

**C E**



**Center for  
Effective  
Organizations**

---

**Building a Collaboration Capability for  
Sustainability:  
How Gap Inc. is Creating and Leveraging  
a Strategic Asset**

**CEO PUBLICATION  
G 10-13 (581)**

**CHRISTOPHER G. WORLEY**  
*Center for Effective Organizations  
Marshall School of Business  
University of Southern California*

**ANN E. FEYERHERM**  
*Graziadio School of Business and  
Management  
Pepperdine University  
Los Angeles, CA 90045*

**DARRYL KNUDSEN**  
*Director of Public Policy and Stakeholder  
Engagement  
Gap Inc..  
2 Folsom Street  
San Francisco, CA 94105*

**SEPTEMBER 2010**

Building a Collaboration Capability for Sustainability:  
How Gap Inc. is Creating and Leveraging a Strategic Asset

Christopher G. Worley  
Center for Effective Organizations  
Marshall School of Business  
University of Southern California  
Los Angeles, CA 90089  
Phone: 213-740-9814  
Email: [cworley@marshall.usc.edu](mailto:cworley@marshall.usc.edu)

Ann E. Feyerherm  
Graziadio School of Business and Management  
Pepperdine University  
Los Angeles, CA 90045  
Phone: 310-568-5598  
Email: [ann.feyerherm@pepperdine.edu](mailto:ann.feyerherm@pepperdine.edu)

Darryl Knudsen  
Director of Public Policy and Stakeholder Engagement  
Gap Inc..  
2 Folsom Street  
San Francisco, CA 94105  
Phone: 415-427-6480  
Email: [Darryl\\_knudsen@gap.com](mailto:Darryl_knudsen@gap.com)

June, 2010

Building a Collaboration Capability for Sustainability:  
How Gap Inc. is Creating and Leveraging a Strategic Asset

Executive Summary

Organizations are being challenged to find socially acceptable and ecologically proactive solutions while fulfilling economic expectations. One emerging pattern in response to this challenge is the development of sustainability goals and strategies that include the development of internal processes and systems to lower carbon footprints, address other green issues, and create more worker-friendly environments. Another emerging pattern is the capability to collaborate across the wide range of external stakeholders. External collaboration also requires the development of internal processes, systems, knowledge, and structures to support on-going learning to deal with the increasing complexity found in the multi-stakeholder domain. This article describes one organization's development of the latter capability. The business challenges Gap Inc. faced and the approach it used to evolve a multi-stakeholder collaboration capability can apply to many companies with complex supply chains with large ecological, social, and financial ramifications. The capabilities that they have developed and the way they developed them will be insightful for others.

## Building a Collaboration Capability for Sustainability: How Gap Inc. is Creating and Leveraging a Strategic Asset

The sustainability challenge facing organizations is only beginning to emerge, and the organizational requirements to support triple bottom line outcomes is an active area of exploration and learning. Not surprisingly, there are a wide range of organizational responses. Some organizations, such as Northrop Grumman and American Airlines are focused on making internal process and asset changes to lower their carbon footprint. Other organizations, such as Nokia, UPS, and DaVita are examining their internal processes to increase their social relevance as well as lowering their footprint. That is, most organizations are focused on activities and processes within their boundaries and under their control as a first step toward sustainability.

This article adds to our understanding of the different organizational responses to the sustainability challenge by describing the development and evolution of an externally focused, multi-stakeholder collaboration capability.

Gap Inc.'s multi-stakeholder collaboration capability can be described as having three dimensions that have been built cumulatively over time. Initially, the organization developed an apparel factory monitoring and compliance capability in response to challenges raised by human rights groups. Limitations in the compliance approach resulted in a second set of activities that involved multiple stakeholders working together to improve a factory's overall management capacity. The third dimension expands the multi-stakeholder approach to address the more complex, industry-wide issues brought on by the systems dynamics of the supply chain. These three aspects of Gap Inc.'s multi-stakeholder collaboration capability are working together to change the way garments are made, human rights are respected, and the environment restored. But they are not finished.

Fifteen years of cumulative learnings from engagement with stakeholders in their supply chain have led them to a new set of questions. Can their understanding of the industry's operation and the credibility and goodwill they have developed be leveraged as a strategic asset for the enterprise? Can their multi-stakeholder collaboration capability be used to effect change in the Gap Inc. organization itself? For the social and environmental responsibility group at the Gap Inc., these were important strategic considerations.

Prior evolution in the collaboration capability had come from examining the underlying assumptions of how work was done in the supply chain – from an adversarial position with NGOs to a collaborative one, from factory compliance to factory development, and from factory sourcing to supply chain operation. Now their broader understanding of how the industry operated encouraged them to examine and question the underlying assumptions of how work was done internally. For Gap Inc. to continue its positive impact on the industry, the ecology, and the social community, the social and environmental responsibility group saw the need to influence its own systems. Was the organization truly designed for sustainability? As the group contemplated its own strategic planning efforts, they realized that their years of capacity and capability building had produced a number of positive benefits and built an asset of credibility that could not be truly leveraged until they changed themselves.

Understanding how Gap Inc. came to this realization may help other organizations considering a stronger move toward sustainability and accelerating their organization change efforts. We suggest that the business challenges Gap Inc. faced and the approach it used can apply to many companies with complex supply chains that have large ecological, social, and financial ramifications. The capabilities that they have developed and the way they developed them will be insightful for others.

## **The Apparel Industry**

To understand the relevance and value of the Gap Inc.'s collaboration capability, we must understand its context. The apparel industry's value chain consists of designing apparel, manufacturing and distributing garments, and marketing and merchandising them. Designing apparel involves creating clothes and accessories that are fashionable, trendy, and attractive before the definitions of those dimensions are known; it is a highly creative and uncertain process. Apparel firms take large risks when the chosen designs are converted into patterns, and the fabrics, colors, and accessories are itemized for ordering. These specifications help the designer or organization to develop and retain the required manufacturing capacity to deliver on the expected demand.

The patterns and specifications are handed over to the factories who work with the upstream members of the supply chain to receive the fabrics and other materials. The garments are sewn according to the specifications and transported to a distribution center that ships it to the retail outlets or holds it for shipping if the garments are ordered on line. Sales are monitored to assure sufficient store inventories or in cases where demand exceeds the forecast, signal the need to produce additional garments. At the end of each season, the brands assess their performance, gather customer feedback, look for improvements, and begin the cycle all over again.

As shown in Figure 1, the manufacturing "supply chain" refers to the path from the farm where raw materials are grown to the stores where the clothes are sold. Virtually all apparel designers and retailers follow this stream of activities, however apparel brands do not own the farms, mills, or garment factories that make the clothes. To keep costs low, avoid duplication of investment in specialized manufacturing capacity, and facilitate the ability to respond quickly to

trends, a highly competitive and global system of factories exists. The large scale of the industry means that many governments and cultures, thousands of people not directly employed by the brands, and a complex array of dyes, pesticides, and other environmentally sensitive activities are involved.

### **Figure 1 about here**

In addition, the highly competitive and fragmented ownership patterns of factories, mills, ginners, and farms have been the venue for a tremendous amount of social injustice and ecological damage. Lack of effective government regulation or oversight and poor management practices or unethical owners have resulted in unsafe working conditions, the non-payment of legal wages, the denial of rights to freedom of association or movement, the support of child labor, and the pollution of land, air, and water. The sustainability movement is seeking to address these impacts and Gap Inc. has become an important voice in the industry and in the journey.

### **Gap Inc.**

In 1969, Don Fisher needed a pair of jeans and despite visiting two department stores in the San Francisco area was not able to find them in his size. Although he and his wife, Doris, were in the business of buying and renovating old hotels, they wondered whether it would be a good idea to put all the styles, colors, and sizes of jeans in a single store. Doris coined the name “The Gap” and they open their first store selling Levi’s alongside audio records and tapes. Their vision was a modest chain of maybe 10 casual wear stores.

Since going public in 1973, the modest vision has grown into a \$14 billion (in 2009) global company with more than 3,100 stores and 134,000 employees. It is widely credited with inventing the specialty retail segment of the apparel industry. Its three primary brands, Gap,

Banana Republic, and Old Navy, are among the most recognized in the world, while Piperlime and Athleta are also increasingly well-known.

Gap Inc.'s size and complexity, the fragmented supply chain, and the increasing sophistication and passion of NGOs concerned with the promotion of a more central role for civil society in addressing these issues combined to create a wave of activism in the early 1990s. The targets of the activism – mostly Gap Inc., Nike, and Kathy Lee Gifford's line being sold at Wal-Mart – were charged with condoning sweatshop conditions, child labor, and forced labor in the factories producing garments. While the different apparel firms approached the media attention in their own way, the reality of the industry was that no one had a serious program in place to deal with the conduct of the factories.

### **Developing a Compliance and Monitoring Capability**

In response to the activism, Gap Inc. created a social responsibility function in the mid 1990s and appointed a VP for Global Compliance in 1996. Like other apparel firms, Gap Inc. applied a traditional “here's a business problem, let's solve it like we do other problems” approach. They developed guidelines outlining general labor standards for vendors to follow in 1992 and a vendor “code of conduct” in 1996, communicated the code to its factories, sent out people to monitor and visit, and worked with factory management to address the violations reported. Thus, Gap Inc.'s initial steps toward a collaboration capability focused on getting independently-owned factories to comply with more widely accepted social and labor practices.

Although this compliance and monitoring phase was triggered by human rights protests, it raised awareness of the industry's practices, established systems and processes of measurement, and did improve the number of quality factories. For example, as Gap Inc.



developed procedures and processes for evaluating factories on the basis of social performance, they began to notice correlations among the quality of factory procedures, product quality, management systems, human rights conditions, and factory performance. The sourcing organization inside Gap Inc. found this data useful in choosing and contracting with factories.

Despite these benefits, however, the compliance phase was not as effective as originally hoped. The factories used by Gap Inc. were also used by other apparel brands, some of which still did not have programs to address these issues. The different brands' codes of conduct were not standardized and each factory had to submit to multiple audits each year from each brand. Additional complexity could be added when factories were organized by multiple labor unions. Plants in Cambodia, for example, can have four or five different labor groups. Factory owners or plant managers found it difficult if not impossible to reconcile the often conflicting demands of the different brand buyers, the different labor groups' perspectives, the variety of monitoring organizations, and the diverse NGO community expectations. Without a comprehensive framework or systematic enforcement mechanism, the compliance strategy was often clumsy to enforce and its results inconsistent. Still, it represented an important building block.

### **Building Factory Capacity through Stakeholder Engagement**

Gap Inc. began adding to its compliance capability with the hiring of a new VP for corporate responsibility in 2001. Initially, the new leader spent a lot of time listening to both internal and external stakeholders and, with insights from the first phase, came to two important conclusions: (1) stakeholders possessed information and experience that when combined with Gap Inc.'s knowledge could be used to generate better solutions for the factory and (2) without an alignment of interests, even the best compliance system in the world would not be enough to

build Gap, Inc's credibility as a voice for change. After much internal reflection, Gap Inc. rejected the notion of going it alone or simply working with industry groups and competitors to solve the problem. They decided that a strategy of collaborating with others – even those critical of their efforts – would be a more productive path. This new collaboration strategy aimed to develop the responsible management capacity of the factories by coordinating with multiple internal and external stakeholders.

Internally, the VP wanted to work with the sourcing organization to ensure that the factories heard a consistent message regarding the importance of human rights in the manufacturing of Gap Inc. garments. The sourcing department is the key stakeholder for any factory because of its role in contracting for garment production. One of the early internal collaboration efforts involved the sourcing department and laundries in China.

Many of the laundries in China where fabric was washed prior to it being cut and sewn into garments were being shut down because of compliance violations. The sourcing manager noted that at the current rate of closures, Gap Inc. would have to hire new laundries with unknown compliance ratings in other countries at a higher cost and with some disruption in the supply chain. As a result, the VP began meeting with the sourcing general managers on a monthly basis to resolve issues between sourcing and vendor compliance, keep the laundries operating, keep the lines of communication open, and develop a true partnership.

Externally, Gap Inc. began leveraging the interests, skills, and experiences of other stakeholders to not only gain compliance with the code of conduct, but increase the capacity of the factory to act in a responsible manner. A few of the early multi-stakeholder initiatives and partnerships included the Ethical Trading Initiative (ETI), the Interfaith Center for Corporate Responsibility (ICCR), and Social Accountability International (SAI). SAI, for example, had

developed the SA8000 global standard and compliance process for human rights at work. Fashioned after the international standards organization (ISO) process, international labor organization (ILO) conventions and declarations, and national laws, its goal was to establish the standard by making certification and human rights thinking a part of management's capability. When the standard was established in 1998, SAI set up an independent body to train and certify auditors that could be hired by industry brands or local factories to audit the factory for compliance and then help them build the management capacity to handle labor issues productively. Working with and supporting the SA8000 standard helped to address many of the problems associated with the compliance and monitoring phase.

In addition, SAI's orientation to the SA8000 process was an important source of learning and alignment for Gap Inc. For example, SAI's multi-stakeholder problem solving process helped the organization to think about how they might build their own perspective. In 2002, the VP formed a separate stakeholder engagement function to develop an external stakeholder collaboration process. Together, Gap Inc.'s involvement with SAI, ETI, and other labor and environmental organizations became an important network to address labor and social issues around the world. This reinforced Gap Inc.'s approach of developing on-going relationships instead of making each crisis an independent issue that required little follow-up. Their "social license" to operate was increased by working with and understanding other stakeholders in the community in which they practiced.

The addition of increasing factory capacity by mobilizing multiple stakeholders to the factory compliance and monitoring capability was an important step. The results from this expanded capability were both satisfying and frustrating. On the one hand, Gap Inc. increased its organizational capability to engage in collaborative activities with multiple stakeholders,

improved its visibility as a corporate social responsibility leader, and improved the performance of the factories in its supply chain. In particular, the ecosystem of factory capacity was becoming more capable and workers in Latin America and Asia were benefitting from better working conditions and management relationships.

In addition, Gap Inc.'s consistent work with the factories and with human rights, labor, and other NGO organizations was building credibility. For example, when a news story about child embroiderers working on shirts for the GapKids label was about to be released, it was the NGO community that alerted them. The stakeholder engagement group quickly learned that an approved supplier in India had not contracted the work to an approved community center outside of Delhi and that Gap Inc. product was found in an unauthorized shanty with poor ventilation, no bathrooms, and highly flammable fabrics lying around. Children, reportedly as young as 10, were working there. Clearly outside the terms of Gap Inc.'s Code of Vendor Conduct and its Vendor Compliance Agreement, when the BBC, Good Morning America, and the newspapers all wanted comment, Gap Inc. took full responsibility and explained the actions it was already taking to address the industry-wide issues that arise in hand-work in India. Gap Inc. cancelled the product order and ensured the garments would not be sold. A summit was held of Gap Inc.'s North Indian vendors to reinforce its "zero tolerance" policy against child labor. Following its immediate action to put a stop to the violation, Gap Inc. also reviewed its policies and procedures to ensure the situation would not re-occur, making a number of changes and investments.

In addition, the embroidery subcontractor involved was prohibited from any future production of Gap Inc. products and the vendor was placed on probation with 50% of its orders suspended for six months. Although the embroidery subcontractor was barred from any future Gap Inc. involvement, the decision about how to handle the other suppliers points out the

complexity of the issue. The original supplier had been a model of labor compliance for many years and deleting it from Gap Inc.'s approved list might well result in an increase in unemployment in a region already depressed. While economic concerns cannot solely justify inaction on social issues (in this case, Gap Inc. retained the supplier because of its history of support and the commitment the supplier made to helping drive solutions within the industry), the point is that Gap Inc.'s increased credibility as an authentic and progressive buyer served the company well during this incident. A number of labor rights groups went on-record with the media, highlighting Gap Inc.'s handling of these issues. Gap Inc.'s responses to the crisis were so prompt and clear that media coverage began and ended in a week.

But the learnings from the expanded capability revealed frustrating aspects as well. First, as the stakeholder engagement function reflected on its experience, it realized that most of its sustainability efforts and results were not widely known within the Gap Inc. organization. Even some of the NGOs that they worked with noticed that the dedication to social responsibility was more apparent in the group than in the enterprise. There was a great opportunity to communicate with organization members on what their company was doing, but action on this issue would have to wait. The second frustration was that by focusing on the factory, much of the supply chain – and many of the problems they were trying to address – was not easily seen or addressed (as the embroidery story indicates).

### **Expanding the Collaboration Capability**

It was this second realization that resulted in a new layer to Gap Inc.'s collaboration capability: extending the multi-stakeholder capability beyond the factories to the apparel industry's supply chain. As Gap Inc. and their partners worked to build capacity in the factories,

they developed intimate knowledge of factory operations and contracting procedures. A recurring problem was getting the factories to avoid suppliers that were clearly in violation of human rights and labor laws. For example, even if the factories were certified, the fabric, materials, and accessories used to make Gap Inc. garments could come from sources that were not in compliance with Gap Inc.'s values and code of conduct. Many of these suppliers were simply "hidden" in the supply chain. Despite the improved capacities and monitoring systems of the factories, controlling all the facets of the supply chain meant they would need to begin to find ways to tackle problems further up the supply chain, including the farms, the ginners, and the mills, and to engage an even broader range of stakeholders.

For example, Gap Inc.'s participation in a wide variety of networks and multi-stakeholder initiatives increased their awareness of the substantial amount of cotton from Uzbekistan, where child labor is routinely supported, finding its way into the apparel manufacturing supply chain. Such practices are driven by diverse and deeply ingrained forces including a long history of forced labor for the cotton harvest, a "command economy" in the cotton sector that gave the government control over what farmers planted and where they sold their crops, and the ease and profitability of utilizing underage workers. The complexity of the supply chain – especially from the raw materials farmers to the ginners/spinners and the mills – meant that apparel designers and retailers, including Gap Inc., had almost no way of knowing whether any of the cotton fabrics had been sourced with Uzbek cotton.

In deciding to use their knowledge and skills in sourcing practices, experience in collaborating with other stakeholders, and a deep understanding of the industry, Gap Inc. was attempting to influence change on a much broader scale. In particular, involving the United States and European governments as key stakeholders greatly elevated a project's visibility and

complexity. Moreover, expanding their lens to identify a raw material's point of origin and addressing the use of child labor at the farm level was challenging for Gap Inc. since its primary problem solving and capacity building expertise was in the factories. As history had taught them, saying they were against a labor practice was important; however, ensuring that it wasn't happening would take time and collaboration.

Initially, Gap Inc. made it clear to all of their factories that child labor was unacceptable and that they should not knowingly source yarn from Uzbekistan farms. However, to encourage the Uzbek government to evolve its practices, Gap Inc. joined a coalition of other like-minded organizations and groups, including the International Labor Rights Forum (ILRF), As You Sow, Center for Reflection, Education and Action (CREA), the Interfaith Center on Corporate Responsibility (ICCR), Calvert Investments, the Environmental Justice Foundation, other apparel brands, investor organizations, and eventually the US government. Together, this diverse coalition of stakeholders built common ground, shared goals, action plans, and trust to develop solutions. Fortunately, many of these groups had worked together before and their successes over time brought trust and alignment.

In this case, the coalition not only wanted to insure that the factories and mills avoided sourcing cotton from Uzbekistan; they wanted to affect change at the farm level as well. The coalition agreed that a tracking system was needed to increase their visibility into the country point of origin for raw materials. To do that, the coalition is working with a supply chain traceability expert and Gap Inc. has started its own development effort to create a tool to trace and verify where materials come from.

The Uzbek cotton project was an outgrowth of Gap Inc.'s frustrations that focusing on the factories limited their view of the impacts. It led them to expand the multi-stakeholder collaboration capability to broader and more complex issues.

But the other frustration – that Gap Inc.'s activities were not well known inside the organization – did not go away. Many of the problems they were addressing in the factories or in the supply chain were not solely being “caused” by the factories, mills, spinners, and farms but by the entire system of design and manufacturing. Manufacturing a pair of pants is not an inherently unjust or environmentally degrading activity, but the industry's structure and the interactions among its members and regulators along the supply chain were producing unsustainable results.

In the main – although certainly not exclusively – the compliance and stakeholder engagement groups were not changing the parts of Gap, Inc, whose decisions often contributed to many of the problems they were solving. Despite the collaboration among stakeholder engagement, compliance, and the sourcing organization, they each worked primarily with the groups and organizations that campaigned against and challenged Gap Inc.'s responsibility in the first place. There were few conversations about whether the garments were being designed for good labor practices in the first place or whether the specifications of fabrics and colors considered the environmental implications of their processing. In short, the social responsibility organization was managing the consequences of those choices, not the choices themselves.

### **Turning the Capability Inward**

It was this evolution in thought and learning that led to a new set of activities and the refocusing of the collaboration capability. In 2008, the VP's organization began to evolve and a



new corporate and group vision emerged. First, the scope of the vice president's position was expanded. He had been promoted to Senior VP of Global Responsibility in 2005, and in 2008 his duties changed to include several human resource functions, including Global Employee Relations, Talent Management, and Diversity & Inclusion (Figure 2). Bringing these functions into the global responsibility organization will enable the integration of social responsibility practices with Gap Inc.'s talent management strategy. For example, one of the first projects is to bring social responsibility training into Gap Inc.'s Retail Academy, a program that provides product skills training to employees. In addition, the board of directors elevated sustainability's visibility in the organization. Going forward, the full board will receive regular updates on the company's social responsibility progress instead of its reporting into a subcommittee.

Expanding the scope of the VP's role also required that the social and environmental sustainability activities be given increased prominence and focus. In 2010, to support the ongoing factory-oriented compliance and capacity building efforts as well as the broader industry and supply chain efforts, a reorganization was implemented that consolidated the ecological sustainability activities, the stakeholder engagement capability, and the factory monitoring groups under one leader (Figure 2). The newly created VP for Social and Environmental Responsibility (SER) was filled by a woman who had come to the sustainability organization from the North American production group in the brands. For three years prior to this appointment, she had been working to build out capabilities in strategic planning and environmental sustainability and leading one of the stakeholder engagement functions. Reaching into the brand organization helped the SER organization gain further legitimacy and alignment with key functions in the organization. The social responsibility (field compliance) organization as well as strategy, the stakeholder engagement, and environmental affairs organizations all now

rolled up into one singular focus. Prior to this restructuring, the social responsibility and environmental groups reported separately and coordination had been more ad hoc.

**Figure 2 about here**

An important consequence of this consolidation was the creation of a critical mass of experienced talent. The SER leadership team as well as most of the managers in the department has worked at Gap Inc. for at least five years, and the majority for over 10 years. There is a strong understanding of the group's demands, of the ways to share best practices, and the role of related functions, including HR, production, factory management and monitoring, strategy, and corporate communications, on the work. This makes for a robust and experienced team. Together, the SER organization has the skills to hear different perspectives, respect them with openness, and look for ways to not get drawn in to conflict but to problem solve.

Concurrent with the reorganization, the SER leadership team and the SVP of global responsibility began a strategic planning process with a very different focus that leveraged the group's experiences and their learnings from 15 years of work in the field. The result of the initial discussions was both very risky and very exciting. The aim of their strategy was to leverage Gap Inc.'s credibility and trust among the ecosystem of external stakeholders and to use their multi-stakeholder collaboration capability as an asset for Gap Inc. The focus of the strategic exercise was captured by the question, "How could our multi-stakeholder collaboration capability be applied to the larger Gap Inc. organization?"

The SER VP was excited about this approach, believing they could leverage the experience, trust, and credibility assets that had been built among the apparel industry

stakeholders for broader impact in the industry and Gap Inc. itself. The director of strategy and communications in the SER organization said it this way:

Our lens is shifting from mitigating risk to creating value. We are actively trying to figure out if our work in the SER organization can be a point of competitive advantage for us in the marketplace. We have amazing social capital and we're beginning to see how we can use it as a strategic asset in way that others cannot.

The source of that social capital was the multi-stakeholder collaboration capability. In fact, the SER leadership team was already applying the processes and learnings developed with external stakeholders on the internal organization. In advance of any formal strategic plan, SER was applying a process they had started in 2004 by asking an NGO expert on factory working conditions to engage the brands in a series of discussions on how design and purchasing decisions could create unintended consequences affecting the entire organization. For example, few would argue that doubling an order of shirts due to higher than expected market demand wasn't great news. However, without an understanding of the dynamics of the supply chain, such an order could create pressures in the supply chain that would lead to a range of negative outcomes.

As the SVP of Global Responsibility explained, "We are not saying there should never be increases in orders. We are saying, stop for a moment and ask the questions. What are the impacts? Does the vendor have the capacity? Who all needs to be involved in this decision? Broader involvement poses less risk to the organization and creates better outcomes for a broad range of stakeholders." SER's consistent and productive use of that logic in the external environment had generated a great deal of trust and credibility that Gap Inc. was serious about social issues. However, leveraging that asset in the marketplace was going to be a tricky proposition. Gap Inc. had been at the center of controversy in the past and they were always one sensational story away from being challenged as promoting the brands under the veil of being

green or concerned about human rights. Developed over a 10-year period, the collaboration capability and the Gap Inc.'s passion for "doing the right thing," had provided a road map for transforming the enterprise.

## **Discussion**

Based on our interviews with Gap Inc. members and several of its external partners over the span of two years as well as reviews of its practices and extensive website, it is clear to us that SER and Gap Inc. built their multi-stakeholder collaboration capability by addressing three key areas: skills, architectures of structures and systems, and learning through experience. The Gap Inc. case represents an important addition to our understanding of capability building by providing a rich example of this organization design issue in a sustainability context. In addition, the case provides an important lesson for organizations attempting to build sustainability into their identity, strategy, and organization design. Seeing the longitudinal development of the capability - how it began independently of the design processes but is now being used to change them - provides important clues for managers on how to properly structure the sustainability design process.

### **Relevant Knowledge and Skills**

As shown in Table 1, Gap Inc. built, over time, a robust and strategically relevant multi-stakeholder collaboration capability. The first contribution to the capability was the development of a set of relevant skills guided by collaboration but also by the organization's values. Creating a collaboration capability is difficult in the best of circumstances but it is much easier when the organization's values and identity are compatible with triple bottom line concerns. In Gap Inc.'s case, the founders' values - modesty, thoughtful growth, being involved in the community -

evolved into corporate values that have influenced hiring and promoted actions supporting sustainability. Gap, Inc's corporate values – what they call “wearing your passion” include think customers first, inspire creativity, do what's right, and deliver results. The SER's persistent pursuit of “doing what's right” – right for human rights, right for the business, right for the environment – can be traced to these core values. Gap Inc. tends to hire people who reflect these values.

**Table 1 about here**

Although the organization's values supported the accumulation of certain skill sets, the case clearly shows how Gap Inc. added skills specifically related to collaboration over time. Relying initially on traditional problem solving skills to address factory issues and gain compliance, they added new skill sets, such as negotiation, openness and authenticity, reliability, humility and passion, inquiry, networking, analytics, and systemic thinking, but also recognized that relevant knowledge and skills often existed in other parts of the stakeholder ecosystem. In fact, knowledge was viewed as a valued resource and whoever had it was asked to participate. This awareness and openness no doubt contributed to the development of the collaboration capability.

As the organization deepened their collaboration capability, they leveraged the knowledge and skill in other organizations to look at the problem of factory capacity in a much more holistic sense. If an NGO, labor union, human rights group, or industry group had the ability to train factory management, install a performance management system, or conduct negotiations among government, labor, and management, then that asset was used instead of relying solely on Gap Inc. employees. One social responsibility manager in Mexico said, “We intervene when we need to but move to the side when we should.” Another social responsibility

manager noted, “We use our participation in multi-stakeholder networks as an opportunity for learning. By collaborating with NGOs and other groups who think we should be better than we are, we learn how to consider a broader range of issues when we prioritize our actions.” The organization was open to who had the knowledge and was willing to learn from them.

## **Structures and Systems**

The second contribution to the capability was the development of a supporting organization architecture. Capabilities require structures, systems, shared models, and processes through which the relevant skills and knowledge can be applied in a consistent manner. The director of stakeholder engagement reflected:

I think that it has been very important that we’ve had a function specifically dedicated to building relationships with other organizations committed to labor rights and to finding ways to work together to achieve greater impact. The benefits of working together – while significant – sometimes take longer to yield fruit, and organizational design can play a key role in whether a company can successfully reap these rewards. I’ve seen some other companies have difficulty and lose patience when they approach collaboration as an add-on or a technique rather than an underlying philosophy of how to approach sustainability.

The case shows a clear progression in the structure and processes that support the collaboration capability beginning with the creation of a compliance and monitoring organization. As the organization added multi-stakeholder collaboration to its capability, the adoption and diffusion of SAI’s SA8000 standard, together with the organization’s own efforts to build vendors’ management capabilities around compliance, made it easier for factory owners to understand the guidelines of compliance.

Based on their experience with compliance and then capacity building, the organization established measurement systems to monitor factory compliance and capabilities. A social responsibility manager noted, “The formation of the rating system was a very important

milestone. In the past, our communications with business partners and vendors was pretty subjective. But now, when we are able to put metrics and figures on the table and can tie it to business volume, the benefits to all parties become obvious.” As the organization has expanded its collaboration capability, it has also expanded its measurement expertise as exemplified in the traceability system being piloted to follow raw materials from the farms, to the mills, to the factories. Finally, having good measurement systems also has contributed to the collaboration process in that building trust among different stakeholders often requires transparency of reporting and confirmation of promised action.

As the scope of the collaboration capability has grown and become more complex, so too has the organization supporting the capability. With the creation of a senior responsibility role in 1996 and its redefinition in 2005, the initiation of a new collaboration strategy resulted in the beginnings of internal coordination processes (i.e., the sourcing example) and the formation of a formal external partnership organization in 2002. The creation of an SVP role in 2005, the expansion of the global responsibility function in 2008, and the reorganization of the SER in 2010 completed the structural changes.

More recently, the global responsibility and SER organizations began to build deliberate linkages into the Gap Inc. organization. The most important of these is the creation of an Environmental Council. The council’s mission is to improve how Gap Inc. uses resources to reduce the environmental impact with regard to ECO (Energy, Cotton/sustainable design and Output and waste). It operates as a think tank for the senior executives and a cross section of mid level managers and meets quarterly to identify and prioritize opportunities to support the ECO focus, engage and influence senior leadership, share best practices, and participate on committees to tackle projects that cut across the brands.

## **Learning from Experience**

The third contribution to the capability was experience and learning. It's relatively easy to describe how the Gap Inc. added skills/knowledge, leveraged their values, or built the systems and processes that support collaboration. However, there is little doubt that the biggest contributor to the capability was the cumulative learning and experience that has resulted in trust, credibility, and the ability to contribute to social, economic, and ecological good. The view of the capability's development over time is full of action, reflection, learning, and new action.

In working with different stakeholders like SAI and ETI to acquire new skills, Gap Inc. was in a position to learn about pressure-tested multi-stakeholder problem solving or negotiation processes in real applications. The transmission of that process and the knowledge/skills underneath it was not formal, and has resulted in a lot of "tacit" (as opposed to explicit) knowledge about collaboration. For example, in our interviews with SER members, they will all say, "each initiative is unique." Yet, as the conversation unfolds, it is clear that there is a shared sense about it. People will talk about the importance of developing shared goals and common ground, the need to be patient and to listen to all stakeholders' points of views, the importance of building trust by getting agreements written down, to be vigilant in collecting information, and to create a system to assure that the different parties do what they agreed to do, and so on.

Thus, despite the lack of a formal and somewhat standardized process, the multi-stakeholder collaboration capability process exists in the minds of the people within the SER organization. This is both a strength and weakness. On the one hand, the organization has a deep set of expertise that is widely shared and understood. The members of SER understand who they are and what they are doing, there is a shared language and a shared view of how a multi-



stakeholder initiative should take place –whether it’s with external stakeholders or in the implementation of a strategic planning process that will increasingly involve the brands, the sourcing organization, and other parts of the Gap Inc.. On the other hand, the SER’s strength as an asset to Gap Inc. could quickly disappear if key people leave.

This multi-stakeholder collaboration capability is the result of an open environment of information sharing, and founded on a basis of knowledge of the local communities. SER members spend a lot of time with each other discussing projects, industry and professional news, and their latest readings. It is also the result of an empowered group of people. Consciously or unconsciously, the organization has developed more quickly because there was a sense of “if you want to and you can, you may.” While not written down or spoken that way, the members of the SER organization all have a clear sense of accountability and responsibility. Their passion for and understanding of the Gap Inc.’s values as well as the SER’s mission and purpose have resulted in an empowered and engaged organization that takes initiative. There is a sense that people throughout the organization can lead and take initiative. There are several examples of people initiating conversations with trade union representatives, working with other parts of Gap Inc. to increase environmental efforts, or calling meetings with stakeholders to start a project or get an existing project moving forward.

The director of stakeholder engagements said it best: “Collaboration requires an organization to be open to learning and innovation, so those charged with such efforts need to be empowered to take risks and drive change. I’ve seen other practitioners face significant challenges when they have been located too far down the chain of command or embedded within functions that have too large a stake in the status quo.”

## **Implementing Sustainability**

An important lesson in implementing sustainability comes from the Gap Inc. case by taking a broader look at the “arc” of their experience. What began as a problem caused by media exposure of un-condoned practices carried out by non-Gap Inc. entities has evolved into one department’s intention to transform the way work gets done in the organization. Other organizations interested in sustainability may want to look at the Gap Inc.’s experience and learn from it. They are a very good example of Werbach’s four phases of transparency. He suggests that organizations begin with “blind spots” that are made clear by activist protesting. This awareness results in the pursuit of compliance with regulation or other acceptable norms. While organizations stop at this stage, other organizations move from compliance to transparency, where their actions and their motivations are available and open. This appears to be the stage Gap Inc. has entered.

Industry value chains, especially in industries that have been around for a while, can have a “taken for granted” quality. The individuals and organizations in the industry rarely question the way they conduct business. Yet historically, a tremendous amount of value has been created when that value chain or “recipe” is re-examined through the lenses of different values or goals. Examples include telephony, publishing, and banking. Organizations that truly want to impact sustainability must learn quickly to “see the whole board” or “see the biggest picture” they can imagine. Even Gap Inc., which began by building a collaboration capability with external stakeholders, didn’t originally see the whole system...only the parts that were causing problems. Through making decisions to collaborate with stakeholders, and to continually examine their assumptions, sustainability becomes more robust and real.

## **Conclusion**

Over time, and through the development of broader, deeper, and more complex collaboration capabilities, Gap Inc. has gone beyond compliance and capacity building at the factory level. It is on the precipice of changing Gap Inc.'s core work streams and the industry's processes and assumptions. Their early choices on how to respond to the social activism that threatened the foundation of the Gap Inc. yielded one of their most distinctive capabilities – collaboration and systemic thinking with those who have the most knowledge – wherever they are located in the system. What started with an external focus has now come full circle to involve those work streams and brands within Gap Inc.

The SER group provides education, resources, collaborative skills, and the ability to question assumptions to their internal stakeholders. As designers, the sourcing organization, packaging, and purchasing began to interact with the global responsibility function and with each other through systems like the Environmental Council, they are in the midst of challenging long-held and never challenged assumptions about the process that has resulted in the organization's success for a very long period of time. There are small and large conflicts and transitions as the organization and the function have evolved from one state to another. Along the way there have been pivotal choices; choosing to partner with those critical of the organization, moving from compliance to development, and now moving from helping with the consequences of how work is done to examining the fundamental way work is done. This takes skills of openness and authenticity, core values in support of creativity and doing what's right, systems and processes that support open, and transparent information and continuous learning based on experience. Fortunately, the SER group at Gap Inc. has developed the collaborative capacity that can confront the assumptions underpinning how work is done. Will the organization and the industry

find new ways to design, source, manufacture, and distribute clothing for a sustainable world?

There is the distinct possibility that they will, if history dictates future action.

Figure 1

Apparel Industry Supply Chain

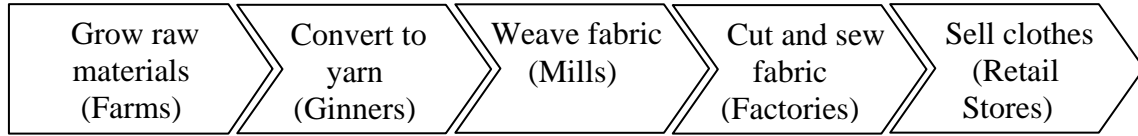


Figure 2 – Global Responsibility Function

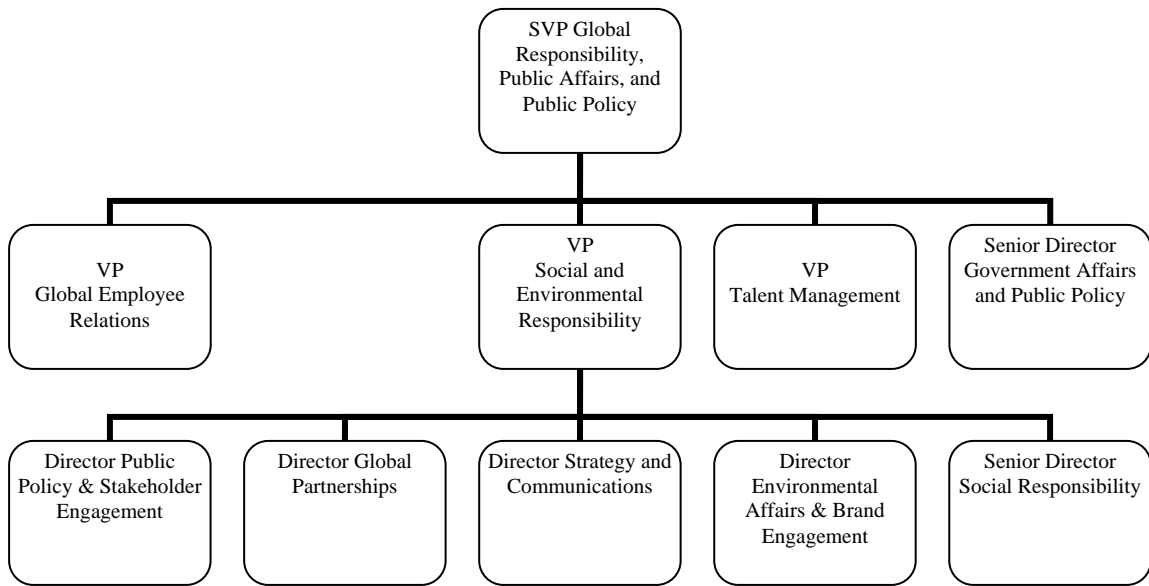


Table 1  
Sources of Gap Inc.'s Collaboration Capability

Key Element	Example
Knowledge and Skills Acquisition Guided by Values	<ul style="list-style-type: none"> <li>• Founder and Corporate Values: Do What's Right, Inspire Creativity</li> <li>• Initially, traditional problem solving skills</li> <li>• Over time, acquired additional skills and partnered with others to gain access to skills</li> <li>• Knowledge valued wherever located in stakeholder ecosystem</li> </ul>
Structures and Systems	<ul style="list-style-type: none"> <li>• Formal structural element within Gap, Inc and separate from the "brands" and sourcing</li> <li>• Expansion of SVP roles and responsibility</li> <li>• The collaboration process is not "explicit" but tacit.</li> <li>• Measurement processes and systems are a strength – from compliance to capacity to traceability</li> <li>• Transparency through public reporting</li> </ul>
Experience and Learning	<ul style="list-style-type: none"> <li>• The organization developed practices – project reviews, the ability to take action on projects within boundaries, and increasingly systemic views of collaboration – that allowed the SER to learn.</li> <li>• The organization implemented shared leadership practices – a clear vision and focus, resources to support the capability's development, conversation and dialogue about what was happening – that allowed the SER to learn.</li> <li>• Used crisis as a crucible for learning and developing trusting partnerships over time.</li> <li>• Hired people who knew the local communities</li> </ul>

## Selected Bibliography

Readers interested in more examples of Gap Inc.'s sustainability efforts will enjoy their website: [www.gapinc.com/](http://www.gapinc.com/) and then click on "social responsibility" at the top of the page. You can also download a copy of their sustainability report.

The labor and ecological conditions in the apparel industry are described in several books and articles. Among them are Richard Locke and Monica Romis' 2009 article "The promise and peril of private voluntary regulation: Labor standards and work organization in two Mexican garment factories," in the Review of International Political Economy, 17(1), 45-74; Ning Cao, Zhiming Zhang, Kin Man To, and Keng Po Ng's 2008 article "How are *supply chains* coordinated?: An empirical observation in textile-*apparel* businesses," published in the Journal of Fashion Marketing & Management, 12(3), 384-397; and Sandy Black's book Eco-chic: the fashion paradox. (London: Black Dog, 2008).

For another example of capability development, see C. Worley and E. Lawler's 2009 article, "Building a change capability at Capital One Financial," published in Organizational Dynamics, 38(4), 245-251.

For a description of the model of transformation to transparency, see Adam Werbach, Strategy for sustainability. (Boston, MA: Harvard Business Press, 2009).

Chris Worley (Ph.D., University of Southern California) is a research scientist at USC's Center for Effective Organizations and a professor of management at Pepperdine University. Worley is coauthor of *Built to Change*, *Integrated Strategic Change*, and *Organization Development and Change*, the leading textbook on organization development. He is co-faculty director of CEO's certificate in organization design.

He lives in San Juan Capistrano with his wife and three children (Center for Effective Organizations, Marshall School of Business, University of Southern California, 3415 South Figueroa Street, DCC 200, Los Angeles, CA 90089-0871, United States. Tel.: +1 213 740 9814, e-mail: [cworley@marshall.usc.edu](mailto:cworley@marshall.usc.edu)).

Ann Feyerherm (Ph.D., University of Southern California) is a Professor of Organization Theory and Management at Pepperdine University and Chair of the Applied Behavioral Sciences and Management Department. She is also the Chair of the Organization Development and Change Division of the Academy of Management. She is the author of articles appearing in *JABS*, *OD Practitioner*, *Leadership Quarterly* and the *Graziadio Business Report* and has been interested in collaboration since her master's thesis days. She lives with her husband in Laguna Niguel, CA. (Graziadio School, 18111 Von Karman, Irvine, CA 92612, United States. Tel: +1 949 223-2534; e-mail: [afeyerhe@pepperdine.edu](mailto:afeyerhe@pepperdine.edu)).

Darryl Knudsen (MIA, Columbia University; A.B., Dartmouth College) is Gap Inc.'s Director of Public Policy and Stakeholder Engagement. He has been with the company for nearly seven years and sits on the Leadership Team of its Social and Environmental Responsibility Department. He has worked with stakeholders, such as the International Labor Organization (ILO) and the World Bank Group, governments, trade unions and non-profits around the world, on complex public policy issues related to Gap Inc.'s social responsibility program. Darryl lives in San Francisco with his wife and son (Gap Inc., 2 Folsom Street, San Francisco, CA 94105, United States. Tel:+1 415 427 6480, e-mail: [darryl\\_knudsen@gap.com](mailto:darryl_knudsen@gap.com)).