2008), a better rentability and other economic benefits may be reached through cooperation in comparison to a competitive approach in the organisational context. While making usage of inter-organizational communication, a clear positive influence on buyer-supplier performance is being documented (Prahinski and Benton, 2004; Claycomb and Frankwick, 2006) whereas the most beneficial form of long-term strategic alliance may be reached (de Brito, Carbone and Blanquart, 2008; Paulraj, Lado and Chen, 2008; Khurana and Ricchetti, 2016). Through a strategic alliance, firms are forming centralised decision mechanisms which leads the involved parties to gain and sustain further resources in fulfilling mutual goals and may lead to a competitive advantage (Caro, Lane and Cuenca, 2020).

In addition, a balanced reciprocal exchange of knowledge and critical information is enhanced which leads to increased trust and a value-adding form of relationship (Christopher, 1992). The perception of fairness may grasped which builds the base for a mutual ascendancy of resources and capabilities (Liu et al., 2012). This enables more confidence in the communication between different supply chains parties, reduces dysfunctional conflicts (Anderson and Weitz, 1992) and may build the required circumstances for a better transparency in information sharing (Heide and Miner, 1992; Locke, Qin and Brause, 2007). Only when having a confident communication situation, sensitive issues such as subcontracting and potential authorisation may be communicated (Bair, Anner and Blasi, 2013). However, Plambeck and Taylor (2016) reveal the existence of a highly sensitive environment and supplier reactions if imbalances in trust and fairness exists. This may be explained on the example of unwanted auditing procedure in case of auditing fatigue which leads to backfiring situations if the quantity of audits gets increased by the brand which leads to a further imbalance. These backfiring situations may incorporate suppliers' incentives in blocking potential entrances to hide non-compliant parts of the facilities and falsify records and documents. This further may increase the risk of suppliers to shift from acting reliable to hiding information (ibid).

Moreover, the supply chain context, a reciprocal relationship with transparent information sharing may only be reached through the socially created aspect of relationships outside the contractual basis which may only be reached through recurring business relations (Mohr, Wang and Goerzen, 2016; Awan and Khan, 2021). Through this long-term approach, buyer-supplier as well as contractor-subcontractor relationships are built on “*understandings and conventions involving fair play and good faith*” (Okun, 1980, p. 8). This requires a flat hierarchical network governance which is based on the informal contribution in social

systems involving flexibility, mutualism, and unification with the share of information (Heide and Miner, 1992). Through these circumstances, general norms and rules within the business operations are created which are highly dependent on the degree of common values and motivations (Poppo, Zhou and Zenger, 2008). Nowadays, inter-firm relationships can be seen as one of the premium assets in business relationships in order to reach mutual gains and the development of more sustainable supply chains (Formentini and Taticchi, 2014).

Within the context of buyer-supplier relationships and subcontracting, the issue of opportunistic behaviour is discussed which creates a significant burden for the communication and potential authorisation of subcontracting. For example, Kooli et al. (2010) highlight the difficulty of power distribution within supplier-subcontractor relations whereas the supplier is mainly bearing the higher power. In this case, the subcontractors are specialised in the production activity only whereas a lack of motivation for improvement and therefore opportunistic behaviour resulted. However, their research also indicates the positive influence of long-term supplier-subcontractor relationships which requires a minimum of two seasons which is equal to six months. In this case, when the subcontractor is included in the development stages, a higher motivation for partnering contribution may be reached with the introduction of new activities by the subcontractor. Similarly, Jiang (2009) reports this situation as decreasing the risk of opportunistic behaviour, which may be seen as the non-communication of production relevant information as a lack of motivation and intention is given of the subcontractor.

## **2.5 Potential alternative theory**

Even though the social exchange theory as a framework and the power-dependence theory are providing significant insight into the motivation and intention, as well as power-dependence distribution, within buyer-supplier relationships, the theories may be criticized in sufficiently describing the economic aspect of business relationships. In this sense, the transaction cost theory, initially established by Coase (1937) and further developed by Williamson (1975, 1985) may be used as an alternative theory for this research which tries to highlight the reasons for performing a specific task by organizations and/or other markets (Coase, 1937). When examining transaction costs, they may be distinguished in coordination costs which are defined as direct costs which are occurring when implementing economic activities, and transaction risk which is described by the potential levels of exposure a company may experience when entering the business relation (Clemons and Row, 1992). According to Williamson (1975, 1985), the factors uncertainty and asset specificity have the power to significantly influence coordination costs and transaction risk.

In the supply chain and subcontracting context, when sharing information, the transaction costs, especially cooperation costs, may be reduced which consequently diminishes the level of uncertainty and indirectly related costs on contracting (Artz and Brush, 2000). In the supply chain and subcontracting context, supply uncertainty has the highest influence in the risk of having unauthorised subcontracting. This is again given of the ambiguity of fashion and apparel brands in having full transparency and traceability which leads to the lack of certainty of having the full picture of the involved supplier network. In relation to the transaction cost theory's lens, when examining the aspects of uncertainty, the value of information sharing is examined while it is assumed that individuals and organizations act rational and behave opportunistically. Therefore, similar, to the social exchange theories of

this paper, the opportunistic behaviour which is highly influencing and central in the communication of subcontractor within buyer-supplier relationships is examined. Similarly, as rationality is a common issue within social exchange theories, the transaction cost theory further highlights and may add value to the context of rational business behaviour which may be lacking in social exchange theories (Ghoshal and Moran, 1996).

However, the social exchange theory is identified as being more beneficial for this research due to the focus on relationships which are influential in the context of subcontracting next to the contractual basis only which may not be fully covered by the transaction cost theory. This is highlighted by Williamson (1975) who defines transaction costs to be the costs of running the economic system of firms. This shows the potential limited narrative of the theory in looking outside the economic cost factor of business behaviours which is beneficial in the subcontracting context. In addition, Ghoshal and Moran (1996) describe the issue of the transaction cost theory of focussing on distinctive market situations which have an influence on the organization's motivation and intentions in business relations. The researchers describe organizations as not being the solely contributors in building effective transactions within markets in case of market failure. As they are led by opportunistic behaviours and aim to reach unique advantages in economic activities, the organizations motivations and intentions may vary significantly in different market circumstances. Therefore, the theory is also not fully covering the aspects of subcontracting and fails to fully examine the given motivations and intentions within buyer-supplier relationships which are crucial for the communication and potential authorisation of subcontracting. In this sense, the social exchange theory as a theoretical framework is chosen for this research due to the higher suitability to explore the context of subcontracting.

### **3 Methodological research approach**

*In this chapter, the methodology of this research is explained in detail while highlighting the research design, sampling outlook, data collection process and the procedure of conducting the thematical analysis. In addition, the research quality is discussed while highlighting potential difficulties to ensure a high level of trustworthiness of this research.*

#### **3.1 Research design**

In line with the purpose and aim of this study, a qualitative research strategy has been chosen for this research for the explorational purpose on the authorisation of subcontracting (Bryman, 2016) with the inclusion of in-depth interviews in order to see identify their “*interpretation of the world.*” (Czarniawska, 2014, p. 30) In more detail, a semi-structured outlook of the interviews is used. This layout enables to reach comparability with the structured proportion to maximise the reliability and validity of the gathered empirical data (Bryman, 2016). Moreover, the unstructured proportion of the interviews enables to generate rich and detailed relevant data where an empathic understanding was aimed to be reached. In addition, adjustments on the context of the interview are able to be made depending on the environment and circumstances during the conduction (ibid). This may be highly relevant for this research due to the general given sensitivity of discussing subcontracting, especially the context of unauthorised subcontracting. This enables a good flow during the interview, supports the comfortability for the interviewees to the given circumstances and leads to the potential of gathering more accurate and detailed information (Czarniawska, 2014). In addition, this type

of structure also enables to observe the interviewees non-linguistic aspects such as gestures facial expressions and body movements (ibid). For the set-up of the questions, an opened-ended style has been used where the interviewee has had the possibility to lead the direction of giving answers (Czarniawska, 2014). In order to provide sufficient and relevant information on the given topic, the research questions have been used as a guideline when forming the interview questions and evaluating their suitability. This led to the frame of the interview resulting in four core areas which are buyer-supplier relationships, subcontracting, unauthorised subcontracting, and sustainability with respectively several sub questions. Those sub questions were categorised in fixed questions, which were aimed to be answered by all interviewees and alternative questions which came into usage depending on the situation and atmosphere of each interview (Bryman, 2016). During the occurring situations in the interview, the sequence of the core areas and sub questions was chosen on stage.

### **3.2 Sampling process and selection for conducted interviews**

Due to the respective examination of subcontracting within the fashion and apparel industry, a non-probability sampling method has been chosen as a specific entities are relevant for this study (Bryman, 2016). Through the purposive sampling method, the “*identification and selection of information-rich cases related to the phenomenon of interest*” (Palinkas et al., 2015, p. 1) is enabled. Moreover, this sampling method is widely used in qualitative studies and enables the selection of a more in-depth and information-rich sample (Patton, 2014) According to Cresswell and Plano (2011), this enables the selection of entities which are maintaining a highly level of experience or interest and enables them to have knowledge within the particular context. Due to the potential sensitivity on subcontracting, the purposive sampling method also has a positive influence on availability of respondents due to the existing high level of knowledge and ergo related willingness of engagement (Bernard, 2017).

During the selection of the sample for this thesis, the five criteria have been set as visible in *Figure 3* below. First, the sample type has been limited to fashion and apparel brands which are actively working towards sustainable practicing within the industry. This has been evaluated by assessing the brands’ public appearances including official webpages, sustainability, and financial reports as well as potential news. Second, the degree of their involvement in sustainability work has been crucial in the selection process. The set limits were determined by publishing sustainability goals and developments on the webpages. This involves for example the company’s contribution to sustainable practicing with measurable components such as more sustainable product choices and designation of their contribution to safeguard the environment and people. Third, only one interviewee per brand has been chosen for the included sample as the representation of brands is in the focus of this paper. Moreover, the fourth criteria included focussing on the examination of the potential interviewee where at least three years of experience in working within the sourcing, production or sustainability has been in the focus. In addition, the interviewees position at the company required to embed frequent communication with their supplying party which builds the core block for assessing the required data. Last, the fifth criteria required the potential interviewees to have sufficient knowledge of subcontracting within the company which has been communicated in the introduction email and conversation prior to the conducted interviews. This may ensure a lower probability of unit non-response on subcontracting during interviews which may blur the representability of results.

Criteria number	Related area	Criteria description
1	Brand criteria	Fashion and apparel with active contribution to sustainable practicing
2	Degree of sustainable practicing	Minimum level: Respective sustainable choice, measurable component, positive contribution
3	Number of interviewees	One interviewee per brand
4	Interviewee criteria	Company position evaluation: 3 years of experience in sourcing, production and/or sustainability, frequent communication with supplying party,
5	Knowledge on subcontracting	Sufficient knowledge on subcontracting

Figure 3: Sample selection criteria

In terms of sample size, the required level of data saturation is the leading guideline for this study. This has led to a total number of seven performed interviewees whose general information is visible in *Figure 4* below. Due to the potential sensitivity of subcontracting with honest answering of the respondents, the interview was held anonymously where a potential connection and possible distortion on answering was considered. However, the job positions of the interviewees are used in this thesis for the distinguishability of respondents in the following result, analysis, and discussion chapters. The included interviewed brands' sizes were predominately defined as being small and medium in comparison to large enterprises with a distribution of 6:1 where all brands' headquarters are based in Europe. Moreover, all interviewees have direct contact with their tier 1 suppliers as well as may maintain an interaction with supplier agencies. While, the location and number of tier 1 supplier is known by all the respondents, no clear answers and hesitation of stating subcontractor specific information were given. In the introduction stage, the first indication of potential sensitivity of the topic was recognised.

Inter-view	Job position	Company size	Company based in	Type of sourcing	Locations of tier 1 suppliers	Product offering	Number of tier 1 suppliers / sub-contractors
1	Social Responsibility Manager	small/medium	Europe	direct communication with tier 1 suppliers, agencies	China, India, Turkey, Portugal, Italy, and Spain	women's-wear	45-50 / not stated
2	Head of Sourcing	small/medium	Europe	direct communication with tier 1 suppliers, agencies	China, Bangladesh, Turkey	women's-wear and men's apparel, children wear	15 / none
3	Global Technician Director	large	Europe	direct communication with tier 1 suppliers, agencies	China, Europe, India, North Africa	women's-wear and men's apparel, children	60 / not stated

						wear,	
4	Sourcing and Production Manager	Start-up/small	Europe	direct communication with tier 1 suppliers, agencies	Turkey, Portugal, China	women's-wear and men's apparel,	10 / 5
5	Production and Sourcing Controller	Small/medium	Europe	direct communication with tier 1 suppliers, agencies	Turkey, Portugal	women's-wear and men's apparel	3/2
6	Sustainability Controller	Small/medium	Europe	direct communication with tier 1 suppliers, agencies	Turkey, Portugal, China, Bulgaria	men's and women's wear	12/2
7	Supply Director	Small	Europe	direct communication with tier 1 suppliers, agencies	Turkey, Portugal	Men's apparel	10/2

Figure 4: Interviewee overview

### 3.3 Data collection

Prior to the interviewing process, given circumstances of the interviews were communicated via email correspondence for the creation of a safe and positive feeling before conducting the interview. According to Bryman (2016), this approach is defined as being crucial to ensure full openness and honest answering during the interviews (Bryman, 2016). Meanwhile, in order to eliminate any possible confusion on the involved questions, the interview guide was pilot tested (Bryman, 2016) to eliminate possible errors beforehand as explained by Silverman (1993/2011 page 97 in Barbara): “*Errors and mistakes happen in every interaction, too: in interviewing, they should be investigated rather than treated as problems*”. Through this, any bias and risk of data collection errors caused by the interviewer were aimed to be minimised. Moreover, to ensure uniformity during the processes of all conducted interviews, one data collector is included in the interviewing process to ensure consistency and high research quality (Bryman, 2016; Roller, 2016).

All interviews took place via the online meeting programmes Zoom and Microsoft Teams due to the locational distance and preference of interviewees. During the interviews, all conversations were audio recorded in order to be able to follow-up the information in the data analysis part, but also to be able to focus on the progress of the interview and not being disturbed while taking notes. This enabled the reaction on the given circumstances with follow-up questions when potential inconsistencies were identified. According to Bryman, this enables a better focus in giving additional stimuli in case of disruption of interview flow and circumvention of questions (Bryman, 2016). To reduce potential sensitivity of the topic which may have caused a defensive position of the interviewee, the guidelines of the four-step funnel approach were implemented during the data collection process in order to maintain most accurate results (Roller, 2016). This approach is being used as a guide when introducing a new topic with the aim to gather as specific information as possible and the incorporation all important issues related to a specific context. According to Roller (2016, p. 18), this approach is supporting to maintain clarity during the progress which has as essential contribution to the

effectiveness of the interview and helps to “*progressively narrow the topic area to the subject matter of greatest importance to the research objectives*”. Moreover, when correctly executed, a high level of effectiveness and efficiency may be reached.

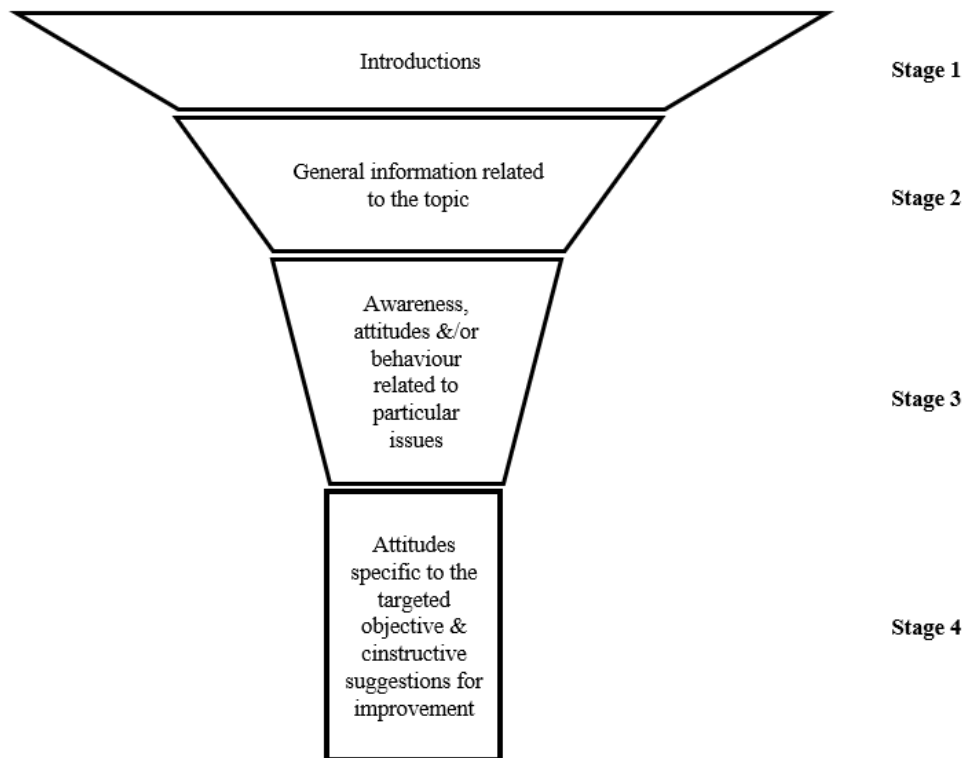


Figure 5: Four-step funnel approach (Roller, 2016)

In *Figure 5* above visualises the four stages of the process whereas the first stage includes the introduction stage. During the interviews, the interviewer and interviewee introduced themselves and general terms such as the purpose of the research, possible recording conditions, the anonymity of the interviewee and brand and voluntary nature of the interview were defined. Similarly, this stage was also implemented when moving from one core subject to the other. At the second stage, the background and general information of the respective core area and context was introduced where the interviewee general attitude on the given context was observed. This enabled the interviewer to identify potential defensiveness and required change of perspective from which the following questions were addressed. At the third stage, the interview questions were led towards a more specific direction while again identifying the given attitude towards the sub themes. Through this, the interviewee was directed towards the final targeted question which embedded the highest risk of sensitivity and potential non-responsiveness. At the fourth step, the ultimate aimed objective and question of the interview was stated to gather valuable information from the interviewee and to have maintained the required balance to continue to the next core area of questions if needed.

At the end of each interview, the given situations during the interviewing process were summarised in order to collect additional data which could not be captured during the process of recording and involves “*entering into a dialogue with the text*” (Kvale, 1996, p. 280). Bryman (2016, p. 479) highlights this necessity while stating: “*Qualitative researchers are*

*frequently interested not just in what people say but also in the way that they say it.”* The involved non-verbal information such as mimic, gestors, attitudes during each questions (Bryman, 2016; Roller, 2016), a change in speed, pitch and stress (Czarniawska, 2014). Correspondingly, all interviews were transcribed in order to ensure the required basis for further data analysis steps and avoid an only partial representation of the collected data (Czarniawska, 2014). Moreover, the transcripts were transmitted to the interviewees if requested to be double checked and authorised by the interviewee. According to Bryman (2016), a further trust of interviewees in conducting the interview may be reached which has an influence in the responsiveness of the respondents. Even though, this step is being criticised of its time consumption (Czarniawska, 2014; Bryman, 2016), it enables a higher level of trust of the interviewees in conducting the interview.

### **3.4 Thematical analysis and indexing process**

This study follows an explanatory study approach for the analysis whereas key words, themes, possible indexing, and categorisation are building the basis for the analysis of the data. Moreover, the empirical data is sufficiently coded for the assessment of inclusion or exclusion of the material gathered through the conducted interviews. According to Bryman (2016), this type of study enables the examination of more specific issues with the usage of a more comprehensive approach. Due to the nature of explanatory studies, codes are being built out of the collected data and not influenced by previous theories and built hypotheses (Guest, MacQueen and Namey, 2011). When choosing the framework of coding the data, the criteria of a multilevel indexing and coding analysis needed to be fulfilled. Different frameworks have been compared such as the 3-level systematisation developed by Corley and Gioia (2004) and the 4-level guidelines by guidelines by Ritchie and Lewis (2003). However, due to a higher level of comprehensiveness in critically assessing the raw material and more stages on the synthesis of given themes, the thematical framework by Ritchie and Lewis’ (2003) was chosen. In this chapter, a short description of the used multistep framework is given whereas the full analysis is visible in the *appendices*.

*Step 1:* Identification of initial themes and concepts: The initiation of identifying potentially relevant areas is occurring during the interviewing process which leads to a list of potential themes and resulted in substantive coding (ibid). However, this is further aligned through the transcribed interviews whereas a total of 35 themes was evaluated after the thematical analysis and coding process. At further stages of this step, indices are identified where potential links between the before identified themes are created and leads into the categorisation of the themes. Consequently, a two levelled hierarchy is being built with core and sub themes for a better “*conceptual clarity within the framework*” (Ritchie and Lewis, 2003, p. 222). This enabled the elimination of overlapping and irrelevant themes which may have blurred further steps of the indexing process. As a result, the given hierarchical structure with 35 subthemes being grouped into 5 main themes was created.

*Step 2:* Labelling and tagging of data: At this stage, the raw data of the interviews was numerically indexed according to the thematical framework built at step 1. This process of indexing is commonly used in the coding process and may be defined as a standard procedure during thematical (Ritchie and Lewis, 2003). Through the detailed examination of raw text, new potential areas were identified which led to changes and

updates on the thematic framework and further cross-sectional categorisation. After the evaluation of the collected data of this paper, 32 subthemes have been evaluated and were categorised into 9 main themes.

*Step 3: Sorting the data by theme or concept:* After categorising the data, the most suitable flow is aimed to be identified within the categorised themes whereas similar attributes play the decisive factor according to Ritchie and Lewis (2003). For this stage, a thematic chart in the format of a tree-diagram was used for the identification and allocation of each subthem to suiting multiple core This led to a juxtaposition of two different potential locations on core themes led to a more comprehensive analysis of collected material. After this step, six core themes with 16 sub themes resulted whereas 5 subthemes built crossing points of two or more core themes.

*Step 4: Summarising or synthesising of data:* At this step, the transcribed material was allocated into the respective area of the thematic chart while keeping the originality when paraphrasing the raw material. This created a thematic matrix whereas the relevance and meaning of the data is reflected. At this stage, the analysis of the data was sufficiently synthesised, which led to an easy usability of each theme when describing each part included in the following result chapter.

### **3.5 Research quality**

To ensure high research quality, the author of this paper was inspired by Lincoln and Guba who are assessing the quality of qualitative research methods in terms of trustworthiness and authenticity. According to Guba and Lincoln (1994), trustworthiness may be categorised into four criteria which are the credibility, transferability, dependability and confirmability.

The credibility of the study is relatable to internal validity in quantitative research and is highlighting the research to be “*carried out according to the principles of good practice*” and getting confirmation of the researched members to correctly explain the social world (Bryman, 2016, p. 384). Similarly, credibility may be ensured by member checking which is defined by Mays and Pope (2000) as “*includes techniques in which the investigator's account is compared with those of the research subjects to establish the level of correspondence between the two sets.*” In this research, the transcribed results are transmitted to the respective interviewee for authorisation to ensure that the social context is appropriately interpreted as suggested by Bryman (2016). However, a similar approach which is triangulation (Flick, von Kardorff and Stinke, 2004) may also be considered for qualitative research to confirm the credibility. However, it is evaluated as being not suitable for this study due to the usage of one data source and one researcher only.

Next to this, transferability which is relatable to external validity in quantitative research is highly criticized in qualitative research due to the small sample size only which is included in explaining the social reality (Bryman, 2016). Moreover, due to the choice of the purposive sampling method, limits to transferability may be given (Drost, 2011). However, the general nature of this research is to generate an exploration on the given context due to the given lack of research which is based on qualitative and not on numerical data which would require a higher sample size. Therefore, the transferability of this research is aimed to be ensured

through the focus on *thick description* of the gathered data through the seven interviews which entails “*rich accounts of the details of a culture*” (Bryman, 2016, p. 384).

In the sense of dependability, which is similar to reliability in quantitative research, an auditing trail with detailed description of the data collection and analysis process is given which may be followed by any external party at later stages (Bryman, 2016). In this research the additional peers and the supervisor of this thesis were used as auditors for the critical assessment of the trail of this research to ensure a high level of dependability and the correctness of introducing and examining the gathered content. Moreover, this research’s sampling criteria and process, data collection and analysis procedures as well as final interview template are documented in great detail with description of included steps to further increase the level of dependability and ensure the repeatability of this research in the future (Shenton, 2004).

However, this research may be scrutinised in terms of confirmability as only one researcher is included in the research process. Nevertheless, through *pilot testing* of the interview questions, the researcher bias and data collection error are aimed to be reduced for a higher level of objectivity of the research. Moreover, through the auditing trail as explained before possible subjectivity and personal values of the researcher were aimed to be eliminated to ensure the research process to be conducted in *good faith* (Bryman, 2016). Similarly, according to Shenton (2004, p. 72), the reflective commentary on already existing theories “*that ultimately were not borne out by the data*” supports to ensure a high level of confirmability. In this sense, this criterion may be sufficiently ensured due to the theory rich assessment of the gathered data on the already existing social exchange and power-dependence relation theories.

In addition, the authenticity of this research in terms of fairness is ensured. When ensuring fairness, the research aims to focus on representing differing perspectives of the members of the social context (Guba and Lincoln, 1994). This is provided in the research by including multiple interviewees with a total number of seven into the empirical data whereas their viewpoints are presented in an opposing manner for the exploration of the respective context. The findings of this research may be found in more detail at *chapter 4* below.

### **3.6 Delimitations**

Even though, multiple stakeholder groups may be involved within the subcontracting network, this research is limited to the examination of the brand’s perspective when exploring the context of subcontracting as indicated in the research questions. This leads to the focus of examining the social exchange behaviour within buyer-supplier relationships including the brands and tier 1 suppliers where the majority of procurement communication takes place. Therefore, the supplier perspective is fully excluded from the scope of this research, however, only described if the situations for brands in the respective context need to be further elaborated and compared to supplier’s aspects and motivations.

Furthermore, this paper is referring to fashion and apparel industry only which includes brands who are involved in the production of clothing whereas brands with a pure focus on additional products such as shoes are excluded.

Due to the explorative approach of this study as explained above, this research is focussing on the qualitative assessment of the subcontracting authorisation context whereas a positivistic orientation of a quantitative research strategy is avoided.

## 4 Findings

*In this chapter, the empirical findings of the seven interviews of this research are described to present the given understanding and current treatment of subcontracting by the brands. In relation to the given context, contrasting oppositions and opinions of the brands are reported in order to present the explorative research design of this research. To get a better insight into the real wording and expressions of the interviewees, direct quotes are embodied. This chapter providing the basis for the analysis and discussion of the following chapters of this research.*

### 4.1 Subcontracting through contact with tier 1 supplier

Throughout the interviews, all respondents reported that subcontracting was carried out in contact with tier 1 suppliers and/or agents. According to the interviewees, the predominate reason for it is the frequent and direct contact of the brands with the tier 1 suppliers or agencies through email conversations and frequent online meetings. For example, the Sourcing and Production Controller defines the necessity of in person conversation rather than solely email conversations while outlining *“I have meetings with them in person every week where I call instead of writing emails so that I actually build a good communication base on which the relationship is developed.”* However, in relation to subcontractor meetings, the brands are having different approaches in communication. The Social Responsibility Manager for example reports the direct communication with all of their suppliers including subcontractors whereas the frequency is depending on the relationship length and establishment of trustworthiness within has occurred through long-term past production relations. In comparison, the Global Technician Director, the Sustainability Controller and the Supply Director highlight the importance of tier 1 suppliers in having frequent communication with the subcontractors whereas relevant information is communicated to the brand. This finds agreement with the Sourcing and Production Manager as visual in the following:

*“Since they are overseas, are normally small businesses and there is most likely language barrier, none speaks for example English as well as none has an email infrastructure. So, what is happening is that someone goes there physically, shows them the sample, and says please produce x amount of this. But then from here, we cannot have the communication to the subcontractors on a daily business, but we rather have it when it is needed through the tier 1 factory.”* (Sourcing and Production Manager)

Above, the Sourcing and Production Manager highlights the experienced barriers with subcontractors which are a lack of infrastructure and understanding through a common language in buyer-subcontractor communication. Therefore, the relevant communication takes place through the tier 1 supplier. In addition, the subcontractor selection process is mainly occurring through the tier 1 supplier whereas the selection is presented to the brands

for potential authorisation. In this first step, subcontractor related information needs to be given to the brands. In the cases of the Social Responsibility Manager, the Head of Sourcing, and the Sourcing and Production Manager, the subcontractor's name, general factory information and location are required. In the second step, a common standard need to be given and communicated within the respective parties. In this sense, the same standards need to be given by any involved suppliers in the brands' supply chains which includes subcontractors. While the Social Responsibility Manager for example requests a signing procedure of the brands Code of Conduct (CoC), the Head of Sourcing adds Supplier Guideline (SG) documents to the authorisation process. These aim to explain "*requirements and operations more or less and what is required in different areas from product development and the whole process from quality to transparency, chemical policy, animal welfare policy, logistics, transportation, lead times and more.*" In comparison, the Sourcing and Production Manager and the Supply Director require the subcontractors to have the same standards as the tier 1 suppliers whereas no specific contractual agreement is required. According to the Social Responsibility Manager, the lack of contractual infrastructure of authorising subcontractors is being the main factor which finds agreement by the Sourcing and Production Controller.

In addition, due to the majorly small size of subcontractors as reported by the Sourcing and Production Manager, the Supply Director and the Global Technician Director, subcontractors do not need to bear all international recognised quality certificates as a lack of financial possibilities may be given. This also apply in some cases when only small orders are placed at subcontractors, the brand is trusting on the tier 1 supplier's honesty and experience of working with the subcontractor for multiple years if given. This is in consent of the Sourcing and Production Controller who explains the authorisation to be "*based on trust*" and the Sustainability Controller who highlights "*that the tier 1 suppliers somehow trust them as they have done a good job at previous productions*". This finds agreement with the Global Technician Director as "*some kind of an inspection if they comply with the same standards as we do*" is expected of the tier 1 supplier by the brand.

However, the brands also report the requirement of auditing procedures through third party auditing companies and/or direct visits through an internal employee whereas different opinions were given. The Social Responsibility Manager for example requires "*direct visits and so not directly that we need to have a certification per-se*" whereas the "*process of knowing the business itself is an authorisation.*" In comparison, the Head of Sourcing and Global Technician Director require the subcontractors to be audited such as through the third party amfori BSCI to ensure social compliance. This is also supported by the Sourcing and Production Manager who is using the Fairwear foundation and third-party certifications to ensure the given compliance where "*their standards and procedures in rechecking the given circumstances such as working conditions, minimum salary range and security payments and so on.*" is ensured. As explained by the Sourcing and Production Manager, the risk of having an insufficient selection and authorisation procedure may "*go into a completely wrong direction when they go into a shady direction with the selection of subcontractors which do not comply with any required standards.*" With slight comparison, the Supply Director does organise factory audits with one of the brand's inhouse employee who is specialised and experienced in the audit procedure.

Nonetheless, similar selection and authorisation processes are conducted by the brands, each brand shows additional procedures and limits when authorising which are significantly varying from each other. The Global Technician Director for example appeals to the necessity to do unannounced visits as it is "*easier to see the reality.*" In addition, the Sustainability

Controller adds the requirement of setting up a meeting with them virtually or in person to ensure the compliance with all given standards. This differs to the Supply Director who is requiring visiting the factories while highlighting: *“Even though I am only doing what the auditor has already done I’d feel like I need to see for myself what’s going on.”* The Sourcing and Production Manager limits the selection with a restricted country list for the procurement of products through subcontractors which are Pakistan, India and Bangladesh which is resulting of the given the lack of control of working behaviour. In addition, the Sourcing and Production Manager sets limits of the number of subcontractors and locational distances of the involved suppliers as *“the factories need to be near to each other because it cannot be that we produce in Turkey and the subcontracting factory is in Romania, it does not make sense. It has to be within a specific region.”* This is in agreement with the Supply Director’s opinion as from a sustainability-oriented perspective he *”would not authorise a subcontractor which is at a completely other location. If it needs to be sent and flown to a completely other place, then it genuinely makes no sense.”*

## **4.2 Requirements of buyer-supplier relationship for brands to authorise subcontracting**

For the authorisation of subcontracting, a long-term buyer-supplier relationship needs to be given as the communication of subcontractors takes place within frequent buyer-supplier meetings. The brands see the tier 1 suppliers are the centre of the supply chain networks who is in charge to cascade the information and requirements of the brands to all parties in the respective supply chain network. The Head of Sourcing has the requirement on the tier 1 supplier to share the CoC and SG with the subcontractor and ensure that subcontractors fully understand the given requirements. Moreover, the Sourcing and Production Manager and the Supply Director describe frequent communication and control procedure between the tier 1 supplier and the subcontractor as being the tier 1 supplier’s requirement. Similarly, the Sourcing and Production Controller emphasises the mean of the tier 1 supplier to keep the relationship and trust with the brand whereas the supervision of the subcontractor falls into the supplier’s area of responsibility.

However, the basis of trust in communication may only be reached through perennial and reoccurring business relationships where shared values, future development and business growth is reached. This long-term approach has been discussed by the interviewees as being beneficial in the case that the same circumstances apply between tier 1 suppliers and subcontractors as the Global Technician Director highlights *“I mean if a tier 1 supplier has been working with a neighbouring supplier for over 20 years and has built the same relationship with them, then you need to define what is acceptable for you and what not.”* Equivalently, the Social Responsibility Manager outlines that *“in reality they might also have various contractors with who they had long-term relations, so it really depends on what the relationship they have with the tier 1 suppliers and what kind of relationship we as buyers also have with them as well.”*

In this sense, three further cases are given. In the case of the Social Responsibility Manager, the brand is having buyer-supplier relationships of up to 10-15 years which enables both sides to grow with each other. In addition, through the understanding of the respective situations and continuing the business relation, loyalty is developed whereas the brand does not seek to eliminate any currently given relationship. In the case of subcontracting relation, the brand is

doing “*some kind of reverse engineer with re-visits to ensure that they are following our standards.*” Similarly, in the case of the Sustainability Controller, buyer-supplier relations are aimed to be kept and the majority of current relationships have been existing since many years with the longest kind up to 10 years. It is also highlighted the establishment and development of their operational strategy with the brand. In the third case, the Sourcing and Production Controller with the start-up sized brand reports similar growth processes with the tier 1 supplier as visible in the following:

*For example, one of our tier 1 manufacturers started approximately at the same time as we did so in the beginning, they were we decided to work together with them and so since then we've been growing together and we've been developing our companies parallel basically. But obviously through our collaboration each of the companies can grow and that I think increases the good relationship as well as we've seen what each company was able to do for the other one and how those benefits both sides so to say.* (Sourcing and Production Controller)

The quote before highlights the benefits resulting of long-term collaborations which enables the brand and the supplier to develop their organizations parallel. In this case, the focus is given on the establishment from the start at initial stages which further supports the loyalty of the relationship. This long-term approach in relationships is further discussed by the interviewees with constant creation of mutual benefits which creates motivation for both sides to stay within the business relation and jointly invest into the development. The Head of Sourcing for example highlights the necessity to understand each other, give-and-take, help each other out and to have a balance with mutual contribution within the relationship. This, however, is only able to be reached when brands and suppliers put themselves into the position of business partners and alliances with a balance of power and dependence and a flat hierarchy (ibid). Moreover, the Global Technician Director describes the requirement of having the same values as they are ensuring that both all involved parties are working towards the same direction. This enables the brand and supplier to communicate the given requirements and needs from the respective side during productions in order to support, achieve the goals and enable shared future development. For the Global Technical Director, it is necessary to value the unity of brands and suppliers as “*tier 1 suppliers are somehow an extension to your company, because your brand is connected to them and you let them produce it, they are an extension to your labour.*” Moreover, the Head of Sourcing highlights that the “*same direction and set of common goals are probably the best way to succeed.*” Similarly, the Sourcing and Production Controller identifies the mutual goal creation as necessary as “*you work together as a team, and you see the product as a common achievement so to say and the performance as a common achievement.*” In this sense, the Sourcing and Production Controller agrees to the Sourcing and Production Manager while describing win-win situations where suppliers aim to increase the volume every season whereas the brands hope for seek for high quality products which are produced on time. The Sourcing and Production Manager agrees as stated below:

*I mean it needs to be a win-win situation for both. It cannot be that you are the only one earning in this situation. They are providing us their production performances and we are really dependent on them. In addition, they also want us to be able to sell the products well and are therefore dependent on us, in order for us to come back and request higher quantities in the next seasons. So, it is a reoccurring cycle where we both need each other.* (Sourcing and Production Manager)

This further outlines the respective dependence of the supplier and the brand on each other whereas win-win situations are in the focus as the balance may only be kept if both parties experience economic benefits. This creates the basis for a reoccurring cycle which symbolises the establishment of long-term relationships.

### **4.3 Trust, honesty, transparency, and the need of communication as key aspects of subcontracting**

During the interviews, all respondents have appealed to the necessity of trust, honesty, and transparency during buyer-supplier communications and the authorisation of subcontractors which are correlating to each other and examined in the following of this sub chapter. First, trust in the supply chain and subcontracting context is defined differently by the brands. The Social Responsibility Manager defines trust as the given circumstance where full transparency in the format of “*nothing to hide*”. In addition, according to the Sourcing and Production Controller, full compliance with the brand’s requirements is to be expected for the creation of trust which may only be reached through long-term relations between brands and supplier as well as involved subcontractors. For the Head of Sourcing the required trust is reached through “*very opened and clear communication of expectations*” while referring to honesty and non-hiding of information. In addition, the Head of Sourcing highlights the necessity of long-term relationships in order to build trust as visible in the following:

*And I think when you are having a long relationship which is built on trust you can improve and reach goals together and make sure that's the cooperation is as good as it can be I think if you aim for short-term relationships - jumping around - you'll never build this kind of trust, and you will never achieve the same long-term goals. (Head of Sourcing)*

As described in this quote, the Head of Sourcing defines trust as being the basis for future improvements and the support in reaching shared goals. This level of trust may only be established when the frequent behaviour of switching suppliers is not given. However, a high sensitivity and balance of trust is given within buyer and supplier relationships according to the respondents. According to the Global Technician Director, the sensitivity of trust within the context of buyer-supplier relationships and solution-driven performance is given while explaining the situation “*if the supplier or you are able to state an issue and you find a shared solution for it, all is fine, but if this trust is not given, how are you going to trust them in the future*”? In addition, the difficulty of the loss of trust is expressed which will most likely result in quitting the relationship with the suppliers in severe cases and puts one into the position of the must of building new relationships and trust levels which may be time intensive. In relation to this, for the Sourcing and Production Manager, trust is the utmost requirement in the authorisation of subcontracting as “*you are giving them something very secret. You basically let the factory into your bedroom because it is the design that you make, and it is a secret thing you do not want anyone else to see it.*” If the basis of trust is not given, the involved brand fears the risk of counterfeiting and the hidden publication of designs and patterns before the brand’s first reveal. The Manager further defines the cascading situation where “*trust and openness are the two factors which are dominating the situation, and the rest will come with it automatically. [...] I mean when your suppliers are opened and trustworthy, which are most important, then they will tell you where they produce and which one you are*

about to authorise or not.” A further insertion is given by the Sustainability Controller as described below:

*[...] we want to ensure that the openness is given that all information, it does not matter if positive or negative. This also applies to them. Whatever is to be communicated must be communicated and it is important to create that safe space where nobody needs to fear that we for example change suppliers due to a small mistake and they for example use unauthorised subcontracting just because the trust is not given. (Sustainability Controller)*

This outlines the need of ensuring a high level of trust between brands and suppliers which enables the communication of information of all required information from both sides. This may reduce the fear of the suppliers in communicating the request of using subcontractors in the production which reduces the risk of unauthorised subcontracting.

Second, during communication within buyer and supplier, honesty is a factor which has been named by all of the respondents as being crucial to communicate subcontracting and is explained in different scenarios. The Social Responsibility Manager the Head of Sourcing and the Sourcing and Production Controller outline the need for a trust and honesty basis coming from both parties in order to engage in an effective long-term relationship whereas the Head of Sourcing also adds the need of an “*opened dialogue*” with the suppliers. Moreover, the Global Technician Director explains the situation where honesty is needed by the supplier when requesting further production related information for the brand’s benefit: “*When you go and visit the supplier and ask can you do the printing inhouse or do you let it produce it somewhere else, then I need an honest answer.*” The definition and description of honesty is further elaborated by the Manager in the sense of error and quality-issue communication. A case is given with the description of the given trust during production and quality-check stage where errors must be communicated and not hidden with the embellishment of the shipment sample for instance. Only through the communication of mistakes, which is conventional during hand-made productions, the trust and long-term approach on relations may be secured “*because if there is a quality issue, you will see it. And if they do not communicate it, it will appear in the warehouse or in the stores with claims. So that is an issue.*” Similarly, the Supply Director highlights the following:

*[...] honesty is important because you have certain suppliers and cultures where they will tell you what you want to hear and that ends in disaster because saying it's on time, it's on time it's on time while it is a week before it's going to shipped and it has not been produced and this is a disaster[...] it has once happened to me that the suppliers were saying ‘Well, because someone else made it.’ And then sometimes you are also working with the wrong factory if they tell you something like that and assume that it is no problem. You know, I stopped working with suppliers in the part that really casually told me things like that [...] And that is always the beginning of the end for a relationship for me with factories. (Supply Director)*

This describes the necessity to understand different behaviours during the communication of subcontracting which is resulting of cultural differences in defining honesty and need to be appropriately handled. However, the quote also outlines the need of a common business behaviour and mindset when operating and to ensure honesty and the safeguard of long-term relationships.

The third main requirement which has been mentioned and confirmed by all respondents and needs to occur in the subcontracting context is transparency. For example, the Social Responsibility Manager, the Global Technician Director and the Sourcing and Production Manager report the need of at least a basic level of transparency in long-term relations whereas a higher level is required if the communication of subcontracting is involved. Correspondingly, the Sourcing and Production Controller highlights the need of transparency on required and relevant information of the brand to ensure the balance of trust for a long-term commitment. According to the Social Responsibility Manager, the trust within long-term relationships is highly dependent on the level of transparency and the supplier's understanding in the buyer's requirement on why to ensure the needed level of visibility. *"In our supply chain it is quite visible, because we have quite good relations with our tier 1 supplier, and they get the point that we want to understand how our supply chain make-up is and they are quite open to provide us information"* Similarly, the Head of Sourcing handles the communication of transparency requirements through documentations and feedback meetings with the suppliers where clear expectations on working practices and subcontracting information is conveyed. This finds agreement with the Supply Director who is describing the need of sharing equal intentions on a transparent manner during buyer-supplier discussions.

However, the Sourcing and Production Manager is describing the hesitation of tier 1 suppliers as it is *"pretty common that they are hesitant to share the information, because they fear that we will reach out directly to them and therefore surpass them when sourcing our products."* In this case, the brand is highlighting the need to clearly state the intention of information request and ensure the trust in keeping the tier 1 supplier as the main supplier without bypassing. Moreover, if a lack of transparency is given whereas subcontracting is not being communicated, the risk of bearing unauthorised subcontracting in the supply chain is high. The Social Responsibility Manager describes transparency and honest information sharing where they *"should have been told of subcontracting in order to authorise it"* and the potential of visits and supplier-checks is given. In addition, the Head of Sourcing highlights the expectations on *"suppliers to produce in the factories that they tell us about"*. In addition, the Sourcing and Production Manager highlights that *"the reason why and which subcontractor is directly communicated to us"* by the tier 1 supplier and is required by the brand.

Nevertheless, full transparency within supply chains is not yet given within the fashion and textile industry whereas the increased demand of transparency global brands in the last years is a motivation for the interviewed brands. The Sustainability Controller highlights the given motivation on knowing production processes where *"the majority of brands did not care much about their supply chain which has led all into being hidden and invisible."* Similarly, the Head of Sourcing explains the reasons for this circumstance to be the lack of questioning the production steps while *"producing more and more products"* whereas the shift of corporate strategies has only occurred recently. However, the brand's development is expressing the current lack of given knowledge within the industry and the brand itself in knowing all included supply chain members in their production while stating: *"being 100% transparent is the direction we want to go towards to while moving forward. It's a step-by-step work, so in the best-case scenario we would have full control and transparency."* Similarly, the Global Technician Director reports the current efforts in identifying the products' material origins whereas the happiness *"that more and more brands are working towards it"* is expressed. The Head of Sourcing recognizes the future-oriented opportunity to trace brands' supply chains and production steps until the raw material stages of the used materials with more advanced technological tools such as blockchain and DNA spraying processes.

#### 4.4 Brands' perception of subcontracting and influences resulting through the authorisation

A general positive attitude towards subcontracting is recognisable whereas the authorisation of subcontracting is required by the brands to provide acceptance for usage. The Social Responsibility Manager defines the authorisation process as being good whereas the key for success for both, the brands, and the suppliers, *“is to not limit one or another.”* This statement is further outlined with the case of only limited suppliers which have *“the vertical set-up and have everything in house.”* Moreover, the brand is communicating the included subcontractors within their supply chain until the tier 2 level on their webpage and the Open Apparel Registry. The Sourcing and Production Manager agrees on the issue of limited vertical set-up where *“we as a brand are not able to let things being produced all year around and the facility is also not able to keep all machinery running.”* This allows the communication and usage of subcontracting when suppliers may experience significant economic benefits in terms of production planning. Nonetheless, a prior audit of the subcontracting factory is required by the Manager for authorisation. The involved brand is publicly communicating the usage of subcontractors on their webpage and sustainability report. Equivalently, the Sourcing and Production Controller describes it as being *“super important to authorise subcontractors”* as there is still a *“certain way of doing business where everybody is happy to close their eyes when it is necessary to do so.”* However, due to the start-up size of the company, there is currently no information of the brands usage of subcontractors being communicated publicly. With slight comparison, the Head of Sourcing describes subcontracting as *“doesn't have to be bad”* whereas a case-by-case analysis is vital to define the final acceptance. This applies when an opened communication by the tier 1 supplier is given with the reason for the usage of the respective subcontractor and full transparency in information sharing for required audit.

However, a general level of trust within buyer and supplier needs to be given for the occurrence as described above. In the case of the Sustainability Controller, the definition of subcontracting is an *“on-going discussion”* whereas *“brands and suppliers may benefit of it if you do it the right way.”* This is further aligned through the Global Technician Director who is highlighting the scenario *“if it is a good factory and they are making a good job, they would not have the issue of hiding it.”* In the case of authorisation, the Director is appealing to the need of full visibility and agreement in which situations subcontracting may or may not be used. In addition, the levels of needed certification and auditing is depending on the type of subcontracting which is related to the involved processes such as *“at the printing and dying stage for example where many chemicals are involved, we need to have a full certification, because if you find some chemical as damaging, it can be severe.”* The same definition is being shared by the Supply Director who is expressing a positive stance on subcontracting while explaining that *“there has never been something against subcontracting as long as I know about it and I know who they are. I'm very against finding out the wrong way and that happens.”* No subcontracting related information is being shared online which is due to the small size of the company according to the Supply Director.

In the rest of this chapter, the influences of subcontracting on different brand's supply chain factors are described. These are categorised into benefits, no influences and drawback whereas factors in the respective category are described and compared if the respondents' opinions vary.

#### 4.4.1 Benefits

When authorising subcontracting, most brands highlight benefits being related to capacity, lead time and specialisations. The Social Responsibility Manager, the Sourcing and Production Manager, the Head of Sourcing and the Supply Director agree on subcontracting being advantageous on capacity with a better production planning of the supplier in peak seasons which has a corresponding influence on shortening the lead time. In their cases, a better-balanced workload of factory workers may be ensured as an extension of capacity enables the suppliers to accept orders of customers even though the inhouse capacity is already fully booked. The Social Responsibility Manager agrees on this and highlights the need of especially cut-make-trim suppliers to have subcontractors in order to ensure the customer's satisfaction. Similarly, the Sourcing and Production Manager describes the situation with own experiences:

*These are during the peak seasons that come and go. If the tier 1 factory has no more capacity available, he will most likely still say yes as it is a money related business. They will never say no and "offend" their customers who are us brands by saying no as they fear of looking business. They will never tell you that they are also overloaded and try to fix it internally. (Sourcing and Production Manager)*

This defines the existing economic motivation of suppliers in accepting additional orders as the offense of the brands is expected and feared of. It further indicates the necessity of effective communication in production planning in order to keep full control and clarity during the process. The Sourcing and Production Manager further highlights the tightly planned capacity of suppliers which may extend the lead time in case of delayed arrivals of fabrics and trims which is a common issue during production. This may cause "*troubles to get all done in time as you cannot always be fully efficient. Then in this case, subcontracting is helping to ensure that the styles are produced on time*" and may be explained as having a positive effect on lead times. However, drawbacks may be expected when subcontracting due to capacity issues and too high pressures coming from the brands themselves. The Global Technician Director for example describes the issue of the process quality inspections by third parties which is planned at tier 1 factories whereas "*if it has been produced somewhere else, best behaviours of the whole supply chain cannot be ensured.*" In addition, the Sourcing and Production Controller and the Supply Director define the necessity of brands to understand the existing supplier capacities and possible lead times when placing orders as visible below:

*I think subcontracting does not influence our lead time, but our lead time might influence the supplier to use subcontracting. I think they only use subcontracting if the lead time is too tight, so of course, if they use subcontracting it will be faster, but can we ensure in this case that the factories comply with our standards and are authorised? (Sourcing and Production Controller)*

This indicates the required balance of organising production lead times as too high pressure coming from the brand may result in a higher risk of usage of subcontracting where a lack of time for proper authorisation may exist. Comparable, the case of the Supply Director is stated below:

*[...] some factories just tried to extend their supplier network with subcontractors to organise the production. They just went mad and hire subcontractors all over the place. If I'm a brand and I just want to maintain my normal level of orders, I shouldn't*

*expect to see delays if I'm maintaining my side of the bargain in terms of process. If I decided I wanted to double my orders though, that's an unfair pressure that I'm putting on the supplier so I should expect to experience delays. (Supply Director)*

This quote is describing the situation of rapid order growth on loungewear articles during the Covid-19 pandemic period which led tier 1 suppliers to significantly expand their supplier network. Nevertheless, the Director indicates doubts on the positive outcome of this move as too high pressure on the supplier leads to the usage of unknown subcontractors. In this case, he appeals to the brands necessity in maintaining a balance of request in orders to ensure the effective production planning with no delays.

Furthermore, when outsourcing to subcontractors, a broader range of different types of machinery is being able to be used which leads to the usage of more production knowhow and the potential creation of more specialised products. However, the opinions of the interviewed brands vary. On the positive side, the Social Responsibility Manager for example reports that “*different processes that are not necessarily available within your set-up inhouse*” can be used which enables the brand to stay more competitive in the industry. According to the Supply Director, outsourcing due to product specialisation does only make sense when a “*unique capability*” is existing at the subcontractor. The Supply Director and the Sourcing and Production Manager add the benefit of subcontracting in this case may be beneficial when the required machinery is not existing at the tier 1 factory. This is aligned by the Sustainability Controller, who is making usage of a subcontractor for a broader size offer as the respective machinery is not existing at the tier 1 supplier. Similarly, the Global Technician Director supports the authorisation of subcontractors who “*have a better specialisation and expertise in a specific area [...] if they make it fully visible*” to the brand. In the same sense, the Sourcing and Production Controller defines subcontracting as being beneficial in the case stated below:

*[...] it enables us to play small quantities and certain product groups which are not a main focus of our supplier without building a new relationship, because we're not sure yet if this product group will be continued over seasons and seasons, which is mainly accessories and add-ons. So, we're still trying and that's actually accepted by the customer. (Sourcing and Production Controller)*

The Sourcing and Production Controller highlights the benefit of specialisation in trial periods of new products which are outsourced by the main supplier to subcontractors with the respective expertise. In this case, the possibility of producing small order quantities is in the focus to experience initial end consumer relations on the new products.

#### **4.4.2 No influence**

The main factors on the authorisation of subcontracting which have been recognised as having no influence are production prices/costs and the freedom of press whereas product variety and complexity are mentioned occasionally by brands. When authorising subcontracting, the majority of brands highlights the factors product pricing and production costs as being irrelevant as prices are set before production planning. The Sourcing and Production Manager for example reports the lack of information if using subcontracting may be beneficial on production prices and that the major incentives of the brand not to be minimum cost driven as stated below:

*We do not aim to use subcontracting to decrease the production and unit costs, we subcontract to have the benefits of better lead-times. So, we do not have the conversation about that, and price is no element on the subcontracting decision. (Social Responsibility Manager)*

The quote indicates the production price as being no influencing element in the subcontracting decision. The Supply Director further agrees on the lack of given incentive of lowering price and cost when using subcontractors. Similarly, the Social Responsibility Manager describes the lack of transparency in having sufficient information about the cost breakdown of suppliers to fully understand the potential economic benefit for tier 1 suppliers to use subcontractors. This lack of knowledge and information finds agreement by the Head of Sourcing and the Global Technician Director who states that *“there can be hidden costs of subcontracting which we do not see.”* The Sourcing and Production Controller however reports the following:

*I don't think they communicate it directly. But for me, that's just common sense. Because they don't do the work in the middle for nothing. And the agent gets a commission and then when the supplier chooses someone else to do the garments, they will not do it if it is not beneficial and somehow adds onto the price. (Sourcing and Production Controller)*

The quote above indicates the potential economic benefit of suppliers to embed subcontractors as possible commissions through cost reductions may only be reached if production costs are lowered at subcontractors. However, the Sourcing and Production Controller and the Sustainability Controller appeal to the risk of embedding subcontractors when the brand's production strategy is low-price driven. In the case of the Sustainability Controller, this may lead to negative consequences in terms of sustainability as *“things just go into the shady and non-compliant direction.”* In addition, this may provide a high risk of losing control and being connected to global scandals such as the Rana Plaza accident in Bangladesh. In the case of the Sourcing and Production Controller, the usage of subcontractors has a higher risk of being less regulated and compliant with international laws as brands may rather close their eyes on those issues when being motivated by lowering production prices.

In addition, the majority of brands mentions no influence of freedom of press on the authorisation process of subcontractors. While the Social Responsibility Manager describes the related influence as being *“fairly low”*, the Global Technician Director highlights that *“it does not have a direct influence in the decision to use subcontracting or not.”* Similarly, the Sourcing and Production Manager reports the decision of sourcing from a specific country not being dependent the freedom of press in relation to the authorisation of subcontractor as brands rather *“decide on the overall circumstances on how the general terms are in the country concerning animal welfare and workers' safety.”* In comparison, the Supply Director is the unique example in this context who highlights high freedom of press in Europe being influential in the usage of subcontracting whereas *“China definitely has its potential to do its own thing in a way.”*

In occasional cases, the risk of using illegal and non-compliant subcontractors and reputational risk. In relation to non-compliance, the Sourcing and Production Manager highlights the requirement of being fully compliant with international rules and regulations when importing and exporting commodities where it is *“not possible for brands to work with*

*illegal and non-compliant factories.*” This is in relation to prior risk assessments of sourcing countries and supplier factories prior to usage which leads to a non-existing influence of non-compliance in the context of subcontracting. In comparison, the authorisation of subcontracting has no influence in the safeguard of reputational risk and consequential damage according to the Sustainability Controller. In this sense, the case is stated of the brand being connected to a global scandal where the prove of having authorised the subcontractor may not have an influence on the reputational damage and the public’s opinion of the brand.

#### **4.4.3 Drawbacks**

Regarding drawbacks when authorising subcontracting, the interviewees have unanimously agreed on the risk of subcontractors not being able to provide equal product quality in comparison to the tier 1 suppliers. In the case of the Sourcing and Production Manager, brands should aim to choose their tier 1 suppliers depending on their expertise in producing garments and avoid outsourcing of highly complex products as *“styles which are extremely special, and your tier 1 suppliers cannot produce should be better given up on as it will only cause troubles.”* This finds agreement with the Sustainability Controller’s and the Sourcing and Production Manager’s opinions. The Head of Sourcing further describes the potential lack of control if more complex products are being outsourced whereas the brand should place the respective style at a tier 1 supplier with direct communication processes. This finds agreement with the Supply Director which specifies the strategy of outsourcing basic styles and *“things that are not that required to be done inhouse”* to subcontractors.

In addition, the brands question the ability of subcontractors in producing identical products to previous one’s being provided by the tier 1 suppliers. The Sustainability Controller and the Sourcing and Production Manager for example highlight the risk of information loss when transferring styles to subcontractors as a lack of experience may be given which has been transferred in earlier development stages. Similarly, the Sustainability Controller states the following:

*I mean we develop a style over seasons and when the tier 1 supplier is great in doing it, then this whole development step where possible issues are identified and eliminated does not take place with the subcontractor where we doubt that the quality will in the end be the same. (Sustainability Controller)*

This quote describes the risk of lack of information transfer and experiences on perfecting and developing the respective style in previous production seasons. In the similar case of the Social Responsibility Manager, the risk of poor quality is given when subcontracting is being used to extend the production capacity. In this situation, the quality check procedure needs to be ensured through third party audits which however may face difficulties to be conducted at multiple locations as *“there might need to be some sort of quality check-up which is required to be done.”* However, the Manager highlights the necessity of well-working buyer-supplier relationship whereas the tier 1 supplier undertakes the task of quality supervision.

Beside the quality risk, the brands further fear the potential of losing control which is related to an increased network complexity and may negatively influence the given supply chain transparency. The Social Responsibility Manager highlights the complexity as being negatively influencing the ability to keep control as *“the more processes and subcontracting are involved, the harder it is to do due diligence”*. The Supply Director agrees to a lack of

control while adding the expectation of “*chaotic organisation, poor quality, less transparency and uncertainty. [...] As soon as you start to feel like you might not have a hundred percent visibility on who’s making what, you have to assume the worst.*” With this sense of responsibility in mind, the Social Responsibility Manager and the Sourcing and Production Manager appeal to the need of tier 1 suppliers to not exceed the given inhouse capacity during planning which would lead to a reliance of subcontracting and is not in favour of the brand. Similarly, the Head of Sourcing expresses the fear of not having full control and transparency on the subcontractors’ working processes while “*ensuring that they follow the same standards as we do.*” The Global Technician Director defines the lack of transparency as being the most significant threat as no control is given and “*it is actually hard to know what is actually going on*”. This finds agreement with the Sourcing and Production Controller who is doubting the full compliance with given standards due to less regulation being in place at small size companies which is predominately existing at subcontracting facilities. With slight differences, the Sourcing and Production Manager describes the locational distance within tier 1 suppliers and subcontractors as being crucial as a lack of transparency and control may be given if they are broadly distributed. The Sourcing and Production Manager gives the example of China in comparison to other countries such as Turkey as being riskier in bearing this risk due to the country’s geographic size. The Sourcing and Production Controller agrees by reporting the issue of scattered subcontractors which further complicates the communication of quality expectations and requirements.

Furthermore, when increasing the supply chain complexity, brands are fearing the threat of being exposed to enlarged reputational risk. For example, the Social Responsibility Manager reports a high significance of keeping full control over the respective supply chain as when being connected to a global scandal “*it is not pointed on any supplier stage; it rather is linked to a labelled brand.*” Likewise, the Global Technician Director, the Sourcing and Production Manager and the Supply Director express the risk of being connected to scandals. In this sense, the cases of the Global Technician Director and the Supply Director are visualised:

*If someone would come and inspect the place, they will find our logo, and this would be super bad for us. I mean it is not the supplier most likely who is in the news and visible to the end consumer, it is the brand and their logo. So, we will be connected to it and experience reputational damage.* (Global Technician Director)

This describes the risk of brands being associated with non-compliant suppliers including subcontractors when products and brand logos are identified. Furthermore, it highlights the increased risk of brands in comparison to suppliers to experience reputational damage in the case of global scandals. This finds agreement to the Supply Director who signals in same outcome as above where the “*product being made and recognised at the hidden subcontractors will damage the reputation*” with a higher risk for brands as labels and logos may be recognised in the news.

## 5 Analysis

*In this chapter, the empirical data of this study is assessed on the social exchange theory and power-dependence relations theory (related to chapter 2) to highlight the potential and suitability of the theoretical framework in describing the giving context of subcontracting. This is reached through the focus on Skinner’s and Homan’s proposition and Emerson’s*

*power-dependence relation theory whereas specific aspects of the given subcontracting context are explained by Foa and Foa's resource theory and Clark and Mills perspective in communal and exchange relationships. This enables to answer the two sub research questions of the research and bringing the findings of the research into the theoretical context.*

## **5.1 Enablers for communication and authorisation process of subcontracting**

*Analysis on RQa: What circumstances need to apply within buyer-supplier relationships to communicate the potential authorisation of subcontracting?*

The empirical data has shown that to be able to communicate the usage of subcontractors and potential authorisation in the production process, long-term buyer-supplier relationships are required. The interviewed brands define those as being established over multiple seasons with durations up to 15 years. This enables the brands as well as the tier 1 suppliers to expand their organizations together while developing shared and aligned business behaviours. Through the reoccurring business behaviour, the required base of trust, honesty and transparency in the communication may be established. When aligning the findings to Skinner's and Homans' social exchange propositions (Emerson, 1976), similarities with the success (1), stimulus (2), and value (4) propositions may be found whereas contradictions to the stimulus (2) proposition may also be given within the context of communicating and authorising subcontracting. The success proposition may be compared with the given motivation of buyers and supplier. It describes the motivation of suppliers which increases with reoccurring rewards coming from the buyer and reversely. In addition, the value proposition describes the motivation of buyers and suppliers in conducting the respective action depending on the value factor of the result. This can be ensured as the findings of this study show the existence and necessity of developing long-term buyer-supplier relationships for future success which is correlating to the value factor. In contrast, the stimulus proposition is different from the findings. As it describes the motivation of a conducted action to be more likely reformed if the given stimulus and situation is similar to the past one, the developing aspect of the relationship as indicated in the findings may not take place. This may show the development of social behaviour and exchange on current situations in comparison to the given circumstances in the period of establishment of the propositions. However, the same proposition may also comply with the findings. According to the findings of this research, if the given basis of trust, honesty and transparency is established appropriately within long-term relationships, a reoccurring reward of further developing this relation may be given. In alignment with the stimulus proposition, this can lead to the benefit of authorising subcontracting for brands and suppliers.

The intention of developing the long-term relationship may also be aligned with Clark and Mills perspective in communal and exchange relationships (1979, 1993). While exchange relationships occur in the short-term context within business transactions, the communal relationships aim to bring benefits to the opposite party with no direct focus on the own given benefit. Communal benefits are also determined by the degree of involvement of each party into the relationship. However, Clark and Mills definition may also be contradicting as the researchers highlight reciprocal exchange as not being demanded in long-term relationship in comparison to the findings of this research. The empirical data of this research outlines the

indirect request of reciprocal flow though the expression *give and take* stated by the brands where the business context and economic ulterior motive comes into the focus.

Moreover, when the aforementioned base of a long-term relationship is reached, buyers and suppliers are empowered to communicate any information required. This may occur via email conversations, frequent online meetings and direct visits at supplier factories and includes the communication of usage of potential subcontractors. In this case, the brands show an open behaviour towards understanding the intention of the supplier to use the subcontractors with the aim to create win-win situations for both sides - the brands and the suppliers. In relation to Homans' rationality (5) propositions, this is in accordance to the context of subcontracting as the incentive of conducting an action is depending on the maximum outcome of value multiplied by probability of occurrence. The findings of this research show that suppliers act in favour of their economic benefit which may be explained in this proposition. If win-win situations are ensured for both sides, the motivations, and intentions of conducting the best behaviour may be secured. This is further explained by Emerson's power-dependence theory whereas the given power structure of giving and taking enables the creation of a long-lasting power-dependence balance with the benefit for the brands and related suppliers. Moreover, within the given long-term relationship, the balance is explained through the rotational position of brands and suppliers in maintaining and practicing the power, depending on the given situation in buyer-supplier communications.

However, as the findings indicate that subcontracting has been put into the negative spotlight due to the occurrence of multiple scandals in the last years with conjunction to unauthorised subcontracting, the interviewed brands may only authorise subcontracting if full control over the additional supplier chain can be ensured. The findings of this research reveal the necessity of the brands to maintain the power of giving the authorisation to the tier 1 suppliers to use the requested subcontractor in the production process. This corresponds to the defining terms of the power-dependence relation theory which are power, authority, legitimacy and power structures (Emerson, 1962). The power of authorising may be represented by Weber's research on power structure (Emerson, 1993) where party X is having power over party Y, but is subordinated to Z. In the given context, X may be represented through the tier 1 supplier which is having power over the subcontractor Y, however, is subordinated to the brand Z. Furthermore, even though the authorisation of subcontracting may take place when the ideal power-dependence balance, is given, the imbalance formula may represent the given condition of unauthorised subcontracting where the supplier is not in accordance with the brand's power in enabling the authorisation. As this imbalance and risk of unauthorised subcontracting is aimed to be avoided, this research further identifies the required circumstances to reach the balance within buyer-supplier relationships which leads to the potential authorisation of subcontracting.

In the case of imbalance as described before, Emerson's typology with four balancing operation strategies may be implemented with the first strategy describing the simplified constellation of the brand (A) - tier 1 supplier (B) - subcontractor (C) network. In the case, when B is having higher power over A and C which leads A and C to build an alliance, Emerson (1962) describes the balance to be recreated as the power of B will be decreased. However, as indicated by the findings of this research, the in the case of an AC-alliance between brand and subcontractor, the risk of opportunistic behaviour may arise which may create an even further imbalance of the buyer-tier 1 supplier-subcontractor constellation. This shows the impracticality of the first strategy within the context of this research. The second strategy, which is the formation of coalitions such as (AB)-C, (AC)-B, or (BC)-A. In this

sense, the coalition of (BC)-A may describe the relationship of tier 1 supplier and subcontractor, which operates interconnectedly when providing subcontracting related benefits. However, in this context, the other two constellations which are (AB)-C and (AC)-B may be ignored as a lack of context is given in (AB)-C and the risk of opportunistic behaviour as explained before. In addition, the third strategy with the emergence of a status of the weaker member may be suitable when authorising subcontracting. As reported by the interviewed brands, the tier 1 supplier may arise from the weakest member to a more balanced position when adding potential services to the relationship. Examples for those may be the supervision of the subcontractor which makes the brand more dependent on the tier 1 supplier and the assurance of the tier 1 supplier to provide the required certifications of the subcontractor to the brand. In comparison, the fourth balancing strategy which is related to the withdrawal of relationship may occur in the context of subcontracting during the selection process and prior to authorisation. As this research shows, subcontractors may be denied by the brands in case of lack of suitability to the given requirements where risks and drawbacks outline potential benefits.

The findings further indicate the issue of opportunistic behaviour when authorising subcontracting where the tier 1 supplier may fear the surpassing of his product and service offer where the brand may directly source the product from the subcontractor. The brands highlight the requirement to ensure the trust and loyalty in the given buyer-supplier relationship where the tier 1 supplier remains as the core supplier when using the specialised offer from the subcontractor. Similar results may be found on opportunistic behaviour which may lead to a reformation of coalition in social exchange theories and the occurrence of the Oedipus conflict. This is explained as a drastic imbalance of power and dependence where one of the initial parties is eliminated of the core relationship through a new party. This situation may have a high risk of occurrence in the case of specialisation as explained before when outsourcing new trial product groups to subcontractors. In this situation, if the tier 1 supplier is not included in the product development stage and does not provide the service of supervision and quality insurance, the brand may surpass the tier 1 supplier and operate directly with the subcontractor which puts him into the position of the new party in the core relationship. This situation, however, is also contradicting to the findings of this research where the authorisation of subcontracting may only take place when long-term relationships within the buyer-supplier constellation is given. In this sense, the risk of occurrence of opportunistic behaviour and the Oedipus conflict may only occur if the required basis of trust, honesty and transparency is not given in the long-term relationship and the withdrawal of the business relationship occurs as explained in Emerson's fourth balancing operation strategy (Emerson, 1962).

## **5.2 Brands motivation in authorising subcontracting**

*Analysis on RQb: What are the brands perceptions of benefits through the authorisation of subcontracting within their supply chain performance?*

The empirical data of this research indicates the general positive attitude on the authorisation of subcontracting where brands highlight the necessity to not limit the other respective party for both sides benefits. In addition, the brands acknowledge the aspect of suppliers having the difficulty in operating a fully vertical business set up which may not be majorly existing in the fashion and apparel industries. This is in alignment with the brands reporting suppliers having

difficulties in operating with maximum effectiveness and full capacity utilisation of their machinery as seasonal fluctuations on requested production quantities by brands is given which complicates the production planning. These insights of brands may indicate the given circumstances of balanced business operations which may be compared to the balance/imbalance formula of power and dependence by Emerson (1962). In this sense, a high level of balance is given within the buyer-supplier relationships which enabled the shared acknowledgement of the reciprocal party to understand the respective business motivations and intentions. This level of significant recognition may only have been able to be reached through a long-term relationship of the brand and the tier 1 supplier which resulted in the given level of transparency in communication.

According to the interviewed brands, the potential of extending the given capacity of the supplier is highlighted as being beneficial for all parties, the brands, suppliers, and subcontractors. When extending the capacity, brands may experience more in-time production possibilities which enables them to plan and source last-minute products and have supply chain flexibility with reduced lead times. Similarly, the supplier experiences the benefit of reaching a fully booked capacity status which enables the highest level of economic rentability and lowering the workload in the factory to stabilise overtime working hours when outsourcing overproductions to subcontractors. Similarly, as above, Emerson's balance formula with equal and reciprocal power of A over B and dependence of B over A may be used to describe the benefit of capacity where the subcontracting may lead to a better balance of operations if authorised. This consequently has a positive influence on the given level of trust, honesty and transparency and the fostering of long-term relationships as explained in more detail at *point 5.1*.

In addition, the benefit of specialisation is highlighted in several varying aspects. In terms of specialisation, the brands define the benefit of extending the know-how and ability to produce the respective styles when outsourcing to subcontractors. This is further enhanced by the argument that it is impossible for the main supplier to provide all machinery inhouse for specialisation as it may not be economically beneficial which leads to the benefit to embed subcontractors. Last, but not least, the brands report the possibility to trial test small order quantities on new introduced product groups which are not able to be produced at the tier 1 factory. When aligning the benefit specialisation to social exchange theories, it may be aligned in two major ways. First, as the initial reason for social exchange have been defined by Emerson (1976) and Cook (1977) as being specialisation, this factor has been fundamental in social exchange theories and is discussed in later versions. Second, Foa and Foa's resource theory (1974, 1980) may be highly suitable as it focusses on defining the given resources in social exchange relationships in more detail. When describing the factor specialisation, multiple resource groups may be chosen. While (1) love, (3) information, (4) money, and (5) goods may be defined as non-suitable, (2) status describes the prestige and esteem of the specialisation which may be desired by the brand to be subcontracted to increase the products prestige factor. In addition, the (6) service which is being used in the case of outsourcing the product may be defined as unique due to the provided knowhow and machinery when subcontracting.

When discussing the benefits capacity and specialisation in the context of subcontracting, the general issue and lack of addressing rationality in social exchange theories may be addressed. This is criticized by multiple theorists such as Cook (2000) and Zafirovski (2005) with the exclusion of sociological and anthropological aspects in social exchange relations. However, according to the findings of this research, in the case of authorisation it may be highlighted

that a rational decision is made by brands with the reason of having access to extended capacity and distinctive know-how and specialisation. This indicates possible contradictions on Cook's (2000) and Zafirovski's (2005) criticism and may be discussed on a broader context of the communication and authorisation of subcontracting in the fashion and apparel industry as following in the chapter below.

## 6 Discussion

*The discussion of this research includes the alignment of the theoretical framework and empirical findings to the existing literature related to the context of subcontracting. Moreover, the main research question of this research is answered which enables to give the full picture of the circumstances which need to be given to authorise subcontracting from a brand's perspective.*

Discussion in relation to main RQ: *Under what conditions may fashion and apparel brands authorise subcontracting within their supply chains?*

It is generally seen in the findings of this research that the interviewed brands do not have a shocking and rejecting attitude towards subcontracting as it may be indicated by the given academia through the major conjunction towards unauthorised subcontracting (Bair, Anner and Blasi, 2013; Garcia-Torres *et al.*, 2019; Caro, Lane and Cuenca, 2020; Caro, Lane and Sáez de Tejada, 2021). The interviewed brands have reported subcontracting as not necessarily having the conjunction of *being bad* when being properly embedded within the brand's sourcing practices and requirements. When discussing the general attitude towards subcontracting, the interviewed brands reported several past experiences on the communication and authorisation of subcontracting. This has revealed the first unexpected insights on the brands perspective when exploring the context of subcontracting as brands are highlighted as having the highest risk of experiencing reputational damage by the public with *name and shame* schemes (Plambeck and Taylor, 2016).

However, this research also reveals that a general sensitivity of brands on subcontracting is still existing as only the minority of brands stated the exact number of subcontractors being active in their current production supply chains. In addition, when sampling potential brands for this research, it showed that most brands omit any claims related to subcontracting to the public. Only the minority of interviewed brands do report on their websites and sustainability reports that subcontracting is not being authorised as clearly stated in their supplier guides and Code of Conducts. Similarly, an even lower amount of brands provides further insight into their respective situations with subcontracting where the authorisation and global communication is only taking place through the support of foundations such as the Fair Wear Foundation which is actively working towards improving about conditions in the fashion and apparel industry (Fair Wear Foundation, 2022). Reasons for this may be the reveal of subcontracting by a neutral third-party organization which provides trust for the public in believing in real facts and figures rather than the brands' sustainability claims. However, existing literature to support this opinion is so far not given in the context of subcontracting to further support this assertion. This reveals the necessity of further shifting the academic and public attitude towards the recognition of using authorised subcontractors in their supply chains. The author of this research claims that the authorisation of subcontracting may not publicly be understood and approved if fashion and apparel brands are the only leading force

in public education. As the case of public communication of subcontracting through the Fair Wear Foundation reveals the increased confidence of brands in revealing sensitive information, the same course of action may need to be taken by multiple leading stakeholder groups such as non-governmental organizations and global organizations such as the United Nations and OECD.

Another reason for the fear of disclosing subcontracting related information of brands may be the lack of differentiation of the types of subcontracting by the public which are authorised and unauthorised subcontracting. This was indicated by the interviewed brands of this research when giving examples and examining scandals related to subcontracting where one of the brands specifically highlighted the non-differentiation. According to academic literature, the same situation is recognisable. Whereas multiple papers focus on examining the given aspects of unauthorised subcontracting and give subcontracting a rather negative conjunction (Kooli, Tiu Wright and Wright, 2010; Bair, Anner and Blasi, 2013; Caro, Lane and Cuenca, 2020; Caro, Lane and Sáez de Tejada, 2021), none of the papers examine the context of authorised subcontracting and reveals the potential benefits of authorising subcontracting for brands as well as for the public. Reasons for this lack of research are not yet given, however, the general sensitivity of the topic and severity of past scandals such as the Rana Plaza accident in Dhaka, Bangladesh with an unauthorised subcontracting conjunction may be crucial for the so-far avert attitude of scholars and the public.

This research highlights that the authorisation of subcontracting may only take place by brands if different conditions are existing. First, from a brand's perspective trust, honesty and transparency in long-term buyer-supplier relationships need to exist which enables the creation of the basis of brands and suppliers to communicate and request the usage of subcontractors. As indicated in the analysis of this research, this may only occur with a balanced power and dependence relation between buyers and suppliers. Only in this case, suppliers feel empowered to introduce potential subcontractors to the brands without fearing negative consequences which disables the future development of the given relationship. Similar findings are presented in the existing literature which report a rather restrained attitude of suppliers in communicating sensitive information to the brands which may have negative influence in the buyer-supplier relationship (Anderson and Weitz, 1992; Christopher, 1992; Locke, Qin and Brause, 2007). However, in this case, the fear of the tier 1 supplier of opportunistic behaviour of the brand to surpass the tier 1 supplier and operate directly with the subcontractor as explained with the Oedipus complex may exist. Even though well-established bases of trust, honesty and transparency are existing in buyer-supplier relationships, this level of consciousness and sensitivity of communicating subcontracting may remain.

As a second condition, this research indicates the necessity of brands to have the possibility to conduct auditing procedures through direct visits and/or third-party auditors prior to usage to ensure their compliance with the brand's requirements and rules. This is also explained in existing literature which describes supplier audits as being the main type of observing and controlling the supplier's responsibility efforts at production and supply facilities (Plambeck and Taylor, 2016). However, the issue of insufficiency of supplier audits in identifying potential risks and the usage of unauthorised subcontracting are highlighted (Locke, Qin and Brause, 2007; Bair, Anner and Blasi, 2013; Labowitz and Baumann-Pauly, 2015). In the author's opinion, this makes the potential of current practices in identifying the existing circumstances at suppliers vague and doubtful. This leads to the need of finding alternative solutions in identifying or reducing the risk of unauthorised subcontracting in the fashion and

apparel industry as opportunistic behaviour may have been one of the main reasons for the global scandals where involved brands claimed ambiguity due to hidden and unauthorised subcontracting.

However, to reduce the risk of unauthorised subcontracting and enable the authorisation, the third condition of understanding the respective supplier's and brand's motivations and intentions need to apply. From a supplier's perspective, this research highlights the motivation of suppliers to maximise their economic benefit with the supplier's intention to fully book the available capacity inhouse for maximum utilisation. According to the interviewed brands, in real life situations, unforeseeable fluctuations in demand and last-minute requests by brands to produce their products impedes the full capacity planning, where the overbooking and resulting over-capacity utilisation occurs. In this case, the utilisation of subcontractors may be a solution to support the supplier in reaching full economic benefit. This research's findings are validated by existing literature which describes the economic benefit of suppliers to be in their focus during operations (Kooli, Tiu Wright and Wright, 2010) and the given aspects of capacity planning as explained in this research (Jiang, 2009; Vairaktarakis, 2013). Similarly, this research shows the intention of suppliers to satisfy the customer's requirements which results in having the ability to produce and requested product. This may also be the case even though the required expertise and machinery is available inhouse is existing. In this situation, subcontracting is highlighted as being a solution for suppliers to fulfil the brand's request by extending the knowhow in production with a broader specialisation which is described in the findings of this research as well as in existing literature (Lazerson, 1990).

In comparison, from a brand's perspective, the motivations, and intentions to make usage of and authorise subcontracting is providing the fourth condition which is the identification and valuation of benefits. The findings of this research show similar motivations of brands to suppliers in terms of supply chain flexibility whereas specialisation is differing. In the brand's case, the extension of capacity brings the benefit of having a higher availability of production capacity and machinery when needed which enables to reach the set lead times in critical situations. In terms of specialisation, brands benefit of the availability of a broader set of machinery and have access to the existing supplier network of the tier 1 supplier which may have limits for brands. In this sense, the existing literature confirms the benefit of capacity utilisation and specialisation by Lazerson's (1990) research, however, lacks in providing further insights into the benefits for brands in general. Even though, the supplier network accumulated in a specific region such as the Capri knitwear district in Italy or the Toyota City in Japan are highlighted in his research, no further assessment on the given circumstances at those areas has so far been conducted. Even though, this research provides worthwhile insights through the exploration of the phenomenon of authorising subcontracting, it fails in give the full overview of potential benefits through subcontracting in general. In the author's opinion, this may be due to the given sensitivity of subcontracting in general which has been kept hidden since multiple decades where suppliers may fear to reveal the existing circumstances at subcontracting facilities. Through this general restraint attitude, the public and academia may bear important lack of research in the field of subcontracting while embedding brands into the constellation. This is indicated by this research as brands do not have the full overview and insight of subcontracting in terms of pricing and costs even though the cost factor is one of the determining motivations for brands during the procurement process according to existing literature (Bair, Anner and Blasi, 2013).

## 7 Conclusions

Subcontracting is a supply chain practice which should be more acknowledged by researchers, and fashion and apparel brands. Especially, as it has been described as a common practice in academia since the historical establishment of trading, it still has its strong roots in global production set-ups. However, academic papers are majorly existing in the context of outsourcing production with a negative conjunction whereas the lack of visibility, traceability and the sustainability dilemma are in the focus. This led to the global rather negative understanding and reserved attitude towards subcontracting whereas the authorised and unauthorised type are not distinguished. Furthermore, academia and the public have so far failed in highlighting the potential benefits of authorising subcontracting for brands and suppliers. This may be due to the global scandals and difficulties of stakeholder in fully understanding the root-cause of the practice without acknowledging the respective brands' and suppliers' motivations and intentions for its usage. In this sense, this research is grasping these circumstances and explores the context of subcontracting to identify benefits and the potential of authorisation from a brand perspective. The results of this research show that brands do have a differing mindset on discussing subcontracting in comparison to academia. When striving to establish long-term buyer-supplier relationships with their tier 1 suppliers, who are the core of the sourcing communication and are the leading force in choosing potential subcontractors, brands may find success and create benefits when effectively embedding subcontracting within their supply chains. When the authorisation of subcontractors takes place, brands may experience benefits in terms of better capacity planning which is leading to more effective lead times. In addition, when subcontracting is being used for the reason of specialisation and external know-how, a higher level of product variety may be reached. However, the given conditions with trust, honesty and transparency within long-term buyer-supplier relationships need to be given where subcontractor relevant information is communicated. Moreover, it has shown that the conditions of keeping full control over the supply chain network, giving the permission for usage and authorisation and the safeguard of product quality need to be ensured. This research shows that the authorisation leads to the establishment of a better trust and transparency in supply chains which further drives the motivation and trust of suppliers and brands in supporting visible working practices. In this sense, it may be the solution to tackle the issue of unauthorised and hidden subcontracting within the fashion and apparel industry.

### 7.1 Limitations

Due to the main focus of academia so far in analysing the drawbacks of subcontracting, with a negative conjunction (Bair, Anner and Blasi, 2013; Caro, Lane and Cuenca, 2020; Caro, Lane and Sáez de Tejada, 2021), no clear basis for this research on the positive aspects was given. Therefore, a more explorative approach of this research is given which provides initial insights into the subcontracting context. In this case, due to the scope of this research and the lack of existing literature in this context, a full picture of the subcontracting network may so far not be given.

Moreover, the brand perspective of this research sets the limit at initial stages with the exclusion of the supplier perspective. However, as the brand perspective already indicates the significance of buyer-supplier relationships within the brand-supplier-subcontractor network

with the supplier as the core block, valuable understanding of the context of authorising subcontracting from the supplier's side may not be given.

This research focusses on examining the context of subcontracting through a social exchange theoretical lens which leads to the examination of subcontracting in the context of social interaction. It brings worthwhile insights into the motivations and intentions of buyers and suppliers where the power-dependence relation is key for success for the communication of subcontracting. However, the choice of this theory may also limit the possibility to research additional factors such as the price and cost factor which is dominating for supplier in this context.

In addition, the methodological research approach of this research to conduct a qualitative research strategy for the exploration of the authorisation conditions of subcontracting was chosen. This enables the explorative approach on examining the given context with a more interpretative orientation, however, may also fail in proving required measurement with a positivistic orientation of a quantitative research strategy. This is further supported by the general scope of this research whereas a quantitative study may bring more valid and reliable data on the given research of subcontracting.

## **7.2 Theoretical and practical contribution**

From a theoretical perspective, this study contributes to the existing literature in various ways. First, this research advances the general understanding of subcontracting with the exploration of the context with a neutral lens. By focussing on the potential beneficial and opportunity providing aspect of subcontracting, this study extends with a complementary stream towards the authorisation of subcontracting which has tended to be so far examined with a negative conjunction of unauthorised subcontracting (Bair, Anner and Blasi, 2013; Vairaktarakis, 2013; Caro, Lane and Cuenca, 2020; Caro, Lane and Sáez de Tejada, 2021). In this sense, this research builds the basis for future research to further grasp specific aspects from this study to provide richer data within the context of authorising subcontracting. Second, as brands are highlighted as being the leading force and dominant decision maker in the supply chain outlook (Smith, 2003; Carter, Rogers and Choi, 2015), the focus of this study on the brand's perspective gives valuable insights into the conditions which need to apply for brands to authorise subcontracting. Therefore, the knowledge of circumstances for brands to operate in a cooperative measure with suppliers for the communication and authorisation of subcontracting are enlarged which have so far only been indicated by existing literature (Kooli, Tiu Wright and Wright, 2010). Third, through the empirical evidence of this research on past experiences and situations of the interviewed brands on the context of subcontracting, worthy insights were given to test the suitability of social exchange theoretical views in explaining the context of subcontracting as visible in the analysis section of this thesis.

In addition, this research provides practical contribution to the fashion and textile industry in three major ways. First, through the focus of this study on identifying requirements within buyer-supplier relationships for the authorisation of subcontracting, fashion brands may make usage of the results when developing long-term relationships for the potential authorisation of subcontracting. This may build first, the required basis for effective communication of subcontracting and enable brands to understand possible benefits which may result out of the authorisation. Second, other stakeholder groups may find inspiration in embedding the results

into their daily work. Non-governmental organizations for example such as the Fair Wear Foundation may embed the results of this research into their brands' performance checks to better understand the motivations and intentions of brands to potentially authorise subcontractors when giving clarity to the public. Third, through the understanding of motivations of brands in potentially authorising subcontracting, local economies may be supported which supports the on-boarding of small subcontracting companies to global import and export of goods. This may have a positive influence on the respective gross domestic product and may create new job possibilities and well-being of workers as indicated in the results.

## 8 Future research

Based on the identified research limitations at *point 7.1*, potential future research directions as complementary and comparative study propositions are evaluated. First, due to the general lack of existing literature on the authorisation perspective of subcontracting, this study may only provide an exploratory approach. According to academia, fashion and apparel brands are led by the price, quality, lead time and supply chain flexibility factors (Bair, Anner and Blasi, 2013). However, the findings of this research within the context of subcontracting provide further insights into the quality, lead time and supply chain flexibility factors whereas the understanding of the cost aspect of subcontracting remains insufficient. In this sense, this may be used for the basis of forming new research directions with the focus of the price aspect on subcontracting. Second, a comparative research approach may be taken on this research with the focus of examining the conditions to authorise subcontracting from a supplier's perspective. This may give a more distinctive understanding and analysis of the theoretical framework within the social exchange theory where suppliers are the core within buyer-supplier relations next to brands. This may enable researchers to better understand and highlight the suitability of Emerson's power and dependence relation theory when comparing brands' and suppliers' motivations and intentions in the context of subcontracting. Third, a change of theoretical lens may provide the basis for future research with a similar direction. This may be in alignment with the cost factor of subcontracting as explained before which may be better examined with alternative theories such as the transaction cost theory first proposed by Ronald Coase (1937). As the theory describes the existence of firms and cost aspect of entering into contracts with exchange partners, this future direction may act as an alternative to this research (Costa, 2004). As a fourth and last proposed future direction by the author of this research, a quantitative research strategy may be chosen with a more positivistic orientation. This may enable to leverage the validity and generalisability of this research direction to further indicate and research the generalisability of the findings of this research.

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# Appendices

## I. Interview template

General information:

Interviewee job position:

Company size:

Type of sourcing:

Sourcing from which countries:

Product offering:

Number of suppliers / subcontractors:

### Topic buyer-supplier relationship:

1. How does a buyer-supplier relationship influence subcontracting?
2. What does a good buyer-supplier relationship mean to you? Please define.
3. How do you ensure long term buyer-supplier relationships? What is needed from both sides (buyer and supplier side)?

### Topic authorised subcontracting:

4. Has there been any discussions on whether authorising subcontractors is good/bad for the company?
5. In which cases are subcontractors authorised/ not authorised? Can you give an example?
6. Do you use subcontractors? Do you have direct contact?
7. How are subcontractors selected? Do you have any influence over the decision?
8. What advantages do you see in subcontracting parts of the production?
9. What disadvantages do you see in subcontracting parts of the production?
10. Is the use of subcontractors communicated on the company website?
11. How visible is subcontracting in supply chains?
12. What is influencing the usage of subcontractors? Which factors can you think of at this point?
13. How are the following factors influencing the potential usage of subcontracting?

- Leadtime, capacity and safety stocks
- Pricing and involved costs
- Product quality, complexity, and variety
- Degree of specialisation and lack of know-how
- Strategic decisions of buyer-supplier relationship and supply chain strategy
- Possible non-compliant working behaviours
- Governmental regulation and enforcement
- Inspections including audits etc.
- Freedom of press
- Brand recognition and reputational risk

### Potential topic unauthorised subcontracting:

14. What difficulties do you see in unauthorised subcontracting?

15. How have you worked to detect unauthorised subcontracting? Can you give an example?

Sustainability:

16. Do you consider also environmental and social aspects in authorising subcontractors?  
If yes, in which way?
17. How do you think does subcontracting influence your sustainability work?

**II. Results of thematical analysis and indexing process of included data according to Ritchie and Lewis (2003) framework**

Step 1A:

1. Buyer-supplier relationship influence on subcontracting
  2. Requirements for good buyer-supplier relationship
  3. Ensuring good buyer-supplier relationship
  4. Attitude towards unauthorised subcontracting
  5. Cases of authorisation of subcontracting
  6. Requirements to authorise subcontracting
  7. Current usage of subcontractors
  8. Direct contact with subcontractor
  9. Process of selecting subcontractors
  10. Advantages of subcontracting
  11. Disadvantages of subcontracting
  12. Selection of subcontractor
  13. Public communication of subcontracting
  14. Given visibility of subcontracting
  15. Influence of lead time on usage of subcontracting
  16. Influence of capacity on usage of subcontracting
  17. Influence of safety stocks on usage of subcontracting
  18. Influence of prices on usage of subcontracting
  19. Influence of quality on usage of subcontracting
  20. Influence of product complexity on usage of subcontracting
  21. Influence of product variety on usage of subcontracting
  22. Influence of degree of specialisation on usage of subcontracting
  23. Influence of supplier product knowledge on usage of subcontracting
  24. Influence of strategic decision of buyer-supplier relationship on usage of subcontracting
  25. Influence of supply chain strategy on usage of subcontracting
  26. Influence of supply chain visibility on usage of subcontracting
  27. Influence of possible non-compliant working behaviours on usage of subcontracting
  28. Influence of governmental regulations on usage of subcontracting
  29. Influence of inspections on usage of subcontracting
  30. Influence of freedom of press on usage of subcontracting
  31. Influence of brand recognition on usage of subcontracting
  32. Difficulties of unauthorised subcontracting
  33. Procedures to identify unauthorised subcontracting
  34. Sustainability considerations on potential subcontracting
- Potential influence of subcontracting on sustainability

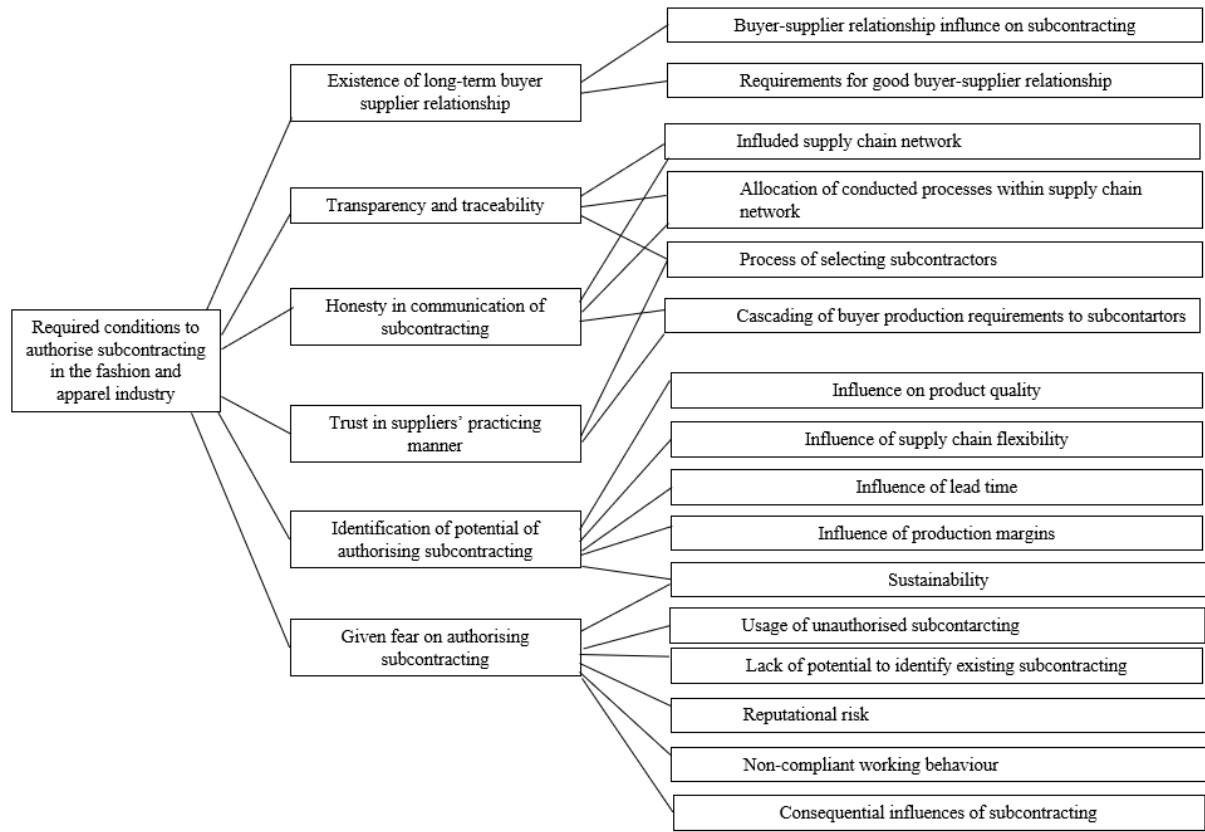
## Step 1B:

1. Buyer-supplier relationship
  - 1.1. Buyer-supplier relationship influence on subcontracting
  - 1.2. Requirements for good buyer-supplier relationship
  - 1.3. Ensuring good buyer-supplier relationship
2. Unauthorised subcontracting
  - 2.1. Attitude towards unauthorised subcontracting
  - 2.2. Cases of authorisation of subcontracting
  - 2.3. Requirements to authorise subcontracting
  - 2.4. Difficulties of unauthorised subcontracting
  - 2.5. Procedures to identify unauthorised subcontracting
3. Subcontracting
  - 3.1. Current usage of subcontractors
  - 3.2. Direct contact with subcontractor
  - 3.3. Process of selecting subcontractors
  - 3.4. Advantages of subcontracting
  - 3.5. Disadvantages of subcontracting
  - 3.6. Selection of subcontractor
  - 3.7. Public communication of subcontracting
  - 3.8. Given visibility of subcontracting
4. Factors influencing subcontracting
  - 4.1. Influence of lead time on usage of subcontracting
  - 4.2. Influence of capacity on usage of subcontracting
  - 4.3. Influence of safety stocks on usage of subcontracting
  - 4.4. Influence of prices on usage of subcontracting
  - 4.5. Influence of quality on usage of subcontracting
  - 4.6. Influence of product complexity on usage of subcontracting
  - 4.7. Influence of product variety on usage of subcontracting
  - 4.8. Influence of degree of specialisation on usage of subcontracting
  - 4.9. Influence of supplier product knowledge on usage of subcontracting
  - 4.10. Influence of strategic decision of buyer-supplier relationship on usage of subcontracting
  - 4.11. Influence of supply chain strategy on usage of subcontracting
  - 4.12. Influence of supply chain visibility on usage of subcontracting
  - 4.13. Influence of possible non-compliant working behaviours on usage of subcontracting
  - 4.14. Influence of governmental regulations on usage of subcontracting
  - 4.15. Influence of inspections on usage of subcontracting
  - 4.16. Influence of freedom of press on usage of subcontracting
  - 4.17. Influence of brand recognition on usage of subcontracting
5. Sustainability within subcontracting
  - 5.1. Considerations on potential subcontracting
  - 5.2. Potential influence of subcontracting on sustainability

## Step 2:

1. Buyer-supplier relationship
  - 1.1. Buyer-supplier relationship influence on subcontracting (influence strategic decision of relationship)
  - 1.2. Requirements for good buyer-supplier relationship
  - 1.3. Ensuring good buyer-supplier relationship
2. Buyer-supplier honesty
  - 2.1. Used supply chain network for production
  - 2.2. Allocation of processes to supply chain network
  - 2.3. Trust within buyer-suppliers
3. Full transparency between buyer-supplier communications
  - 3.1. Supply chain network (influence of visibility)
  - 3.2. Production work-in-progress
  - 3.3. Cascading of buyer production requirements to subcontractors
4. Unauthorised subcontracting
  - 4.1. Attitude towards unauthorised subcontracting
  - 4.2. Cases of authorisation of subcontracting
  - 4.3. Difficulties of unauthorised subcontracting (influence non-compliant working behaviour)
  - 4.4. Involved reputational risk (influence brand recognition)
5. Subcontracting
  - 5.1. Requirements to authorise subcontracting (needed specialisation, knowhow)
  - 5.2. Current usage of subcontractors
  - 5.3. Direct contact with subcontractor
  - 5.4. Process of selecting subcontractors
  - 5.5. Advantages of subcontracting
  - 5.6. Disadvantages of subcontracting
  - 5.7. Public communication of subcontracting
6. Factors influencing subcontracting
  - 6.1. Influence of supply chain flexibility on usage of subcontracting (capacity, supply chain strategy)
  - 6.2. Influence of time on usage of subcontracting
  - 6.3. Influence of safety stocks on usage of subcontracting
  - 6.4. Influence of prices on usage of subcontracting
  - 6.5. Influence of quality on usage of subcontracting (product complexity, product variety)
7. Sustainability within subcontracting
  - 7.1. Considerations on potential subcontracting
  - 7.2. Potential influence of subcontracting on sustainability
8. Who is in charge
  - 8.1. Governmental regulation
  - 8.2. Law enforcement
9. Possibility to identify subcontracting
  - 9.1. Audits
  - 9.2. Factory visits
  - 9.3. Freedom of press

Step 3:





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