

Global Corporate Responsibility, Transparency, and the Environment: Tracing Indonesian Second Trier Suppliers of Japanese Fashions Brands

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Abstract

As stakeholders increasingly demand products produced socially and environmentally responsible, Multi-National Corporations (MNCs) have since 1990 more and more joined Global Corporate Responsibility (GCR) frameworks showing an increased awareness of MNCs about the need for sustainable forms of production in their supply chains. Uniqlo is one of the global fashion brands committed to global GCR standards. It will look for suppliers that operate in an environmentally responsible manner. In total, fourteen first tier and nine second-tier suppliers of Uniqlo are Indonesian companies. In this paper, we have examined the participation of Uniqlo's Indonesian second-tier supplying factories in PROPER, the environmental management rating program of the Indonesian Ministry of Environment. Our research shows that since 2015, Uniqlo's 2nd tier suppliers increasingly participate in PROPER – starting from 2021, all Uniqlo's Indonesian 2nd tier suppliers participate in PROPER. We conclude that this increased participation in PROPER may indicate increased pressure on supplier companies from MNCs such as Uniqlo to demonstrate environmentally responsible management. To anticipate a growing demand for environmentally responsible production, we recommended that the Indonesian government expands the PROPER program to include companies with a less expected/potential environmental impact, such as sewing factories, or develop a similar program for such companies so that these companies can demonstrate compliance with international GCR standards of production and management.

Keyword

Global corporate responsibility, environmental responsibility, Japanese companies, supply chain, Indonesia

1. Introduction

Japanese Multinational Companies are significant players in the global economy. Multinationals have worldwide production and distribution networks and are increasingly held accountable by stakeholders – consumers and shareholders - for the behavior of partner companies in their supply and distribution chain. The presence of multinational cooperation may bring advantages in the country of origin and the country where its suppliers are located. However, the demand by MNCs for cheap products may also have negative consequences, among other environmental degradation. (Saleh 1991)

With the issue of global warming gaining prominence on the world stage, there is increasing pressure on MNCs to tackle sustainability, recycling, water, air pollution, and waste throughout their supply chain. The environmental policies of heavy industry and mining sectors have long been on the radar of NGOs as the environmental damage has been acknowledged for a long time. Since the 1990s, however, the sustainability of the fashion industry and the impact of fashion brands and their suppliers on the environment (and human rights) has gained prominence. Consumers and other stakeholders increasingly demand environmentally sustainable production. Bad publicity about environmental pollution may cause damage to the brand. Vice versa, a "green" image will increase the value of a fashion brand's products.

The fashion industry is more polluting than most people realize. It is responsible for 20 percent of global wastewater, 10 percent carbon emissions, and vast amounts of waste. Every second, one garbage truck full of textiles is landfilled or incinerated. Our clothing is also polluting the ocean with plastic. (UN Alliance For Sustainable Fashion Addresses Damage of 'Fast Fashion,' 14-March-2019, <https://www.unep.org/news-and-stories/press-release/un-alliance->

sustainable-fashion-addresses-damage-fast-fashion, and Ro, C, 'Can Fashion Ever Be Sustainable,' 11th March 2020, <https://www.bbc.com/future/article/20200310-sustainable-fashion-how-to-buy-clothes-good-for-the-climate>).

Because of increased awareness, multinational companies in conducting their business are held not only accountable by stakeholders for profit maximization but also for responsible and sustainable environmental management. As a result, companies are increasingly developing CSR programs to improve the social and environmental living standards of the communities around the supplier companies of global fashion brands.

As stakeholders increasingly demand products produced socially and environmentally responsible, Multinational Corporations (MNCs) have since 1990 more and more joined Global Corporate Responsibility (GCR) frameworks showing an increased awareness of MNCs' need for sustainable forms of production in their supply chains. Since the 1990s, the role of Global Corporate Responsibility (GCR) in international business has expanded enormously, especially in the context of MNCs. (Lim and Tsutsui 2012; Aguilera and Cazorra 2004). A Global Corporate Responsibility involves the commitment by MNCs to ensure that all companies in their supply chain implement policies that reflect the principles of Good Corporate Governance, social responsibility, respect for labor rights, inclusion, and environmental sustainability, as well as the commitment to be transparent and accountable by (self-)reporting about all those key issues.

Within GCR frameworks, an MNC's Global Corporate Responsibility commitment should be reflected in the Mother Company's policies and the MNC's commitment to advance similar policies throughout the supply chain: the daughter companies and the first, second, and third-tier supply companies. This responsibility to promote the GCR key areas within the whole supply chain means that GCR has a more extensive scope than Corporate Social Responsibility (CSR), which can be defined broadly as "a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders."

According to the World Business Council for Sustainable Development, Corporate Social Responsibility is a "business' commitment to contribute to sustainable economic development, working with employees, families, local communities, and society to improve their quality of life." Furthermore, the World Business Council observes a "Continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families and that of the local community and society at large." (<https://www.wbcsd.org/>). Nowadays, the development of transportation, information, and communication has allowed industries to expand their supply chain globally, including the fashion industry. CSR policies of companies have thus become a global phenomenon, especially since the 2000s. However, MNC operations are difficult to regulate effectively globally because MNCs can benefit from weaknesses in different social and environmental legislation across different countries.

In response, several international organizations, including the Organization for Economic Cooperation and Development (OECD), the International Labour Organization (ILO), the United Nations (UN), and the European Union (EU), have created GCR initiatives to promote CSR throughout the supply chain of MNCs, by establishing GCR guiding principles and standards for MNCs. For example, in 1998, the ILO adopted the Declaration on Fundamental Principles and Rights at Work, which covers four areas including freedom of association and the right to collective bargaining, the elimination of forced and compulsory labor, the abolition of child labor, and the elimination of discrimination in the workplace. In 1999, the UN proposed a Global Compact to establish global norms for MNCs and their related business enterprises in human rights, labor, the environment, and anti-corruption activities. In 2000, the OECD produced the Guidelines for Multinational Enterprises to guide responsible corporate behavior. These guidelines establish a set of recommendations for MNCs on information disclosure, employment, industrial relations, the environment, corruption, consumer interests, science and technology, competition, and taxation. (Kusuma 2016).

In Indonesia, Corporate Social Responsibility is regulated by the government. The primary regulation is Article 74 Of Law No. 40/2007 on Limited Liability Companies (2007 LLC Law) and Article 15 of Law 25/2007 on Investment (2007 Investment Law). The 2007 LLC Law translates corporate social responsibility into the term "social and environmental responsibility," while the 2007 Investment Law translates it into "social responsibility of corporations." (Shidarta 2009). Both Laws stipulate that the requirement to conduct operations according to the principles of Good Corporate Governance includes the requirement for corporations to conduct operations in a socially and environmentally responsible way.

Japan is a major trade-partner of Indonesia, and the more than 350 Japanese companies that are listed in Indonesia invested almost 5 billion US Dollar in the Indonesian economy in 2018, placing Japan as the fourth country with respect to foreign direct investment in Indonesia (Mardika Parama, “Japanese Companies Hold Firm on Investment Plans in Indonesia Despite Drop in Sales, Production”, The Jakarta Post, Thursday July 9th, 2020). Japanese MNCs increasingly participate in global corporate responsibility (GCR) frameworks and regularly report on GCR’s key areas in annual reports or special sustainability reports especially since 2015 following three developments: first, the Government Pensions Investment Fund (GPIF) in Japan becoming a signatory of the UN Principles for Responsible Investments (PRI), second, the adoption of the Japanese Stewardship Code in 2014, and, third, the adoption of the Japanese Corporate Governance Code in 2015. As a result, listed corporations in Japan had to satisfy a comprehensive set of guidelines and associated expectations of the public (Eric Lindholm, “Sustainability reporting in Japan and Sweden – a brief comparison”. PWC.com – opinions and commentary, July 31th 2020. <https://www.pwc.com/jp/en/knowledge/column/sustainability-reporting-in-japan-and-sweden.html>). By participating in GCR frameworks Japanese MNCs commit to environmentally and socially responsible production throughout their supply chain – including by Indonesian suppliers.

Japan is one of the countries with a growing fashion industry with a global appeal, especially in Asia. One might say that Japan has become one of the centers of the worldwide fashion industry. Several Japanese fashion brands have become leading international brands and MNCs with global supply chains. One of the most reputable Japanese fashion retailers. The large majority of products sold by Uniqlo are produced outside Japan, in countries like China, Vietnam dan Indonesia. In Indonesia, 17 factories make products for Uniqlo. (Uniqlo Akhirnya Ungkap Lokasi Pabrik Garmen, Ada Indonesia, Available at <https://www.liputan6.com/bisnis/read/3964613/uniqlo-akhirnya-ungkap-lokasi-pabrik-garmen-ada-indonesia>, 13 May 2019). Uniqlo is one of the global fashion brands committed to international GCR standards. It will look for suppliers that operate in an environmentally responsible manner. This paper analysis explores methods to investigate whether the Indonesian suppliers for Uniqlo demonstrate environmental responsibility in their management.

This paper results from small-scale research cooperation between lecturers of the Department of Business Law, Humanities faculty, Bina Nusantara University, and Professor Yuzuru Shimada from Nagoya University about GCR practices in the Indonesian garment and footwear industry, who are suppliers of Japanese fashion brands and retailers.

2. Methods

As the covid-19 situation made onsite research and interpersonal research difficult and our research was limited in terms of time and money, we decided to look for the availability of online data that could help us answer the above question. Through online research, we found that the 2021 Fashion Transparency Index included 250 major global fashion brands and retailers, including Uniqlo. Moreover, Fashion Future, the NGO behind the Fashion Transparency Index, has published all the data they have used to compile the 2020 Fashion Transparency Index on the website <https://wikirate.org/FTI2020>.

The 2021 Fashion Transparency Index also discloses information about fashion brands and retailers’ suppliers. The global fashion brand suppliers concerned indeed cooperated in providing such data to the Fashion Future researchers or published such a list of suppliers on their website. The dataset enabled us to single out the scores of Uniqlo regarding its commitment to GCR goals and provided a way to trace its Indonesian suppliers.

Having traced the Indonesian suppliers of Uniqlo we subsequently investigated whether these suppliers the last five years (2015-2020) participated in the PROPER program of the Indonesian Ministry of Environment, and, if yes, what scores they obtained with regard to environmental policies and reporting. PROPER stands for the Program for Rating the Quality of Companies’ Environmental Management (*Program Penilaian Peringkat Kinerja Perusahaan dalam Pengelolaan Lingkungan Hidup*: PROPER) Thus, this paper illustrates how reporting of suppliers by MNCs allows for monitoring of their environmental and social sustainability commitments by academicians and NGOs.

3. Literature Review

The term Corporate Social Responsibility (CSR) has been used globally since the 1970s. It has become increasingly popular, especially after the book *Cannibals With Forks: The Triple Bottom Line in 21st Century Business* (1998) by John Elkington. Developing three essential components of sustainable development, namely economic growth, environmental protection, and social equity, which the World Commission initiated on Environment and

Development (WCED) in the Brundtland Report (1987), Elkington packages CSR into three focuses: 3P, which stands for profit, planets, and people. A good company is not only looking for mere economic profit (profit) but also has a concern for environmental sustainability (world) and community welfare. (Marnelly 2012).

The post-World War II era has been marked by the proliferation of various forms of a global organization. One of the most prominent forms is the international corporate responsibility (GCR) model, which encourages companies to take responsibility for their business's social and environmental impacts. (Lim and Tsutsui 2012). Although the issue of corporate responsibility has received enormous international attention, the GCR movement has not culminated in a universal framework. (Meyer et al. 1997) This GCR movement ultimately reflects the global 'governance division,' namely into two forms consisting of 1. GCR is based on a self-reporting framework with requirements that tend to be less stringent, and 2. A certification framework that tends to be more stringent with detailed standards. In the certification framework, audits and other implementing provisions are often required.

Research conducted by Shawn Pope and Alwyn Lim (2019) has shown that ineffective governance of a government tends to be followed by the participation of companies that choose a certification framework. On the other hand, companies in countries with more established governance will choose a self-reporting framework with corporate responsibilities that tend to be freer (less stringent). It can be concluded that multinational companies tend to apply the certification framework to countries with a low level of disclosure (information) and governance and a CSR framework for countries with a good disclosure record. Since information disclosure is still one of the main obstacles to doing business in Indonesia, it is conceivable that multinational companies exporting to Japan prefer a certification framework/model.

In the local context, namely in positive Indonesian law, the discourse on corporate social responsibility has become increasingly prominent after this concept was normatively stipulated in Article 74 of Law Number 40 of 2007 concerning Limited Liability Companies. Previously, a similar provision was also contained in Article 15 of Law Number 25 of 2007 concerning Investment. The Limited Liability Company Law replaces corporate social responsibility with "social and environmental responsibility." The Investment Law prefers to keep using "corporate social responsibility." In this paper, the term corporate social responsibility will be written using the Limited Liability Company Law concept, namely social and environmental responsibility. (Shidarta 2009)

This research will rely on a local perspective or 'glocalization' (Drori et al. 1997), especially those related to integrating global and local contexts in doing business. Therefore, there are two dimensions of global diffusion, namely: (i) diffusion at the global level, where ideas at the global level regarding corporate governance are significantly supported and implemented in various countries (Meyer et al., 1997), and (ii) diffusion at the local level associated with the context in certain countries that have adopted international ideas on corporate governance. (Jackson and Apostolakou, 2010) Furthermore, this research will look at how GCR ideas are rooted and applied in Indonesia in supply chains in Indonesia and Japan in the garment industry sector.

3. Results and Discussion

3.1 Uniqlo and Its Commitment to the Environment

The fashion industry is one of the fast-growing retail sectors. Several well-known fashion brands dominate the Indonesian retail industry; Uniqlo is one of them. Uniqlo is a modern Japanese company that inspires the world to dress casually. Uniqlo is short for Unique Clothing Warehouse. It was established by Tadashi Yanai and is a member of the Fast-Retailing Group. As of May 31, 2021, Uniqlo owns 2,309 stores: 810 stores in Japan and 1,499 stores outside Japan. (<https://www.fastretailing.com/eng/group/shoplist/>). Fast Retailing has registered itself in Indonesia since October 16, 2012. The first Uniqlo store in Indonesia was opened in 2013 in Lotte Shopping Avenue, Kuningan, Jakarta. Currently, there are 40 Uniqlo stores in Indonesia.

Uniqlo has a philosophy called 'LifeWear,' "clothing designed to make everyone's life better." It is simple, high-quality, everyday clothing with a practical sense of beauty – ingenious in detail, thought through life's needs in mind, and always evolving." Based on this philosophy, it argues that they are not part of the fast-fashion business model because it produces durable clothing and has the principle that every piece of clothing worn must have a function that can facilitate the wearer's life. ('Uniqlo Dismisses the Idea That Its Fast Fashion Through The Concept of LifeWear' <https://www.forbes.com/sites/abinlot/2019/09/24/uniqlo-dismisses-the-idea-that-its-fast-fashion-through-the-concept-of-lifewear/?sh=541694904464>).

Concerning the environment, Fast Retailing (FR), as the parent company of Uniqlo, has a commitment and caring for the environment by eliminating waste in its business operations and across its supply chain, striving for the effective use of resources. FR also adopts innovative technologies to support a more sustainable way of doing business to reduce environmental impacts. FR will focus on five environmental areas:

- Address climate change.
- Improve energy efficiency.
- Manage water resources.
- Improve waste management and resource efficiency.
- Manage chemical substances.

The FR has conducted many initiatives to follow up on its environmental commitment. For instance, FR has joined the Better Cotton Initiative, a global not-for-profit organization that provides cotton farmers with education about the use of water and agricultural chemicals. For rayon products, FR also makes efforts to establish Traceability to viscose mills. Furthermore, Uniqlo has a program called Re. Uniqlo supports refugees by providing them with gently worn clothing and promotes the efficient use of resources by incorporating recycled materials in the production of new items. This program will reduce excessive waste, greenhouse gas emissions, and resource use throughout the product life cycle. UNIQLO Japan also recycles unwearable clothes into solid fuel and automobile soundproofing materials to ensure that nothing goes to waste. (Fast Retailing Sustainability Report 2021, 'Our Path to a Positive World,' https://www.fastretailing.com/eng/sustainability/report/pdf/sustainability2021_en_print.pdf#page=1&pagemode=thumbs&zoom=80). If we look at the transparency concerning its suppliers, FR, the parent company of Japanese retailer Uniqlo, 2017 released a list of suppliers in its annual Sustainability Report).

3.2 Uniqlo Company in the Fashion Transparency Index

The Fashion Transparency Index is an annual review of 250 of the world's largest fashion brands and retailers ranked according to their level of public disclosure on human rights and environmental policies, practices, and impacts in their operations and supply chains. The Fashion Transparency Index reviews brands' public disclosure on human rights and environmental issues across 239 indicators in 5 key areas: 1. Policies & Commitments, 2. Governance, 3. Supply Chain Traceability 4. Know, Show & Fix, and 5. Spotlight Issues this year are Decent work, covering Covid-19 response, living wages, purchasing practices, unionization and collective bargaining, gender and racial equality, sustainable sourcing and materials, overconsumption and business models, waste and circularity, water and chemicals, and Climate change and biodiversity. (Fashion Transparency Index 2021, <https://www.fashionrevolution.org/about/transparency/>)

If we look at the scores given to these 250 global firms, it becomes clear that transparency and accountability are still significant issues in the fashion industry. The top ten (10) in the index received a score between 78 and 56. This means that almost 97% of the firms received a score below 50. The overall average score across the 250 brands reviewed in 2021 is 23%, similar to the previous year. At the same time, the average score in each section is as follows: Policy and Commitment (53%), Governance (31%), Traceability (19%), Know, Show, & Fix (19%), Spotlight Issues (15%). By virtue of the above data, we can see that the progress on transparency in the global fashion industry is still slow among 250 of the world's largest fashion brands and retailers. Some critical information about the fashion industry's practices on the environment remains concealed.

According to key findings of the Fashion Transparency Index, about addressing the climate crisis, only 14% of the powerful brands disclose the overall quantity of products made annually, making it difficult to understand the scale of overproduction globally. Most carbon emissions occur at processing and raw material levels. While 62% of big brands publish their carbon footprint in their facilities, only 26% disclose this information at the processing and manufacturing level, and only 17% do so at a raw material level. More than one-third of big brands (36%) have published their progress towards reducing virgin plastics for packaging. Still, only 18% do so for textiles deriving from pure fossil fuels, which consumers are less likely to recognize as plastic. In addition, concerning supply chain traceability, over a quarter (27%) of major brands now disclose some of their processing facilities (e.g., spinning mills, dye-houses, and laundries) – up from 24% last year. And 11% of influential brands publish some of the raw material suppliers (e.g., cotton, wool, viscose) – up from 7% last year. (Fashion Transparency Index 2021, <https://www.fashionrevolution.org/about/transparency/>)

It is one of the big fashion brands assessed among 250 brands in the Fashion Transparency Index regarding Uniqlo. Overall, Uniqlo got a score of 4.2. Each section scored 8.6 at Policy and Commitments, 4.6 at Governance, 3.2 at Traceability, 4.3 at Know, Show & Fix, and 3.3 at Spotlight Issues. Based on the above data, we can see that Uniqlo got the highest score for policy and commitments. This means Uniqlo is transparent in publishing all or most social and environmental policies reviewed in their operations and suppliers and disclosing how most policies are put into action and goals on human rights and environmental impacts. Unfortunately, it scored below five in Governance, Traceability, Know, Show & Fix, and Spotlight Issues.

With its final score of 4.2, according to the Fashion Transparency Index, Uniqlo brand is likely to be publishing more detailed supplier lists; many will be publishing processing facilities as well as manufacturers, in addition to detailed information about their policies, procedures, social and environmental goals, Governance, supplier assessments, and remediation processes and some supplier assessment findings. This brand is also more likely to address some spotlight issues, such as carbon emissions, gender equality; sustainable sourcing and materials; energy use, waste, circularity, decarbonization, water, and chemicals.

In addition, to enhance transparency and ensure proper labor conditions throughout its supply chain, Uniqlo published a list of its core partners and international suppliers. The goal of increasing the transparency of its supply chain is to take on a greater responsibility to ensure good labor conditions and address issues concerning human rights and the environment. It discloses information on its partner factories on the company website. As of March 31, 2021, 14 Indonesian suppliers on this list constitute the Fast-Retailing core sewing factories and subcontractors and 9 UNIQLO core fabric mills. Data of those Indonesian suppliers are presented in Tables 1 and 2:

Table 1. Indonesian Fast Retailing Core Sewing Factory and Subcontractor List

No	Factory name	Factory address	Product type	Number of workers	Parent company name
1	P.T Namnam Fashion Industries	Jl. Mahar Martanegara No. 106A Rt.05 Rw.014 Cimahi, Jawa Barat, Indonesia	Apparel	Less than 1000 workers	Namyung Industrial Co., Ltd
2	PT TI Matsuoka Winner Industry	Jl. Raya Tegalpanas Jimbaran, Dsn Secang, Rt 01/01, Ds Samban, Kec. Bawen, Kab. Semarang Jawa Tengah, Indonesia	Apparel	1001 to 5000 workers	Toray International Indonesia
3	PT Jiale Indonesia Garment	Jl. Raya Rancaek Majalaya 389 Pesa/Kel Solokanjeruk kec Solokanjeruk, Indonesia	Apparel	1001 to 5000 workers	Shanghai Jiale Corp., Ltd
4	PT Jiale Indonesia Textile	Jl. Pecangaan Batealit No. 288 Ds. Gemulung Kecamatan Pecangaan, Jepara, Indonesia	Apparel	1001 to 5000 workers	Shanghai Jiale Corp., Ltd
5	PT Daenong Global	Jl. Raya Sadang-Subang Km138 Dsn. Cikadu Desa Manyeti Kec.Dawuan Kab. Subang- Jabar, Indonesia	Apparel	1001 to 5000 workers	Daenong Global
6	PT Eratex Djaja Tbk.	Jalan Soekarno Hatta No.23, Probolinggo 67212, East Java, Indonesia	Apparel	5001 to 10000 workers	Busana Apparel Group
7	PT Glory Industrial Semarang	Jl. Raya Soekarno Hatta Km9, Desa Samban Rt.01/Rw01 Bawen, Kabupaten Semarang, Jawa Tengah, Indonesia	Apparel	Less than 1000 workers	Makalot Industrial Co., Ltd
8	PT Glory Industrial Semarang-Demak	Jl. Raya Semarang Demak Km 18 Desa Dukun Kec Karang Tengah, Kab Demak, Jawa Tengah, Indonesia	Apparel	5001 to 10000 workers	Makalot Industrial Co., Ltd
9	PT. Leetex Garment Indonesia	Blok Pajagan Desa Sinar Jati Kec. Dawuan Majalengka, Indonesia	Apparel	1001 to 5000 workers	Pressfield Holdings Limited

10	PT. Matsuoka Industries Indonesia	Patokbeusi, Subang, Indonesia	Apparel	1001 to 5000 workers	Matsuoka Corporation
11	PT. Starlight Garment Semarang	Jl. Tegal Panas- Jimbaran Rt.01 Rw.01 Secang Samban, Bawen, Semarang, Central Java, Indonesia	Apparel	1001 to 5000 workers	Makalot Industrial Co., Ltd
12	PT. Starpia	Jl.Raya Sadang, Kampung Kiara II Rt.10/Rw.03 Desa Cikumpay, Kecamatan Campaka Kabupaten Purwakarta 41181 Indonesia	Apparel	1001 to 5000 workers	Sae-A Group
13	PT Eco Smart Garment Indonesia (Klego)	Dk. Blumbang, Rt.04 Rw.01 Desa Blumbang, Kec. Klego, Kabupaten Boyolali Jawa Tengah 57385 Indonesia	Apparel	1001 to 5000 workers	Pt. Pan Brothers Tbk
14	PT Eco Smart Garment Indonesia (Sambi)	Ds. Babadan Rt 19 Rw 05, Kec. Sambi, Kab. Boyolali, Indonesia Jawa Tengah 57376 Indonesia	Apparel	1001 to 5000 workers	Pt. Pan Brothers Tbk

Table 2. Indonesia UNIQLO core fabric mills list

No	Factory name	Factory address
1	PT Gunajaya Santosa	Jl. Rancajigang No 110, Majalaya, Jawa Barat, Indonesia
2	PT Indonesia Synthetic Textile Mills	Jl. Moch. Toha Km. 1, Kel. Pasar Baru, Kec. Karawaci, Kota Tangerang, Prop. Banten, Indonesia
3	PT Jiale Indonesia Textile	Jl Pecayaan Bate No 288, Kel. Gemulung, Kec. Pecangaan, Kab. Jepara, Prop. Jawa Tengah, Indonesia
4	Pt Pan Asia Jaya Abadi	Jl. Moh Toha KM 6,8 Bandung 40256 West Java, Indonesia
5	PT. Gistex	Jl. Nanjung KP. Cipatat Desa Lagadar, Kecamatan Margaasih, Kabupaten Bandung, Indonesia
6	PT. Grand Textile Industry	Jl. Jend. A. H Nasution KM 7 No. 127 RT. 04 RW.01, Karang Pamulang, Bandung, Indonesia
7	PT. Kahatex	Jalan Raya Rancaekek km.23 No.25 Kab. Sumedang, Indonesia
8	PT. Win Textile	Kp. Cilegong Rt.015 Rw.04 Desa Cilegong Kec. Jatiluhur Purwakarta, Jawa Barat 41152, Indonesia
9	PT. Winnersumbiri Knitting Factory	Jl. KH.Agus Salim No.18, Tanah Tinggi, Tangerang 15119, Indonesia

Source Table 1 & 2: <https://www.fastretailing.com/eng/sustainability/labor/list.html>

3.3 A commitment of Uniqlo to Management of the Environment based on Proper

Based on the supplier data disclosed by Uniqlo, we have attempted to develop an analytical framework that enabled us to check the extent to which Uniqlo's commitment to environmentally sustainable production is reflected by its supplier companies in Indonesia: both first-tier (sewing factories) and second-tier companies (textile industry). We decided to investigate the commitment of Uniqlo's suppliers by looking at the participation of the Indonesian supplier companies and the scores they obtained in the PROPER program of the Indonesian Ministry of Environment. PROPER stands for the Program for Rating the Quality of Companies' Environmental Management (Program Penilaian Peringkat Kinerja Perusahaan dalam Pengelolaan Lingkungan Hidup: PROPER). PROPER is a program launched by the Government of Indonesia which aims at improving environmental management by companies in Indonesia by using the Indonesian environmental regulatory framework as a yardstick. The scores of companies that participate in PROPER are published every year by the Ministry of Environment, increasing transparency of the environmental management by companies in Indonesia. PROPER is an effort by the Ministry to broaden the implementation of the principles of good corporate governance (transparency, fairness, accountability, and participatory) by companies in their environmental management. (<https://proper.menlhk.go.id/proper/sejarah>)

PROPER is designed to advance companies' compliance with environmental standards by providing incentives and disincentives. The incentive is that a good rating of environmental management will lead to good publicity. The scores

of companies are published by attributing colors to the environmental performance of companies. Blue means compliance with environmental standards, green means an environmental performance beyond compliance, and gold is excellent environmental management. Bad publicity creates disincentives for companies that do not perform well and for which environmental management is valued as sub-standard: such companies will receive the colors red or black. An explanation of PROPER rating standards based on color is presented in Table 3.

Table 3. PROPER rating standards based on colour

Consistently demonstrating excellent environmental management in production processes and services, and in business operations that are responsible and ethical towards the community.	Implements an environmental management policy that goes beyond compliance, by having functional environmental management system and efficient use of resources in place a good social responsibility towards the community	Implements an environmental management according to the standards of the existing legal regulations	Implements environmental management, but this management is not yet in accordance with the standards of the existing legal regulations	Has willingly conducted actions or negligence that caused environmental pollution or damage, and violated Indonesian environmental regulations / did not implement sanctions imposed for such actions or negligence

Source: Report of PROPER 2020

According to annual PROPER ratings from 2015 - 2020, since 2021 all nine second-tier suppliers of Uniqlo participate in PROPER. Not one first-tier supplier (sewing factories) participates in this program – in fact, no sewing factories at all participate in PROPER (perhaps because sewing factories are not considered to be polluting companies). The participation rate of Uniqlo's second-tier suppliers (textile industry) in the PROPER program is presented in Table 4.

Table 4. Uniqlo’s Indonesian suppliers and their participation and ranking in Proper

Uniqlo 2 nd tier supplier factory (textile)	PROPER					
	2015	2017	2018	2019	2020	2021*
PT Gunajaya Santosa	No	No	No	No	No	Yes
PT Indonesia Synthetic Textile Mills	Blue	Blue	Blue	Blue	Blue	Yes
PT Jiale Indonesia Textile	No	No	No	No	Red	Yes
PT Pan Asia Jaya Abadi	No	Blue	Blue	Blue	Blue	Yes
PT. Gistex	Blue	Blue	Blue	Blue	Blue	Yes
PT. Grand Textile Industry	Red	Blue	Blue	Blue	Blue	Yes
PT. Kahatex	No	No	No	No	No	Yes
PT. Win Textile	No	No	No	No	No	Yes
PT. Winnersumbiri Knitting Factory	Red	Blue	Blue	Red	Blue	Yes

Data based on Proper participation list. Results PROPER 2021 will be published by Ministry of Environment in 2022

Table 4 demonstrates that in 2015 only 3 of 9 2nd-tier supplier factories (textile) participated in PROPER. All those companies were rated blue, indicating compliance with Indonesian environmental regulations. Interestingly, in the year 2020, the number of Uniqlo's 2nd tier supplier factories (textile) that participated in PROPER increased to 6 companies, 5 of which rated blue and 1 (PT Jiale Indonesia Textile) rated "red," meaning substandard environmental management. Based on the PROPER participation list for 2021 2021, all nine second-tier suppliers of Uniqlo will participate in PROPER. Results PROPER 2021 will be published by the Ministry of Environment in 2022 (Figure 1).

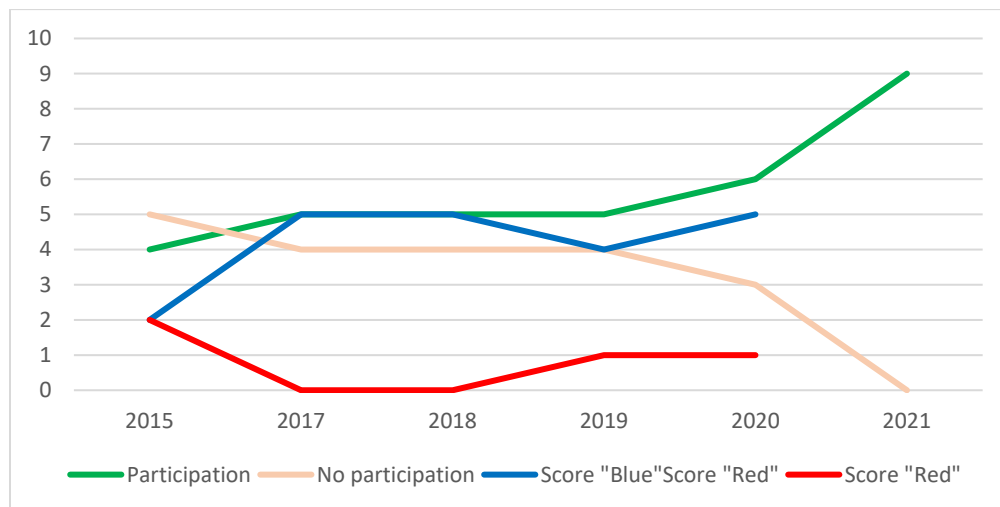


Figure 1. Participation and ranking of Uniqlo's suppliers in Indonesia in the PROPER program.

4. Conclusion

Uniqlo is a global fashion brand committed to environmentally sustainable production according to GCR standards. This research has indicated that Uniqlo is relatively transparent by publishing lists of its first-tier and second-tier suppliers compared to other Japanese and global fashion brands. Databases such as those published by the Fashion Transparency Index increase the accessibility of sustainability reports and other public data published by MNCs and will increase pressure on MNCs to increase their transparency on environmental management. Our research has attempted to develop a framework to investigate whether Uniqlo's commitment to sustainable environmental management moves down the supply chain. Figure 1 shows that since 2015, Uniqlo's 2nd tier suppliers increasingly participate in PROPER – starting from 2021, all Uniqlo's Indonesian 2nd tier suppliers participate in PROPER.

In 2020 5 of 6 suppliers participating in PROPER scored “Blue” (compliance) and only the new participant PT Jiale Indonesia scored “Red”. PT. Winnersumbiri Knitting Factory, the company that scored “Red” in 2019 improved its environmental performance in 2020 and scored “Blue”. These developments indicate that it is likely that suppliers of Uniqlo are encouraged by Uniqlo to participate in PROPER and to score at least “Blue”. On the one hand the commitment of Uniqlo to produce in environmentally sustainable ways encourages Uniqlo to advance its agenda of sustainable production to its suppliers and to participate in schemes such as PROPER. On the other hand, increased participation of its suppliers in PROPER makes Uniqlo increasingly vulnerable to bad performances of its suppliers – resulting in bad publicity. While proof of environmental-friendly management is in the interest of suppliers of MNCs and may increase the value and the market of Indonesian factories, bad environmental performance does quite the opposite, as it damages the image of the brand.

Hence there is increased pressure on supplier companies of MNCs such as Uniqlo to demonstrate environmentally responsible management. On a more abstract level, it shows how international commitments by MNCs to adhere to GCR standards impact on production and management of suppliers at local levels. As a global fashion brand, Uniqlo pushes for the implementation of international GCR standards in all factories within its supply chain. Indonesian producers can anticipate such global developments and GCR standards by participating in initiatives such as PROPER. Hence it is recommended that the Indonesian government expands the PROPER program to include companies with a less expected/potential environmental impact, such as sewing factories, or develop a similar program in which the environmental performance of such companies is rated so that these companies – such as the first tier companies (sewing factories) of Uniqlo - are in turn stimulated to be transparent about their environmental performance and will have an incentive to implement high environmental management standards.

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