Risks in a Fashion Supply Chain

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A case study of CSR in India
Acknowledgements

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Abstract

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Through a case study conducted in India, of a Swedish fashion company, this thesis aims to investigate how Corporate Social Responsibility (CSR) can mitigate risks in a global fashion supply chain. By investigating CSR activities carried out by a Swedish fashion brand with its suppliers in India, the thesis shows both benefits and obstacles regarding CSR implementation. Data has been collected mostly through semi-structured interviews in both Sweden and in India with CSR managers, Indian production office, suppliers and through factory observations. The data has been analyzed with theories regarding risks in the supply chain and CSR related theories such as the triangle of Carroll. By investigating benefits and obstacles regarding implementation with suppliers, risks connected to social issues in the supply chain are highlighted. The observations showed the problematic issue of a gap between CSR communication in Sweden and how the implementations are interpreted locally. The research shows that CSR, if implemented correctly, mitigates certain risks mainly connected to brand reputation and health and safety among workers. It is further concluded that there are major issues in implementing CSR further down the supply chain than the first tier of suppliers. Lack of transparency through the supply chain challenges the company’s sustainability work and exposes vulnerabilities in the supply chain. Therefore, the Swedish fashion company is still at risk from its supply chain.

Key words: risks, risk mitigation, CSR, CSR implementation, supply chain management
# Table of Contents

**Chapter 1: Introduction**..............................................................................................................1  
1.1 Introduction.................................................................................................................................1  
1.2 Background.................................................................................................................................1  
1.3 Problem discussion....................................................................................................................2  
1.4 Purpose......................................................................................................................................3  
1.5 Research questions....................................................................................................................3  

**Chapter 2: Theory**.........................................................................................................................4  
2.1 The characteristics of today’s network-based supply chains..................................................4  
2.2 Risks in the supply chain...........................................................................................................5  
2.2.1 Demand risks.........................................................................................................................5  
2.2.2 Supply risks..........................................................................................................................5  
2.2.3 Reputational risks...............................................................................................................6  
2.2.4 Social risks..........................................................................................................................6  
2.3 The CSR Triangle.......................................................................................................................6  
2.4 Corporations’ work with CSR....................................................................................................7  
2.4.1 Transparency.......................................................................................................................8  
2.4.2 Code of Conduct...................................................................................................................8  
2.5 Implementing CSR in a global supply chain...........................................................................9  
2.7 Research model........................................................................................................................10  

**Chapter 3: Method**.......................................................................................................................11  
3.1 Research design........................................................................................................................11  
3.2 Scientific approach....................................................................................................................12  
3.3 Sample selection.......................................................................................................................12  
3.4 Interview framework ..............................................................................................................13  
3.5 Observation framework..........................................................................................................14  
3.6 Official company documents.................................................................................................15  
3.7 Data analysis............................................................................................................................15  
3.8 Trustworthiness.........................................................................................................................15  

**Chapter 4: Results**.......................................................................................................................17  
4.1 The Swedish fashion company.................................................................................................17  
4.1.1 KappAhl’s Code of Conduct...............................................................................................17  
4.2 The Swedish view of CSR........................................................................................................17  
4.2.1 Identified risks.....................................................................................................................18  
4.2.2 CSR implementation and obstacles....................................................................................18  
4.2.3 Benefits regarding risk mitigation......................................................................................19  
4.3 The Indian production office’s view of CSR..........................................................................19  
4.3.1 Identified risks.....................................................................................................................19  
4.3.2 CSR implementation and obstacles....................................................................................20  
4.3.3 Benefits regarding risk mitigation......................................................................................22  
4.4 The Indian Supplier level of CSR...........................................................................................22  
4.4.1 Identified risks.....................................................................................................................22  
4.4.2 CSR implementation and obstacles....................................................................................23  
4.4.3 Benefits regarding risk mitigation......................................................................................24  
4.4.4 Supplier observations..........................................................................................................25  
4.5 The Sub-supplier level of CSR...............................................................................................26
Chapter 1: Introduction

The first chapter of this thesis regarding CSR and risk management provides a background to the issues of CSR in a fashion supply chain. This results in a discussion on why fashion companies should engage in CSR activities in order to mitigate risks in the supply chain. The chapter ends with describing the purpose and research questions of this thesis.

1.1 Introduction

CSR is a recognized term with several interpretations in the fashion industry. This thesis will communicate different perspectives of CSR in order to highlight the issues of CSR implementation in a fashion supply chain. The thesis will focus on how CSR helps to mitigate risks regarding social issues at a supplier level. CSR has many benefits, but it is also important to understand the many challenges with CSR and the obstacles regarding its implementation.

1.2 Background

The fashion industry is highly globalized and the market place is characterized by chronic downward price pressure, international sourcing, high product variety, high volatility and low predictability (Perry & Towers 2013). During the last twenty years most of the fashion retailers are purchasing high volumes of complete garments from low cost centers of production. Driven by competitive pressures to reduce unit item price, the initiative has been to source manufacturing from low cost labor in developing countries and subsequently downsize in-house manufacturing activity (Rollins, Porter & Little 2003). The specific and complicated context of the fashion industry makes it particularly interesting in a Corporate Social Responsibility (CSR) perspective (Perry & Towers 2013).

CSR is difficult to define since it is not agreed on what counts as CSR and what particular dimensions and uniforms the term includes. There is no worldwide consensus, however there are many diverse definitions of CSR such as ‘giving back to host communities’, ‘managing business drivers and risks’, ‘creating business value and competitive advantage’ and ‘sharing collective responsibility’. Traditional explanations of CSR include concepts of voluntarism and profit sacrificing, which can conflict with the shareholder’s desire of a maximized profit, threatening the credibility of CSR programs. However, in the 21st century, CSR is more related with business success for social, economic and environmental factors which together develop business models and business values that lead to business and societal advantage (Horrigan ed. 2010 pp. 34-36).

One of the greatest challenges regarding CSR is the strong relation to social issues, especially when it comes to international operations and global supply chains. There is a constant search and development of global frameworks for regulation and practice regarding human rights and ethics, as well as development of national and international laws regarding the subject. Corporations are therefore a key player for the improvement of worker rights development with corporate concerns, where CSR, human rights and business ethics are strongly linked. Companies can find challenges in identifying their areas for responsibilities compared with government responsibilities and also in how to make sure that their business partners follow
the same values, especially when operating in countries where human rights violation occur to a different extent (Horrigan ed. 2010 pp. 302-303).

Global sourcing means producing in countries where culture, laws, working hours and wages are different and can be problematic to control. Fashion companies are constantly investigated by society and a scandal in a sourcing country can ruin a brand’s reputation for many years ahead and cause tremendous costs (Van Weele 2010, pp. 578-580, Vanhamme & Grobben 2008). The media continually reports about poor working conditions of textile workers in developing countries and during the last years several reports have come from India. In 2013, 30 000 power loom workers in one of the oldest textile industries in India conducted strike due to poor wages and facilities. Workers reported working 12-hour shifts, earning about Rs 5000 (about 500 SEK) per month and felt that they could no longer bear the harassment of owners. This made the production stop completely for 37 days, which had tremendous impact on deliveries to retailers resulting in lost sales (The Hindu 2013). Outsourcing is therefore connected with risks that have to be managed. Husted (2005) has suggested that CSR projects provide a way of reducing the downside business risk of the companies and are thus an essential element in the risk management of the corporation.

Even though most Indian textile suppliers are small or medium sized, Indian outsourcing is widely used due to low-waged work force as well as large multi-fiber base. Regarding the amount of employed, output and foreign exchange earnings, the textile industry is one of the biggest and most important for India. With its long textile tradition, it is one of the world’s leading industries of man-made textiles and clothing. The textile-manufacturing sector has contributed in large to India’s economic growth as well as fast development of the domestic market, where the population is growing in both size and wealth (Manonmani 2013). It has also one of the world’s longest and most fragmented supply chains, with so many small intermediaries, leading to long lead times. The majority of Indian textile firms are in the garments production category of the industry (Baskaran, Nachiappan & Rahman 2012). The sector is largely based on cotton consumption and has three sub-sectors: mills, power looms, and handlooms. Moreover, the Indian garment industry is famous for its fine embroidery and for handmade garments (Kim & Saravanakumar 2012).

1.3 Problem discussion

Global firms are being held responsible not only for their own social performance, but for performances of their suppliers and sub-suppliers, and therefore ultimately the whole supply chain (Perry & Towers 2013). In addition, transparency further down than two levels of the supply chain is often hard to reach which complicates the issue further (Welford & Frost 2006). Moreover, consumers demand a greater variety of fashion at lower prices which forces the fashion companies to achieve lower cost and shorter lead times. As such, suppliers face considerable pressure to meet buyers’ cost targets, which jeopardizes the efforts to implement and maintain CSR standards in the factory. When deadlines are tight, garment workers are forced to work overtime which sometimes results in CSR becoming a fraught process (Perry & Towers 2013). Since the relationship with suppliers is crucial to be efficient, sustainability must be integrated through the whole global supply chain in order to prevent risks (Van Weele 2010, pp. 589-591).

In addition to consumers demanding low prices, consumers demand low priced products sourced through ethical supply chains. Hence, CSR activities play a key part in success
factors for fashion brands (Perry & Towers 2013). Regarding the supplier’s side of CSR, it is common that factories are faced with codes of conduct without understanding the importance and what they will gain by implementing it. Furthermore, the demands on factories do not comply with customers’ low price for orders. This leads to a constant problem solving and auditing rather than developing sustainable risk avoidance that can be both financial and time efficient (Welford & Frost 2006).

We find an important challenge to show suppliers in India how the self-centered commercial objectives of a company are linked to broader values of society. Since risks can be easier to take in than the benefits from CSR, risk management can be used to show the importance of a sustainable supply chain through CSR. CSR is still seen by many fashion companies and suppliers as a burden since there are not enough case studies and examples of the benefits with CSR. Risks correlated to CSR are in previous studies related to profits and the risk of losing money when investing in CSR activities. We have therefore found a gap in previous research that regards how CSR can mitigate risks for a fashion supply chain.

Many reports discuss CSR and its numerous benefits, but practical examples on implementation are lacking. This research contributes with the interesting comparison about how a fashion company communicates its CSR work and how it is being interpreted in the local production. By showing different perspectives of CSR in a fashion supply chain, a greater understanding of problems and possibilities with supply chain integration and transparency can be achieved.

1.4 Purpose

The purpose of the thesis is to investigate how CSR can help to mitigate risks in the fashion supply chain.

1.5 Research questions

In order to fulfill the purpose, following research questions will be answered:

*What are the obstacles to communicate and implement CSR with the suppliers?*
*What benefits come from CSR implementation regarding risk reduction?*
Chapter 2: Theory

This chapter includes relevant theories of risks within the supply chain and the concepts of CSR implementation. The CSR triangle of Carroll is presented as well as the theory of Creating Shared Value.

2.1 The characteristics of today’s network-based supply chains

A supply chain is “the network of organizations that are involved, through upstream and downstream linkages, in different processes and activities that produce value in the form of products and services in the hands of the ultimate consumer” (Christopher & Peck 2004, p. 2). Modern supply chains are very complex, with physical, financial, and information flows occurring simultaneously in order to ensure that products are delivered in the right quantities to the right place in a cost-effective way. Maintaining uninterrupted supply chain flows is a factor for success (Wu & Blackwurst ed. 2009, p. 41). Control of internal processes in the supply chain with open information flows will help limit risks. However, in an age of lengthening the supply chains to serve global operations, there are regular reminders that we live in an unpredictable and continually changing world. Modern supply chains are dynamic networks of interconnected firms and industries. All organizations in the supply chain are connected and even the most controlled processes are only as good as the links and units that support them. Given the interdependencies between organizations and their supply chains, it may be the business that is at risk from its supply chain or the supply chain that is at risk from a business. The complexity of the supply chain and the increasing interdependency leads to increased vulnerability (Christopher & Peck 2004).

Today’s tendency to reduce supply chains makes them more vulnerable to interruptions. Furthermore, sourcing globally carries higher risks, as there can be both political and cultural obstacles (Brindley ed. 2004, pp. 50-51). Firms are both legally and morally obligated to identify, manage or mitigate the effects of foreseen risks. In network-based supply chains there is a risk of partners to act in its own self-interest to the disadvantage of other supply chain members. One of the most important factors affecting the entire process of supply chain management is the trust among parties (or lack of trust). This concerns the supplier’s willingness to perform according to what has been agreed upon (Wu & Blackwurst ed. 2009, pp. 49-51). Interdependency within the supply chain forces companies to identify risks not only related to their own operations but also risks related to all other entities as well as the risks that occurs within the entire supply chain. What further complicates the issues of risk management is that the visibility of the downstream and upstream flows is often poor and lacks transparency (Christopher & Peck 2004).

Within network-based supply chains, the value of relationships is not only economical but also technical and social. Strong relationships within the supply chain enable companies to react to changes in the market, create customer value and loyalty. Supply chain networks that show collaborative behaviors tend to be more responsive and that value chain costs are reduced. Higher level of trust in the relationship, lower transaction costs related to negotiation, monitoring and enforcing contracts (Wu & Blackwurst ed. 2009, pp. 49-51). Many authors agree that the global fashion supply chain must be highly integrated. Perry and Towers (2013) argue that well-developed and long-term cooperation, coordination and collaboration are necessities to overcome uncertainty and risks. The trading relationships need
to be close in order to make the supply chain effective, reduce lead-time, reduce change in orders and maximize stock availability (Perry & Towers 2013).

Since companies collaborate and develop integrated supply chains, risk is linked to the relationships between all parties involved. To fulfill the customer’s needs, effective solutions often need to cross traditional organizational boundaries and thinking. Risks related to CSR are correlated with the lack of control when outsourcing and the need for consumer trust. Concerning the discussion of integrated supply chains, it comes with risks regarding all partners’ policies and handling of social and environmental issues. An important statement is therefore that “the supply chain is only as strong as its weakest member” (Spekman & Davis 2004).

2.2 Risks in the supply chain

According to supply chain researchers, a global firm will be at risk from several levels in its supply chain (Christopher & Peck 2004, Jüttner 2005, Cruz 2013). The main levels of risks in the supply chain are demand risks, supply risks, reputational risks and social risks. Since this paper concerns risks related to CSR, focus will be put on the theory of social risks.

2.2.1 Demand risks

Demand risks are the downstream of the organizations to the company (Christopher & Peck 2004). It is connected to product demand or disruptions in the outflow of the supply chain. It relates to seasonality, volatility, new product adaptations or short product lifecycles (Jüttner 2005). Demand risk relates to potential or actual disturbances to the flow of product, information and cash ascending within the network, between the company and the market (Christopher & Peck 2004).

2.2.2 Supply risks

Supply risks are the upstream equivalent of demand. It relates to potential or actual disturbances to the flow of product or information emanating from within the network, upstream the company (Christopher & Peck 2004). Supply risks usually concerns supplier activities and supplier relationships such as delays, quality problems, disruption due to supplier down time, demand uncertainty price fluctuation, and opportunistic behavior by suppliers (Jüttner 2005, Christopher & Peck 2004).
2.2.3 Reputational risks

Reputational risks arise due all categories mentioned above. It is connected to negative publicity that could harm a brand and erode market positions substantially. Outsourcing from low cost destinations is connected with risks arising from moral issues like child labor, labor health, safety and welfare since consumers are shunning products that contain materials manufactured under sweatshop labor conditions (Wu & Blackwurst ed. 2009, pp. 49-51).

2.2.4 Social risks

Cruz (2013) presents a theory of social risks. These risks can be affected both by demand and supply risks and covers the issues of reputational risks. Therefore, social risks in the supply chain will be highlighted in this thesis. Social risks arise from an organization’s behavior or the actions of others in its operating environment, which create vulnerabilities. It can be due to physical, social, political, legal, operational, economic, and/or cognitive environment. Social risks can further affect cost, marketability, public perception and company reputation, as well as operations and supply (Cruz 2013).

Social risk includes four general areas of risk:

1. Country risks; country-specific risks such as human rights abuses, or company-specific risks such as pollution.
2. Operational risks; includes compliance with regulation, employee satisfaction and dangerous operations.
3. Product risks; covers the use of hazardous raw materials, waste during production, and health and safety issues.
4. Societal expectation risks; concerns what an all-stakeholder society demands of a business and is directly related to reputational risks (Cruz 2013).

2.3 The CSR Triangle

The well-known CSR triangle of Carroll (1991) explains that Corporate Social Responsibility can be divided into four categories: economic, legal, ethical and philanthropic. The bottom of the triangle represents the economic responsibility of a company. Ultimately, a successful business is constantly profitable. The legal category includes the framework of laws and regulations that any business must follow. Moreover, products and services must meet minimal legal requirements. Even though economic and legal responsibilities include ethical means of fairness and justice, the ethical tier goes beyond laws and regulations to also include the norms and expectations of society. Consumers, employees, shareholders and community are all embracing values that businesses have to meet. It is therefore important to also recognize new or evolving ethical and moral norms adopted by society. It is further vital to prevent ethical norms from being compromised in order to achieve corporate goals and do what is expected ethically in all business decisions. In order to be a good corporate citizen, the philanthropic responsibilities need to be considered. This means actions that contribute to the community and improve quality of life, which is voluntary compared to society’s ethical expectations of business. Consequently, a company that incorporates CSR needs to make sure that it not only makes a good profit and obeys the law, but to also be ethical and a good corporate citizen (Carroll 1991). After Carroll’s definition of CSR became well-known, the
approach has been developed and detailed by many researchers. There is still a challenge in trying to investigate why and how companies should use CSR, providing a framework more specified than the CSR triangle of Carroll (Stark & Hanke 2012).

![Figure 1. The CSR triangle of Carroll (Carroll 1991, p. 42)](image)

**2.4 Corporations’ work with CSR**

Corporations work with CSR differently depending on what expectations society put on them (Carter & Rogers 2008). Showing transparency is a tool both to demonstrate openness to stakeholders and to be aware of its own problems in its supply chain. The main communication tools of corporates’ work with CSR are through their codes of conducts (Cottrill 1996).
2.4.1 Transparency

Transparency means openness and visibility and is an important concept within discussions of CSR. Both communities and stakeholders are increasingly demanding that companies become more transparent in order to maintain legitimacy and build reputation. For this reason companies need to open their operations to greater public scrutiny. Maintaining secrecy of corporate wrongdoings has become both difficult and risky. Transparency includes not only reporting to stakeholders, but also actively engaging stakeholders and using their feedback and input to both secure buy-in and improve supply chain processes. Transparency within a supply chain network may promote greater collaboration and sharing of monitoring information (Carter & Rogers 2008).

2.4.2 Code of Conduct

A code of conduct is a set of standards that corporates set up regarding working conditions in foreign suppliers’ manufacturing facilities. It is intended to be a central guide and reference for users in support of daily decision making. It is a tool for managing global business in order to meet the overall mission of being socially responsible (Cottrill 1996). A code is an open disclosure of the way an organization operates. It provides visible guidelines for the company’s behavior. A well-written and thoughtful code also serves as an important communication tool that reflects the company’s commitment to uphold important values. Furthermore, codes of conduct offer a valuable opportunity to create a positive public image and trust among stakeholders (Ethics Resource Center 2014). However, companies have regularly being criticized for their codes just being a public relations gesture rather than being an effective tool for increasing working conditions in the factories. Moreover, communicating and living up to the ethical codes are challenging. Many companies fail to translate the codes into relevant languages and disseminate the information to workers. Therefore it is not unusual that suppliers cheat with their documents (Cottrill 1996).

To determine the credibility of suppliers’ claims of social compliance, it is not enough to hear them explain what they have done. In most cases, governing and auditing is necessary since some factories keep two or more sets of books to hide overtime and wage violations from the inspectors. In practice, suppliers in sourcing countries are given codes of conducts, are told to implement the demands and are notified that they must endure audits as part of the contract. Consequently, the suppliers are passive players having little power to discuss how audits should take place and what they think is achievable (Cottrill 1996).

When carrying out a social audit, many things are to be looked at. The first thing is that the factory has a valid business license available. The information given by managers and staff must always be crosschecked, such as number of staff compared with working contracts and staff files available. There should be a possibility to complain anonymously, such as a complaints box, and a worker’s association. It is also looked at if the code of conduct is implemented in the factory and what sub-suppliers are used. Working time and salary are important issues to be crosschecked with records, managers and staff interviews. Fire and electrical security is also checked, for example exit signs and electrical power boxes in good shape. Regarding work safety, safety equipment such as gloves, mouth covers and earplugs should be available for free and first aid boxes should be filled. In general, evaluation of light, noise, ventilation, cleanliness of factory and bathrooms and potable water availability must always be checked. Cooking area and dormitory, if provided, should also be evaluated (Fangsi 2010). Factories are required to meet the codes of conduct. When problems are identified
within a social audit, suppliers are obligated to correct them. If problems are persistently found, suppliers may face business repercussions or the withdrawal of orders (Jiang 2009).

2.5 Implementing CSR in a global supply chain

The context and use of CSR can vary between countries and reflect their own traits and culture. A corporation’s CSR strategy in its home country might therefore not correspond internationally since it can be interpreted in a different way in the production country. The aspects of CSR must also be discussed as for choosing a strategy, which will adapt norms to local culture and regulations or commanding international standards. Commonly, there is a compromise where the CSR framework prepared in the home country is being opposed (Galbreath 2006). CSR is strived to be a built-in self-regulation for the company, but for multinational CSR activity, complexity is added to the CSR strategy. If a centrally coordinated CSR strategy is used, it can lack the right management and have reduced legitimacy locally. A decentralized strategy however, can be more responsive at the local level, but also more fragmented. If a firm is using several local strategies, not only are the divergent approaches difficult to control, there can also be internal conflicts, different pressures from stakeholders and the firm can be criticized for lacking consistency. Additionally, a global CSR strategy can tend to be only compliance-based, using controls instead of proactivity (Muller 2006).

CSR can be an important tool for developing supplier relationships, making the supply chain more efficient and higher management standards. Different reasons and interests can however collide, making the global influence more complex and problematic to influence suppliers. CSR practices can also be more difficult to measure, as well as becoming weaker due to less time and financial resources. They may become diverse, less structured and with the biggest focus on internal values of economy growth. This is resulting in a gap between theory and practice and focus on regulatory requirements (Santos 2011). Government regulations are also affecting the CSR since if their influence on CSR is weak and unfocused, it is making the implementation more difficult (Perry 2012).

Social issues include occupational health and safety. Companies who wish to use efficient and effective CSR must be interested in these matters since poor standards can damage their image and become a threat against the value of the CSR actions and further business continuity. Both financial and human costs are at stake when undertaking unsafe operations - costs which could be used to work towards better working conditions (Amponsah-Tawiah & Dartey-Baah 2012). According to Fontaine (2013), larger corporations should spend their risk management resources on CSR since it is a way to create public compliance. According to this theory, it mitigates operational impact and operational risks as well as supports external relationships. The most fundamental reason for implementing CSR in the risk management strategy is to avoid a ruined reputation, which has taken a long time to build, after an incident such as corruption, scandal or environmental accident. To show that you are a “good” corporate citizen, can mean that risks are avoided through an improved image, a strengthened brand and increased values (Fontaine 2013).
2.7 Research model

The connection between risk and CSR is mainly due to the risk mitigation that CSR may provide. In business management, these aspects are treated separately whereas in this paper CSR will be viewed as a solution to risk management. Therefore theories related to risks in the supply chain are used. In the center of the research model is the Swedish fashion company, which is the main actor in its global supply chain. There are several potential risks that characterize today’s supply chains, which may occur when sourcing globally. The first step of this model is to identify the risks that characterize today’s network-based supply chain. Moreover we specifically identify risks that are connected to the supplier and manufacturing units in the first tier of suppliers and a few sub-suppliers. For this analysis the theories of Christopher and Peck (2004) and Jüttner (2005) are used as a theoretical framework. For the deeper analysis of the social risks connected to CSR activities, the theory provided by Cruz (2013) is used.

The next step is to evaluate the fashion company’s code of conduct as a CSR communication tool and to discuss transparency in the supply chain. Related to the identified risks are the benefits regarding risk mitigation, which are highlighted thereafter. Using Carroll’s CSR pyramid (1991), we evaluate how CSR is implemented; both at the fashion company’s level and at the supplier level. Carroll also provides a framework to evaluate the supplier’s work with CSR. The theory of Carroll can be applicable in several ways and it can further be connected to the theories regarding social risks since these are related to CSR issues.

Figure 2. Research Model
Chapter 3: Method

This chapter demonstrates the scientific approach and choice of research design in order to fulfill the purpose of investigating how CSR can help to mitigate risks in the fashion supply chain. Furthermore, it demonstrates the process for sampling the results in both Sweden and in India and a discussion of trustworthiness of the research.

3.1 Research design

By interviewing and observing different parts of the supply chain and the CSR implementation, the study shows a comprehensive research method on CSR implementation in the fashion industry. Research and findings therefore have a qualitative approach to show a deeper understanding of CSR from different points of view (Bryman & Bell 2011, p.386). The qualitative approach was chosen to describe the subject in a dynamic way, by using two steps:

1. Interviews: Interviews were conducted with an external CSR expert as well as with managers in the value chain in order to examine their view on the subject. We started with the interview with the external CSR expert in order to get a bigger picture and understanding of issues involved. After that, we interviewed parties downwards the supply chain, starting with interviewing the CSR and Quality manager in Sweden and ending with factory managers in India.

2. Observations: To continue the investigation further down in the supply chain and to evaluate interview responses in practice, observations were made in stitching factories and then with its sub-suppliers.

Since the purpose of the thesis is to describe and investigate how CSR can mitigate risks in the fashion supply chain, a case study has been conducted in order to deeper understand the complexity of one company’s struggle with CSR implementation and consequently risk mitigation. A case study that adds value to the study is one that gives alternative perspectives and clarifies different points of view. Through the view of several parties in the supply chain, we got a deeper look into our research in a unique way. The purpose of the case study was therefore to gain a more detailed understanding of the processes involved. Even though we majorly only discuss the case, the information gathered can still be analyzed at multiple levels and in comparing themes. It gives a detailed holistic data and provides a deductive discovery to the research on CSR. There is a major risk for generalization to a larger issue since our case may be seen as too narrow (Bloor & Wood 2006, pp. 27-29). We would therefore like to make clear that it is only an example in order to evaluate how risks can be managed through implementing CSR.

We chose to study how the Swedish fashion company KappAhl works with CSR and risk management with its supplier in India. The reason for choosing this company is their openness about their sustainability work. The company also provides a lot of information about their sustainability aims and presents a written strategy for how to reach them. KappAhl was used as a typical case for the study since the company has worked with CSR related questions for more than twenty years and provides descriptive reports about sustainability and documents such as codes of conduct and general agreements to the public (KappAhl Sustainability Report 2013). Furthermore, KappAhl appeared to be transparent and showed
openness to the obstacles connected to CSR. They also openly gave us access to visit their supplier in India.

3.2 Scientific approach

In our research, we were interested in testing theories that are already enlightening the subject, in order to show that they are valid. This thesis was therefore executed with both a deductive and inductive approach. The deductive approach was used since we started with a theoretical framework related to the subject and which was a base for our empirical findings. During our research and collection of data, theory and literature had to be altered due to our findings. The issues identified in our case study show the relevance of our research questions and therefore show that we also have an inductive approach to our study (Bryman & Bell 2011, pp. 11-13).

The case is used for evidence-based management where four sources of information contribute to our study:

1. Practitioner expertise and judgment:
   A CSR expert in Sweden was used for greater knowledge regarding the subject. The CSR and Quality manager of KappAhl in Sweden was also interviewed for the buying perspective of a firm.

2. Evidence from the local context:
   People from the production office and a buying agency, as well as suppliers were interviewed as a middle hand between Swedish cooperation and Indian suppliers.

3. Critical evaluation of the best available research evidence:
   Sustainability documents were compared with what the respondents have said and evaluated. Furthermore, a critical point of view was adopted at every step of the research.

4. Perspectives of those who may be affected by the decision:
   Indian suppliers were interviewed and observational evidence from factories was collected.

With the opportunity of conducting the research both in Sweden and in India, research findings have been transferred into a “knowledge translation” where the practical findings bring further understanding to the complexity of CSR. This was made by highlighting our practical examples of our research findings (Bryman & Bell 2011, p. 6). One aspect that can be argued missing is the view of the people affected by CSR other than the suppliers, which are the workers. Unfortunately, there was no opportunity to interview factory workers.

3.3 Sample selection

A great part of the empirical results have been conducted by interviews. It has been significant to understand the interviewee’s point of view in order to fully understand the complexity of the issues. The fieldwork has taken place both in Sweden but mainly in India. Since we interviewed different people in different social contexts we had to adapt each interview guide to the each respondent. After the interviews it was significant to discuss the outcome and evaluate the interview guide (Bryman & Bell 2011, pp. 466-476).
The sample of the interviews can be categorized into a logical order. The first interview was conducted with an external CSR expert. This interview was primary conducted around the basics of CSR and brings a perspective on what to be observant on in the latter research. Thereafter, the CSR and Quality Manager at KappAhl was interviewed in order to get an overall understanding of the company’s adaptation of CSR to prevent risks in the supplier’s factories. For deeper understanding of what is established by the management of the company, interviews with the production offices were carried out. First, we met with the social compliance manager, who gave us insight with how KappAhl’s work with CSR is translated with their suppliers. We also talked with the merchandizing manager who, being the communication between KappAhl’s buyers and Indian suppliers, who talked about relationships and communication regarding CSR. We also took the opportunity to interview the social compliance and supply chain manager at a buying agency. Since the buying agency was not cooperating with KappAhl, it gave new aspects to the subject and showed the complex relationship between buyers and suppliers.

Several respondents and observations were chosen through the snowball method. According to Bryman & Bell (2011, p. 192), snowball sampling is used when the researcher makes contact with people relevant for the research and which then establish new contacts. Being on place in Delhi, we got in contact with a social compliance and supply chain manager through the external CSR expert. The manager was willing to show us two factories that he cooperated with. This led to an interview with him, as well as with a factory manager and two factory observations that first were not planned for. KappAhl’s social compliance manager in Delhi was the one who chose factory visits for us. The sample can therefore not be representative for other than this specific case. The structure of the research can both be problematic and increase the understanding the complexity of the problem. It may be problematic in the sense that each interview is dependent on the ones before, resulting in ignored facts, but can also enlighten the connectedness between different levels of the problem that could bring a deeper understanding of where issues might occur. Moreover, it provided a logic order in how the research was carried out.

In order to confirm or disclaim the compatibility of what is said and what is done in reality, interviews with suppliers were conducted. Two different managers were interviewed in order to hear their side on CSR related risks and their benefits and obstacles regarding CSR implementation. These interviews were very important since they showed a complex relationship that is impossible to study when not being present in local culture.

3.4 Interview framework

All interviews were conducted with a semi-structured approach. These are identified as questions listed for a specified topic, an interview guide, which may not be strictly followed depending on the respondents’ answers. Even though the questions listed were asked, they may have been altered and new questions may have followed (Bryman & Bell 2011, p.467). Our interviews were flexible since the respondents’ thoughts were most important. We were interested in letting them tell their view in detail. Therefore the interviews were flexible in order to follow up on different findings. With the first interview with the CSR expert in Sweden, we were not sure what would be the most interesting approaches to CSR. The aspects have therefore been developed through the interviews when getting a deeper understanding of the topic. Even though most interview guides have looked similar,
interviews have been adjusted to our growing knowledge as well as depending on the respondent’s expertise. All semi-structured interviews were recorded, transcribed and then summarized. When interviewing managers, we wanted to keep an open and relaxed atmosphere so that they could feel freer to tell us their real thoughts. We therefore chose to prepare questions, but not have an interview guide showing, and not record it. We felt that this made the managers more comfortable. Since we did not show our interview guide, we were conscious about explaining our purpose of the research. We used open-ended questions, about twenty per respondent, which took about an hour to conduct. Longer time than that was not necessary due to fulfillment of collected data. After these interviews, notes were taken and then summarized.

All interviews started out with questions concerning the understanding of CSR and specific risks that could arise during manufacturing in the factories. We also asked all different participants how they work with CSR and could by these answers both see similarities and obstacles regarding their different views of CSR as a concept. Questions have also regarded transparency, risks and social compliance. Since we were interested in finding the local context of CSR, we put emphasis on asking each respondent about their personal beliefs of CSR from their specific role in the supply chain.

During the interviews we have adapted an objective role and treated the respondents as the expert of the topic. Showing interest and an open mind in what the respondents said during the interviews gained trust and confidence with each of the respondents. This resulted in detailed and hopefully truthful answers rather than the respondent telling us what they thought we would like to hear.

3.5 Observation framework

To complement the interviews, observations have been carried out in four stitching units, two embroidery units and one dyeing unit. Since the case study took place in the natural setting of the case, direct observations were a great opportunity to get real evidence information. Furthermore, the observational evidence was helpful in providing additional information to our study (Yin 2009, pp. 109-110). An observation protocol was used, where certain criteria was identified and controlled in the factories (Quinlan 2011, pp. 267-271). The criteria regarded health and safety in terms of protection, action plans in case of emergency and working conditions. What was seen in the factories would turn out to be key evidence in comparison of what was being said during interviews and how it actually was (Bryman & Bell 2011, p. 444).

We conducted an observation protocol of things to pay attention to while walking around the factories. In order to conduct an observation protocol with the suppliers, we looked at documents from Fangsi’s audits and chose similar focuses related to social issues and health and safety. During the factory visits we had the ability to observe what kind of safety equipment was being used, cleanliness, emergency exits, fire safety etcetera. To complement our observation protocol other field notes and pictures have been used.

Even though we were provided with access to the organization and the factories in India, we had to work on the access to people. Therefore it was necessary to build trust with the people and to ensure them that we were no company spies that would get them in trouble. If they did not trust us, the data provided could be untruthful data that may damage our research.
The observations did not require any involvement in specific process therefore the role of total researcher was adopted (Bryman & Bell 2011, pp. 435-438). Before the observations, the protocols were prepared, but not shown in the factories. Instead, we discussed and took pictures and then wrote all details after the visit. This was due to our strive to show an open approach to factory managers, so that we would keep a non-judgmental approach which was clearly appreciated. We simply made clear that we were there because we were interested in the subject and not to judge.

### 3.6 Official company documents

In order to understand KappAhl’s communication of CSR with its stakeholders, we read the company’s sustainability report and code of conduct. These were collected from KappAhl’s webpage. The documents were mainly used to get a greater understanding of how the company wants to be perceived by their CSR commitments. The code of conduct was used to discover how KappAhl actually works with CSR towards their suppliers and compare the findings in the document with what was found during interviews and observations.

### 3.7 Data analysis

Except from interviews with factory managers, all interviews were recorded, transcribed in text and then summarized. All interviews in India were conducted in English, a language that was not the respondent’s mother tongue. Therefore, the transcript helped for further understanding and analyzing of material. In addition to observation protocols, we noted our own thoughts that also helped with further analysis. During further analysis of the content of data, the theories presented in chapter two were used. The analysis aimed to answer the previously stated research questions in order to fulfill the purpose of this thesis by using the research model. The research model is meant to be a guideline for how the research was conducted and how the results were analyzed.

### 3.8 Trustworthiness

Since this thesis has a qualitative approach, the quality of research is measured by trustworthiness. Regarding trustworthiness there are four criteria that should be measured; credibility, transferability, dependability and confirmability (Bryman & Bell 2011, p. 395). The credibility of the research is high since we have been careful to conduct data according to good practice. We have always asked the respondents for their agreement to record interviews and before asking any questions we have made sure that the respondents have understood our purpose of the study. In the cases where no recording was carried out we were particularly accurate with confirming that the respondents knew about the purpose. Moreover, the respondents have confirmed all findings before publishing the data in chapter four. Additional transcripts, observation protocols and interview guides are available if requested. Transferability is on the other hand a problem since the research is designed as a case study and generalizations may be hard to do. However, we still believe that the research will bring additional understanding to the complexity of how to approach CSR as a risk management strategy. Dependability is high because we are two researchers who have discussed every finding and confirmed with each other that we perceived the findings similarly. We also
believe that this is a study that can replicate to case studies of Swedish fashion companies that work similarly as KappAhl. However, it may be hard to replicate on a fashion company that does not engage in CSR activities. Regarding confirmability, we have always strived to be as objective as possible in the research. We are however aware that subjective values may be incorporated in the processes of the research. We have tried to increase confirmability by interviewing different actors in the supply chain who have different viewpoints regarding CSR.
Chapter 4: Results

This chapter presents the findings of our empirical research. The first section of chapter four contains a short presentation of our case study company and its code of conduct. Thereafter is a review of the Swedish perspective of CSR. Then follows a presentation of the study conducted in India. First is the Indian production side of KappAhl presented. To variegate the complex picture of a supply chain, the thoughts of a buying agency, suppliers and sub-suppliers are described. All findings are conducted via studying of documents, semi-structured interviews and observations.

4.1 The Swedish fashion company

KappAhl is a Swedish fashion company founded in 1953. It has about 400 stores in Sweden, Norway, Finland and Poland and also its own web shop. Between 2012 and 2013, the company had a turnover of 4.8 billion Swedish kroners and 4500 employees (KappAhl 2014). The company has local production offices in India, Bangladesh, China, and Turkey and is cooperating with a total of 250 suppliers, where 20 of them are located in India. They have a focus on development of strong supplier relationships with transparency and improving labor conditions in textile production. KappAhl promotes an open dialogue with its stakeholders on their work with sustainability, communicating their supplier list, code of conduct and sustainability reports with their stakeholders (KappAhl Supplier List 2013).

4.1.1 KappAhl’s Code of Conduct

The code of conduct for the suppliers of KappAhl is described as a document that requires development of a sustainable society and meeting human rights. When the supplier has signed the code, it is obligated to work proactively to meet those requirements within its operations and supply chain. It is thereby agreed that internationally accepted labor standards must be followed, including the conventions of the International Labor Organization (ILO), and to continuously work on improving the labor conditions for those involved in the production of KappAhl’s products. Their demands regard labor issues and working conditions, freedom of association and collective bargaining, humane treatment, discrimination, environment and management conditions. These demands must be incorporated with the control of the factory, and also be adjusted to local demands and production rules. If there is a difference between the code and national laws, the one with the highest requirements must be followed. KappAhl has the right to conduct unannounced audits, either by KappAhl or by a third party. If the code is violated, the supplier must take actions for corrective implementation. If this is not done, the supplier might be suspended or completely lose further business relation with KappAhl (KappAhl code of conduct 2010).

4.2 The Swedish view of CSR

The CSR expert and the CSR and Quality manager at KappAhl together constitute the Swedish viewpoint of CSR in the fashion industry.
4.2.1 Identified risks

The respondents clearly state that the entire fashion business is risky in several aspects since it is global and dependent on factors that are hard to control. Both agree that sourcing globally is connected with factory risks of fire, safety, wages, working hours and child labor. There are also additional risks of quality issues and delays.

Talking about CSR, the manager discusses the difference of taking responsibility because KappAhl should due to moral aspects and must take responsibility in order to be a successful business in the future. Moral responsibility must be taken because ignoring it becomes a growing risk. Further the CSR and Quality manager means that stakeholders expect companies to take social responsibilities which results in high demands and expectations on the company. “CSR is just supposed to be there, nothing to be proud of anymore. It is just obvious that it is supposed to work”¹ the CSR and Quality manager tells.

4.2.2 CSR implementation and obstacles

It is argued that Swedish companies have limited impact in the global CSR arena since it is a relatively small part of business. They agree that the main issue in implementing CSR is to convince the factory managers that it will be profitable and that there are effects to gain. Further they state that it is relatively easy to influence the first tier of suppliers, but tracing downwards in the chain is complicated. It is almost impossible to control and inspect sub-suppliers since it is hard to know who has provided the fiber, yarn, weaving or knitting, dyeing and finishing.

Both respondents are aware of the context of the Indian textile industry in terms of being seasonal which brings issues of working overtime. Volatility in the market is further complicating the ability to uphold continuous orders to India, which they underline is important in order to keep the CSR activities consistent. The CSR and Quality manager further shows awareness of the complexity of the Indian culture in not always following the law. On the other hand, the CSR and Quality manager states that their suppliers have well-developed working legislation and Indian suppliers have come far in following local legislation.

The CSR and Quality manager underlines the importance of having a long-term perspective of CSR implementation and benefits. KappAhl’s philosophy is not to put a burden on suppliers, but to offer them the possibility to improve over time. The CSR expert, on the other hand, tells that factory managers often see social compliance as something needed to be done to satisfy its customers rather than recognizing their own gains. The benefits with social improvements might not be understandable for factory managers but rather seen as something that slows down production.

Regarding social compliance inspections, both respondents see the necessity of some kind of monitoring of the suppliers, but advocates that this is costly for both the inspectors and the factories. The CSR and Quality manager explains that KappAhl’s philosophy is to not dismiss the suppliers, but to give them the possibility to improve. It is explained that the suppliers are only allowed to keep improving to be better and better. Moreover, it is stated that the view of audits has changed since it first was initiated. Earlier it was seen as good to let a supplier go

¹ CSR & quality manager at KappAhl, interview the 5th of March 2014
due to bad factory conditions whereas today it is viewed as an ongoing process where the audits only shows the picture of the moment and not the entire truth. “If we inspect a factory on Monday, it can seem really nice and we therefore approve them. Then the production continues all week and goods may be stored in front of the emergency exits. On Friday, there is a fire. Then it does not matter if we did the inspection on Monday”\(^2\) the CSR and Quality manager explains. Instead KappAhl believes in long-term commitment, cooperation and trust in the supplier.

4.2.3 Benefits regarding risk mitigation

Both Swedish respondents have a positive attitude towards CSR and see the link between CSR implementation and risk mitigation. A benefit is mitigating the risk of bad quality regarding for example the sewing of a garment. When workers are content with their working environment, they feel safe, have good working conditions and can sew in a calm and appropriate pace, which leads to a better product quality and also keeps the workers stay at the workplace for a longer period of time. Improved quality leads to fewer quality rejections, which is good for all parts. Furthermore, the labor market must keep calm and stable. Strikes can cause tremendous delays that affect sales negatively and therefore higher wages could retain solidity.

CSR is also said to enhance the relationship with the suppliers. The Swedish respondents argue that CSR will bring the factories benefits in terms of cost reduction. They argue that the factory will have opportunities to re-invest in the factory or be able to increase the price on the products.

It is clear that KappAhl has high ambitions of its CSR work and is determined to show transparency towards stakeholders. Both respondents highlight the issues and obstacles regarding CSR implementation and although it is never stated, it is obvious that CSR is something invented in western society in order to secure its own reputation.

4.3 The Indian production office’s view of CSR

Being on place in Delhi, the field studies started with semi-structured interviews with staff at KappAhl’s production office. The social compliance manager and merchandizing manager will here give their view on KappAhl’s CSR activities in a local context.

4.3.1 Identified risks

The production office agrees that the major risks related to CSR regard health and safety for the workers. The opinions regarding increased quality and decreased delays however differ in the production office. The merchandizing manager states that quality cannot be linked to increased quality. Furthermore, a supplier with perfect compliance is always more expensive since more money is spent on having sustainable systems in the factories and payment of overtime. Neither can decreasing delays be connected to CSR activities since it is argued that it relates to other risks in the supply chain.

\(^2\) CSR and Quality manager, KappAhl, interview the 5th of March 2014
According to the respondents, one big challenge regarding the fashion industry is for a supplier to have a sustainable approach to business. The supplier needs to be ensured regular business from KappAhl to retain the workers and to keep a sustainable system with high quality. Since KappAhl cannot predict its demand and exact production volume for a year, it is difficult to help the supplier to plan for sustainability. If big orders would start coming in from another brand, KappAhl may be at risk because suppliers want to make large volume orders to increase profit. Since KappAhl cannot decide for the supplier how to work with its business, the only thing to do is to cooperate with good payment terms and long relations to be respected. No unfair penalties or unnecessary burdens should be used as they all come with problems for the suppliers. The production office tries to identify the problems at an early stage so that there is a possibility to rectify them. Consequently, an open and transparent discussion with the supplier helps to find the most practical ways to solve problems.

An initial CSR meeting with a new supplier concerns discussions around three aspects. The first aspect is working hours and compensation for overtime. Compensation for overtime is most important because many factories tend to cheat on this aspect. Indian legislation states that anyone who works in a factory for more than 48 hours a week has to be compensated at a rate that is double. The issues regarding overtime is a result of India being a supplier of spring/summer collections to Swedish customers. The peak seasons enquire longer working days in order to meet delivery times. KappAhl’s code of conduct clearly states that suppliers must follow the local law at all times. Since it is impossible for many factories to pay double for over time, the supplier gives a realistic plan on what improvements can be done. For example, overtime will be paid ten percent over a period of time and then is supposed to be raised till twenty percent. The only requirement from KappAhl is that the plan cannot be altered. Second, health and safety issues in Indian factories are mainly connected to blocked isles, management of chemicals and usage of protection. Fire safety is usually not an issue, although it can always be improved. The third is welfare measures. Regarding child labor, there are still cases to be found although it has decreased drastically and child labor may be found only several tiers down in the supply chain.

4.3.2 CSR implementation and obstacles

Involvement in CSR is not seen as an optional activity for KappAhl, it is seen as a natural process of business evolution. According to the respondents, it has been both consumer driven and stakeholder driven, although consumers have played a big part in framing the direction of issues to highlight. Furthermore, KappAhl’s CSR work is a long-term commitment. Slow and steady development of improvements is important rather than quick-fix solutions that risk falling apart. It is stated that KappAhl is not seeking one hundred percent compliance in the factories, as this is currently unrealistic to expect of any production unit in India. The philosophy of KappAhl is to build long-term relationships with its suppliers since they are key when implementing social compliance. KappAhl does not force suppliers to implement CSR, but encourages them to evaluate what they can do right now. Then the supplier chooses if the requirements should be spread it into short-term, mid-term or long-term goals. The relationships with current suppliers are described as open, reliable and trusting.

Risks are mitigated by making sure that there is complete transparency in the supply chain, controlling and being aware of how deep the supply chain goes and identifying and addressing the main issues in the supply chain. However, today it is not totally possible to trace all of KappAhl’s products through the entire chain. Furthermore, KappAhl has
limitations to influence the supply chain and its suppliers since it is a small company compared to multinational brands. It is further explained that the company has no possibility to influence sub-suppliers or to control social compliance further down the supply chain. Instead KappAhl’s suppliers are obligated to source carefully. There have been incidents where KappAhl’s supplier hired a sub-supplier that was not approved by KappAhl, which tells about the difficulty in controlling the supply chain.

When choosing suppliers, the level of quality is the most important thing. Thereafter, discussions regarding the supplier’s willingness and ability to work towards KappAhl’s CSR requirements are initiated. The supplier is encouraged to be open with problems and together they can work towards a sustainable solution. It is therefore important to build trust and transparency from the beginning. Awareness of the reality in the factories makes it easier to implement gradual but definite and sustainable changes towards improvement. There is no punishment of suppliers, rather building partnerships and working together to build business together. Therefore KappAhl tends to choose to work with medium sized suppliers where they do not get un-prioritized by bigger companies and risks not to get their requirements fulfilled.

KappAhl is monitoring the suppliers’ CSR commitments with regular inspections and follow-ups that are conducted around ten times per year. An inspection is always announced and after that, the production office does continual follow-ups that are un-announced. The follow-up is a tool to let the suppliers know that they are watched and expected to follow the action-plan they have committed to. KappAhl has three levels of grading a supplier. They can be approved, temporarily approved or not approved. New production units are always temporarily or not approved. After being temporarily approved, they have one year to change and to be approved. During this “trial” period several follow-ups are made to make sure that they are working in the direction that was agreed upon in the initial meeting. Usually most suppliers get approved since KappAhl’s social compliance manager has been working with them continuously. Even though suppliers tend to keep some information confidential, the respondents claim that there have not been any major contradictions in what the suppliers say with what is found in factories.

Workshops are being organized for suppliers several times a year where they discuss issues related to social compliance. The aim is to keep suppliers aware about the issues and understand that these are aspects that KappAhl will continue to evolve. Usually, suppliers receive the demands of KappAhl positively, but sometimes they communicate that the demands are too unrealistic. Some suppliers argue that KappAhl needs to adapt their requirements to Indian conditions. The main obstacle with CSR is therefore suppliers’ mindset. Many have never before talked about social compliance or environmental sustainability. Convincing suppliers that these discussions make sense from a business point of view takes a lot of time.

The respondents tell that the last fifteen years have resulted in a culture of audits since many brands have constantly used them as a measure of social compliance. Overall, demands have been unrealistic for the suppliers to implement, which have resulted in a culture of presenting fake books of social compliance. Therefore KappAhl highlight the importance to have an open conversation with the suppliers in the initial meetings. There is a fact that the factory cannot survive without overtime and therefore wants the supplier to be open and transparent about it. According to the respondents many problems relate to the social structures in India, which are deeply rooted and take time to change.
There is a big challenge in transparency and social compliance further down the supply chain. The respondents see a risk of putting too much focus on one tier without properly securing the risk of something happening in another tier. Focus has to be on the first tier until total development and thereafter going down a second tier. Preparing interventions are also needed, starting a discussion and letting the suppliers know what is coming. What further complicates the problem is the constant change in fashion. Different constructions require different dyeing processes and diverse sub-suppliers are hired. The compliance manager explains that they tackle the discussion initiatively by building trust between partners and trying to engage in a long-term relationship.

4.3.3 Benefits regarding risk mitigation

There is no specific list of benefits of KappAhl’s CSR commitment. Instead, there are several interlinked outcomes of CSR. According to the respondents, the greatest gain is increased customer confidence. Furthermore, factories that have done CSR implementations have been more productive and the amounts of quality rejections and delayed shipments have decreased. On the other hand it is stated that the outcomes of CSR for suppliers are several. First and foremost they maintain a cleaner factory, which results in less quality issues. Higher machine maintenance reduces risks of breakdowns and accidents, which increases productivity. Less exploitation to chemicals reduces health risks and therefore also increases productivity. Once suppliers are starting to see small improvements, they understand the benefits of CSR. Cost savings are highlighted and suppliers may reinvest money in the factory’s machinery. Cost savings in the factory can also transfer benefits to KappAhl, since they will be able to offer a lower selling price.

It is clear that it is the production office’s responsibility to translate the demands formulated by Swedish stakeholders and the head office in Sweden into practical matters in India. The production office is responsible for implementing CSR and communicating it to the suppliers. It requires a balance between understanding the Swedish way of thinking with an Indian way of doing in order carry out a successful implementation.

4.4 The Indian Supplier level of CSR

To deeper the understanding and highlight the complexity of the supply chain, interviews and observations are further carried out at a supplier level. At the buying agency and in the Indian factories visited, semi-structured interviews were conducted with managers. Their combined view on CSR implementation will now be presented followed by our experiences from observations in the factory units.

4.4.1 Identified risks

The biggest risks connected to CSR in the factories are again concluded to be health and safety issues. The most important issue is the usage of protection. The buying agency says that whenever an announced inspection is conducted, protections are being used accordingly. On the other hand, if un-announced, the usage of protection is poor. The suppliers further explain the issue of getting the workers to understand why they need protection while working.
There are several local risks identified by suppliers. The production has a few peak seasons during the year. For this reason it is argued that CSR becomes a disadvantage for both the supplier and the workers since migrants wish to work as much as possible for that short period of time. They do not have anything to do besides to work and to make money while they are there, and the factory has lots of work to offer them, but is not allowed to according to buyers’ regulations. If factories must restrict workers with working overtime, suppliers say that workers are willing to leave them for another job. Moreover, the employee turnover is a major problem for suppliers, where a factory with a shortage of manpower has to raise the wages in order to pull workers from other places. The shift of workers also becomes problematic regarding social security. It is told that workers prefer to earn more and to take the risk of paying for hospital care themselves, which goes against the law. Since most factory workers are migrants from the countryside, it is common for them to leave their family for about five months and go across the country to make as much money possible. When they go back, problems occur since the company loses their experience and has to teach new employees all over again. CSR can therefore be an important factor to make them stay or come back to the same factory. It is further told that child labor still exists in India, but it is rare in garment manufacturing. It may be found when work is outsourced to homeworkers where the children become a helping hand in the production.

Neither the buying agency nor several suppliers claims to control their sub-suppliers regarding issues of CSR. Furthermore it is stated that suppliers do not always know who produces their fabrics. Moreover, for some embroidery agents who distribute the work to homeworkers who do the embroidery are hired. By this way the supplier has no idea who is carrying out the embroidery of the products. The buying agency says that suppliers can share their own CSR codes if they wish, but most of the times not even the suppliers are allowed to visit their sub-supplier units. Suppliers explain that they have such a small part of their production that it is no idea to try to control the lower tiers. Consequently, CSR activities further down in the supply chain are seemed as impossible to carry out and therefore transparency further down the supply chain is lacking.

4.4.2 CSR implementation and obstacles

Implementing CSR meets several obstacles for suppliers. First, it is a cost burden for the supplier. It is a major investment for the supplier and therefore a consistent business relationship must be established between the buying company and supplier, otherwise CSR requirements are viewed as a burden for the supplier. It is important that both parts show transparency and trust within the relationship. Likewise, it is argued that social compliance requirements should encourage the buyers to pay more for the products but it is said that buyers’ demands do not meet their price limit. The importance of expectations on the product must meet the price both in terms of quality and price. Suppliers argue that buyers need to understand local cost factors and adjust requirements thereafter. This means that each factory and supplier must be analyzed due to its specific circumstances.

Suppliers suggest that buyers should view CSR like a framework instead of going into details. It is stated that some buyers are requiring committees of the factory workers where issues should be discussed, whereas (according to the managers) the workers are not interested in these matters. A factory is audited approximately 5 times each year. Moreover it is explained that these audits require a lot of effort from the factory, but then each buying company usually only does one audit and then they seem to not care too much. The suppliers further highlight the issue that a buyer can require CSR improvements, but change supplier after the
implementation has been done. Though, it is becoming slowly easier to collaborate with the buyers. However, there is still a long way to go for them to understand that detailed requirements are not helpful for the factory. It is emphasized that the buyers have to be prepared to either pay more for the products or to lower their CSR demands. Ultimately, the buyers have to understand the local issues in the production market.

The suppliers mean that buyers’ codes of conduct are not properly accustomed to the local environment, but made in countries with people that have no real understanding of current issues for both people and companies. CSR regulations can therefore become an issue itself, lowering productivity for the company and making it difficult to advance. Suppliers feel that fashion companies have their own goals and regulations to follow and it is difficult to work for a common goal that makes both understanding and joined efforts easier. Suppliers explain the difficulties with companies demanding different kind of requirements according to their different CSR codes. Some companies have higher demands whereas some do not require anything regarding CSR, which makes it hard for the suppliers to still keep prices down and at the same time invest in CSR. Therefore some suppliers state that CSR is not only a competitive advantage for a supplier since it is costly and some buyers do not care about compliance.

Since KappAhl’s supplier does not pay double for overtime, just like the Indian law is stating that suppliers should, they are instead working with a linear time plan so that it in the future will be offered in the factory where KappAhl manufactures. If the buyers demand that the factory should pay double, a supplier means that this time plan can be made as a solution so that they can work with it realistically. The government itself does not control if laws are followed and it is explained that government inspectors are happy to receive some money under the table in order to approve a factory. The government has a detailed code of conduct that all textile manufacturers must follow, but the corruption is too rife for the system to work. The money under the table become small compared to large profits from stretching the laws and therefore worth it.

When the buying agency conducts audits, health and safety issues, child labor and the overall openness of the suppliers are investigated. The agency is aware that with announced audits, suppliers can put up a façade for that particular day, and nobody knows what happens in the background. Therefore the suppliers are expected to open up and tell what issues and difficulties they have with CSR implementation. The communication should not be about listing what is good and what is bad in the factory, but how they can improve in order to meet the buyers’ expectations. The aim is to get the suppliers to understand the long-term repo cautions of their actions. The buying agency tells that it is common that suppliers are hiding what is actually happening in factories and he has several times seen that suppliers use different documents and books for different buyers.

4.4.3 Benefits regarding risk mitigation

The views of CSR differ between suppliers. The supplier of KappAhl states that CSR improves the control of sub-suppliers and claim that they have their own code that their suppliers have to follow. According to this supplier, CSR therefore improves conditions with their sub-suppliers as well. The supplier of KappAhl also sees CSR as a competitive advantage that has to be incorporated into business. CSR is expected from the customers and KappAhl’s supplier talks about long-term social benefits with CSR rather than any specifics. One of the major benefits with CSR is also that suppliers get enlightened in terms of labor,
wages, training and infrastructure in the factory. Managers become aware of the problems when they have an audit coming up and need to have proper knowledge regarding requirements and laws. It makes parties involved in becoming aware of issues and improves transparency and communication within the supply chain. Fans, lightning and other factors for a better working atmosphere make workers happy and motivated to do a good job. Therefore, suppliers think that efficiency improves as well as the quality of the product. However, fewer delays cannot be related to CSR, since they are different factors that do not have anything to do with each other.

To conclude, the suppliers mainly view CSR as an invention from western fashion companies which many times is burdening the factories with regulations and requirements that is not adapted to the local context. They do see some advantages that will give them business benefits in terms of higher quality and more orders from companies who require CSR.

4.4.4 Supplier observations

In order to fully understand the issues of implementing CSR in the supply chain, visits were made at stitching units where one was the location for KappAhl’s production. During the factory observations it was clear that the suppliers have implemented CSR activities on different levels. All had some compliance incorporated but the difference between the factories was high. All factories had some exit marks on the floor although in one factory boxes covered them. In the same factory small and uneven stairs led to another floor and also the floor was uneven. In the same factory it was also very dark and warm. In the other factories lightning were much better, floors even and stairs were not dangerous to climb. The sewers mostly sat on harsh stools of metal in all factories except for KappAhl’s supplier. There they had more ergonomic stools with plastic seats. Embroidery was usually carried out on the floor. All factories were equipped with fire extinguishers and fire hoses, although the amount of them varied. At the supplier of KappAhl several extinguishers were placed on each floor with a distance of approximately 25 meters between. Also first aid kits, evacuation plans and fire alarms were to be found in this factory.

Overall, eating areas were not equipped with kitchens. The eating area in one factory was on outside on the terrace next to laundry and chemicals. A few tables were placed in the shadow whereas the others were placed in the sun. Bathrooms were mostly clean. Drinking water was provided at the supplier of KappAhl but could not be spotted at the other factories. Many of the workers in all factories were deeply focused on their work and only a few took notice of us being there. We only got a few smiles. Between factories it varied between the amount of women and men. Mostly we found men working in the factories.

The usage of protection also varied between factories. In several of the units no protection were used when handling chemicals, neither mouth covers nor gloves. At the supplier of KappAhl the workers were using both mouth covers and gloves. During cutting metal gloves were also supposed to be used. Further, in this factory all sharp items such as scissors and knifes were tied to the tables so they would never be dropped on the floor to risk hurting anyone. Furthermore, a “suggestion box” was placed at the entrance for the workers to leave any comments or notes on their working environment. In this factory exit marks were never blocked and the factory had two entrances and stairways to ease evacuation in case of emergency. Rubber mats were put under all electrical cabinets and some workers who were standing had a soft rubber mat to stand on.
4.5 The Sub-supplier level of CSR

In order to highlight the complexity with implementing CSR further down in the supply chain, observations at three of KappAhl’s supplier’s sub-suppliers were conducted. KappAhl stated that they did not know whether any of their products were made at these units.

The first observation was carried out in a machine embroidery unit who does embroidery on parts of garments that is then assembled by the supplier. The factory had several embroidery machines, which did sequins and other more complicated embroidery that formerly could only be done by hand. The noise level was extremely high. Signs that ear covers should be used was placed on the walls but no worker had neither ear covers nor earplugs, and nowhere could any protection be found lying around in the factory. They had a billboard with several policies that the factory was following, although no evacuation plan or fire equipment was found.

The second observation at the sub-supplier level was carried out in a hand embroidery unit that KappAhl’s supplier use for hand embroiders and sequins. The unit was placed above a stable for cows and a small gangly stair lead up to the first floor of the unit. To reach the second floor of the unit there was an additional narrow and dark stair. The second floor consisted of approximately 20 square meters where five young men (some almost boys) were sitting on the floor. During high season it was told to be 20-25 people working there. Alongside the walls, bags and clothes where hanging since the men also lived there and slept on the floor alongside their working space. On the first floor there were no windows. Lighting was poor. No fire equipment was found and there were no additional emergency exists than the narrow stairs. There was one dirty washing sink in this room. The men were quiet and focused and did not talk to each other or us.

The third sub-supplier observation took place in a dyeing unit that specializes in traditional Indian dyeing such as screen prints and tie-dye. A big sign stated that no person below 18 years was supposed to enter the factory. When we first arrived, a boy of about 12 years was passing the gate. The unit consisted of two buildings, one for each department. The screen-dyeing unit was dark and consisted of plenty of tables for printing. In the other building mostly women were working. At the first station a few women sat on the floor tying knots on ready-made garments that later was dyed by hand by the next working station. The tie-dyers used gloves since they were constantly in contact with the dye but no other protection was to be found. Between the two working sections a one-year-old baby sat tied to a table on the floor, the feet covered in paint. The baby was then loose and crawling on the floor of dye. It was obvious that the dyers were skilled when tying small knots, estimating the exact level of hombre dyeing or drying garments in the correct angle of the sunlight. Furthermore, the workers were moving freely around the factory, talked to each other and helped taking care of the baby. Taps were running and water was leaking out on the floor. Water with dye was just left to run out in the drain and they had no internal cleaning system.

To conclude what was found at the sub-supplier tier of the supply chain it is clear that no sub-supplier is informed or has implemented CSR in their business. The supplier of KappAhl clearly states that they do share their CSR codes with their sub-suppliers although we suspect that such code is not taken into account with the sub-suppliers. Unfortunately we were never able to read the code and can therefore not make a fair judgment.
Chapter 5: Analysis

This chapter provides an analysis of the empirical findings. By following the research model, the chapter starts with outlining the identified risks in the supply chain. Thereafter follows a discussion regarding KappAhl’s CSR communication towards its stakeholders. The risks are then connected to CSR implementation and benefits regarding risk mitigation. KappAhl’s CSR work is thereafter analyzed by using Carroll’s CSR triangle. Lastly are the identified risks analyzed through a CSV perspective in order to show if supply chain risks are mitigated by CSR.

5.1 Identified risks

The research model starts with identifying risks that are connected to the supplier and manufacturing units in the first tier of suppliers and a few sub-suppliers. These risks are here highlighted by using the theoretical risk framework.

5.1.1 Risks in a network-based supply chain

Modern supply chains are very complex. This includes the supply chain of KappAhl as well. According to Christopher and Peck (2004), control of internal processes in the supply chain with open information flows contributes to risk mitigation. Given the interdependencies between the organizations within the supply chain, it is only as strong as its weakest node (Spekman & Davis 2004). In the case of KappAhl, it is the business that is at risk from its supply chain since it is in the supply chain that law abuse occurs (Christopher and Peck 2004).

Within a network-based supply chain, relationships between the units are important. This is since control of internal processes in the supply chain with open information flows will help to limit risks (Christopher & Peck 2004). It is significant both in an economic sense but also in terms of technical matters and social networks. Strong relationships enable the company to react to the market faster, create customer value and loyalty between the units. Evidently KappAhl prioritizes to create good and long-term relationships with their main suppliers and tries to trust them. Although they still need to monitor the suppliers since they see the necessity for it. The incident when the supplier hired a sub-contractor that was not approved by KappAhl led to a warning for the supplier. This shows the issues of lack of trust within the supply chain and KappAhl’s vulnerability in trusting their suppliers. It also highlights the need for KappAhl to keep monitoring the suppliers, which results in higher costs and may damage the relationship that they are trying to build. At the same time, the research regarding supply chain suggests higher integration within the supply chain, including long-term cooperation and collaboration, which will help to overcome uncertainty and risks. For KappAhl to further integrate with its supply chain, they must be able to trust its suppliers to not take action behind their back, whereas the supplier must feel trusted and not constantly evaluated within every step they take. The facts are contradictory and hard to overcome since it requires a joint effort and mutual understanding from all parts.

The relationship between supplier and corporation needs to be close in order to make the supply chain effective, decrease lead-time, reduce change in orders and maximize stock availability (Perry & Towers 2013). It is found that a long-term relationship between buyer
and supplier is something that both parts want to establish. Suppliers want consistent orders and buyers want to be able to trust their suppliers in terms of social compliance, level of expected quality and delivery times. For the buyers to create a good and strong relationship, it is vital to cooperate and to have good payment terms where no penalties are used to burden the supplier. For the suppliers it is vital to live up to the agreements regarding codes of conduct, delivery times and quality. An integrated relationship intrigues the supplier to live up to the demands of a fashion company whereas a trusting relationship will result in more orders. KappAhl has several times stated that they aim for stable and long-term relationships with all their suppliers since they see the benefits of it.

Another dimension to add to the complexity of the risk mitigation is that when taking action to reduce risks for one part in the supply chain, the risk profile may alter for another unit (Peck 2005). This is especially evident for those suppliers who collaborate with companies that have CSR demands and those who do not. When a buying company is increasing the demands of social compliance, the supplier is faced by additional costs. This may force to increase prices and therefore maybe lose the brands that do not believe in social compliance. Therefore can a risk mitigation taken by KappAhl increase the risk profile for the supplier.

5.1.2 Demand risks

Demand risks are related to seasonality, volatility, new product adaptations or short product lifecycles (Jüttner 2005). KappAhl’s demand risks are therefore connected to volatility in the fashion market in Sweden. The volatility in the fashion market results in an uneven demand from the fashion companies, which also increases the instability for the factory managers and workers. The turns in market demand also challenge the Swedish fashion company to ensure stable orders to its Indian suppliers. Not being able to supply a constant demand for the suppliers complicates social compliance. Therefore it may be hard to ensure that the supplier is keeping its sustainability commitments all year around. Other brands that do not have the same CSR demands as KappAhl may be prioritized because of bigger orders which may affect both KappAhl’s CSR work and also the suppliers’ willingness to accept orders from KappAhl.

5.1.3 Supply risks

Supply source risks are connected to the supplier and supplier activities, which in this case mainly regard CSR implementation and lack of trust between partners in the supply chain. Supply risks will further be discussed under the section social risks.

5.1.4 Reputational risks

Reputational risks arise because of the previously mentioned factors (Wu and Blackwurst ed. 2009, pp. 49-51) and are for KappAhl linked to the perception of the brand among stakeholders. A reputational risk for KappAhl is the evidence that their supplier do not pay double for overtime, something that contradicts with Indian law. The code of conduct states that local law must be followed by the supplier and this can therefore be harmful for KappAhl’s reputation. Ultimately, all risks presented below put KappAhl’s reputation at stake if presented in the wrong way by media.
5.1.5 Social risks

Social risks depend on the organization’s behavior and create vulnerabilities and affect cost, marketability, public perception and company reputation, as well as operations and supply (Cruz 2013). We will here follow Cruz’s division and explain KappAhl’s exploitation to social risks divided in to country, operational, product and societal expectation risks.

Country risks

There are several risks in the supply chain that are connected to the context of the Indian textile industry. First, the garment manufacturing is seasonal with a peak of five to seven months. This is due to the fact that India is specialized in sequins and embroidery, which is mostly used for western summer clothes as applications on blouses and dresses. During this time, a lot of overtime is required by the suppliers in order to meet delivery times. Perry (2012) states that government regulations are affecting the CSR, since a weak influence on CSR makes the implementation in the supply chain more difficult. Indian legislations state that workers should be paid double for overtime. It is however unusual to find suppliers that follow these laws. Moreover, the government does not check if factories follow laws and inspectors accept money under the table in order to approve a factory or give them a license. The license is often required of the buyers as a proof of the factory being run in a proper way, which is sometimes done without any actual inspection. Additionally, if found out that a factory is misbehaving the penalties are usually small compared to profits. The culture of corruption and not abiding the law in India is an issue that is almost impossible to tackle. If it would be confirmed that a fashion company uses a supplier that supports corruption it could be harmful to the company. This is however something that the supplier would hide for the company.

Secondly, due to India’s specialty in embroidery, the garment industry is highly characterized of using home workers. This work is often outsourced from the supplier to an agency unit. The supplier has limited control of which unit is doing the embroidery and usually the homeworkers may not know whom they are working for. This makes it impossible for the supplier to control its sub-supplier in terms of wages and social security, and the fashion company will have no transparency in who is doing the work of their garments.

Lastly, since the Indian labor consists of immigrants from rural parts of the country, some suppliers have spoken about the issue of keeping a consistent workforce in the factory. The immigrants tend to travel back to their families and then the suppliers may have difficulties to find enough workers. The Indian garment sector is characterized by high and low seasons and suppliers need to fire workers during low seasons because they cannot provide enough work to employees. As a result, the workers have an insecure future in the factories as well as it is unpredictable for the factory managers. Insecurity among workers can lead to strikes and instability in the workforce. Moreover, the turnover of employees requires training for new workers and can result in unequal quality of garments. Therefore the uneven workforce is resulting in quality risks for the fashion company.
**Operational risks**

Regarding social benefits, risks are connected to the issue of payment of overtime and deduction of wages for insurance. The issues of non-payment of overtime are found in the suppliers’ unwillingness to follow the law and the acceptance of not following it. Moreover, it is stated that many suppliers use fake books to present a different view to the buyers, which makes it complicated to control their law abidance. Working overtime is another issue that is connected to social benefits. This is a big problem since the Indian garment industry is seasonal and a lot of overtime is required to meet delivery times. Since most working forces consist of immigrants from small villages in India it is explained that the workers want to work as much as possible when they are in the factories in order to earn as much money as possible. Since the supplier must enable overtime to meet deliveries and states that the employees want to work as much as possible, they argue that the CSR codes of eight hours workdays are unrealistic. The CSR code requires that after eight hours, overtime should be paid. In this matter suppliers argue that the price the buyers are willing to pay will not cover the costs of overtime. The problems could lead to quality issues, loss of workers or strikes.

**Product risks**

Identified product risks in the factories regards health and safety issues. This includes usage of protection clothing, emergency evacuation plans, fire safety, chemicals etc. Suppliers explain that it is difficult to get the workers to understand the need of using protection or keeping isles clean from boxes. They tell that workers refuse to wear protection since it complicates their work if they are not able to move their hands freely. At KappAhl’s units, protection was available and used in most processes, but evidently protection was not available or used on several other supplier units or sub-contractor units.

Non-usage of protection among the workers may result in injured workforce or may damage their health in the long run. Unhealthy workers may influence the quality of the products or productivity of the workers. Catastrophes like a fire and blocked isles or emergency exits may have huge effects on products, resulting in delays and reputational risks.

**Societal expectation risks**

KappAhl has to identify risks to protect themselves from precautions. KappAhl is also further trying to influence its suppliers to follow the local laws through the code of conduct. They are accepting that the suppliers in India are not fully committed to follow the Indian law but they are protecting themselves by saying that they encourage their suppliers to improve in the future.

Social compliance at the supplier level of KappAhl is important since it is valued by stakeholders. If leaking out that the suppliers in the first tier break the code of conduct, without KappAhl taking any measures, the brand could be hurt. According to the finding that KappAhl has to monitor its suppliers to a great extent indicates that there is a risk of the suppliers breaking the code. During the observation at the hand embroidery unit and dyeing unit, KappAhl expressed that they did not know if any of their products were manufactured there. It has also been stated that KappAhl is not aware of the entire value chain of their products, which make them vulnerable.
### 5.1.6 Table of identified risks

<table>
<thead>
<tr>
<th>Risks in a network-based supply chain</th>
<th>Lack of supplier trust</th>
<th>High monitoring costs</th>
<th>Weak supplier relationships</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand risks</td>
<td>Volatile fashion market in Sweden</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supply source risks</td>
<td>Lack of trust in the supply chain</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reputational risks</td>
<td>Brand reputation damage</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social risks</td>
<td>Country-specific risks</td>
<td>Uneven and summer seasonal demand</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Lack of governmental support</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Disobeying laws, corruption</td>
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<td></td>
<td></td>
<td>Limited control of sub-suppliers, e.g. embroidery home workers</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>Uneven work force</td>
<td></td>
</tr>
<tr>
<td>Operational risks</td>
<td>Suppliers disobeying laws and codes</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Lack of social benefits for workers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product risks</td>
<td>Health and safety</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Non-usage of protection</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Societal expectation risks</td>
<td>Lack of sub-supplier knowledge and control</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Leak of information regarding improper CSR implementation</td>
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<td></td>
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</table>

Table 1. Identified risks
5.2 Transparency

By following the outline of the research model, the importance of KappAhl’s transparency and the CSR communication through the code of conduct is here discussed.

Transparency is about visibility to stakeholders, which KappAhl is working on by showing their supplier list, code of conduct and sustainability report to the public. Of course, a lot more work needs to be done and the people we have met at KappAhl are aware that the biggest problems with transparency evolve further down in the supply chain. The awareness on where the fabrics have been woven, dyed or embroidered needs improvement and openness. Transparency and openness about the work with CSR may not only be seen as a benefit to stakeholders. When showing your work with sustainability to the public, just like KappAhl is doing in this study, there is a risk of getting critiques and revealing your vulnerabilities. The critique can be useful, but also harmful for the reputation.

Transparency within a supply chain network is about stronger collaboration and sharing of monitoring information (Carter & Rogers 2008). KappAhl has a strong focus on developing a transparent relationship with its suppliers, but this is a very difficult subject, which today is only fulfilled to a certain extent. Keeping an open communication where the suppliers themselves make a plan on how to fulfill KappAhl’s CSR requirements make it easier to see what is really going on inside the factories and this is something that KappAhl works with today. In that way they can share their problems and plan on how to solve them instead of keeping them in the dark in order to receive orders. Greater transparency will also increase openness and trust between the supplier and KappAhl.

5.2.1 KappAhl’s Code of Conduct

In KappAhl’s code of conduct, both the social and environmental aspects linked to Carroll’s CSR pyramid (1991) are clearly communicated. Although their sustainability work is communicated, it mostly regards projects that are aside from the actual business and may not be integrated enough into the core of the business. KappAhl engages in several charity projects that has no connection to the supplier base or their supply chain and can therefore not be related to our analysis. All activities mentioned in the sustainability report can however be risk mitigating since they can improve brand reputation and stakeholder satisfaction.

According to Ethics Resource Center (2014), a well-written code becomes an important communication tool that reflects the company’s commitment to uphold important values and achieve trust among stakeholders. KappAhl’s code of conduct is clear in its requirements and therefore communicates their values. These values and communication can however be difficult to live up to in reality. Showing a great report with high ambitions and a code of conduct with high CSR requirements is one thing, and living up to the communication is another. KappAhl’s code is not as detailed as the Ethics Resource Center describes, but can be adjusted to the local environment instead. A code which is properly adjusted can therefore be a more sustainable way of doing business and more linked to the Carroll’s CSR triangle than a detailed one.

According to Fontaine (2013), CSR becomes a built-in appliance that controls the sustainable business in beforehand. CSR should be used to stimulate the public interest in a way that encourages a growing and developing community and eliminate actions that are harmful for
the public and environment. Cottrill (1996) tells that companies have been regularly criticized for codes just being an instrument for communication to the public instead of being an effective tool for increasing working conditions in the factories. Cottrill (1996) means that suppliers are passive players who have little power over how audits are conducted, which shows in some suppliers’ answers since they are seen as too detailed. During interviews it is stated that KappAhl has a code of conduct since it is required by stakeholders and to show the world that the company is doing something good. It is therefore not in firsthand for its suppliers. Further, it is very challenging to live up to the social requirements and communicate it to the workers. KappAhl’s code of conduct is one way of controlling the sustainability of the business in forehand since it is signed by all suppliers, but is no insurance that their sustainability goals will be fulfilled.

5.3 CSR implementation

The next step of the research model is to identify how CSR is implemented in the company and how it is communicated and implemented with the suppliers.

Galbreath (2006) means that the meaning and use of CSR can vary between countries and reflect their own traits and culture. A corporation’s CSR strategy in its home country might therefore not correspond internationally since it can be interpreted in a different way in the production country. The main obstacle in implementing CSR with KappAhl’s supplier is to get them to understand the benefits of CSR and to change the mindset. The interpretation of CSR can therefore often be very different in an Indian and in a Swedish perspective. The textile industry has a long history in India and to change a mindset of the suppliers from a way that business has always been carried out is challenging. Moreover, it is argued that CSR programs and codes of conduct are constructed in western countries according to western norms and are not redesigned to fit the local context. Just like Galbreath is arguing, these represent different values that are significant to understand.

There is a big importance in choosing a CSR implementation which adapts norms to local culture and regulations or commanding international standards. Commonly, there is a compromise where the CSR framework stated in the home country is being contrasting. Suppliers stress the importance of CSR being adopted into the local context of the textile manufacturing in India. KappAhl has tried to meet some of these requirements with an open code of conduct and keeping discussions open with the supplier of how they can improve over time. KappAhl has clearly stated that CSR is something that is no longer an option, but something that all corporations have to be a part of. For this reason, a successful implementation is crucial for KappAhl.

At a first glance, KappAhl can seem to be too undemanding of its suppliers but it is a chosen strategy of the company. In this way, KappAhl shows stakeholders that they are making the effort that is required but they are still giving the suppliers a spectrum to choose their adaptation plan. Global CSR strategy has a tendency to be compliance-based, using controls instead of proactivity (Muller 2006). Improper implementation will therefore increase the risk for a fashion company since they will not be able to trust that their products are manufactured in the way that they want. This results in the need of monitoring that is both costly and influences the trust among the partners. This issue can be tackled with an open time plan, like KappAhl, but it also leaves space for wishing that they would do more. KappAhl is using a
decentralized strategy in the sense that it is adapting the CSR implementation to each supplier, which itself can set up goals on how and when to reach the requirements. A decentralized strategy can be more responsive at the local level, but also more fragmented. It may be difficult to control. Further, with internal conflicts and different pressures from stakeholders the firm can be criticized for lacking consistency (Muller 2006). Supplier’s unwillingness to implement CSR accordingly complicates the issue further. Therefore, implementation step by step may be a good strategy to keep influencing the suppliers and not scare them away by hard and expensive demands. Santos (2011) means that CSR practices can also be more difficult to measure, as well as becoming weaker due to less time and financial resources. This can be a problem for KappAhl’s smaller suppliers since they may lack resources for the right implementation of KappAhl’s CSR strategy. Here, there is a risk for CSR to be seen as a mandatory compulsion. To motivate suppliers’ implementation of CSR, guaranteed business for a period of time would enhance suppliers’ willingness to meet demands. However, in the volatile and unpredictable fashion market (Perry 2012) that is a difficult promise to give.

According to Bindley (2004) many risks in the supply chain are connected to network resistance towards change and developing activities. The resistance towards change is obvious among several of the suppliers. Furthermore, the research shows that the biggest issue is changing the mindset of the suppliers. Being resistant towards change complicates the implementation of CSR. The suppliers will not be motivated to implement it properly when they do not see the benefits of it. Another issue is that suppliers may be willing to implement changes according to CSR demands, but when they do, they want to be able to increase the prices.

There is a challenge when not only shareholder profits need to be maximized, but also societal goals need to be fulfilled (Perry 2012). Buyers are accused by Indian suppliers for not being willing to offer more for a garment that is produced under fair circumstances. For this reason it has been argued that CSR becomes a competitive disadvantage since the suppliers will not be as profitable as the suppliers without any CSR. The pressured price point, which many firms see as crucial for their survival, therefore weakens the CSR implementation and buyer-supplier relationship. This could only overcome with the change of mindset of the suppliers. If they see the benefits provided by CSR they would be motivated for implementation. At the same time, fashion companies should reward the suppliers and make it profitable for them to implement CSR. It is a joint effort that depends of trust, transparency and strong relationships.

5.4 Benefits regarding risk mitigation

In order to evaluate to what extent CSR mitigates risks, benefits related to CSR regarding risk mitigation will be discussed in this section.

There are several benefits to gain for KappAhl working with CSR. Most obvious is the brand building and communication to its stakeholders about its initiatives, which is further described as a way to enhance customer confidence. At the same time, CSR in the Swedish fashion industry is today required and taken for granted by stakeholders.

The supply chain is complex and there is an increasing interdependency between involved organizations (Christopher & Peck 2004). The complexity is shown in the answers of the respondents since they to a large extent differ due to where in the supply chain they are. All
agree that health and safety risks are mitigated by CSR, but many also have different points of view for the subject. Local issues and cultural differences add to this complexity.

According to Santos (2011), CSR helps to develop supplier relationships, making the supply chain more efficient and raising management standards. This statement is confirmed by the research in this thesis. Believers in CSR argue that there will be a better end product with less quality issues, less delays since the workers won’t strike and better efficiency and productivity of each worker since a happy worker will perform better. Those who are skeptic towards CSR can still see some of these benefits although they argue that price is more important. Most clearly are the benefits that are connected to the products. Even though disagreed upon, most parts claim that quality is increasing through CSR since the factory is much cleaner and happy workers do fewer mistakes. When workers are held in a safe and more comfortable environment, they work with better efficiency and that can also improve the quality. For example, better lighting and ergonomically designed working stations can improve the quality of sewing, which mitigates risks of garment returns and unsatisfied customers. In production there are less interruptions, which leads to higher productivity. In case of emergency, hopefully the damage will not be as severe since there are rules to follow for exits and non-blockage of isles or emergency exits. Furthermore, the risks related to health and safety for the workers is agreed on being mitigated. There is also a greater chance for workers working a longer time at the same factory, mitigating the costly risks of losing workers and continuously having to educate new ones. CSR, when used in the best of ways, therefore helps to become closer with suppliers and to understand their culture and difference. The knowledge of the suppliers’ issues helps Swedish organizations to mitigate risks in the production and doing it in a sustainable way. Improved and developed communication with suppliers is therefore strikingly the most sustainable way of mitigating identified risks. Further, all respondents conclude that CSR indirectly helps to mitigate risks by improving relationships, communication and transparency.

5.5 KappAhl according to Carroll

By following the research model, Carroll’s CSR triangle is used to evaluate to what extent CSR is implemented; both in the fashion company’s level and in the supplier level.

Listening to KappAhl’s communication regarding CSR, it is obvious that the company aims to be perceived as a philanthropic fashion company and therefore mitigate reputational risks. For this point of view KappAhl is successful, they do many good things with good intentions, and their code of conduct covers all major sustainability areas. Still, KappAhl is far from being on a high level regarding all aspects of the company. By only viewing KappAhl, the company lives up to ethical responsibilities. The company has both a vision and plan to do what is ethically just and fair, which is stated in the code of conduct. Additionally, the fact that KappAhl has employees that work with these issues also shows that the company is being ethical.

The supply chain is a major part of a company’s successfulessness. Thus the supply chain is only as strong as its weakest point it is vital to incorporate the supply chain in the analysis of Carroll. The investigated supplier of KappAhl has committed to KappAhl’s code of conduct and implemented several requirements from KappAhl. They are also working towards implementing paid overtime in the unit that KappAhl sources from. However, it still does not live up to the Indian legislation and it uses sub-suppliers that lack fire safety, proper working
environments and breaks the rules that are stated by the sub-supplier itself. Since KappAhl states that they do not know very much about where its suppliers source from, they are not taking the responsibility that they claim they are. Conditions in the sub-supplier units are breaking KappAhl’s code of conduct on many levels, which makes the supply chain unsustainable. Furthermore, the evidence found in the sub-supplier tier confirms that the suppliers are violating KappAhl’s code of conduct since they are responsible for the sub-suppliers implementation of CSR. If the sub-suppliers do not follow any CSR code, it is clear that tiers even further down the supply chain are not doing it either. This will also break the image of KappAhl being an ethical company in their stakeholders’ point of view. Stakeholders hold companies responsible for its entire supply chain and therefore the lack of transparency and issues found at the sub-suppliers could be risky for KappAhl.

If only including KappAhl in the analysis, it could be stated that it is a fashion company reaching up to the ethical tier and in some aspects are also philanthropic. If the entire supply chain is included it only reaches to the level of economic responsibility. Laws are not followed in the first tier of suppliers and therefore the supply chain cannot be argued to be above this tier. This is a clear illustration of how hard it is for a Swedish fashion company to assure sustainability and CSR through their value chain. Lack of mutual understanding, the issues of price pressure and scarce transparency complicates CSR implementation to a great extent leaving the supply chain complex and vulnerable.
Chapter 6: Conclusion

The last chapter concludes the findings by presenting the two research questions with their results. The conclusions work as guidelines since they are found through a specific case study, providing practical examples on CSR implementation and risks in a global fashion supply chain.

6.1 Research questions

What benefits come from CSR implementation regarding risk reduction?

First and foremost, CSR related risks that have the biggest importance for the fashion company regard reputation and brand image. Reputational risks can have a massive impact on a fashion company, where one mistake can open discussions for many stakeholders that could result in boycotts and lost sales. CSR communications can therefore help to achieve a more sustainable supply chain with fewer weaknesses. However, being open with the CSR operations also opens up for vulnerabilities which otherwise may not have been revealed.

Regarding risk mitigation in a local context, health and safety risks are the main focus for suppliers concerning their workers. Through CSR, injuries and other accidents can be avoided as well as mitigating the risk of losing trained staff due to bad working conditions, all of which can be very costly for the suppliers since they then need to find and train new staff. Additionally, labor rights regarding wages and working hours are improved, which help to mitigate risks for the employers on a safe and healthy working environment.

An even and steady workforce in the factories and a more content staff can also improve quality of the product as well as cause less delays because of fewer accidents. Due to a happier working environment with educated staff, better efficiency can be achieved. Risks regarding delays are however discussed by local managers as something that may not be related to CSR, where CSR work is rather seen as beneficial in a longer period of time.

A great benefit of CSR is a closer relationship between the buying company and its suppliers. A closer relationship will enhance trust and partnership between the parties that may result in greater transparency through the supply chain. Greater transparency further down the supply chain will help the company to identify new risks that need to be mitigated. Transparency will further lead to a more efficient CSR implementation where suppliers hopefully will take greater responsibility for its sub-suppliers. Therefore CSR needs continuous evaluation and development to keep spreading through the supply chain.

What are the obstacles to communicate and implement CSR with the suppliers?

Regarding all CSR implementation and communication with suppliers, lack of transparency is what complicates the openness and collaboration needed. A greater cooperation and openness regarding issues with CSR demands make understanding of the local context easier. However, openness of issues in factories can make the buying company choose another supplier with nicer façade. Additionally, CSR implementation is claimed by suppliers for being a disadvantage since it forces production prices to rise. The mindset for both buyers and suppliers involved is therefore focused on own short-term winnings and current business operations.
Regulations on working hours may not only be seen as benefits from the worker’s point of view. It is common that workers are only working in the factory for a few months with possibly other family members to support financially. Then, long working days can be seen as the only resolution in order to earn as much money as possible when payment for over time is not provided. Paying double wage for overtime may not be seen as possible for the supplier’s point of view and therefore not an option due to low buying prices. Risk mitigation through CSR therefore has to be looked at in both the buying company’s context, but also in the local one.

All parties mean that their influence on the supply chain is too small to be able to improve the sustainability in the supply chain in a bigger context, blaming others involved who have a bigger impact on the system. The buying company claims to provide too small orders and the suppliers claim the same for their sub-suppliers. Suppliers also blame workers for not using the protection offered since it complicates the production and that buyers do not provide a buying price high enough for making CSR changes possible in the factories.

Our findings confirm that transparency and open communication are the most important factors for an effective work with CSR implementation. CSR implementation affects the whole supply chain, but meets many obstacles due to short-term thinking. Western values interrupt the communication and there is a lack of understanding of the local context and obstacles such as seasonal workforce and harsh pricing demands. The cost factor has a big importance for making changes needed when the fashion industry is struggling to meet customer’s expectations on low priced products. Corruption and continuous stretch of laws make it harder for the fashion company to have a real influence on their suppliers, when neither their code nor local laws are followed. Instead of continuous auditing, which has many negative sides for not showing the reality and can also be costly, a long-term business relationship is what is most crucial for CSR implementation. This is due to the fact that suppliers are willing to implement CSR if they are promised future business orders, which can be challenging in hardened competition. The volatile fashion industry with its hard rivalry, unreliable customers and long supply chain therefore make strong supplier relationships an existing struggle.

The most important outcome for the research regards the complications in implementing CSR downwards in a global fashion supply chain. By only studying CSR from the Swedish perspective and by researching in the home country would show a poor side of the implementation. Understanding the local context is not as easy as it seems and cultural differences can make regulations contradictory. There is still a long way to go before achieving an understanding on the complex grey zones of the supply chain which make CSR implementation much more difficult than just providing a signed code of conduct and making inspections.

To conclude, cooperating with KappAhl and being agreed on visiting certain factories of course limit our investigations. Assumingly, some of the most developed factories and sub-suppliers in the supply chain were shown to us. However, this can make the conclusion that there is an even bigger challenge in most factories and that the business have an even longer way towards implementation of CSR. It also shows problems in textile production as a whole, in outsourcing and in the Indian textile industry, which are important to acknowledge in order to improve in the future. This study will hopefully highlight issues in outsourcing and purchasing that Swedish textile companies need to consider and analyze, no matter where
their production is based. Most importantly, the research highlights the importance of CSR implementation, all the way from the company to the sub-suppliers, and the relevance of having strong supplier relationships through all those tiers.

6.2 Further research

The case study has revealed the complexity of CSR implementation where the major obstacles regard how to develop sustainability several tiers down with sub-suppliers. As for today, no party wants to be responsible for these problems and all are blaming someone else. Research should focus on how to create trust and mutual understanding between all actors in the supply chain. How to control sub-suppliers and implement CSR further down the supply chain is therefore of great importance to evaluate in future research.
References


