Challenges of Shared Value Creation for SMEs: Case Studies on Sustainability in the Swedish Fashion Industry

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ABSTRACT

While sustainability is a common trend in business, the practical challenges companies face when striving towards becoming more sustainable are not thoroughly researched. By applying Porter and Kramer's (2011) theory on Creating Shared Value (CSV) to Swedish SMEs in the fashion industry, the challenges of adopting sustainable practices were identified in the study. Semi-structured interviews were conducted with eight case companies with an ambition to be sustainable. This paper argues that even sustainably-aware companies face complex challenges with activities meant to benefit both society and the company itself. Despite many positive characteristics of SMEs, including more flexibility to adapt to new circumstances and innovative approaches to CSR development (Jenkins, 2009), our research display difficulties with leveraging these characteristics. The study shows that the seven challenges of shared value creation are: investment costs, functionality issues, supplier complexities, supplier control, supplier abilities, managing certifications and cluster control. Moreover, the study has also confirmed Crane et al., (2014) regarding the positioning of CSV as an umbrella construct for loosely related concepts within conscious capitalism.

Keywords: creating shared value, corporate social responsibility, sustainability, SMEs, fashion industry
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# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abstract</td>
<td>1</td>
</tr>
<tr>
<td>Acknowledgements</td>
<td>2</td>
</tr>
<tr>
<td>Table of Contents</td>
<td>3</td>
</tr>
<tr>
<td>1. INTRODUCTION</td>
<td>5</td>
</tr>
<tr>
<td>1.1 Background</td>
<td>5</td>
</tr>
<tr>
<td>1.2 Purpose</td>
<td>7</td>
</tr>
<tr>
<td>1.3 Thesis Outline</td>
<td>7</td>
</tr>
<tr>
<td>2. THEORY</td>
<td>7</td>
</tr>
<tr>
<td>2.1 Literature Review</td>
<td>8</td>
</tr>
<tr>
<td>2.1.1 Corporate Philanthropy</td>
<td>9</td>
</tr>
<tr>
<td>2.1.2 Profitable Responsibility</td>
<td>10</td>
</tr>
<tr>
<td>2.2 Creating Shared Value</td>
<td>11</td>
</tr>
<tr>
<td>2.2.1 Reconceiving Products and Markets to Meet Basic Societal Needs</td>
<td>13</td>
</tr>
<tr>
<td>2.2.2 Redefining Productivity in the Value Chain</td>
<td>13</td>
</tr>
<tr>
<td>2.2.3 Enabling Local Cluster Development</td>
<td>15</td>
</tr>
<tr>
<td>2.2.4 Limitations of CSV Theory</td>
<td>16</td>
</tr>
<tr>
<td>2.3 Theoretical Summary</td>
<td>17</td>
</tr>
<tr>
<td>2.3.1 Analytical Framework</td>
<td>17</td>
</tr>
<tr>
<td>3. METHOD</td>
<td>18</td>
</tr>
<tr>
<td>3.1 Research Design</td>
<td>18</td>
</tr>
<tr>
<td>3.1.1 Industry selection</td>
<td>19</td>
</tr>
<tr>
<td>3.1.2 Case selection</td>
<td>19</td>
</tr>
<tr>
<td>3.2 Primary Data Collection</td>
<td>21</td>
</tr>
<tr>
<td>3.2.1 Operationalization</td>
<td>21</td>
</tr>
<tr>
<td>3.3 Secondary Data Collection</td>
<td>23</td>
</tr>
<tr>
<td>3.4 Data Analysis</td>
<td>23</td>
</tr>
<tr>
<td>3.5 Credibility &amp; Limitations</td>
<td>24</td>
</tr>
<tr>
<td>4. EMPIRICAL RESULTS</td>
<td>24</td>
</tr>
<tr>
<td>4.1 Bag Company</td>
<td>24</td>
</tr>
<tr>
<td>4.2 Dedicated</td>
<td>26</td>
</tr>
<tr>
<td>4.3 Didriksons</td>
<td>27</td>
</tr>
<tr>
<td>4.4 House of Dagmar</td>
<td>28</td>
</tr>
<tr>
<td>4.5 Knitwear Company</td>
<td>29</td>
</tr>
<tr>
<td>4.6 Nudie Jeans</td>
<td>30</td>
</tr>
<tr>
<td>4.7 Rainwear Company</td>
<td>31</td>
</tr>
<tr>
<td>4.8 Swedish Hasbeens</td>
<td>33</td>
</tr>
</tbody>
</table>
5. ANALYSIS

5.1 Reconceiving Products & Markets to Meet Basic Societal Needs
   5.1.1 Activities
   5.1.2 Challenges
      5.1.2.1 Investments
      5.1.2.2 Functionality
      5.1.2.3 Supplier Complexities

5.2 Redefining Productivity in the Value Chain
   5.2.1 Activities
   5.2.2 Challenges
      5.2.2.1 Investments
      5.2.2.2 Supplier Control
      5.2.2.3 Supplier Abilities

5.3 Enabling Local Cluster Development
   5.3.1 Activities
   5.3.2 Challenges
      5.3.2.1 Investments
      5.3.2.2 Certifications
      5.3.2.3 Cluster Control

5.4 Extended Analytical Framework

5.5 Discussion

6. CONCLUSION

6.1 Theoretical Contributions
6.2 Managerial Implications
6.3 Limitations & Future Research

REFERENCES

Personal Communication

Appendix 1 - Interview Guide
1. INTRODUCTION

“I am not surprised that they are burning clothes. My trust in H&M as a responsible company is low. It’s a multinational for-profit corporation that [recycles clothes] more for branding purposes. They have clothing collections that are organic, but do not take any overall responsibility.” (Ohlin, 2017)

The consumer verdict was devastating. Swedish fashion retailer H&M had been exposed by the media for burning, what appeared to be, perfectly fine clothes. The corporation had previously also been questioned for the use of child labor (Chamberlain, 2017), having unsafe working conditions in its factories (Kronholm, 2017), as well as many cases of controversial clothing items and modeling imagery (Ohlin, 2018). Regardless of the factual correctness of the claims, any large multinational can today expect to be constantly and continuously reviewed by various stakeholders, be it media, consumers or activist groups. As a response to the growing consumer interest in sustainability, companies are competing to attract customers through adopting sustainable practices (Shen, Zheng, Chow & Chow, 2014). Despite H&M’s apparently turbulent social and environmental history, the company annually presents its over 100 pages long sustainability report and has won awards and recognition for its sustainability performance (H&M, 2016). H&M is not alone in presenting extensive sustainability reports and dedicating large portions of its marketing budget to being perceived as a caring, responsible and sustainable corporation.

Many other large firms have also presented sustainable reports for years, but what about the smaller firms? After all, two-thirds of Swedish employees are working in small and medium-sized enterprises (SMEs) with less than 250 employees (European Commission, 2003). The majority of Swedish firms are thus small or medium-sized businesses, but these smaller firms are not required to present their sustainability efforts publically (European Commission, 2003). Then, what are the smaller firms doing in terms of sustainability, and more importantly, what challenges are they experiencing?

1.1 BACKGROUND

The fashion industry has several components that make it interesting in regards to sustainability. The nature of the industry combined with its overall popularity and growth leads to major impacts on society. In Sweden, an average consumer purchases 13 kilograms of clothes annually and the industry has grown by 30% since the start of the 21st century, giving it a 265 billion SEK turnover in 2014 (Tillväxtverket, 2013). There are 60 000 registered companies in the Swedish fashion industry (Tillväxtverket, 2013) and worldwide, the industry accounts for an estimated one-third of total
employment (James & Montgomery, 2017). Moreover, producing clothes puts a strain on natural resources. Producing enough cotton to make one white t-shirt requires 2,700 liters of water (WWF, 2013) and in the life cycle of clothing, about 70% of emissions come from production (Roos, 2016). The fashion industry is continuously criticized globally for paying low wages to employees, employing children, and lacking safety regulations in its factories (Linton, 2016). Furthermore, the fashion industry is the fourth largest carbon emitting industry in Sweden, which along with negative social impacts has led to consumers and employees putting pressure on fashion companies to adopt more sustainable business practices (Tillväxtverket, 2013). Yet, Sweden has been mentioned as a front-runner in sustainability, for instance by being ranked world number 1 in Sustainable Competitive Index (SolAbility, 2017) and the Swedish government has set out an ambition to become the world leader in sustainable fashion (Regeringen, 2017).

Companies, being pressured into being more sustainable, have led to research on corporate social responsibility (CSR). CSR research includes a wide range of terminology used by both researchers and practitioners connected to aspects of corporate responsibility and sustainability. The term CSR has been described as a core construct of corporate responsibility (Carroll, 1999), and will in this paper be used as an umbrella term of the related phenomena discussed herein (Hirsch & Levin, 1999). In current research, a well-cited theory calls upon companies to create shared value between the company and society (Porter & Kramer, 2011). Shared value is defined by Porter and Kramer (2011) as policies and operating practices that can both benefit the company’s competitiveness as well as the economic and social conditions of society. Essentially, this can be accomplished by integrating CSR initiatives with core strategy or innovating new business models to achieve a larger impact on society while also creating a competitive advantage for the firm. Regardless of terminology, research is clear about the need for business practices that consider both economic and societal impacts.

The benefits of CSR have been proven to apply also to SMEs. In fact, SMEs display many positive characteristics that make them better suited to realize the opportunities of shared value creation than their larger competitors (Jenkins, 2009). These opportunities include more flexibility to adapt to new circumstances, closer internal and external feedback and often innovative approaches to CSR development (Jenkins, 2009). CSR theory has traditionally been predominantly developed around large corporations, and SMEs have been disregarded as simply smaller scale versions of multinationals (Jenkins, 2004). In comparison to small organizations, large organizations are known to be less likely to fail financially (McKendrick, Jaffee, Carroll & Khessina, 2003) and often enjoy cost advantages in many industries compared to SMEs (Dobrev, Kim & Carroll, 2002). Consequently, the challenges for SMEs are generally due to a lack of resources, which, according to Jones and Tilley
(2003), leads to poorly managed activities for SMEs. Furthermore, the responsibility initiatives by SMEs often lack integration with overall business strategy. The responsibility in these firms is often motivated by moral reasoning and the personal values of owners or managers, rather than starting with the business case of responsibility, which limits the competitive advantage gained from the initiatives (Jenkins, 2009).

With the plethora of research depicting that sustainability could be beneficial to both company and society, why would not everyone do it? Recent research has called to action (i.e. Morsing & Perrini, 2009) for research on how we can better understand how SMEs engage in sustainability and Strand, Freeman and Hockerts (2014) claim that further research on sustainability in Swedish companies is needed. Given that SMEs are capable of innovating and adapting to their surroundings, they should be able to adopt practices that create shared value. However, this does not appear to be the case, so there have to be challenges that are not explained in existing CSR and shared value research. To add to past research, there is a need to map out and analyze the challenges that SMEs face when attempting to create shared value.

1.2 PURPOSE
The purpose of this paper is to evolve the understanding of what limits a widespread practical adoption of sustainable practices for SMEs by examining the challenges of the theoretical concept shared value creation. To examine this, shared value theory will be applied to the Swedish fashion industry in order to identify complexities in performing sustainable activities. The research question for this paper is: What are the challenges of creating shared value for SMEs in the Swedish fashion industry?

1.3 THESIS OUTLINE
To examine the research question, the paper will first present a literature review of existing CSR research leading up to theory on shared value creation, which is summarized into an analytical framework. This is followed by chapters on the research method, the results of the empirical investigation in the fashion industry, an analytical discussion with an extended analytical framework containing the identified challenges, and finally concluding with theoretical and managerial implications.

2. THEORY
The societal role of companies and their responsibility for the communities they operate in is a widely researched field that has proliferated into many separate, yet similar, concepts. To grasp how the field
has evolved, this chapter will start with a literature review of the evolution of CSR research. This starts in pure profit-maximizing, continues into philanthropy, until it shifts into a more strategic responsibility that strengthens competitiveness, and finally lands in the concept of shared value creation. The theory section, focusing on shared value, will then be summarized in an analytical framework that can be operationalized in the empirical section of the paper.

2.1 LITERATURE REVIEW

Research on the responsibility of corporations goes back many years. As merchants and overseas trading companies in the fourteenth century were privileged with rights to do commerce and obtain monopolies over certain markets, they were in exchange expected to provide social welfare, employment and secure the nation’s political power - as a license to operate from the general public (Pettigrew & Smith, 2017). The debate on whether companies serve the public good or their own interest has been widely debated ever since, with contributions from many leading economists over the course of history. Adam Smith stated in his well-known description of the invisible hand that companies should pursue their own self-interest rather than serve a public good, or more directly put “I have never known much good done by those who affected to trade for the public good” (Smith, 1776, p.350).

The same line of reasoning was used by Milton Friedman almost two hundred years later, when he wrote that the only social responsibility that businesses have is “to use its resources and engage in activities designed to increase its profits” (Friedman, 1962, p.112). However, the claim from Friedman came in the wake of research that had began to explore the field of responsible businesses, especially through Howard Bowen’s book The Social Responsibility of the Businessman, which in the 1950’s lead to a coalesce towards the topic of CSR (Pettigrew & Smith, 2017; Carroll 1999). The interest and research grew in the following decades and essentially led to a divide between two opposing views on CSR (Windell, 2006). On one side were the skeptics claiming CSR to simply be a cost obstructing the economic success of companies by taking away resources from the core business (i.e. Smith, 1776; Friedman, 1962; Henderson 2009), and the believers on the other side who argued CSR is a necessity for long-term success of businesses (cf. Bowen, 2013; Waddock, Bodwell & Graves, 2002).

As the debate continued into the new millennium with a significantly increasing number of research articles, there still was no consensus even on how to define CSR (Windell, 2006). In these fragmented streams of research, the societal role of businesses could not be seen to go beyond what local laws and regulations demand. Despite this, companies appear to have been, in similarity with the merchant
trading company days, on the constant quest for public legitimacy of free market businesses. Companies of today are expected by the public to take responsibility for their operations and serve more than only their own self-interest, or simply put: “What is clear is that the question is no longer if a listed company should take on CSR responsibility, but how” (Borglund et al 2017, p.28).

2.1.1 Corporate Philanthropy
Corporate responsibility can take many different forms, through different responsibility methods. One of the early methods in which companies could contribute to society is by voluntarily being responsible in the form of charitable donations that go beyond the narrow regulatory scope of what companies are legally bound to do (Fox, 2004). This was labelled as corporate philanthropy, which in one definition is defined as “a one way flow of resources from a donor to a donee, a flow voluntarily generated by the donor though based upon no expectation that a return flow, or economic quid pro quo, will reward the act” (Schwartz 1968, p.480). In practice, this can be seen in the many cases where companies donate money to charities, through employee initiatives, matching donations from customers or in other types of initiatives. A philanthropic corporation redistributing profits towards charitable causes, a trade-off between the corporation profits and societal benefits, is a process described as going from being a Selfish Corporation to a Good Corporation (Moon, Pare, Yim & Park, 2011). Windsor (2006) describes this type of responsibility as ethical CSR, which is a form of corporate altruism to expand the general welfare of the society at the cost of company profits. This can be seen as a stark contrast to the utilitarian view (i.e. Smith, 1776; Friedman, 1962), where the public good is a negative, costly trade-off that is irresponsible towards the company shareholders.

The philanthropy approach relates to a separate, but relatable stream of responsibility research called stakeholder theory. A stakeholder to a firm is defined as “any group or individual who can affect or is affected by the achievement of the firm’s objectives” (Freeman, 1984, p.25). Stakeholder theory moved from mere profit maximizing responsibility for the company ownership (i.e. Friedman, 1962) into also including the firm’s accountability to outside stakeholders (Thomsen & Lauring, 2010). Stakeholder theory has been described to better specify to whom the company is responsible, by personalizing the responsibility into “names and faces on the societal members or groups who are most important to business and to whom it must be responsive” (Carroll, 1999, p.290). Whether it is a matter of altruistic conviction or mere window-dressing, larger companies especially have been gone beyond the basic levels of legal requirements to meet expectations of external stakeholders such as consumers, media or non-governmental organizations (NGOs).
Philanthropic CSR was originally seen as a purely altruistic method but its pure meaning has faced changes throughout the years. Starting in the late 1980s, there was a shift towards the perhaps oxymoronic term strategic philanthropy (Gautier & Pache, 2015). As perhaps the complete opposite of altruism, strategic philanthropy can be defined as “giving of corporate resources to address nonbusiness community issues that also benefit the firm’s strategic position and, ultimately, its bottom line” (Saïia, Carroll & Buchholtz, 2003, p.170). When it comes to, for instance, environmentalism, this means a shift from seeing pollution control as just a cost and instead see it as an opportunity to use resources more productively, promote innovation and increase efficiency that can strengthen the competitiveness of the firm (Porter & van der Linde, 1995). The notion that responsibility could also be economically beneficial appealed to many and appeared to, at least temporarily, close the divide between opponents and proponents of corporate philanthropy (Buchholtz, Amason & Rutherford, 1999). The concept was also implemented in practice, where philanthropy has been proven to generate positive moral capital so that companies are less vulnerable to public policy or reputational damages, that can ultimately benefit shareholders (Godfrey, 2005).

2.1.2 Profitable Responsibility

While charitable philanthropy is characterized by external efforts, which could be strategically beneficial to the company, these take place outside of the core of the company. In a well-cited work in 2006, Michael E. Porter and Mark R. Kramer wrote: “To advance CSR, we must root it in a broad understanding of the interrelationship between a corporation and society while at the same time anchoring it in the strategies and activities of specific companies” (Porter & Kramer, 2006, p.83). Instead of donating funds externally to generic social issues, firms should integrate CSR into the core business of the company by transforming the value chain and address issues that affect the company’s competitiveness directly, the authors meant. Going beyond temporary advantages from philanthropy and the stakeholder theory approach (responsive CSR) and instead focus on integrated, proactive strategy (strategic CSR) is argued to have a greater impact on both company and society (Porter & Kramer, 2006).

The reasoning around strategic CSR was also brought forward in the research review conducted by Halme and Laurila in 2009. In their research, they distinguished three types of action types regarding responsibility: philanthropy, integration, and innovation (Halme & Laurila, 2009). Philanthropic activities outside of the firm’s core business were, in alignment with the conclusions from Porter and Kramer (2006), regarded as having less potential benefits for both the company and for society. Integration is where responsibility is integrated into the existing core business model of the company and innovation being the development of new profitable products/services that solve environmental
and/or social problems (Halme & Laurila, 2009). Both integration and innovation are described as being profitable to the firm and beneficial to society at the same time. The action type (philanthropy) is similar to the concept of responsive CSR, while the two latter action types (integration and innovation) having the same characteristics and win-win potential as strategic CSR. This is the main distinction from external, disconnected philanthropy-based responsibility activities, where a strategic CSR perspective instead promotes an inclusion of activities into the very core business of the company and its operations.

Innovative responsibility activities, the third action type, has its key manifestation in the concept of base-of-the-pyramid (BOP) (Halme, 2010). The BOP approach attempts to solve social problems of disadvantaged social groups in poor areas in the world while doing so with economic profits for the company (Prahalad, 2006). Extending the business model into serving new markets, for instance, BOP markets, is a good way to understand the innovation type of responsibility action types as described by Halme & Laurila (2009). Although profiting from the poor and gaining financial gain from corporate responsibility might seem like a controversial idea, the business case of responsibility is in no way a new thought. Influential management author Peter Drucker already in the 1970s described the social responsibility of businesses being twofold: to (1) eliminate or at least minimize its negative social impacts and (2) convert social problems into business opportunities. He later described it as “The first deals with what an institution does to society. The second is concerned with what an institution can do for society” (Drucker & Maciariello, 2008, p.213). The strategic, business opportunity aspect of social responsibility was thus explored before the term strategic CSR was coined by Porter and Kramer (2006).

However, even though many other academic papers touched upon integrated, strategic CSR (i.e. Hillman & Keim, 2001; Husted & De Jesus Salazar, 2006; Barth & Wolff, 2009), there was undoubtedly confusion among the different types of responsibility activities and which terminology to use. Also, the discussion on the links between corporate responsibility and financial profitability remained unanswered, as was the question on how to measure societal performance outcomes of corporate responsibility action types (Halme & Laurila, 2009). The large question that remains unanswered and what research in the field continued its pursuit towards, was how to successfully create prosperity for both companies and the society simultaneously.

2.2 CREATING SHARED VALUE

In 2011, Porter and Kramer published a theory about Creating Shared Value (CSV), which addresses the decline of trust in the relationship between society and corporations. According to the authors,
companies and the communities they operate in are closely intertwined and one will not function effectively without the other. Communities depend on companies to create, for example, opportunities for wealth creation while companies are dependent on there being wealth or competence in a community in order for their products to be sold or made. The interdependence between society and companies remain rather unexplored, according to Porter and Kramer (2011) and as a result, CSV theory was developed to create an understanding of how companies creating value for society can also create value for themselves. CSV is defined as “policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates” (Porter & Kramer, 2011, p.66). If philanthropy is a way for companies to move from being a Selfish Corporation to a Good Corporation, CSV moves the company even further into being a Smart Corporation (Moon et al., 2011). Porter and Kramer (2011) believe that CSV theory holds the key to unlocking the next wave of business innovation and growth. The authors go as far as calling it the next evolution of capitalism since it will be able to reconnect economic profitability to the improvement of societal issues.

The key to CSV theory is that value has to be created for both the company and society. Value is defined by Porter and Kramer (2011) as benefits minus costs, which is an important distinction. Value for companies is fairly straightforward and can be measured in profits. Profits can be created in two ways, either by increasing revenue or decreasing costs (Pfitzer, et al 2013). When revenues are greater than costs, the company generates profits and company value is created. Creating value for society, on the other hand, is more complex given that societal value is difficult to measure. There are many social issues that companies can address to create societal value, and Porter and Kramer (2011) cite employee health and pollution as two examples. A company could choose to donate money to an organization that works with environmental issues, but that is not likely to create a benefit that is larger than the cost for the company, even if it is beneficial to society. Consequently, in order to create shared value, it is essential to address societal issues that are connected to company productivity. For example, increasing supplier access and viability, employee skills, worker safety, employee health or minimizing water use, energy use, and environmental impact will create value for society while it increases company productivity by decreasing costs, and thus creating shared value.

In CSV theory, there are three ways to create shared value: (1) reconceiving products and markets, (2) redefining productivity in the value chain, and (3) enabling local cluster development (Porter & Kramer, 2011).
2.2.1 Reconceiving Products and Markets to Meet Basic Societal Needs

Firstly, companies can reconceive products and markets to meet basic societal needs by identifying “societal needs, benefits and harms that are or could be embodied in the firm’s products” (Porter & Kramer, 2011, p.8). Companies can create value for themselves by creating products that address societal issues or presenting their products to underserved markets. The second aspect relates well to the earlier mentioned BOP research, as the business opportunity of meeting previously unserved needs is the phenomenon that the BOP approach describes (Prahalad, 2006). Dembek, Singh & Bhakoo (2016) also states that BOP research as presented by Prahalad (2006) closely relates to this aspect of CSV theory since the goal in both cases is to create profits and value for society.

Companies have a tendency to ignore societal needs and instead manufacture demand for products that do not necessarily meet societal needs (Porter & Kramer, 2011). While addressing customized products to new market needs will surely be mutually beneficial to both buyer and seller, what about products that are socially questionable but still demanded (i.e. tobacco, guns or petroleum) or products that are socially good but not demanded (i.e. low-fat foods or traffic speed-bumps)? Whether innovation to questionable core products, such as organic, fair trade tobacco or recycled guns, could also create shared value has been questioned to highlight the myopic focus of reconceiving products and markets by Crane et al. (2014).

Products that, on the contrary, do address existing societal issues such as health, better housing or greater financial security, will not only reduce the need to manufacture demand but can also create shared value. An example from Porter & Kramer (2011) is Thomson Reuters, a Canadian mass media and information firm, which reconceived its product to fit a new market by creating a solution for farmers in India to get updates on weather conditions, agricultural advice and crop prices for five dollars per quarter. The company had the required information available but had to change its product offering to fit the new market. The solution provided to Indian farmers with the information they needed to grow their crops more effectively and sell them at better rates. The service reached an estimated 2 million farmers and helped increase incomes of more than 60% of them, leading to economic development and social progress for the farmers and in the area. Shared value was created since a societal issue was addressed while the company created a profitable business model in an underserved market.

2.2.2 Redefining Productivity in the Value Chain

Secondly, companies can also create shared value by redefining productivity in the value chain (Porter & Kramer, 2011). A company's value chain often has large impacts on societal issues, both positive
and negative and company productivity is often negatively impacted by these issues. Societal issues present in the value chains, such as lack of natural resources, water use, health and safety, working conditions and equal treatment in the workplace, decreases company productivity. Companies that have negative impacts on society throughout their value chain are often punished through fines. Fines are a result of externalities, which are societal issues caused by a company that do not directly affect the company. For instance, if a company pollutes the environment it is considered an externality since it does not have a direct negative impact on the company per se. However, to combat this behavior, regulatory agencies create legislation that forces companies to internalize costs of pollution through fines meant to offset the benefits of pollution.

CSV theory argues that companies have to rethink productivity in their value chain. This is in line with Halme and Laurila (2009) who claim that CSR activities should be integrated into a company's core activities to be beneficial to both the company and society. Companies will not have to pay fines if they do not have a negative impact to start with and perhaps more importantly, companies can reduce costs by minimizing their societal impact. The authors note that not all harmful activities result in fines, but that minimizing harm still results in decreased costs. Porter and Kramer (2011) cite an example of redefined productivity in the value chain when Wal-Mart reduced packaging materials and rerouted their trucks to cut 100 million miles, which saved them $200 million in fuel costs and reduced carbon emissions. Redefining productivity in the value chain has been criticized for its simplification of the complex value chain processes (Crane et al., 2014), where trade-offs between company value and societal value in reality sometimes need to be done (i.e. sustaining an equitable business model for the company versus ensuring fair living wages for supply chain workers in the supply chain).

CSV theory presents six ways to redefine productivity in the value chain (Porter & Kramer, 2011). Firstly, the company's energy use and logistics have to be considered. Energy use throughout a value chain can be costly, whether it is in a warehouse or in transport, which means that finding the most effective energy solutions can help both society while also cutting costs for the company. Secondly, resource allocation methods can be examined to reduce costs for the company while simultaneously minimizing environmental harm. Reducing the use of water, raw materials, and packaging materials are cited as examples by Porter and Kramer (2011) and they purpose recycling and reusing resources as ways of creating shared value. Thirdly, companies can consider their procurement strategies. In working with suppliers, companies have traditionally exerted maximum bargain power to create as large margins as possible. However, according to CSV theory, squeezing suppliers margins will create a relationship where the supplier is unable to improve to create higher quality products in more
effective ways. If companies gave their suppliers larger margins, it would help them thrive, so they could be more productive moving forward. Fourthly, optimizing distribution can create shared value. Amazon created a new business model with Amazon Kindle that distributed books online which minimized the need for physical distribution of books with trucks. The new business model was a new source of income for Amazon and it was also beneficial for the environment since carbon emissions were considerably lower than if trucks would have been used to transport books. Fifthly, addressing employee productivity can create shared value. Paying low wages to employees and providing inadequate working environments and insufficient training may be a way to reduce costs in the short run, but giving employees better working conditions and higher wages will make them more productive, which in the long run, will lead increased yields for the company. Lastly, considering the location of suppliers and warehouses can create shared value. According to Porter and Kramer (2011), it is a myth that location no longer matters and production should be in the cheapest locations possible. CSV theory argues that creating local partnerships will both reduce costs through decreased transportation costs and decreases carbon emissions, which creates value for society (Porter & Kramer, 2011).

2.2.3 Enabling Local Cluster Development
The third way to create shared value, according to Porter and Kramer (2011), is to enable local cluster development. Every company is part of the community that it operates in, and it is affected by other parties as well as the infrastructure present in the community. The sets of related companies, suppliers, service providers, institutions, trade associations, and other organizations in a geographical location are referred to as a cluster in CSV theory, which influences the innovativeness and productivity within the location. The actors within the cluster are affected by each other and local assets, such as competent employees from nearby universities, rules and regulations set by governmental agencies, quality standards or market transparency. Developing a cluster will, therefore, have positive effects on the firm itself. For instance, investing in universities will lead to a more skilled workforce in the cluster, which enables both the company and its supplier be more productive. If students in the cluster have better educational opportunities, they will be able to acquire useful skills and their incomes are likely to increase, providing positive multiplier effects with growth in supporting industries, neighboring companies and the supporting community (Porter & Kramer, 2011). Cluster development might, however, bring inequalities between regions and will not necessarily lead to production being located to where the social need is greatest (Crane et al., 2014).
2.2.4 Limitations of CSV Theory

CSV theory has received a lot of attention since it was published, both by some of the world's largest corporations such as NAB and Nestle as well as by researchers (Dembek et al., 2016). According to a literature review of shared value in 2016, no less than 392 articles had then been written about the concept (Dembek et al., 2016). Some consider the theory to be powerful and valuable (Bosch-Badia et al., 2013; Epstein-Reeves, 2012; Moon et al., 2011), while others criticize it as a business idea (Baraka, 2010; Denning, 2011) or a theoretical concept (Aakhus and Bzdak, 2012). Porter and Kramer (2011) claimed that CSV would “supersede corporate social responsibility (CSR) in guiding the investments of companies in their communities” (p.16), which has been highly questioned by researchers. As previous research has already discussed both mitigating negative impacts and creating business opportunities by addressing social needs, shared value cannot be stated to be an “unprecedented superior model that overrides all other interventions but rather a piece in the overall puzzle of minimizing negative impact and creating opportunities from societal challenges” (Fürst, 2017, p.72). Crane, Palazzo, Spence, and Matten (2014) calls the theory unoriginal and says that “it ignores the tensions inherent to responsible business activity; it is naïve about business compliance; and it is based on shallow conception of the corporation’s role in society.” (p.130).

Shared value research cannot be stated to be a corporate fix-all strategy that automatically creates shared value in all three dimensions. The concept should instead be seen as a way to integrate various activities in a series of strategies that together could create value for both company and society (Crane et al., 2014). While Porter and Kramer (2011) have been criticized for avoiding tensions between company and society (Aakhus & Bzdak, 2012; Crane et al., 2016), there have been calls for research to “investigate such sweet spot tensions” (Dembek et al. 2016, p.245). These tensions occur when shared value creation is not aligned with other stakeholder goals and trade-offs have to be made between different goals (Crane et al., 2014). This presents a possible dilemma between company value and societal value, where the company in some cases has to manage situations without win-win opportunities for both the company and all its stakeholders.

In agreement with the criticism, Dembek et al. (2016) point out, in a literature review about CSV, that there are possible overlaps between CSV theory and previous responsibility typologies. The similarities to concepts such as strategic CSR (Porter & Kramer, 2006), integrated and innovative CR (Halme & Laurila, 2009), stakeholder theory (Freeman, 1984) and BOP (Prahalad, 2006), makes it clear that there is no definite line between shared value creation and other typologies. In a response to the critique from Crane et al. (2014), Porter and Kramer acknowledges earlier works as laying the foundation for CSV, but remain steadfast on the particular contribution of the shared value
terminology. Moreover, Dembek et al. (2016) agree with Crane et al. (2014) in that CSV theory is oversimplified and will not per se be the solution to all social problems, but does have the potential to meet some earlier unmet social needs. They sum up the theory by claiming that “shared value may contribute to increasing income within a poor community, but it is very unlikely to solve poverty, which is a much more complex and multifaceted problem” (Dembek et al., 2016, p.244).

2.3 THEORETICAL SUMMARY
To summarize, corporate philanthropy was the first step in moving from being a selfish corporation to a good corporation sacrificing profits for the greater good. While profitable responsibility research opened the door for companies to be good in a strategic way, it was CSV theory that enabled opportunities to become smart corporations, where societal and corporate benefits are created simultaneously (Moon et al, 2011). The different typologies, starting with strategic philanthropy (Saiia, Carroll & Buchholtz, 2003) and ending up in shared value creation (Porter & Kramer, 2011), all have different takes on CSR. Crane et al. (2014) highlight that the CSV theory could work as an umbrella construct for loosely related concepts, with a simplicity that is appealing to both practitioners and scholars as it “adds rigor to ideas of conscious capitalism” (Crane et al., 2014, p.132). Strategic CSR (Porter & Kramer, 2006) and CR integration (Halme & Laurila, 2009) claim that corporations have to integrate CSR into their day-to-day business activities to create value for society and companies. A perhaps more effective way of creating shared value is through innovation as discussed in BOP theory (Prahalad, 2006) and CR innovation (Halme and Lauria, 2009), where companies create innovative product offerings and business models based on societal issues.

Despite the critique to Porter & Kramer’s (2011) shared value concept, there appears to be a basic consensus that corporations theoretically should want to be in the sweet spot to create profits while simultaneously meeting societal needs (i.e. Crane et al., 2014; Aakhus & Bzdak, 2012; Dembek et al. 2016). However desirable in theory, there is less research on identifying the challenges that have to be managed in order to create shared value. If the challenges can be identified, further research can develop possible solutions to enable the next evolution of capitalism as discussed by Porter and Kramer (2011) or at least a more conscious capitalism as suggested by Crane et al. (2014).

2.3.1 Analytical Framework
To provide an oversight of the theory the analysis is based in, the analytical framework is visually illustrated in figure 1 below. As discussed, all companies should, in theory, want to create shared value and there are according to Porter and Kramer (2011) three ways of doing so. However, it is not yet clear what challenges companies face when they reconceive products and markets, redefine
productivity in the value chain, or enable local cluster development. The intention of this paper is to analyze the selected case companies through the lens of the presented analytical framework, in order to identify the challenges inherent in the creation of shared value in these three ways. Activities that are performed by the companies can be classified in each of the three shared value dimensions presented by Porter & Kramer (2011). Thereafter, the challenges of these activities will be identified to provide a more complete picture of the shared value creation process.

![Analytical Framework](image)

FIGURE 1. Analytical Framework - Authors’ model, revised from Porter & Kramer (2011)

3. METHOD

3.1 RESEARCH DESIGN

To answer the research question regarding the challenges with creating shared value for SMEs in the Swedish fashion industry, the study used a qualitative design to understand the phenomenon of shared value creation (Saunders et al., 2016). Using a qualitative approach, new findings and implications of the shared value phenomenon can be observed (Yin, 2009). In order to gain a deeper understanding of this phenomenon, this study used an exploratory approach for its ability to thoroughly investigate the problem (Saunders et al, 2016). To examine the challenges of creating shared value, a multiple case study was conducted to investigate the phenomenon in depth and within its real-life context (Yin, 2009). Evidence from multiple case-studies is often considered more compelling, and the overall study can, therefore, be regarded as being more robust due to its ability to generate generalizable cross-company patterns (Yin, 2009).

Further, an abductive approach to theory development was used to both test validity of existing research, but also to expand theory on a conceptual level (Saunders et al, 2016). First, the study aims
to test the validity of the CSV theory by Porter and Kramer (2011) on an empirical level, and secondly, to investigate real-life observations in order to build a theory around the challenges of shared value. Currently, the academic literature is lacking empirical studies and theoretical conceptualizations on the challenges of creating shared value. The abductive approach of this paper expanded the shared value research by conceptualizing the challenges of implementing shared value in practice, and thus provided a clearer understanding of the overall process of shared value creation.

3.1.1 Industry selection
When it comes to defining the fashion industry, there have been many descriptions. The definition used in this report is by the Swedish Fashion Council which includes firms with “production of, and trade with clothing, shoes, textiles, bags, and accessories” (Nielsén & Sternö, 2016). The Swedish fashion industry has a larger number of actors where almost two-thirds of the sales come from the six largest chains while SMEs account for about two-thirds of all employees (Nielsén & Sternö, 2016). This distribution aligns well with the general structure of business in Sweden (European Commission, 2003). However, the Swedish Minister for the Environment stated that the clothing industry is the second most harmful industry, only surpassed by the oil industry, considering the detrimental environmental and social impacts that the clothing industry has (Engholm & Andersson Åkerblom, 2017). Consequently, with the call for research on how Swedish companies work with sustainability and the challenges they have faced (Strand, Freeman & Hockerts, 2014), the harmful fashion industry was identified as a suitable industry for the study.

3.1.2 Case selection
For the selection of case companies, three criteria were used to determine the selection. These selection criteria were:

a) Swedish fashion company
b) Small or medium-sized enterprise
c) Sustainable ambition

First, the companies had to be for-profit organizations in the Swedish fashion industry. This means both (1) being registered as a company in Sweden and (2) producing or trading with clothes, shoes, textiles, bags or accessories. Non-profit organizations strive for creating value for society only and not to the organization itself, which make them not being economically self-viable and are therefore excluded from the study. Secondly, firms had to be classified as small or medium-sized enterprises according to the EU definition of SMEs, with a staff count fewer than 250 employees and an annual
turnover of up to €50m or a balance sheet total of up to €43m (European Commision, 2003). The distribution within the 17 000 existing SMEs in the Swedish fashion industry is largely towards micro (<10 employees) and small enterprises (10-49 employees), but there are also a number of medium-sized enterprises (50-249 employees) (Nielsén & Sternö, 2014). The reason behind studying SMEs was that they are often more flexible and have been seen to be more innovative in their corporate responsibility efforts (Jenkins, 2009). Given that SMEs are different from large corporations and there is a lack of research on smaller firms, it is essential to study them further, as suggested by Morsing and Perrini (2009). Thirdly, the case companies must have had a publicly communicated sustainable ambition, in the form of for instance responsibility reports, ethics codes, sustainable visions or other publicly available documents that indicate that the firm aims to create societal value in some way.

Given the stated case selection criteria, a number of companies that fulfilled the selection criteria were selected as suitable case companies. By examining companies differing in size, the study achieved a variance that will make it representative for SMEs in the Swedish fashion industry. To generate a thorough understanding of the phenomenon, one employee was interviewed from each of the participating companies and relevant secondary data was collected. Since three companies requested anonymity in the study, these companies were instead of their actual brand names referred to by descriptive names; Bag Company, Knitwear Company, and Rainwear Company and to give anonymity for interviewees when requested, pseudonym names were created. Company websites will in the reference list be descriptions of what page the information was found on, but to keep the companies anonymous, links or website names will not be included. Table 1 summarizes the selected case companies, the interviewed respondents and interview details that were included in this paper.

<table>
<thead>
<tr>
<th>Company (employees / turnover)</th>
<th>Respondent, Title</th>
<th>Interview date</th>
<th>Interview length</th>
<th>Channel</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Bag Company” 25-30 employees 70-80 million SEK</td>
<td>“Anders Andersson”, Sustainability Manager</td>
<td>24/4 2018</td>
<td>44 min</td>
<td>Telephone</td>
</tr>
<tr>
<td>Dedicated 24 employees 32 million SEK</td>
<td>Johan Graffner, CEO</td>
<td>5/4 2018</td>
<td>38 min</td>
<td>Telephone</td>
</tr>
<tr>
<td>Didriksons 40 employees 266 million SEK</td>
<td>“Bengt Bengtsson” Head of Product</td>
<td>19/4 2018</td>
<td>53 min</td>
<td>Telephone</td>
</tr>
</tbody>
</table>
3.2 PRIMARY DATA COLLECTION

To collect primary data, interviews were performed with respondents from each of the eight companies, to gain an understanding of the process of shared value creation. The interviews followed a semi-structured interview guide, which facilitates a thematic structure but also flexibility to adapt to the organization and context (Bryman & Bell, 2015). All interviews were conducted through telephone, which is advantageous given its speed, opportunities for access and low costs, but also means reduced reliability since participants sometimes are reluctant to engage in an exploratory discussion (Saunders et al., 2016).

3.2.1 Operationalization

To understand the challenges of creating shared value, it is essential to comprehend the activities the case companies attempt to do in order to create shared value. While it would have been ideal to ask the interviewees about shared value creation, it is a theoretical concept that the interviewees would be
unable to elaborate on. Therefore, questions were asked about how sustainability was embodied, since it is a more practical term used by companies. As shared value theory discusses activities that companies can undertake to create shared value, it was essential to understand what activities the case companies undertook to be sustainable.

To pinpoint these activities, life cycle assessment methods can be used to analyze the different phases of operations. One such method splits the life cycle of products and services into (1) raw material extraction, (2) production, (3) use and (4) end-of-life (Baumann & Tillman, 2004). These are the main generic life cycle phases, but Roos (2016) suggests that fashion companies need to consider several stages of production (fiber, fabric, and garment) and the distribution and retail stage. Therefore, the interview question in this paper builds on both the works of Baumann & Tillman (2004) and Roos (2016). To understand operations thoroughly, five fashion life cycle phases were used:

- **Raw material** - Selecting materials and designing fashion products
- **Production** - Fiber production, fabric production, and garment production
- **Distribution and retail** - Transportation and sales channels
- **Consumer use** - Use phase transport, product usage, and laundry
- **End-of-life** - Reuse, repair and recycle

Questions regarding how the different themes were incorporated into the life cycle phases, were asked as well as what the experienced challenges were. The aim is to obtain a deeper understanding of how the companies perform activities that could be categorized into the three ways to create shared value, by asking questions about activities in the five life cycle phases. Table 1 describes the aim with each of the three themes, along with examples of questions that were asked to understand the activities and challenges. These questions were open-ended and took place after a general discussion about what sustainability means to the respondent. The complete interview guide can be found in Appendix 1.

<table>
<thead>
<tr>
<th>Theme</th>
<th>Life Cycle Phases</th>
<th>Aim</th>
<th>Example Questions</th>
</tr>
</thead>
</table>
| Reconceiving Products and Markets | Raw materials Production Distribution & retail | To understand how companies sustainably alter product compositions and reach underserved markets in order to improve competitiveness + associated challenges | *Could you describe your products and your differentiation on the market?*
|                               |                               |                                                                     | *How do you select which raw materials to use?*        |

22
Redefining Productivity in the Value Chain | Production Raw material Distribution & retail Consumer use End-of-life | To understand how efficiencies in the value chain can be achieved to lower resource inputs and company costs + associated challenges | Where are your production facilities? Describe the production process. How are the goods transported across the supply chain?

Enabling Local Cluster Development | Production Raw material | To understand how the company affects and is affected by local assets through their business practices in the value chain + associated challenges | What factors do you consider when choosing a production facility? Where do you source your raw materials?

| TABLE 2. Operationalization of Theoretical Themes into Interview Questions |

3.3 SECONDARY DATA COLLECTION
Secondary data was used to complement the obtained primary data and get a deeper understanding of the fashion industry in general and each company in particular. Company documents and other written materials were collected prior to the interviews. These included annual reports, sustainability reports, company websites and other publicly available information about the company. The benefit of using secondary data is to improve the quality of primary data collection with a deeper understanding of the firm beforehand (Saunders et al., 2016).

3.4 DATA ANALYSIS
The primary data was collected through interviews which were recorded and transcribed. Transcribing the interviews made it possible to objectively analyze the data. Thereafter, the transcripts were coded to understand how each company and interviewee engaged in shared value creation, as suggested by Saunders et al. (2016). In reality, as the empirical results were linked to sustainability and CSR, the activities were translated into a shared value context. To understand common themes between the interviews, the transcribed interviews were coded. The qualitative analysis was done using a thematic analysis (Saunders et al., 2016), where the coding of the empirical data related to the three themes. Additionally, the challenges with each of the three themes were also coded, forming together six different codes: (1) reconceiving products and markets, (2) redefining productivity in the value chain, (3) enhancing local cluster development, (4) challenges with reconceiving products and markets, (5) challenges of redefining productivity in the value chain, and (6) challenges of enabling local cluster development.
3.5 CREDIBILITY & LIMITATIONS

To ensure that the study will be generalizable, it has to be credible through validity and reliability. To generate validity in the study, a triangulation technique using multiple sources of data to determine the consistency of findings within a case, as discussed by Yin (2009) was applied. According to Saunders et al. (2016), interview biases can occur when the interviewee does not have enough trust in the interviewer which could lead to reliability issues. In order to counteract the possible issues, anxiety was reduced by increasing the interviewee’s confidence in the study by informing the interviewees about the study, the covered topics and how the data will be used before the interviews commenced, as suggested by Saunders et al. (2016). Furthermore, to avoid biases from the interviewer towards the interviewee, which can occur when the interviewer interprets responses subjectively, both interviewers attended all interviews and the transcripts were carefully studied and discussed following each interview (Saunders et al., 2016).

The chosen methodology unavoidably comes with limitations. The study only includes SMEs in Sweden, which, in numbers, constitute most of the Swedish firms (European Commission, 2003) do not represent the industry as a whole since the largest fashion chains constitute a large portion of the total sales (Nielsén & Sternö, 2016). This means that although the SMEs are 99,9% of the number of firms and 65% of employees in the industry, the larger firms that are excluded in the study has a larger portion of the industry sales (Nielsén & Sternö, 2014). The studied SMEs can be stated to represent SMEs in the Swedish fashion industry, but the results are not generalizable to larger firms or other industries due to the limited scope of the study. The study should be seen as an explanation of challenges of creating shared value in this particular setting and a development of the understanding of the underlying concepts and categories of the phenomenon.

4. EMPIRICAL RESULTS

4.1 BAG COMPANY

Bag Company makes bags that are uncomplicated, functional and beautiful, with a clear Swedish heritage (Company Website, 2018a). In an interview with the company's Sustainability Manager, Andersson, he added that the focus is not only on minimizing their negative societal impact but having a positive impact on their partners through their products. All cotton used by the company is organic and sourced directly from Indian farmers (Company Website, 2018a) and as a result, the company increased wages of the 400 families who grew the cotton and provided a premium of 14 000 euro for the villages they live in (Andersson, interview). At the same time, the direct link to the farmers helps the company to eliminate the intermediaries traditionally used in the industry, which can lower costs.
for the company. Helping farmers also enable opportunities for the company to be more transparent, which leads to enhanced credibility. By minimizing the number of partners, the company can also enable sufficient control of the supply chain, which is almost impossible with long supply chains.

Producing organically and sustainably can be a limitation due to increased costs and decreased functionality (Andersson, interview). Given that quality is important to the company, dyeing organic cotton while minimizing the use of harmful chemicals can be challenging to do without reducing quality, or reaching the desired color nuances and consistency. Andersson exemplifies the limitations of sustainable production when discussing the company's goal to include recycled fibers in all synthetic materials by 2018. "It is difficult to get the quality that is required”, he stated, as designers face design challenges with adding recycled materials to synthetic materials. Since new material requires new competence and resources, given that consistency in materials is key to sustainable production. The company works with Fair Wear Foundation (FWF), which evaluates sustainability in the production facilities, in order to generate credibility for the company. However, others may be hesitant to join organizations such as FWF; they have a very high ambition level which can be hard to reach and there is an uncertainty of the benefits with joining (Andersson, interview). Meeting the set policies is therefore difficult and requires a lot of competence, which few suppliers possess.

Another goal for the company is to pay living wages to their suppliers in India by 2024 so that the income of workers is sufficient for them to meet their basic needs. A difficult goal to reach because it would require commitment from the suppliers’ other buyers since the company is just one of the suppliers’ many customers with an ability to influence workers’ conditions. However, while costs would increase for the company, it would be worth the costs for ethical reasons, according to the company. At the same time, it could also decrease employee turnover and increase productivity, competence, and product quality. Consequently, if the product quality is increased, the company's customers would be happier and make fewer product returns in the long run. However, there is still an uncertainty in the effects of these investments in wages, since the outcomes are difficult to foresee.

“We hope that it will decrease the employee turnover and that [the production facilities] can keep and increase competence. [...] The factory we work with now, their employee turnover, they have problems with keeping competence for example. We hope that this will also lead to profits there, and if we succeed with that then the complaints from our customers will decrease, we will have fewer returns, it could lead to so much. Effects that are also good for us.” (Andersson, interview).
The company actively attempts to influence their customers to repair and recycle their products (Company Website, 2018a), which can be difficult because of lacking control over distribution outlets and resellers (Andersson, interview). Increased prices, longer lead times, high minimum orders and high risks were cited as the main challenges with implementing new sustainability activities such as buying leather from organically raised cows. It would be a risk for Bag Company to invest millions to meet high minimum order requirements of organic leather and placing it on a container in a boat where the leather might rot. Meanwhile, lead times become problematic since suppliers are often located in distant locations. Thus, if Bag Company could order smaller quantities with shorter lead times, it would minimize the uncertainty, which to a large extent, is what limits the company from doing more sustainable activities.

4.2 DEDICATED
Dedicated is a Swedish fashion brand making t-shirts, pants, sweaters and other clothing items in a sustainable manner (Dedicated, 2018). Johan Graffner, CEO of Dedicated, said in an interview that consumer demand for sustainable products is the key to the success of the brand. Graffner stated that 70% of Swedes have climate anxiety and are frustrated that environmental progress is slow, which Dedicated uses to sell anxiety-free clothing. Fleece from recycled PET, Lyocell fibers from certified forests, recycled nylon from used fishing nets, recycled polyester with GRS certificate, and proteins from sour dairy products are examples of raw materials that the brand experiment with. To ensure quality and sustainability in terms of fair working conditions and sustainable raw materials, Dedicated uses mainly organic cotton from Chinese and Indian production facilities that are GOTS and Fairtrade or GRS certified (Graffner, interview). These are all certifications ensuring socially and environmentally-friendly practices. For instance, when using Fairtrade certified materials, there is a financial kickback to the community where the cotton originates from, so they can build wells, schools or what is most needed, which for the brand generates consumer trust and credibility. In terms of logistics, the company uses boats for transportations to cut emissions and costs.

However, working with new materials involves challenges with minimum order requirements, prices, and risk. Suppliers often require minimum orders that would require Dedicated to produce 2,000 pieces at a time, which is not always a possibility for the brand. Manufacturing 2,000 pieces of a new product is risky for Dedicated since there always is an uncertainty of the demand for a new product. Prices for new, innovative materials are also often high, especially when available in smaller quantities. Furthermore, factories falsify certificates and cheat when they can, so visits to Dedicated’s production facilities twice a year is necessary to control that regulations for the production process in regards to the usage of pesticides, child labor, and other factors are followed; “No reason to be cheap,
you have to fly to India twice a year to go through everything” (Graffner, interview). Beyond certificates, another challenge is gathering information about the limited production facilities working with organic cotton and choosing the right one. Also, due to budget constraints, the company is unable to communicate its sustainability activities at an equal level to larger competitors. “I do experience some greenwashing among the larger actors”, Graffner said and claimed that for instance, H&M spends a larger portion of their marketing budget on sustainability than they actually have sustainable products.

4.3 DIDRIKSONS
Didriksons is Scandinavia’s largest brand for rainwear and functional clothing (Didriksons, 2018a). In an interview with company representatives, they claimed that the company continuously attempt to innovate ways to minimize their negative impacts throughout their value chain. Innovation is a key term for the company, as it “creates opportunities to differentiate themselves from what others offer” (Bengtsson, interview). This requires consistency in production to maintain control so that products are of high quality and long lasting while manufactured in a sustainable fashion (Carlsson, interview). Didriksons tries to keep the number of suppliers low, and currently has 16 production facilities and 39 suppliers throughout Asia. The ambition to reduce the number of different suppliers is due to the difficulties of maintaining and ensuring control over quality has been proven to be a challenge with too many separate suppliers. Maintaining control over production, for instance through its Beijing representation office, is costly but a necessary measure to ensure the implementation of requested practices. Costs are a general challenge since costly research and development (R&D) is required to find ways to, for instance, reduce waste or water use to make manufacturing more environmentally friendly.

Another challenge for the company is to recycle materials after their end of life since closing the loop is essential to reduce the need for harmful manufacturing (Bengtsson, interview). While the company has taken steps to minimize harm, such as minimizing the use of toxic dyes, there is yet no way to separate different synthetic materials so they can be reused (Carlsson, interview). The problems require an industry movement to drive research and new facilities, which would require new techniques and finding new partners. Investing capital to solve the issue is dependent on consumers valuing recycled products since the increased costs of research will eventually lead to higher prices on products (Bengtsson, interview).

“We are a producer and sell products, but a movement is needed in large to push for research and facilities. I mean, we will not put up a chemical, polyester recycle station outside of our office here in
Borås, but instead, what is needed is more partners and more [actors] moving in the same direction to drive such a process” (Bengtsson, interview)

4.4 HOUSE OF DAGMAR
House of Dagmar is a Swedish fashion brand specializing in creating sustainable, expressive knitwear (House of Dagmar, 2018). In an interview with Kristina Tjäder, Creative Director & Founder of House of Dagmar, she added that the brand is all about quality. “Twelve years ago, quality was what sustainability refers to today”, Tjäder said, pointing out that buying clothes that last longer is smart consumption. Thus, House of Dagmar’s goal is to manufacture clothes that last, use organic materials that are environmentally friendly, and made by people working under fair working conditions by paying wages, pension provisions. House of Dagmar also attempts to provide workers with a valuable social position in society by, for instance, strengthening the role for women. The company highlights that this is an ambition, as the respondent said: “We are very transparent and honest with where we are and we are not 100% sustainable, will likely not be able to become so in the nearest future either, but we have the goal of continually improving where we have the opportunity to influence” (Tjäder, interview).

However, the company recognized several challenges with living up to their mission. Finding sustainable materials at a fair price that follow the company’s policies is a major challenge for the company, while also being within the price range that consumers accept. The key is to help consumers understand that it is worth spending more on products that are in line with the company's policies (Tjäder, interview).

Another challenge is finding suppliers, which today can be like “finding a needle in a haystack” since suppliers are not interested in providing sustainable materials given that it is a very bureaucratic and expensive process for them (Tjäder, interview). The company produces their clothes in several factories in Balticum, Portugal, and Turkey, but ensuring control over that all factories operate according to the code of conducts is challenging. Suppliers are often not owned by the company, so they have a number of customers with different requests, which means that is essential to control that requested activities are implemented. Tjäder explained that they visit factories occasionally, but ensuring that factories use, for instance, renewable energy or have responsible waste methods is financially difficult. Moreover, controlling the origins of raw materials is challenging. This is why the company tries to use alternative, sustainable materials such as lyocell, recycled PET, regenerated cashmere, and viscose that the company is able to have direct control over because they source these directly from sub-suppliers. Although, scalability is an issue with innovative materials since supply is limited. Finally, Tjäder explained that activities that are sustainable generally required more planning.
As an example, she said the company uses boats for transport to decrease carbon emissions, but that boats take much longer than planes, which leads to an increased need for planning.

4.5 KNITWEAR COMPANY

Knitwear Company is a producer of knitwear and other woven garments for women (Dorisdotter, interview). The knitting yarn and weaves are from spinning mills in Europe and Nepal, and the fiber is sourced from fiber producers around the world. The production site in Nepal was started by a Swede and operate according to FWF guidelines, which, through a close relationship with the site manager, is perceived to enhance control over the facility despite its remote location. On an industry level, large parts of the textile production in Nepal has been moved to Bangladesh, which has not been an alternative for the Knitwear company as they are content with the transparency, control, and trust they have in their current facility in Nepal. The company is also determined to contribute to the Nepali community with its production facility there and enhance knitting competence and societal benefit to the community (Dorisdotter, interview).

The Spring/Summer collection 2017 contained 100% GOTS-certified organic cotton in all cotton shirts and dresses, a goal that the company has not replicated in later collections (Dorisdotter, interview). Even though GOTS-certified suppliers are preferred, it is generally costly to acquire certifications, especially for producers of more luxurious fibers where the access to suitable certifications is limited. Instead of striving to reach nearly impossible certifications, the company puts emphasis towards using pure and well-produced fibers, and to communicate with their suppliers and producers about what is important for the company and their customers. This drives an opinion towards better production generally, instead of requiring Fairtrade, Fair Wear, GOTS or other certifications for the raw material or suppliers. When it comes to raw material selection, an emphasis is placed on lowering the environmental burden by not stressing one resource or material solely. The respondent stated that “it could also be good if some buy linen, Tencel, different types of wool fibers and not only sheep wool or different types of cashmere such as alpaca fiber” (Dorisdotter, interview) The plurality of raw materials used in the sourcing impacts the design process; “as often as we have a design that we should find a material to, we have a material that we should find a design to” (Dorisdotter, interview).

Challenges with finding the right materials include minimum order restraints, which leads to overstocking and forcing production of too large quantities (Dorisdotter, interview). The Nepali factory, however, has the ability to use hand-knitting machines and does not have minimum order restraints, which limits overproduction and gives the freedom to produce new items in smaller
quantities. Another major challenge is that consumers are slow to adapt and understand the technically complex production process for natural fibers. This requires Knitwear company to communicate the sustainability aspects of the products to the consumers and educate them about usage, care and storage by “without scaring them or so, but just to tell that this is a luxurious fiber which you take care of in this way” (Dorisdotter, interview).

4.6 NUDIE JEANS

Nudie Jeans specializes in jeans and other denim materials, but also produces other clothing items. Regardless, all clothing is made entirely out of organic cotton, as sustainability has been a key part of the brand identity throughout the company’s history (Nudie Jeans, 2018a). One of the founders stated in an interview that the company “already from the start believed that it’s possible to combine profits with responsibility, that it’s possible to combine business with pleasure” (Åkerberg, 2016). The Sustainability Manager, Sandya Lang described in our interview that their latest clothing collection had 95-96% sustainably sourced materials, except a few leather goods such as leather jackets and accessories that were not fully traceable in accordance to the companies guidelines.

Nudie set out a goal in 2006 to have 100% organic cotton in its jeans collection, which it has achieved in all collections since 2012 and continue to expand to other product items as well (Nudie Jeans, 2016). Because of the large machinery involved in fabric production, suppliers often required minimum quantities to be ordered, which was initially a problem for Nudie (Lang, e-mail). Minimum orders relate to the volumes that the factories require to be purchased in order for the supplier to accept the order due to the large machinery required for production, which could mean for instance 3,000 or 10,000 meter of fabric has to be ordered at a time (Lang, e-mail). Since the company felt it was practically alone in demanding organic materials, the supply of organic cotton was limited and the company had to source from new fabric suppliers. Additionally, after the goal was set out, the global financial crisis aggravated the situation further since suppliers were reluctant to purchase organic cotton fibers due to costs constraints. Also, complexities in the production process, such as that organic cotton cannot be contaminated when mixed in production with conventionally cultivated cotton, is another challenge that slowed down the progress for Nudie in switching to organic cotton.

“[purchasing organic cotton was] both more expensive and complex in the process, as [the organic cotton] cannot be contaminated by conventionally cultivated cotton in the machinery. So our development halted during those years and I believe it was a challenge for us who are used to work quickly to see results. We didn’t have much of a choice except being forced to wait out the fabric suppliers and stick to our idea, but keep working as usual meanwhile.” (Lang, interview)
All production sites where the clothing is produced is presented in the company's Production Guide on its website (Nudie Jeans, 2018b). Annual audits are made of the production sites and their subcontractors by FWF and Nudie Jeans also make unannounced audits of their own (Nudie Jeans, 2018b). The FWF audits are publicly available reports where Nudie Jeans scored 96 out of 111 possible points, placing them in the Leader category of the performance benchmarks for the fourth year in a row (Fair Wear Foundation, 2017). Although FWF membership can be costly and resource-intensive, especially in the first years where control processes had to be set up, cost-efficiencies can later be achieved through cooperation with other brands with production in the same facilities (Lang, interview). Meanwhile, the third party certification provides valuable legitimacy towards consumers, even though the benefits initially might be uncertain (Lang, interview). Suppliers are chosen in accordance with the sourcing policy which limits the countries and number of suppliers that the company partner with. Suppliers in countries where the company already has production teams and process active in are, for instance, preferred over new production countries to gain greater efficiency in the production. Democracy, anti-corruption, safety, Human Development Index, transparency, and other factors influence the qualification of production facilities in certain countries, which can become a challenge as it limits the number of available producers. However, these are important factors for Nudie Jeans as they believe better working conditions can lead to increased productivity (Lang, interview). As resource-intensive the selection process may be, Nudie still describes that it is worth checking if the supplier shares the same values, want to work long-term and be open and transparent, because “if they don’t want that, they are not the right supplier for us” (Lang, interview).

To challenge the consumption patterns in society and promoting consumers to use their products wisely, is something Nudie builds much of its communication around. The company promotes a prolonged use of the products by offering free repair on their products and providing channels for consumers to hand in products they no longer wish to use. Nudie then resells them as second hand or recycle products into new jeans and other products that are sold in stores and online (Lang, interview). Despite the short-term cost for the repair, reuse and recycle programs, Lang stated that “the best business for us is when we sell the reuse jeans, where we basically have sold the same product twice”.

4.7 RAINWEAR COMPANY

Rainwear Company is a traditional Swedish fashion brand specialized in shoes and weatherproof outdoor wear. Innovation is stated to be ingrained in the company already from its creation, and initiatives for sustainability innovation can now be seen as well. This initiative can be seen as a
manifesto for sustainability, where the company, for instance, has set out a goal that 50% of all products by 2020 will be made mainly from recycled materials, according to the interview with the Head of Product and R&D. One recent product is made out of recycled materials from abandoned fishing nets and nylon rescued from the ocean; a project aimed towards showing how wasted materials can be used as production inputs but also to inspire other companies about innovative product development. Rainwear Company recognizes that there are technical limitations in terms of manufacturing water-resistant clothing sustainably, but “where we find products where we can really go for it and perform projects to the fullest, then we go all out”, Eriksson said (interview). Despite the costs and resources needed to go through with sustainability initiatives, there are many upsides to the initiatives. This could be in terms of for example less waste in the production, more recycled materials, or valuable feedback and improved relations gained from communicating the initiative towards consumers, which makes it all worth the resource-intensive process.

For environmental purposes, the company started using a new material that did not have fluorocarbons, a chemical that repels water and dirt from the garment surface (Eriksson, interview). However, using new materials is being more complicated than just replacing a “bad” raw material with something good. To get a similar functionality, the product might require being cared, stored or washed in a different way, and communicating that can be challenging (Eriksson, interview).

Rainwear Company also puts emphasis on creating products that are “one material garments” that are more easily recyclable and able to be put back into a circular system where they are made into new products with recycled materials. This can be difficult since products are often from a mix of different materials which are difficult to separate and extract in end-of-life recycling. The company also focus on timeless design, high quality, durable construction and few seasonal changes in the collections, in order to promote a prolonged product lifecycle.

With the complex supply chains in the industry, traceability of raw materials and production sites is essential. The challenge to the product development process is to improve each and every component along the supply chain in a sustainable direction while getting all parties on board with the process (Eriksson, interview). If one link, chain or cog within the complex supply chain does not share the sustainable mindset, the company has to be patient in order to finalize the transition, making time a key challenge in a sometimes slow industry transformation. However challenging this may seem, the interviewee stated that there has been a fundamental shift in the industry, where companies previously did not care for societal issues in the same way as they do today and that sustainability brings an interesting aspect to the business. He stated: “In the end, you could say that it also becomes business-technically exciting, because the producer that does this best, or has thought it through the
furthest, and is able to deliver something interesting, they will also be more attractive.” (Eriksson, interview). For the company, sustainability in the textile industry is no longer an add-on feature, but rather a mandatory, overarching mindset influencing all supply chain decisions.

4.8 SWEDISH HASBEENS
Swedish Hasbeens makes toffels, bags, and belts that are based on 1970’s models, made of organically prepared natural grain leather and believe in production methods that are kind to nature and people (Swedish Hasbeens, 2018). Emy Blix, CEO and Founder, said in our interview that the company is not explicitly considering sustainability when designing the products, but instead, products are designed to be “natural and good-looking” and to do so, you have to use great materials. In fact, the company makes a point in saying that the shoes can be dug into the ground at their end-of-life because the selected materials are all natural.

To find the right materials for the products has been a challenge for the company (Blixt, interview). Although it wanted to source materials and produce in Sweden where it would be cheaper and easier to control production, there was not enough competence to design or produce what was requested. For instance, Swedish suppliers could only provide the company with tan and brown leather, while there was a wider selection of colors from Italian manufacturers. Also, the Italians have more competent modelers with advanced constructing capabilities and abilities to innovate new models, making the Italian cluster more beneficial for the company to produce in. Sourcing the right materials, which in this case meant going to Italy, required a lot of time, energy, and knowledge, which meant “I had to learn everything, [...] what every centimeter costs and everything, so I became very knowledgeable with all the suppliers of shoes, which you usually are not if you were to just purchase an already put together shoe” (Blixt, interview). The company also ran into problems with producing the buckles in Sweden, as suppliers required large minimum orders. Furthermore, the company wanted to test natural rubber on certain shoes but was forced to use synthetic rubber, which is the least sustainable raw material in their product, according to founder Blixt (interview). When testing natural rubber once, the rubber soles of 2 000 wooden clogs shrank during transportation from the Italian factory due to their sensitivity to temperature and humidity. Sustainability, therefore, cannot come at the cost of functionality, so “using natural products can be for the better or the worse. That is why people, once upon a time, left the natural materials in favor of plastics” (Blixt, interview). Finally, costs are generally a challenge with using high-quality materials as they are more expensive, but the company perceives the improved results to be worth the high costs.
The company used to transport their products via airplane, and now use trucks, but not for moral reasons. "Things travel by trucks now, that is just the way it is", she said (Blixt, interview). Managing logistics in accordance with a sustainability standpoint is not feasible for Swedish Hasbeens, because it requires a control and knowledge that the company simply does not have the resources for. In order to focus on something like tracking emissions from the trucks, resources from something else would have to be given up. As Blixt said: “You have to be knowledgeable in so many different parts [of the business], you have to be an expert in more or less everything that has to do with logistics and that takes ten years to learn, just logistics, and then you have to learn economics and everything about that, and that also takes ten years to learn” (Blixt, interview).

5. ANALYSIS

The discussion will here on be based in the three dimensions of shared value creation, as presented in the analytical framework in Chapter 2. The first part of the analysis of each dimension is connected to the key activities performed by the case companies, to understand their relation to shared value creation. Then, the identified challenges within each dimension will be presented in the second part of each analysis. Finally, the analyzed results will be summarized and discussed with the help of an extended analytical framework.

5.1 RECONCEIVING PRODUCTS & MARKETS TO MEET BASIC SOCIETAL NEEDS

The first of the three ways to create shared value, according to Porter & Kramer (2011), is to reconceive the product offering and the targeted market to respond to pressing societal needs. Instead of manufacturing demand for detrimental products, companies can be sustainably profitable by solving societal issues present in its surroundings. According to the theory, this starts with identifying present societal needs and which benefits and harms are present, or could be present, in their products (Porter & Kramer, 2011).

5.1.1 Activities

Activities performed by the case companies that could be considered to create shared value in the first category are mainly linked to reconceived products, rather than markets. This means that products are reconsidered in a way that makes them beneficial to consumers and society as a whole (Porter & Kramer, 2011). The most frequent evident characteristic in the case companies, in terms of reconceived products, was the use of organic raw materials. Swedish Hasbeens use leather from organically raised cows and Dedicated, Bag Company, Knitwear Company, Nudie Jeans and House of Dagmar source organic cotton for their products. Nudie Jeans, for example, uses 100% organic cotton in its jeans, as it is perceived as a more sustainable alternative to conventionally cultivated cotton due
to its limited use of chemicals (Lang, interview). Minimizing the use of harmful chemicals was also described as an important activity by Bag Company, Didriksons and Rainwear Company. The two latter, which both produce water-repellent rainwear clothing, are in a segment where chemicals have traditionally been widely used as coating on the garment surface and have both invested in research to remove chemicals (i.e. fluorocarbons) without losing functionality. Besides organic materials, many companies, such as House of Dagmar and Dedicated, also source innovative and recycled raw materials. It is evident that there are plenty of examples where the case companies attempt to reconceive its products by changing the sourcing process into using what the companies consider to be more sustainable raw materials.

The empirical results show few signs of reconceived markets in developing countries or disadvantaged communities, as discussed in BOP research (Prahalad, 2006). Instead, the case companies reconceived markets in line with how Porter and Kramer (2011) described advanced economies, where environmental-friendly segments of current markets are reached through sustainably improved offerings, rather than transitioning to geographically separate markets. Dedicated displayed this in the fact that they target the environmentally conscious consumers by offering so-called "anxiety-free consumption" of clothing (Graffner, interview), where their certified organic products provide opportunities for the brand to differentiate and gain a competitive position on the market. Similarly, Nudie Jeans challenges consumption patterns and promotes consumers to use their products wisely in order to target environmentally conscious consumers. Thereby, the companies did not exemplify the ability to reach underserved markets by reaching developing countries or disadvantaged communities as discussed by Porter and Kramer (2011), but rather by targeting conscious consumers in existing geographical markets.

5.1.2 Challenges

While many examples of reconceived products and markets were present in the case companies, there were also major challenges limiting them. These challenges identified can be grouped into investments, functionality and supplier complexities.

5.1.2.1 Investments

The first challenge identified is concerned with the investments associated with reconceiving the product composition or serving underserved segments of the market. Purchasing organic cotton or other non-conventional raw materials include costs, especially in the initial phase where new sourcing processes require financial and organizational resources to be invested. Nudie Jeans exemplifies these costs when it in 2006 set a goal to have 100% organic cotton in all jeans. The established fabric
suppliers did not want to switch over to organic cotton, especially during the financial crisis where investments were halted, forcing Nudie to initiate a costly, resource-intensive sourcing process to purchase organic fabric from new suppliers (Lang, interview). House of Dagmar described the costly, bureaucratic sourcing process as “finding a needle in a haystack” as producers are generally not very interested in supplying sustainable materials (Tjäder, interview). Investment costs limit companies, especially SMEs, to reconceive the raw material composition of products in order to target underserved market segments.

5.1.2.2 Functionality
The second challenge with reconceived products and markets is the functionality of certain raw materials. New, innovative raw materials behave differently than conventional materials, and not always in the desired way. For example, Dedicated described a risk with functionality when experimenting with new raw materials (Graffner, interview) and Bag Company experienced practical difficulties with minimizing harmful chemicals in the dyeing process while reaching the required color nuances and consistency (Andersson, interview). Swedish Hasbeens’ replacement of rubber soles failed in functionality, as natural rubber is more sensitive to temperature and humidity than synthetic rubber and shrank during transportation. While natural raw materials might carry sustainable characteristics, the functionality can limit opportunities to reconceive products due to the complex shifts in quality and design to ensure the proper function of the garment. Rainwear Company described that a new functionality of reconceived products might also require being cared for, stored or washed in different ways (Eriksson, interview). A reconceived product might demand the company to invest resources into both R&D of the product’s raw material composition, but also into increased communication with consumers about new product properties.

5.1.2.3 Supplier Complexities
The third challenge of reconceiving products and markets is to gain a sufficient supply of desired raw materials. This includes a number of challenges in connection to scalability in production and producers’ willingness and ability to work with sustainable materials. Finding innovative, functional raw materials at a price that is acceptable to the consumer is one of the greater challenges for House of Dagmar (Tjäder, interview). However, securing the right sustainable raw materials is not only resource-intensive but also a process of managing non-financial complexities. Minimum orders as in suppliers demanding certain order quantities was another challenge raised explicitly by Bag Company, Knitwear Company, Nudie Jeans and Swedish Hasbeens. When Nudie Jeans switched to organic cotton, they were required to order large quantities of organic fabric because of the large machinery involved in the production and the complexities with ensuring that organic cotton is not contaminated
by conventional cotton also manufactured on the production site. With a limited demand for organic fabric from other buyers at the time, suppliers could not simply replace conventional production with sustainable alternatives, making reconceiving the product more complex and challenging.

5.2 REDEFINING PRODUCTIVITY IN THE VALUE CHAIN

As previously discussed, redefining productivity in the value chain refers to opportunities to create shared value from societal issues which cause economic costs in a firm's value chain (Porter & Kramer, 2011). While the theory presents six ways of redefining productivity in the value chain, only four ways are exemplified by the case companies, namely considering energy use and logistics, limiting the use of resources, increasing employee productivity, and rethinking procurement strategies. The case companies do not appear to create shared value through optimizing distribution channels and supplier location.

5.2.1 Activities

In agreement with Porter and Kramer (2011), the selected case companies appear to create shared value by reducing their energy use and making their logistics, distribution, and processes throughout their value chains more productive. An example of this is Bag Company, which purchases their raw materials directly from farmers, so company costs are decreased and wages for the farmer is higher than if they would add a middleman to the process (Andersson, interview). Didriksons and Nudie Jeans limit the number of suppliers they work with to achieve increased value chain control, which leads to opportunities for the company to, for instance, ensure quality (Carlsson, interview) and be more productive (Lang, interview). Moreover, Dedicated and House of Dagmar use boats instead of air freight for transportation to cut costs and decrease emissions (Graffner, interview; Tjäder, interview).

Limiting resource use in production to create shared value by cutting costs (Porter & Kramer, 2011) is exemplified by the case companies. Several case companies limit the number of different raw materials they use to reduce resource usage in production. This is explained by Bag Company, who says it requires a lot of resources to learn how to make one material more sustainable, so it would be a waste of resources to continuously learn how to, productively, work with new materials (Andersson, interview). When a company learns how to make an item more productively, costs decrease and production is less environmentally harmful since less resources are needed. Moreover, several of the case companies actively cut costs by reducing waste (Eriksson, interview) and water use (Carlsson, interview), which is beneficial for both society and the company, given that reduced resource use results in decreased costs (Porter & Kramer, 2011). Using recycled resources is also a common way to
reduce resource use. For instance, Nudie Jeans resell old jeans second hand or reuses the denim from old jeans to make new ones (Lang, interview). Using fewer resources in new clothing items makes production cheaper and requires less natural resources.

Improving employee productivity, as discussed by Porter & Kramer (2011), is also a common activity for the case companies. While Bag Company is the only company with an outspoken goal to increase wages throughout the supply chain, most companies have the ambition to ensure that employees throughout the supply chain work under fair working conditions. There are several reasons for this, such as enhancing working conditions to increase employee productivity, which reduces costs in the long run, while it increases living standards for the employees (Andersson, interview). Finally, the case companies also considered their procurement strategies. Knitwear Company puts emphasis on communicating the importance of having good relationships with suppliers to ensure that all parts of the supply chain are able to thrive (Dorisdotter, interview). Actively influencing suppliers to pay higher prices to their sub-suppliers, in order to provide opportunities for both suppliers and sub-suppliers to increase productivity and competence, could be considered an example of redefined productivity in the value chain.

5.2.2 Challenges
The case companies have experienced several challenges with redefining productivity in the value chain. Many of the described challenges were closely related and has been categorized into three groups; investments, control, and supplier abilities.

5.2.2.1 Investments
Making investments to enable redefined productivity in the value chain was identified as a challenge, as all companies find it costly to find new ways to increase productivity. Oftentimes, implementing activities meant to reduce costs in the long run through increased productivity requires initial investments, which can be difficult for SMEs in particular. Increasing wages to improve productivity and working conditions, as done by Nudie Jeans and Bag Company among others, does not immediately result in financial savings. Instead, increasing wages requires an initial investment in the short run, but could lead to improved productivity in the long run. Didriksons is conducting research on how to split end-of-life synthetic materials, so they can be recycled and reused to cut costs in the long run, but the required R&D is costly (Carlsson, interview). Moreover, non-financial costs of changed processes can lead to decreased productivity elsewhere in the value chain, if the investment is crowding out resources from other opportunities. This is exemplified by Dedicated, where new product properties from the innovative, sustainable materials make the design process costly (Graffner, interview). This might lead to a zero-sum game; increased productivity in one part of the
value chain might be offset by a decrease elsewhere. Redefined productivity in the value chain requires both financial and non-financial investments to be enabled.

5.2.2.2 Supplier Control

Supplier control is the second challenge to redefining productivity in the value chain. Several case companies found it difficult to ensure that suppliers follow implemented policies. In certain areas, factories even cheat by, for instance, using child labor or lying about policies when they can (Graffner, interview). This means that companies make visits to their suppliers to ensure that activities they want to implement, are actually implemented. Suppliers are often located in geographically distant regions, which means that a lot of company resources are needed to ensure control (Blixt, interview). Moreover, traveling to Asia, where many suppliers are located, has significant environmental disadvantages (Dorisdotter, interview).

Furthermore, a large number of suppliers is even more difficult to control and visits are necessary because suppliers are rarely owned by the company, but have a number of customers with different requests (Tjäder, interview). The case companies enforce their policies and the implementation of new activities in different ways. Didriksons set up a representative office in Beijing to be able to visit local supplier more regularly (Carlsson, interview), and Nudie Jeans has a resource-intensive sourcing policy where suppliers are audited by both the company itself and FWF (Lang, interview). However, it is clear that finding ways to redefine productivity in the value chain is not always enough to create shared value, since ensuring that activities are implemented requires control.

5.2.2.3 Supplier Abilities

Finally, supplier abilities can be a challenge when redefining productivity in the value chain. Suppliers often are incapable of following policies set by companies due to a lack of competence (Andersson, interview). Simply put, there are not a lot of suppliers that are able to operate in accordance with strict policies, such as the policies set by Nudie Jeans (Lang, interview). This could also be a result of lacking equipment or the technical competence needed to achieve what the case companies want to do. This is exemplified by Rainwear Company, where initiatives can be limited by technical abilities to perform the desired activities (Eriksson, interview).

Having to depend on other parties wanting to implement similar policies, is cited as a problem by several case companies. This challenge is perhaps best exemplified by Bag Company, which increases wages to improve employee productivity (Andersson, interview). While the company is willing to pay higher wages to its supplier, it is just one of the supplier’s many customers. Even though increased
wages can lead to increased competence, higher quality and productivity, the supplier and its other customers might not all agree and prices would inevitably be raised. Consequently, companies cannot always redefine productivity in the value chain on their own, but they have to depend on other parties with similar goals.

5.3 ENABLING LOCAL CLUSTER DEVELOPMENT
The third and final way to create shared value in Porter & Kramer’s (2011) framework is through local cluster development, where companies enable opportunities for growth in the geographical location they operate in. With the case companies, cluster development was identified in relation to certifications, compensation and working conditions.

5.3.1 Activities
Enabling local cluster development is primarily achieved by the case companies through certificates. According to Porter and Kramer (2011), working with standards organizations could improve productivity in the entire geographical region. Nudie Jeans and Bag Company are members of the FWF and Dedicated and Knitwear Company use GOTS-certified cotton but Dedicated also use Fairtrade and GRS certifications. Using Fairtrade-certified cotton develops clusters since part of Dedicated’s payments are set aside to improve the community where the cotton originated from (Graffner, interview). Consequently, the community could, for instance, build better schools, which in the long run benefits Dedicated as it can recruit from a more skilled workforce that is able to create sustainable, high-quality cotton.

Bag Company was, as previously stated, the only company with an outspoken goal of increasing wages for workers in the supply chain, but other companies also touched upon the social situation for workers in the supply chain as well. Through its attempt to increase wages, Bag Company hopes to decrease the loss of competence in the supply chain by decreasing employee turnover rates (Andersson, interview). Tjäder stated that House of Dagmar strives for better working conditions by paying fair wages and pension provisions to workers in the supply chain, in order to provide workers a valuable social position in society (Tjäder, interview). The production for Knitwear Company could have been moved to Bangladesh, where many competitors have moved production for cost reasons, but the company decided to stay in Nepal and instead attempt to enhance the local knitting knowledge there (Dorisdotter, interview). Through these exemplified practices, companies enable local cluster development by paying fair wages and working conditions, so that the situation for suppliers and their communities is improved through increased competence and enhanced abilities to produce more productively.
5.3.2 Challenges

There are three challenges identified with enabling local cluster development. These are investments, managing certifications, and supply chain control.

5.3.2.1 Investments

The returns the company gains from enabling local cluster development can sometimes be uncertain and far off in the future. Investing in increased wages, as discussed by Bag Company, is initially expensive. While this is meant to increase productivity in the long run, there is uncertainty in what effects the investment will have (Andersson, interview). Moreover, certification membership costs and setting up the necessary agreements with, for instance, the FWF is a resource-intensive process (Andersson, interview; Lang, interview). Enabling local cluster development has positive societal effects, and should benefit the company through increased productivity in the long run, as discussed by Bag Company, but when or if that will happen is uncertain. Thus, managing costs until they are outweighed by benefits can be challenging.

5.3.2.2 Certifications

Certifications can enable local cluster development (Porter & Kramer, 2011), but obtaining and maintaining certifications can be challenging. Costs of memberships can be problematic and meeting certification standards is sometimes almost impossible (Dorisdotter, interview). Bag Company, which is a member of FWF, also finds that most certificates have high ambition levels that can be hard to live up to (Andersson, interview). Moreover, there is an uncertainty of the value of certifications. Credibility and opportunities for transparency throughout the value chain are suggested as benefits for the company, but simply put, Swedish fashion industry actors are not sure what opportunities certification yield (Andersson, interview). Dedicated stated that validating certificates can also be difficult because factories sometimes falsify or lie about having requested certifications (Graffner, interview). Furthermore, certain product categories such as for instance luxurious fibers lacks relevant certifications (Dorisdotter, interview). Enabling local cluster development through certifications is thus challenging due to their ambitious standards, need of control, uncertain value, and the lack of relevant certificates.

5.3.2.3 Cluster Control

A final identified challenge of enhancing local cluster development is maintaining control of the cluster. Production of garments involves many actors throughout the lifecycle of a textile product. In order to facilitate shared value creation, a great amount of control of the supply chain is needed. To give some examples of the control mechanisms used, Dedicated visits their factories every season to control the production process in terms of certificates, pesticides, child labor and other factors.
In addition to the auditing performed by FWF, Nudie Jeans performs unannounced production controls. Since companies do not own every part of the supply chain themselves, they are often dependent on other actors to ensure control. Bag Company, for instance, wanted to pay suppliers more to increase wages but were limited in doing so due to competitive pressures from the suppliers’ other customers. This made the company dependent on other actors, of which it has no direct control over. Swedish Hasbeens stated that it could potentially produce its clogs in Sweden, where production is cheaper and easier to control than in Italy. While producing in Sweden would likely increase control of the supply chain, the construction competence is significantly greater in Italy, making a local venture an unfeasible endeavor. Didriksons faced similar challenges with end-of-life recycling facilities which it is unable to achieve alone, but need to enable knowledge in the cluster by for instance collaborating in R&D with other industry actors.

5.4 EXTENDED ANALYTICAL FRAMEWORK

Three challenges have been identified within each of shared value creation dimensions presented by Porter & Kramer (2011). These challenges are illustrated in figure 2. To summarize, investments were challenging for companies to handle in all three dimensions of shared value creation. Given the discussed financial limitations of SMEs (McKendrick et al., 2003), the initial investment costs for creating shared value are difficult to manage for smaller firms. Investing in opportunities for shared value creation will be beneficial to the company in the long run, for instance by achieving similar cost advantages as larger firms (Dobrev et al., 2002). Although, managing the costs until they are outweighed by benefits is challenging for SMEs.

Reconceived products include the challenge of handling functionality issues, as sustainable materials lead to new product properties and functions compared to previous alternatives. Generally, handling suppliers has also proven to be challenging when wanting to create shared value. This comes in three forms; supplier complexities of reconceiving products in the production process, supplier control is needed to ensure rules and policies are followed and supplier abilities have to be managed, so suppliers are capable of performing requested activities. Difficulties handling suppliers is in line with Jones and Tilley (2003), stating that managing activities is generally challenging for SMEs since they have limited resources. These challenges also limit SMEs abilities to leverage their flexible characteristics and innovative approaches to CSR development (Jenkins, 2009), as companies are often dependent on other external actors.
Managing relevant certifications to enable local cluster development is challenging due to high ambitious standards and uncertainty regarding their value. Finally, dependence on external actors and accessing relevant competence are important conditions for cluster control. Through performing activities in connection to the three dimensions, and overcoming the challenges associated with each of them, companies can facilitate shared value creation - where companies and societies can thrive interdependently.

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\text{FIGURE 2. Extended Analytical Framework - Authors’ Model}
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5.5 DISCUSSION

While challenges were the area of focus for this paper, the identified activities are also relevant to consider in the context of previous research. This is done to discuss the relevance of the selected CSV theory and the applicability of the identified challenges. Besides CSV theory, the activities performed by the case companies could be considered a cost obstructing the economic success of companies by taking away resources from the core business, as discussed by Smith (1776) and Friedman (1962). Companies following this stream of logic could be considered selfish companies (Moon et al., 2011), but none of the case companies in this study could be identified as such. Instead, all companies believed that there is value in being sustainable, which suggests that Borglund et al. (2017) were correct in stating that the question is not if companies should take on CSR, but how.

Companies could be considered good corporations if they redistribute profits towards charitable causes, and make trade-offs between corporate profit and societal benefits (Moon et al., 2011). This could, in practice, align with corporate philanthropy where there is a one-way flow of resources from a donor to a donee (Schwartz, 1968). Bag Company and Dedicated said that their sustainable activities
are partly for moral reasons (Andersson, interview; Graffner, interview). This could be considered what Windsor (2006) describes as ethical CSR, where the goal is to expand welfare of the society at the cost of company profits. However, both Andersson and Graffner admit that their activities are not solely for ethical reasons, but that they also believe they create a competitive advantage. Their actions could, therefore, be seen in the light of strategic philanthropy, where giving corporate resources to address societal issues should also benefit the firm’s strategic position (Saiia, Carroll & Buchholtz, 2003).

Instead of external, philanthropic efforts, companies can gain competitive advantages by performing activities that are integrated into the core of the firm (Porter & Kramer, 2006). This strategic aspect of CSR moves beyond trade-offs between company profit and societal benefits, by focusing on minimizing negative impacts in the supply chain and innovative business models that can extend the offering of firms (Halme & Laurila, 2009). Dedicated and House of Dagmar minimized carbon emissions by shipping products by boats instead of trucks (Graffner, interview; Tjäder, interview), which fit well in Halme & Laurila’s (2009) description of integrated CR and Porter and Kramer’s (2006) theory on strategic CSR. There were also examples of innovative CR (Halme & Laurila, 2009), such as the Dedicated and Nudie Jeans that switched to new, innovative raw materials in their products to target underserved segments of the market for environmentally-conscious consumers (Graffner, interview; Lang, interview). However, none of the case companies described an ambition to target disadvantaged social groups and markets as BOP approach suggests (Prahalad, 2006).

The study has shown that activities performed by the case companies could be considered in the light of CSV. However, the very same activities have also been shown to fit into previous responsibility theories, such as strategic philanthropy (Saiia, Carroll & Buchholtz, 2003), integrated and innovative CR (Halme & Laurila, 2009), and strategic CSR (Porter & Kramer, 2006). While Porter and Kramer (2011) claimed that CSV theory should supersede CSR, our case study has shown that the claim cannot be entirely true as the very same activities can fit well in both CSV and other theoretical responsibility concepts. This aligns well with the conclusions from Dembek et al. (2016) that there are overlaps between CSV and previous typologies, as well as with Fürst (2017) claiming that CSV does not override all other interventions. Furthermore, the identified overlaps suggest that CSV should be used as an umbrella construct for loosely related concepts within conscious capitalism, as previously suggested by Crane et al. (2014).
6. CONCLUSION

The fashion industry is one of the most carbon emitting industries in Sweden (Tillväxtverket, 2013) and several examples of controversies in the industry have been brought up by media. With the Swedish ambition to become the world leader in sustainable fashion (Regeringen, 2017), there is still a need for research on sustainability in Swedish companies (Freeman & Hockerts, 2014). Responding to the call for research on SMEs’ engagement in sustainability (Morsing & Perrini, 2009), the research question of this paper was “What are the challenges of creating shared value for SMEs in the Swedish fashion industry?” The purpose of identifying these challenges has been to evolve the understanding of the theoretical concept CSV by examining the complexities that limit a widespread practical adoption of sustainable practices within SMEs.

Despite the positive characteristics of SMEs, including more flexibility to adapt to new circumstances and innovative approaches to CSR development (Jenkins, 2009), our research display difficulties with leveraging these characteristics. As the empirical research shows, even sustainably-aware companies face complex challenges with generating positive benefits to both society and the company itself. These identified challenges are investment costs, functionality issues, supplier complexities, supplier control, supplier abilities, managing certifications and cluster control. Managing these challenges can enhance opportunities for companies to create shared value, with greater benefits than costs to both the company and the society in which it operates.

6.1 THEORETICAL CONTRIBUTIONS

Besides conducting needed research on SMEs’ engagement in sustainability (Morsing & Perrini, 2009), the theoretical contribution of this paper is the addition of challenges to CSV theory, originally presented by Porter and Kramer (2011). As the theory does not include barriers that are capable of explaining what problematizes the creation process, the concept lacks an understanding of the complexities involved with the policies and operating practices that can create shared value. Adding the seven identified challenges complements CSV theory by providing a more realistic description of the overall process of shared value creation. Our research also agrees with the previous critique that CSV theory overlaps with other theoretical concepts (Dembek et al., 2016; Crane et al., 2014), as activities performed by the case companies have been described in the discussion to fit in both CSV and other theories. The theoretical contribution of this paper is thus twofold: (1) the seven identified challenges with CSV theory, and (2) confirming the positioning of CSV as an umbrella construct for loosely related concepts within conscious capitalism, in accordance with Crane et al. (2014).
6.2 MANAGERIAL IMPLICATIONS
While CSV theory is somewhat incomplete, practitioners undoubtedly have the potential to generate benefits for themselves and society if the theory can be applied. Consequently, the identified challenges of shared value creation will be useful to practitioners striving towards being more sustainable. In particular, this study can be helpful to SMEs in the Swedish fashion industry wanting to adopt sustainable practices. For managers, handling investments, suppliers, product functionality, certifications, and other external dependencies limit SMEs in their sustainable ambitions. By providing a framework of what challenges practitioners might face, they can be better prepared to overcome them. However, for companies to optimize their efforts to become more sustainable, further research is needed to find solutions to the identified challenges.

6.3 LIMITATIONS & FUTURE RESEARCH
Furthermore, as the theory already has been questioned for its quick-fix approach (Crane et al, 2014), the problem of measuring actual societal and company value remains. Given that this paper has made no effort at resolving the difficulties of quantifying or identifying the societal value in the company activities, this is yet an area that needs further research. Finally, the study is limited in its generalizability. The scope of the study was of eight SMEs in the Swedish fashion industry, which cannot be stated to represent the challenges with sustainable practices for all firms, industries, and countries.

As previously discussed, the identified activities in this study could also be seen in the light of other theoretical concepts. Therefore, if the activities could be categorized into other typologies, should not the same be true for its challenges? For instance, supplier control is identified as a challenge with redefining productivity in the value chain as part of CSV theory, but this activity could also be considered CR integration, as discussed by Halme and Laurila (2009). Thus, supplier control could be a challenge for CR integration as well, which should mean that the identified challenges might be more generalizable. In this paper, we cannot claim that the identified challenges are applicable across concepts, but future research could investigate whether similar concepts have the same challenges as CSV. If so, the idea that shared value creation should be an umbrella term for a variety of loosely related constructs, as suggested by Crane et al. (2011) and supported here, would be strengthened.
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PERSONAL COMMUNICATION

“Anders Andersson”, Sustainability Manager, Bag Company. Telephone interview 24/4 2018

Johan Graffner, CEO, Dedicated Brand. Telephone interview 5/4 2018


Sandya Lang, Sustainability Manager, Nudie Jeans. E-mail correspondence, 17/4 2018.

“Erik Eriksson”, Head of Product and R&D, Europe, Rainwear Company. Telephone interview 20/4 2018

Emy Blixt, Creative Director, Swedish Hasbeens. Telephone interview, 22/3 2018.
Appendix 1 - Interview Guide

Introduction
Could you describe your products and your differentiation on the market?
What does sustainability mean to you?
Sustainability is a trend in the fashion industry, how do you experience the demand for sustainable fashion?

Production
Where are your production facilities? Describe the production process.
What factors do you consider when choosing a production facility?
How is the fiber produced? Why?
How is the fabric produced? Why?
How is the garment produced? Why?

Raw material
How does your design process work?
Where do you source your raw materials?
How do you select which raw materials to use?

Distribution & Retail
How are the goods transported across the supply chain?
What are your sales channels? Why?
What factors do you consider when choosing distribution channels?
- Sales channels? Transportation?

Consumer use
What factors do you consider in the consumer usage phase when designing the clothing?
What factors can you affect in the use phase after your product has been sold to the consumer?
- Laundry? Garment usage? Longevity of garments? Use phase transportation?

End-of-life
What happens with your products when they are no longer usable?
Are there other considerations you make when it comes to end-of-life aspects of your products?

Summary
Are there other sustainability activities you wish to pursue, but for some reason are unable to do?
What do you consider to be the main challenges with implementing sustainable activities?
Any final thoughts or considerations?