

CLOTHING CALAMITY:

A CRISIS CASE STUDY ON SLAVE LABOR ALLEGATIONS AGAINST SPANISH RETAILER ZARA

by

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## **I. Abstract**

Spanish retailer Zara, owned by Inditex fashion retail group, was founded in 1975 on the philosophies of flexibility, efficiency, and sustainability. Now one of the largest fashion retailers in the world and the best-known fashion brand in Spain, Zara has transformed the industry and has been praised for its business model. In August of 2011, tragedy struck for Zara when over 30 of its outsourced factories in São Paulo, Brazil were discovered using slave labor practices. The company denied any involvement and blamed its supplier. A year and a half later, on the outskirts of Buenos Aires, Argentina, three outsourced factories were found to be forcing its employees, adults and children, to work in slave-like conditions. Zara again denied knowledge of the existing factories. A lawsuit was filed and is still pending. These crises had a severe impact on Zara's reputation. This crisis case study analyzed these two specific events. The content explored what happened, the warning signs, and how Zara and its stakeholders responded.

*Keywords: Zara, Inditex, slave labor*

## **II. Case Study**

### **1. Overview**

Zara is a Spanish clothing company that was founded in 1975 in A Coruña, Spain by Amancio Ortega, the third richest man in the world (Ruddick, 2014). Zara is a "fast fashion" chain store of its parent company Inditex, a Spanish multinational clothing company (Ruddick, 2014). According to Pearson (2008), Zara helped Inditex emerge as one of the world's fastest growing manufacturers of affordable fashion clothing. Zara is now the best-known fashion brand in Spain and one of the largest fashion retailers in the world (Ruddick, 2014). However, tragedy struck for Zara in 2011 when allegations were made against them, accusing them of using slave labor in its factories in Brazil. Inditex denied any involvement and blamed its supplier, AHA Indústria. In 2013, Zara was accused again of having sweatshops where its employees worked in poor, unsafe conditions for meager wages in its factories in Argentina (Osborne, 2013). Inditex, again, denied any wrongdoing and said it was surprised by the allegations (Osborne, 2013). This did not satisfy the Argentinian government, and a lawsuit was filed in April 2013 and is currently pending.

### **2. About Zara**

Founded in 1975 in A Coruña, Spain with a mission of flexibility, efficiency, and sustainability, Zara has been a thriving business for four decades. Its mission statement revolves around its dedication to the environment and promise to create an eco-friendly management style. Outlined on its website (2015), Zara's five main objectives are, to save energy, to have an eco-friendly shop, to produce less waste and recycle, to extend

commitment to all the staff, and to be an environmentally aware team. Zara implements these into its business model by reducing energy consumption, introducing sustainability, recycling its plastic items, and holding informative in-company campaigns for all the staff. In addition, it uses ecological fabrics and organic cotton in its products. Zara's parent company, Inditex, began in 1963 and currently owns eight brands, Zara being the most successful. In May 2001, Inditex became a publicly traded company (Crofton & Dopico, 2007). According to Inditex's website (2015c), Zara has over 2,000 stores across 88 countries, including the United States. Bringing in sales of \$14.1 billion, and having a brand value of \$10.1 billion, Zara is the largest source of revenue for Inditex ("Zara brand," 2014). In an article published by *Unique Business Strategies (UBS)* in 2008, Zara was praised for its innovative business strategies. That all came crashing down when it was accused of using slave labor in several of its factories in South America.

### **3. Slave Labor Crises**

Over the past few decades, the fashion industry has been transformed. What is now known as the "fast fashion" industry, is taking high-end fashion, cutting the production time, catering apparel to customer demand, and offering it at an affordable price. Designers are no longer leading the fashion season with their own, pre-set designs, but instead are constantly adapting their styles to customer demand (Crofton & Dopico, 2007). This fast-fashion model is achieved through vertical integration, speedy production and distribution, and retail sales that help communicate market demand to the designers (2007). Inditex is the current leader of this fast fashion industry, owning eight brands, including Zara, that all participate in this business model (2007). However, this model has also caused the company to cut corners in

production. With so many outsourced locations, thorough auditing of the suppliers and manufacturers has become a challenge, and in order to keep labor costs down, some of these locations have been found using slave labor practices. This crisis has impacted many well-known clothing brands, including H&M, Wal-Mart, Marks & Spencer, Nike, Zara, and many others (MacIntyre, 2014). In a poll taken in 2013 by the National Consumers League, 59% of respondents said that it was very important to them that the products they buy were not made in dangerous or unfair conditions. In addition, 94% of respondents said that the way workers were treated was important to them (Blumgart, 2013). However, finding ethically made clothing can be difficult and requires a lot of time and effort to seek out (2013). Sweatshops are not limited to one specific country or continent; they have been discovered all over the world and have had a negative impact on sales, reputation, and public trust.

### **3.1 Zara Crisis in Brazil**

In August 2011, Zara Spanish clothing company came under investigation after over 30 of its outsourced plants in São Paulo, Brazil were accused of using slave labor. Antunes (2011, para. 3) wrote in an article for *Forbes*, "According to São Paulo's Ministry of Work intelligence officers, in just one of the outsourced factories manufacturing clothes for Zara, 33 clandestine workshops have been located, where at least 50,000 clothing items have been produced in the past three months." Fifteen workers were rescued, 14 Bolivians and one Peruvian, who had all been forced to work long hours for minimal wages in substandard, life-threatening conditions. The Brazilian government compiled a list of 52 charges against Inditex, Zara's parent company, who blamed its supplier, AHA Indústria. The *Forbes* article continued, "In a statement, Zara's representatives said that the accusation of slave-labor made

against the retailer represent a 'serious breach in accordance with the Code of Conduct for External Manufacturers and Workshops of Inditex.' They also countered that all factories responsible for unauthorized outsourcing have been asked to regularize immediately the situation of the workers involved. 'The Inditex group, along with Brazil's Ministry of Work, will strengthen the supervision of the production system of all its suppliers in the country to ensure that such cases do not occur again'" (2011, para. 7). After being brought to court, the case was finally settled in December 2011, when Zara agreed to sign the Conduct Adjustment Term (Término de Ajuste de Conducta), which required the company to closely monitor the production process and reemphasize its Code of Conduct for Manufacturers and Suppliers (Zara pagará," 2011). It also created an emergency fund to remedy poor working conditions if they were to arise in the future. In addition, Zara paid \$1.5 million in governmental fees and worker compensation (2011).

### **3.2 Zara Crisis in Argentina**

A year and a half later, in March 2013, charges were made against Zara for using slave labor in its factories in Argentina. After receiving a tip from La Alameda, a non-governmental organization in Argentina that fights against human trafficking and slave labor, three sweatshops were discovered on the outskirts of Buenos Aires producing Zara clothing (Osborne, 2013). These sweatshops were reportedly using slave labor factory conditions, as well as adult and child workers. The workers in these factories were all Bolivian (Roper, 2013). The Argentinian government shut down all three sweatshops that were discovered.

Initially after the event, a spokesperson on behalf of Inditex said he was, "surprised by the allegations" and that Inditex did not believe the sweatshops had any relation to its

approved suppliers in Argentina and agreed to cooperate with further investigation (Roper, 2013). In the lawsuit filed in April 2013, Zara was accused of “servitude, based on persons being forced to work in excess of 12 hours a day and the restrictions on freedom derived from housing persons in their workplace, as well as of violating the legislation on home working, which makes outsourcers criminally liable and responsible for labor conditions in work places producing their goods, and the law on migrants, which proscribes profiting economically from undocumented persons" ("Zara uses," 2013, para. 14). According to its 2013 Annual Report, Zara performed eight supplier pre-assessments audits in Argentina, 100 initial audits, zero follow-up audits, and 219 special audits to verify compliance with the Code of Conduct and Corrective Action Plans concerning labor rights. It stated that no problems had been detected. The lawsuit is currently pending.

Slave labor was not just an issue for Zara in Argentina. A few months later, in June 2013, Argentine authorities raided sites across the country and rescued more than 200 Colombians in over 70 locations, who had been forced to work in slave labor conditions (Shoichet, 2013). The raids in the Cordoba region were focused on furniture-making sweatshops (2013). This particular investigation of human trafficking had been ongoing for over two years after receiving a tip from a victim (2013). Those accused faced between four and 14 years in prison if convicted.

#### **4. Crisis Timeline**

Below is the timeline of events of the Zara slave labor crises in Brazil and Argentina.

**Early Summer 2011** - Brazilian government discovers over 30 outsourced factories in São Paulo using slave labor (Pereira & Alerigi Jr., 2011).

**July 19, 2011** - Amancio Ortega steps down as chairman of Zara, and Pablo Isla is made the new chairman (Morris, 2011).

**July 2011** - The Regional Superintendency of Work and Employment (SRTE) of the Ministry of Labour and Employment (MTE) of São Paulo contacts Inditex about the outsourced factories in Brazil (Inditex, 2011).

**August 2011** - Zara becomes officially under investigation for the Brazilian factories and releases a statement saying its supplier had breached Inditex's Code of Conduct for External Manufacturers and Suppliers, and they would compensate the workers (Burgen, 2011).

**December 20, 2011** - Zara signs the Conduct Adjustment Term in Brazil and pays \$1.5 million in governmental fees and worker compensation (Zara pagará," 2011).

**March 26, 2013** - Criminal complaints are filed against Zara in Argentina ("Zara uses," 2013).

**April 2013** - Argentinian government receives tip from La Alameda about existing sweatshops on the outskirts of Buenos Aires. Three are discovered and shut down (Osborne, 2013).

**April 3, 2013** - Zara releases a statement saying that it is surprised by the allegations and claim that the sweatshops have no relationship with its suppliers and manufacturers (2013).

**April 2013** - A lawsuit is filed against Zara and is still pending in Argentina ("Zara uses," 2013).

## **5. Taking Action**

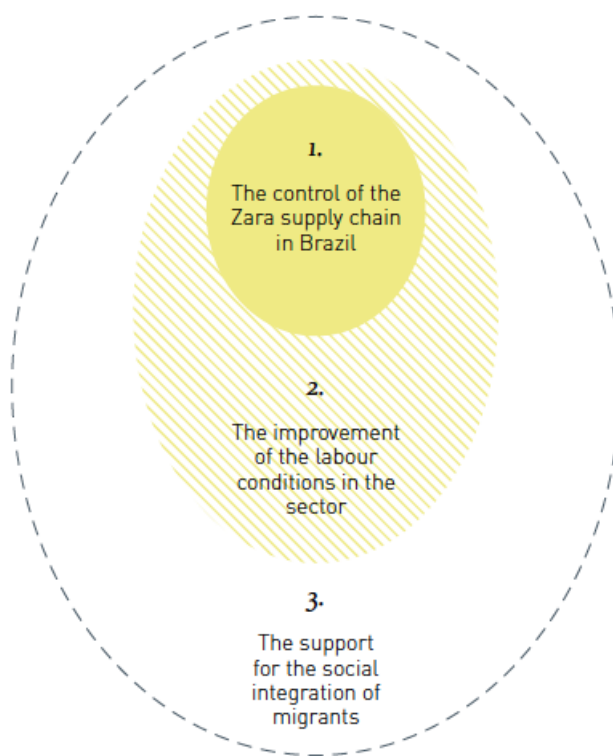
In July 2011, the Regional Superintendency of Work and Employment (SRTE) of the Ministry of Labour and Employment (MTE) of São Paulo contacted Inditex about the outsourced factories. Inditex's initial response was to investigate these claims, where it was found that its Code of Conduct for External Manufacturers and Suppliers had been breached. Outlined on the website (2015a), the Code of Conduct states that in order to work ethically and responsibly, all manufacturers and suppliers must uphold the principles listed in Figure 1.

<u>Introduction</u>	3
1. <u>No forced labour</u>	3
2. <u>No child labour</u>	3
3. <u>No discrimination</u>	4
4. <u>Respect for freedom of association and collective bargaining</u>	4
5. <u>No harsh or inhumane treatment</u>	4
6. <u>Safe and hygienic working conditions</u>	4
7. <u>Wages are paid</u>	5
8. <u>Working hours are not excessive</u>	5
9. <u>Regular employment</u>	5
10. <u>Traceability of production</u>	6
11. <u>Health and Safety of products</u>	6
12. <u>Environmental awareness</u>	6
13. <u>Confidentiality of information</u>	6
14. <u>Code implementation</u>	6
14.1 Transparency	7
14.2 Reference to national legislation, Conventions and Agreements	7
14.3 Verification of compliance	7
14.4 Ethics Committee and Whistleblowing Channel	7

*Figure 1.* Code of Conduct for External Manufacturers and Suppliers Inditex Group

Inditex then released a statement on behalf of Zara stating that it could not be held responsible and blamed the supplier, AHA Indústria. Shortly thereafter, Inditex suspended

business with AHA. After the incident in Brazil, it was not until four months later, after an official case had been filed against Zara, that it agreed to sign the Conduct Adjustment Term (Término de Ajuste de Conducta) and paid \$1.5 million in governmental fees and worker compensation. Outlined in the 2011 Annual Report and shown in Figure 2, the company adopted "The Brazil Project," to ensure safe working conditions and proper supply management. This follow-up response was intended to set the company back on the right track and prevent future slave labor crises from happening by establishing a stronger relationship with the suppliers.



*Figure 2.* The Brazil Project. This figure illustrates the company's plan to control, improve, and support labor conditions and the supply chain from the 2011 Annual Report.

In Inditex's 2013 Annual Report, there was no mention of the crisis in the Argentina. According to the report, Zara performed eight supplier pre-assessments audits in Argentina,

100 initial audits, zero follow-up audits, and 219 special audits to verify compliance with the Code of Conduct and Corrective Action Plans concerning labor rights. In addition, the company created a chart of all of its factory locations with primary objectives listed; for Argentina, the primary objective was to guarantee the traceability of the supply chain. The objectives listed for each country were indicative of what it struggles most with, which would help to explain the reason for the crisis reoccurring in 2013.

The initial response of the company was a statement released by Inditex on behalf of Zara, stating, "They were 'surprised' by the revelations and claimed they had not been officially notified by the Argentinian authorities." In addition, the spokesman said, "From the limited information we have, which are the addresses of the workshops, they have no relationship with our suppliers and manufactures in the country. Zara has 60 Argentine manufactures and in the last two years conducted 300 audits of suppliers and factories, but we will cooperate with any investigation" (Osborne, 2013, para. 16). Any follow-up responses have yet to be seen or heard after the lawsuit was filed in April 2013.

## **6. Crisis Communication Plan**

It is imperative for every organization to have a clear communication plan that is ready to be implemented in times of crisis. A strong crisis communication plan aids the ability of an organization to communicate effectively with its publics.

### **6.1 Deny, deny, deny**

The main crisis communication strategies executed in both of these crises were to deny involvement and minimize responsibility by shifting the blame to the supplier. These

are both tactics used in the Image Restoration Theory strategy, which becomes necessary when a company realizes its reputation is threatened by the crisis (Benoit, 1995). In the statements released after each incident, the spokesperson on behalf of the company claimed that Zara had no knowledge of the existence of the sweatshops and blamed AHA Indústria for violating the Code of Conduct. However, Zara never addressed the fact that every company should be responsible for its employees. Zara did not closely and thoroughly audit its suppliers and manufacturers, which was the fault of the company. The denial and blame strategies are often used when a company is guilty but does not want to take responsibility. These strategies are only the most effective course of action if the company has evidence or facts to support its innocence, which Zara did not have.

## **6.2 Not again**

One of the most intriguing aspects of these crises is that they occurred just two years apart. After the first incident Brazil, it seems Zara and Inditex would have more closely monitored its suppliers and created a crisis communication plan to address any potential issues that could arise in the future. However, when the second incident occurred in Argentina, the company had a similar response to the one it had in 2011. Zara claimed that it was surprised by accusations and that the sweatshops had no relations with its approved supplier. When these slave labor factories were discovered and searched, clothing with Zara's label was found, which could only mean that Zara, Inditex, or the supplier created them. Instead of taking responsibility for its actions and admitting to either creating the sweatshops or not auditing the employees and suppliers close or frequent enough, Zara denied everything.

After closer examination of Inditex's annual reports, it was discovered that Argentina only just became a cluster in 2012. Defined on the website (2015b), clusters are "spaces of cooperation that involve suppliers, manufacturers, trade unions, business associations and international buyers with the common objective of promoting a sustainable productive environment in a strategic geographical area to develop the Inditex business model within a framework based on the fulfillment of Fundamental Labor Rights." These clusters are where the company is larger and more present. In addition, one of the main objectives for 2013 was to create a procedure manual for clusters. This lack of established practices for clusters could have been part of the reason that the slave labor practices reoccurred.

## **7. Stakeholder Response**

### **7.1 Inditex**

Inditex is the owner of Zara, thereby making it the most important stakeholder in these crises. Out of all the other labels Inditex owns, Zara generates the most revenue, so it was necessary for Inditex to do all they could to protect the business. In order to help Zara defend the accusations, the spokesperson on behalf of Zara for both crises came from Inditex. In 2011, the parent company willingly adopted "The Brazil Project" and various other Corrective Action Plans to prevent future crises from happening. Although the crises only affected one of the eight brands, Inditex took the responsibility and attempted to implement changes in all of its factories.

### **7.2 Customers**

Customers of Zara are one of the most important stakeholders in this crisis. A

business cannot thrive without its customers; they are the functional, outputting public. After investigating article and blog comments, it was found that the response of Zara's customers was extremely negative. Many customers stated that they would either reconsider shopping at Zara or would not shop at Zara altogether because of these incidents. Though there was no visible impact on sales, customers reacted angrily on social media, and links to the incriminating articles were posted from several different countries and continents in the comment section of Zara's *Facebook* posts (see Figures 3 and 4).



Figure 3. Angry comments made from Zara customers on the company's *Facebook* page after the slave labor crisis in Brazil.





Figure 4. Angry comments made from Zara customers on the company's Facebook page after the slave labor crisis in Argentina.

Backlash in general against Zara was not centered in a single location. News of the crises reached top media outlets on six continents, and customers around the world publicized their anger on social media and commented on online news articles. No evidence of organized boycotts against Zara was found, but after the crisis in 2011, Zara came close to making the 'dirty list' of companies in Brazil, which would have negatively impacted sales and its reputation. The National Slave Eradication Pact was created and launched by the Brazilian government, where companies sign and pledge to never use slave labor in their factories and to boycott companies that appear on the 'dirty list' (The Associated Press, 2012). By paying several governmental fees, Zara was able to avoid being placed on this list (2012).

### 7.3 Employees

The employees of a company are an important, internal public that needs to stay informed during crises. With thorough investigation of online resources and the company website, no evidence was found of communication with employees through memos, letters, etc. during either crisis. Especially in Zara's case, constant communication with employees should have been necessary because the employees were the victims. In order to remain fair and socially responsible, the company should have made communication with the employees a priority. Reactions of denial and shifting blame are not reassuring or perceived as a corrective action to internal publics because it makes the company appear as if they are hiding something.

### 7.4 Media

Similarly with employee communication, any public statements that would have been originally published or released by Zara or Inditex had either been taken down or were never uploaded to the company's website. All statements made by the company were only found quoted in news sources. Both of these crises made international news, and the media was actively involved. Although its company base is in Spain, Inditex has been praised for its business strategies worldwide and is the second largest textile company in the world, which encouraged coverage. In addition, the use of slave labor and child labor are hot button issues in the business world. The crises were reported on by top business magazines, such as *Forbes*, and in fashion industry news sources such as *Fashionista*. Additionally, they gained coverage from well-known, large publications that report breaking news in all industries, such as *BBC* and *The Daily Mail* in the United Kingdom, *The Sydney Morning Herald* in

Australia, *El Periódico* in Guatemala, and several others. The media generated by the crises in Brazil and Argentina reached news sources in Asia, Africa, Australia, Europe, North America, and South America, of which all have Zara stores locations.

These crises appeared not only in print media, but also on social media. Zara has a strong presence on *Facebook*, and according to the 2013 Annual Report, had 20.1 million followers in 2013. In addition, it joined *Twitter* in August 2011 and accumulated 368 thousand followers by 2013. The company posts regularly on both websites, but it does not respond to customer comments on *Facebook* unless a specific question is asked, and it never replies on *Twitter*. Zara also did not address the crisis in Brazil or Argentina on any social media platform and never responded to angry customer comments about the incidents (see Figure 5).



Figure 5. A customer's *Facebook* comment that questioned the crisis in Argentina and received no reply from Zara.

## **8. Results & Impact**

Though it did not impact its sales, these crises damaged Zara's reputation. According to the Image Restoration Theory, after a crisis an organization can continue to function, but they may lose image and respect. This happened to Zara among its customer base, which was demonstrated through the angry comments on blogs, *Facebook*, and *Twitter*. Many customers warned others to not shop at Zara and posted incriminating articles. The crises did not impact

its quarterly sales or net profit in 2011, 2012, or 2013; however, Zara also opened new stores quarterly, which could have helped to offset any possible loss in sales if the stores were established in places where the crisis was not as prevalent or well-known (see Figure 6).

Net openings by quarter:

Concept	1Q 2013	2Q 2013	3Q 2013	4Q 2013	Total 2013
Zara	12	7	28	19	76
Zara Kids	(3)	(5)	(2)	0	(10)
Pull & Bear	1	8	9	19	37
Massimo Dutti	0	4	15	16	35
Bershka	14	11	24	20	69
Stradivarius	14	22	26	16	78
Oysho	5	4	9	7	25
Zara Home	7	(1)	25	6	37
Uterqüe	(1)	(4)	1	(12)	(16)
<b>Total</b>	<b>49</b>	<b>46</b>	<b>145</b>	<b>91</b>	<b>331</b>

Total stores at the end of each quarter:

Concept	1Q 2013	2Q 2013	3Q 2013	4Q 2013
Zara	1,763	1,770	1,808	1,827
Zara Kids	171	166	164	164
Pull & Bear	817	825	834	853
Massimo Dutti	630	634	649	665
Bershka	899	910	934	954
Stradivarius	794	816	842	858
Oysho	529	533	542	549
Zara Home	264	263	288	294
Uterqüe	91	87	88	76
<b>Total</b>	<b>6,058</b>	<b>6,104</b>	<b>6,249</b>	<b>6,340</b>

Sales in company-managed and franchised stores:

Concept	Company Managed	Franchised
Zara	88%	12%
Pull & Bear	84%	16%
Massimo Dutti	82%	18%
Bershka	84%	16%
Stradivarius	80%	20%
Oysho	87%	13%
Zara Home	86%	14%
Uterqüe	83%	17%
<b>Total</b>	<b>86%</b>	<b>14%</b>

Net sales by concept are shown in the table below:

Concept	2013	2012	Chg % 13/12	2 yr CAGR
Zara	10,804	10,541	2%	10%
Pull&Bear	1,191	1,086	10%	12%
Massimo Dutti	1,293	1,134	14%	13%
Bershka	1,556	1,485	5%	9%
Stradivarius	1,006	961	5%	7%
Oysho	353	314	12%	6%
Zara Home	451	350	29%	19%
Uterqüe	71	74	-4%	2%
<b>Total</b>	<b>16,724</b>	<b>15,946</b>	<b>5%</b>	<b>10%</b>

The Group operates a global sales platform. Store sales by geographical area are shown in the table below:

Figure 6. Inditex net openings and sales. This figure illustrates the growth in sales and openings of Zara stores from the 2013 Annual Report.

One visible loss did occur after the news broke about Brazil in 2011, and Zara shares went down 4% on the Madrid Stock Exchange (Kelly, 2013).

## 9. Analysis

### 9.1 History of Past Crises and Warning Signs

Before this, there were no past crises for Zara; however, there was and still is a slave labor crisis in Brazil. In 2013, 2,063 people were found and freed from slave-like work

conditions in Brazil, in both rural places and large cities (Prange, 2014). Although it may seem like a subtle one, this history of slave labor in Brazil was a prodrome for Zara. This knowledge should have increased the frequency and closeness of Zara's employee and supplier auditing. It is imperative that a company evaluates the environment and history of the location where it might decide to build and establish an outsourced factory. Therefore, Zara could have anticipated this crisis and implemented prevention strategies.

A more obvious warning sign for Zara was the crisis in Brazil in 2011, which became a prodrome for the crisis in Argentina in 2013. Over 30 outsourced factories in one area had been discovered using slave-like conditions, which should have encouraged Zara to more closely monitor its other outsourced factory locations.

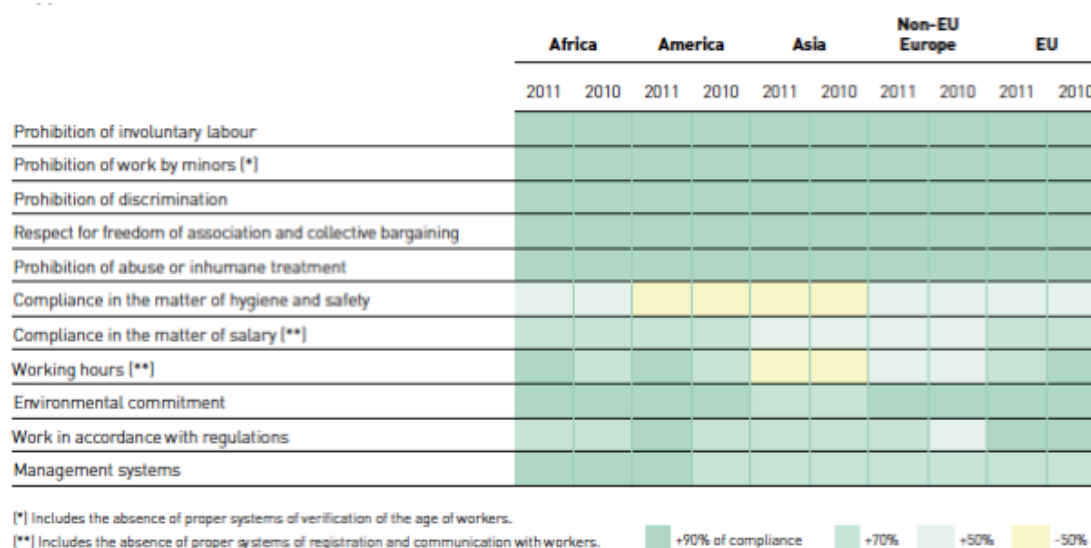
## **9.2 The Five Pillars of Public Relations Ethics**

In order to fully analyze a company's crisis response strategy, it is important to consider the ethics behind its decision-making. The five pillars of public relations ethics help to do that by providing a set of principles that professionals and businesses should uphold. These five pillars are: veracity (to tell the truth), non-maleficence (to do no harm), beneficence (to do good), confidentiality (to respect privacy), and fairness (to be fair and socially responsible) (Parsons, 2008). Zara's ethics as a company are reflected in the implementation of these pillars in response to the crises.

Veracity is difficult to evaluate when a company denies knowledge and involvement in reaction to a crisis. However, even if it were technically the supplier that employed the sweatshops, if Zara had done routine audits, it would have known what was happening or chose to ignore it. Therefore, its publics were not getting the whole truth. Additionally, there

was a lack of non-maleficence and beneficence on behalf of Zara, Inditex, and its suppliers. Since Zara did not closely monitor the employees, great harm came to several individuals when they were forced to work in insufferable conditions. Employees are an extension of the company itself, and it is imperative for a company to maintain safe working conditions. Additionally, stronger relationships with the supplier and stronger internal relations would have created an environment of beneficence. According to Inditex's 2013 Annual Report, it developed programs to enhance social development in Brazil and Argentina, and was continuously improving the auditing process; however, it seems that particular areas were overlooked. This indicates that Inditex needs to pursue even further modifications to its relationships with suppliers in order to increase non-maleficence and beneficence.

The pillar of confidentiality does not apply in this specific instance because the company did not violate any terms of privacy. Lastly, fairness was the least upheld by Zara out of all the ethical principles. To be fair and socially responsible is to respect employees and society in all decision-making. The treatment of its employees was unfair and illegal. Employees are the integral, internal part of a company. In order to foster positive relations within a company, the employees must be able to trust the management and feel that they are being treated fairly. Safety and hygiene have repeatedly been the biggest issues in Zara's South American factories, as seen in Figure 7, which is unfair to its employees. Overall, Zara did try to take preventative measures with increased auditing and Corrective Action Plans, but it still managed to ethically slip through the cracks when handling these crises.



*Figure 7.* Compliance percentage regarding the Code of Conduct within factories and workshops associated with active suppliers in 2011.

## **10. Crisis Communication Theories**

### **10.1 Situational Crisis Communication Theory**

The Situational Crisis Communication Theory (Coombs, 2007) helps to identify what factors shape how stakeholders perceive a crisis. It is an assessment of whether or not the organization is responsible for the crisis itself. The theory states that there are three different types of crises: victim, environmental, and preventable. Zara's crises were preventable ones. This means that the stakeholders believe that the company was at fault. In Zara's case, the government and its customers held the company responsible because it did not closely and thoroughly audit the suppliers and manufacturers. In addition, there are two intensifying factors within the theory: history of crises and prior negative reputation. There was a history of slave labor usage in Brazil, which intensified the blame in 2011, and the crisis in Brazil

provided a negative reputation to intensify the blame during the 2013 Argentina crisis. These factors caused the publics to attribute greater responsibility to the company because it had happened before. The recommended response in this theory for any and all crises is to help people prevent further harm and help them cope psychologically. This will occur from the company providing corrective information, expressing sympathy, and accepting responsibility. Zara provided corrective information in 2011 by creating "The Brazil Project" to help reinforce its Code of Conduct and improve factory conditions; however, it did not accept responsibility or express sympathy. Likewise, after the crisis in Argentina, the company did not accept responsibility or express sympathy, but attempted to provide corrective action by making its primary objective in Inditex's 2013 Annual Report to guarantee traceability of the supply chain in Argentina.

## **10.2 Image Restoration Theory**

The other main crisis communication theory that was necessarily implemented was Image Restoration Theory (Benoit, 1995). In order for this theory to apply, the accused must be held responsible and the act committed must be considered offensive. In both crises, even though the company denied responsibility, Zara was held responsible by the government and its customers. In addition, slave labor usage is an act that has plagued several nations for centuries and is considered severely offensive.

Out of the five general strategies in the Image Restoration Theory, Zara executed two of them: denial and corrective action, which are both defensive strategies. By claiming to have no knowledge of the slave labor factories in Brazil and shifting the blame to its supplier, AHA Indústria, Zara used the denial strategy. By paying fees for governmental fines and

worker compensation and promising closer supervision of its employees and a reemphasis on the Code of Conduct, Zara used the corrective action strategy. Similarly, Zara used the denial strategy again in 2013, when it claimed that the sweatshops had no relationship with its suppliers and manufacturers and that it not yet been notified by Argentinian authorities. Using these strategies resulted in the organization continuing to function, but it lost respect from its customers, the government, and the general public. According to Benoit, the most accommodative response in the face of a crisis is a profuse apology from the organization; however, even though the accused crime was a severe one, Zara never issued a statement of apology. Overall, Zara's crisis communication strategy was not the most effective course of action because the company had no evidence to support its claims and chose to not put the public's interest as the main concern by not apologizing for its actions or helping them cope psychologically.

## **11. Conclusion**

Most crises impact an organization negatively. For Zara, using slave labor practices in several of its outsourced factories in South America shed a negative light on the company and the fast fashion industry. Both of these crises were preventable ones, and with the proper measures taken through auditing and evaluation, could have been avoided altogether. It is also important that once an organization enters crisis mode, that it have a clear communication plan of action, which Zara did not have. Using strategies of denial and blame were not satisfying without proper evidence or sympathy, and the company should have ultimately taken responsibility for its employees and suppliers. Luckily for Zara, its strong reputation preceding these crises and its innovative business model helped to overshadow

much of the conflict, and it did not lose profit. However, it did lose respect in the eyes of customers, the government, and the general public, which tarnished its reputation. Zara survived both crises with little repercussion thanks to its global status and top rank in the newly emerging industry. Had the circumstances been different or the business been smaller, it might not have fared as well as it did.

# ZARA

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