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Corporate Social Responsibility - The Esquel Case

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Sustainable production is

Myths

- Expensive to implement, something only large companies can afford
- Raises costs and lowers profits
- Customers do not appreciate these efforts



Realities

- Sustainable development opportunities can be found in daily operations
- Many environmental initiatives do not require large capital outlay or have quick payback
- Sustainable development gaining strength among consumers, and retailers are increasingly asking for “Green manufacturing” and “Green products”
- Sustainable development is another form of value-added services to customers

Do what we are paid to do –
manage better!



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Reduce Production Wastage



- Improve material utilization
- Improve production First Pass Yield
- Joint inventory planning with upstream suppliers
- Standardize product and production processes

Raise Output from Existing Assets



- Install unit production system to improve garment sewer efficiency (workers' output and income increase by 20-30%)
- Apply RFID to track and optimize sub-part production
- Invest in auto-cutting machines
- Increase efficiency of weaving machines

Improve Air Conditioning System



- Install automatic door-closers
- Achieve temperature control by implementing usage policy and modifying the controllers
- Install frequency inverters to save electricity consumption (up to 40% saving)
- Use water curtain in certain areas not sensitive to humidity (80% saving)



Green Factory Design



Woven fabric mill example

- Improve ventilation
- Use natural lighting
- Use steam-powered air-conditioners
- Adopt open space and green belt in site layout



Collaboration with Technology Partners

EXAMPLES



Waste water treatment (Toray)

- Recycle and treat waste water from garment washing, fabric dyeing and finishing by advanced technology (MBR&RO 膜生物反应器与反渗透)



Factory lighting (Philips)

- Reduce electricity consumption by installing energy efficient light tubes (Philips TLD 36W/865), lighting enhancement reflectors and electronic ballasts

Example: Factory Lighting



- Measure brightness in different areas and remove unnecessary light tubes
- Replace traditional inductance ballasts with electronic (18% power saving)
- Install high efficiency reflectors
- Use energy efficient light tubes
- Esquel's example: Total investment of US\$490,000 and payback in 1.3 years

Critical Factors of Success - Leverage the Opportunities across the Full Supply Chain

EXAMPLES



Centralization of heating and steam generation in power plant

- Transfer the steam from the power plant to factories for different production processes, thereby displacing heavy oil combustion in 14 old boilers

Lye recycling

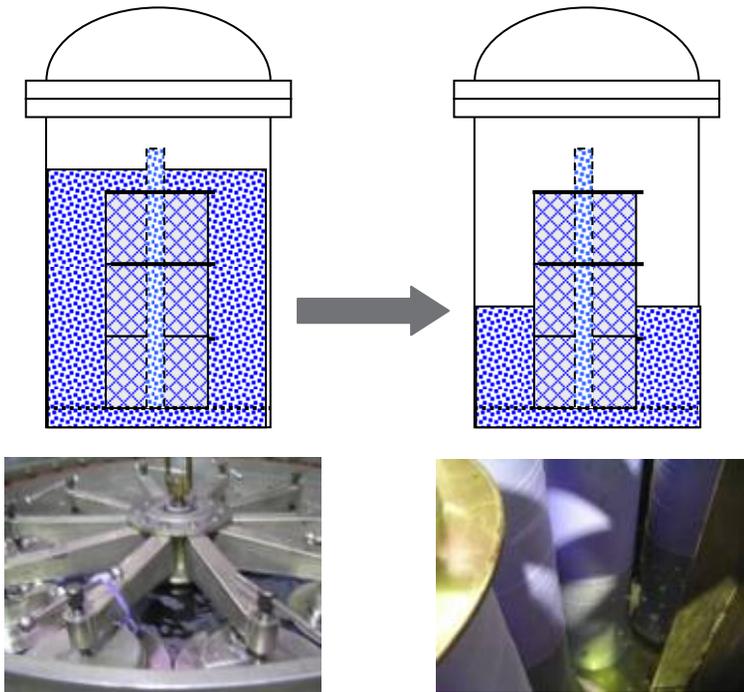
- Reuse lye from weaving mill for desulfurization at power plant
- 600 tons less SO₂ emission each year



Hot water sharing

- Utilize hot water recovered from knitting mill in garment washing
- Save equivalent of 320 tons of coal per year

Innovation - Sustainable Dyeing



Original Dyeing

Pulse Dyeing

- Apply patented Pulse Dyeing technology which uses less water to dye yarn
- Reduce water consumption by 23% (~500 standard-sized swimming pools)
- Reduce electricity by 7% (enough for 18,000 Guangdong households per year)
- Save 5% steam and 10% chemicals



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Green Products

EXAMPLES



- Offer organic cotton products
- Offer biodegradable and recycled trims
- Use air tumbling finishing instead of garment washing



Improve Worker Productivity -> Better Pay

Reduce Wastage -> Reduce Cost and our
Environmental Footprint

Win Win Situation and Sustainable

Are Customers Really Helping??

Can you drive change through the
supply chain?



Brands Going Green

EXAMPLES



NORDSTROM



ZARA

Green factories

Working with suppliers to share best practices, stimulate innovation and develop more sustainable production methods (M&S)

Rating products for waste reduction, use of healthy chemistry and innovation (Nike)

Rating suppliers based on energy efficiency, water use, chemical inputs, recycling and reuse, social responsibility and packaging (Wal-Mart)

Green stores

Launching coat hanger amnesty – reusing and recycling coat hangers from own and other retailers (M&S)

Using high energy and water efficient equipments as well as recycled construction materials in new retail stores (JC Penney, M&S)

Installing solar power systems at the roof top of the store (Wal-Mart, Costco, Macy, Kohl's, Target)



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Allow Customers to Sleep Better at Night



Selected sustainable awards from NGOs and customers:

- Silver Environmental Award from Pacific Basin Economic Council (2005)
- Silver Award, Hong Kong Eco-product Award from Business Environment Council (2006)
- CSR Award from JCPenney (2006)

It has to be driven internally – start from home and not point at others

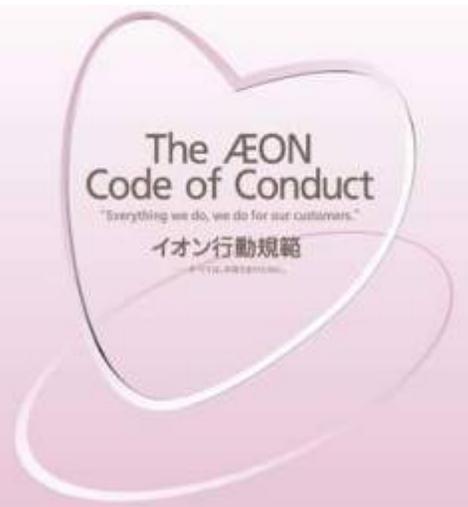
Sense of Pride ->
Sense of Responsibility ->
Change for Society

Change Culture, Create Sense of Pride

ethics
environment
exploration
excellence
education



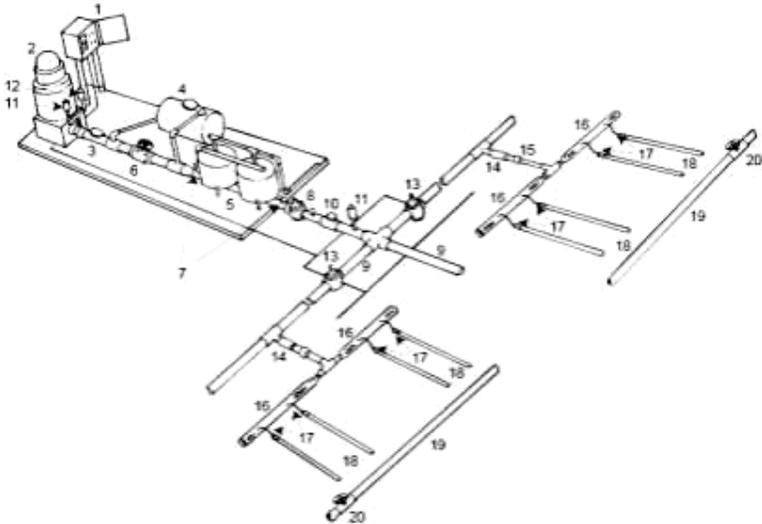
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Example:

Drip Irrigation in Cotton Farms



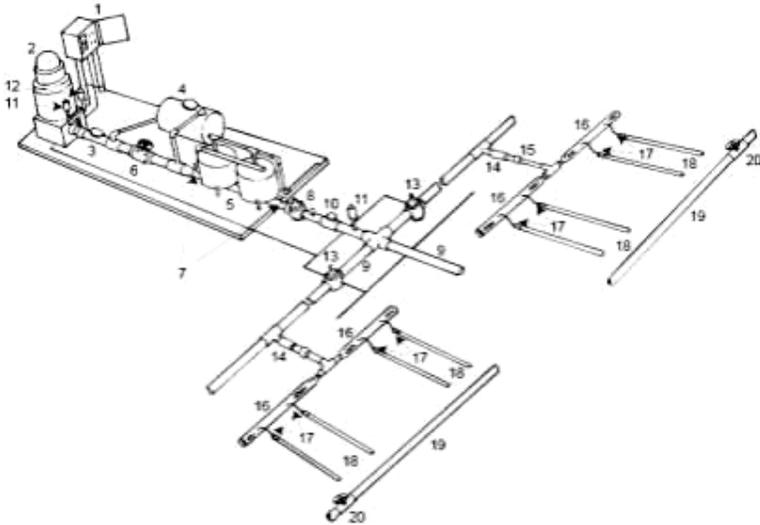
- Replace flood irrigation by drip irrigation on 5,000 acres (30,000 MU) of cotton farmland
- Reduce water usage by 22%
- Total water savings per year – 6 million liters
- Increase cultivable area by 5% after eliminating ditches
- Reduce chemical fertilizers usage by 10%
- Improve cotton yield by 30%
- Increase farmer income by 30%



Example: Drip Irrigation in Cotton Farms - Benefits

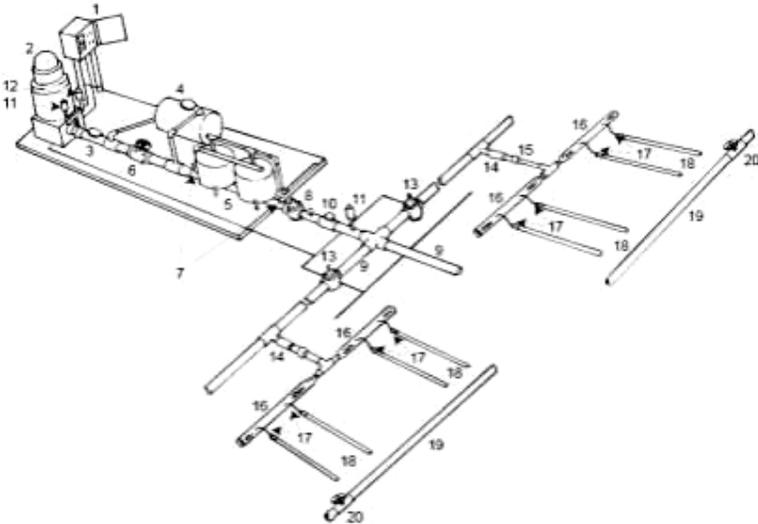


- Yield by flood irrigation – 540 kg/acre;
Farmers' income – RMB 3,600/acre
- Yield by drip irrigation – 720 kg/acre;
Farmers' income – RMB 5,400/acre
- On average, each farmer cultivates 5 acres
- Average annual income per farmer –
RMB 27,000





Drip Irrigation in Cotton Farms - Implications



- Xinjiang produces 30% of China's cotton
- Currently 30% of Xinjiang's cotton grown by drip irrigation
- Drip irrigation proven to reduce water and fertilizer consumption, and increase yield and income
- Further roll-out of drip irrigation can help China's water shortage and improve farmers' livelihood



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Example: Micro Financing in Xinjiang



- Initiated by Esquel and Standard Chartered Bank
- Aim to assist farmers with production-related funding
- A project that supports China's policy of channeling investments to rural areas



Example: Micro Financing in Xinjiang - Progress

- Launched in December, 2007
- Visited 260 of 564 households in Baishiairike Village; Loans distributed to 110 households as of end of April
- Loans ranged from RMB 2,000 – RMB 15,000; Average loan size – RMB 8,200 per household
- Will reach 2 more neighboring villages in 2008



The Role of the Asia Business Council

The background of the slide is a vibrant, abstract composition. It features a large, curved, fan-like shape in shades of orange and yellow, which appears to be a stylized representation of a globe or a map. This shape is set against a dark red and orange background with a grid pattern. The overall aesthetic is modern and professional.

Corporate Social Responsibility – What Does It Mean?

- Company living up to their role in the Market Economy – nothing more than that.
- In a perfect market, the most competitive company is also the most responsible company and vice versa.
- However, due to imperfections in the market caused by government or players, this does not hold true especially in emerging markets with weak rule of law.

Common Understanding Today When We Talk about Corporate Social Responsibilities

Labor Compliance
or
How we treat People

Sustainable Development
or
How we treat the
Environment

What Will be the Consequence of Lack of Corporate Social Responsibility?

The end of a good thing ...

If companies do not take on the proper responsibilities in a market economy, then the market economy will fail and be reverting to socialism or other forms of governance.



**Asia Business Council Can Take the Lead
in Establishing High Standards
for Ourselves and Letting Asians Feel a Sense of Pride**

We can establish the
Confidence for Asians to take
care of our own – our Air, our
Water and our People.

黃飛鴻

男兒
當自強



For more information, visit www.AsiaBusinessCouncil.org