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# Ethical Sourcing in Small and Medium-Sized Fashion Enterprises – a Case Study

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ELISA WAGNER

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**Abstract:** Issues in production processes in the fashion industry are highly topical as recent scandals covered by the media show. However, these scandals rather involved multinational companies than small and medium-sized enterprises. This study investigates, how small and medium-sized fashion enterprises source their material ethically and implement a CSR strategy by introducing of a code of conduct. Motives and challenges for implementing codes will be discussed as well as possible solutions.

Data was collected by conducting four semi-structured interviews with three fashion retailers and a multi-stakeholder organisation in the textile industry. In addition, documents including sustainability reports were analysed. Results show that the motives for introducing codes of conduct are closely linked to the company's definition of CSR. External pressure contributed to the introduction, however, the main motivation was based on internal decisions of the companies. Main challenges of implementing a code of conduct included handling the complexity of the fashion supply chain, effective monitoring of compliance as well as cultural differences between suppliers and buying brands. Meeting these challenges included the involvement of workers, and additional measures as the introduction of complaints mechanisms.

**Keywords:** Corporate social responsibility, ethical sourcing, ethical sourcing codes of conduct, garment industry, supply chain, sustainable development

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**Summary:** In light of the recent scandals in the textile industry such as the catastrophe of Rana Plaza, where a factory collapsed and 1,127 people were killed, it became clear, that issues in the textile production are far from being resolved. Mainly multinational companies were mentioned in the scandals. However, small and medium-sized companies play a vital role both in the German economy and worldwide. This project investigates motives, challenges and possible solutions when it comes to the implementation of codes of conduct and the development of CSR (Corporate social responsibility) strategies in supply chains in small and medium-sized fashion enterprises. A vast amount of definitions of CSR exist. This study defines CSR as a relationship between business and larger society as well as a company's voluntary activities concerning environmental and social issues.

Data was collected through four semi-structured interviews with three small and medium-sized fashion enterprises and one multi-stakeholder organisation. The latter involves different stakeholders including companies, unions and NGOs in order to improve working conditions in the textile industry. In addition documents, such as sustainability reports from companies, were analysed.

Findings suggest that motivation for the implementation of codes of conduct are closely linked to the company's individual definition of CSR. External pressure, from NGOs for example, played a role as well. However, the studied companies introduced codes of conduct based on internal motivations. Main challenges the small and medium-sized fashion enterprises met include the complexity of the textile supply chain, effective monitoring at suppliers and cultural differences between production sites and buying brands. Meeting these challenges include additional measures such as complaint mechanisms that involve the workers. Moreover, educating workers about their rights and duties contribute to overcoming the aforementioned challenges.

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## Abbreviations

CSR	Corporate Social Responsibility
FWF	Fair Wear Foundation
GOTS	Global Organic Textile Standard
ILO	International Labour Organisation
IVN	International partnership for natural textiles (Internationaler Verband für Textilwirtschaft)
MNE	Multinational Enterprise
SME	Small and medium-sized enterprises

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# 1. Introduction

This chapter identifies the problem background. Furthermore, it presents the problem investigated, the aim of this paper, definitions and an outline of the study.

## 1.1 Problem background

The clothing<sup>1</sup> and textile industry is an important part of the global economy, employing 26.5 million people worldwide (Jönsson *et al.*, 2013, p. 2). The industry is characterized by chronic downward price pressure, international sourcing, high product variety, high volatility and low predictability (Petsy and Towers, 2013, p. 478).

Supply chain management is an area of increasing strategic importance due to global competition, outsourcing of non-core activities to developing countries, short product life cycles and time compression in all aspects of the supply chain leading to competition not of individual firms and suppliers, but of entire supply chains (Kaluza *et al.*, 2003, p. 5). Therefore, in order to succeed in the long term, it is crucial for firms to create close and long-term relationships with suppliers and other strategic partners (Andersen and Skjoett-Larsen, 2009, p. 75; Ireland and Webb, 2007, p. 486).

Moreover, stakeholders, including customers, shareholders, non-governmental organisations (NGOs), public authorities, trade unions, and international organisations are showing increasing interest in environmental and social issues related to international supply chains (Andersen and Skjoett-Larsen, 2009, p. 75). Due to today's mass media and the speed with which information travels around the world, it is becoming increasingly hard for companies to hide unethical behaviour from the public and from their customers. This leads to a potential loss of reputation, which can have serious consequences for the business (Kim 2014, p. 157; Mark-Herbert and von Schantz, 2007, p. 8). Several scandals were portrayed in the media. In the following paragraphs, recent scandals concerning the textile industry will be described.

On 24th of April 2013, an eight-storey garment factory in Rana Plaza on the outskirts of Dhaka, Bangladesh, collapsed. 1,127 people were killed, with many more injured (The Economist, 2013). It was the most tragic incident in the history of the industry. The building was known to be unsafe and warnings were issued from local police and an industry association (The Economist, 2013). However, workers were pressured by the owners of the factory into entering the building and continuing manufacturing (Burke, 2014). About 28 fashion companies were producing in Rana Plaza, including the Irish fashion retailer Primark (Faigle and Pauly, 2014). A collective aid fund was organised by a number of the involved companies in order to compensate survivors and the families of victims. This includes 15 million dollars, less than half of the amount that would be needed in order to compensate all survivors, victims and their relatives (*ibid.*). The Irish retailer Primark contributed 7 million dollars to this fund. Other companies, such as the Spanish retailer Mango, denied that they were producing in Rana Plaza. Only after reporters from the Economist revealed proof that workers were sewing pieces for Mango, did the company contribute to the aid fund, the amount is not known (*ibid.*). This case makes clear that, despite the fact that much of the blame lies with Bangladeshi governments, which did not force the factory owners to keep the workers out of the building, the attention was concentrated on multinational companies which were producing clothes cheaply in the factory (The Economist, 2013). About one year after this tragedy, the German Development Minister, Gerd Müller, announced the implementation

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<sup>1</sup> In this study, the terms clothing, garment and textiles will be used synonymously.

of a new textile label, which was supposed to urge the garment industry to meet social and ecological minimum standards on a voluntary basis (Spiegel, 2014). However, after critique from sides of the companies and politics, the foundation of the label failed and the “Alliance for Sustainable Textiles” (“Bündnis für Nachhaltige Textilien”) was founded instead (Zapf, 2014). Big firms such as Adidas, Aldi, Lidl, Kik, H&M, Puma, C&A und die Otto Group withdrew from the project before it started, claiming that the requirements are unrealistic (Rossbach, 2014). This example shows how difficult it is to reach a consensus when it comes to ecological and social standards in the textile industry.

Another scandal that received attention in the media in 2014 concerns the fashion retailer Primark. In June 2014, a customer found a SOS note in a pair of trousers bought in a Primark outlet Ireland. The label was sewn into in the trousers’ pocket and was written in Chinese. It claimed that people were forced to work up to 15 hours a day in order to produce clothes for Primark (BBC, 2014). Similar labels were found in clothes bought in a store in Swansea. Primark labelled these incidents as a hoax carried out by activists in the UK. According to Primark, one indicator for this claim is the fact that the garments were produced by different suppliers on different continents, one located in Romania and one in India (Primark, 2014). Though it is unclear, whether the incident was a hoax, it shows the lack of transparency in the textile supply chain.

The Norwegian newspaper Aftenposten published one of the latest portrayals of working conditions in the textile industry. In the beginning of 2015, the newspaper sent three fashion bloggers to Cambodia in order to experience the working conditions of local sweatshops in Cambodia with the goal of revealing to the bloggers the background of the clothes they present to the Norwegian public (Chua, 2015). For one month they lived with the workers. Aftenposten produced a five-part documentary called “Sweatshop-Deadly Fashion” that is available online<sup>2</sup>. The fashion bloggers listened to the workers’ stories and experienced their day-to-day work. The documentary has over 1.5 million views to date and heated the discussion about working conditions in the textile industry (Schneider and Menger, 2015). After her return to Norway, Anniken, one of the fashion bloggers, arranged a meeting with the retailer H&M and talked about her experiences in Cambodia and about what H&M could do to improve conditions for the workers (*ibid.*). Whether H&M will indeed act on this incentive remains to be seen, but nevertheless, the documentary has already had an impact on public life and was even debated in the Norwegian parliament (*ibid.*).

Besides these social impacts, the production of textiles has significant environmental impacts. During the production of natural fibres, a huge amount of pesticides and fertilizers are used (Umweltbundesamt, 2014). Growing cotton, for example, requires around 25 per cent of insecticides and 10 per cent of pesticides used worldwide. The growing process requires a huge amount of water (3,600-26,000 m<sup>3</sup> per ton of cotton), which, among other factors, contributed to the desiccation of the Aral Sea (*ibid.*).

Producing chemical fibres consumes 0.8 percent of the entire crude oil production each year (*ibid.*). Textile finishing produces huge amounts of wastewater contaminated with chemicals used during the production, finishing or dyeing of the fibres. Most of these substances resist degradation. After textile finishing, the fibres are dried which leads to high energy use and emissions (*ibid.*).

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<sup>2</sup> <http://www.aftenposten.no/webtv/serier-og-programmer/sweatshopenglish/>

Some of the most common fabrics including viscose, royan and modal, have significant impacts in tropical forests in South Africa or Indonesia. The latter is home of the third-largest rainforest in the world, a natural habitat for endangered species such as orang-utans and rhinoceros (Morgan, 2015). These forests are “being clear cut and replaced with monocrop *acacia* and *eucalyptus* pulpwood plantations. These plantations are then logged and processed with highly toxic chemicals to produce a substance called dissolving pulp; the pulp is then processed into thread, which is dyed and woven into fabric used for clothing worldwide“(*ibid.*).

The deforestation contributes to climate change and to the fact that Indonesia is the world’s third largest emitter of greenhouse gases (*ibid.*). Indigenous and forest-dependent communities are victims of the plantation expansion as well.

Land that is “traditionally owned by communities has been forcibly seized without the consent of the community and then clear cut for *acacia* plantations. The loss of the land these communities rely on for their farms and gardens has greatly undermined their livelihoods and self-sufficiency. These plantations also destroy the rivers and streams communities rely on for drinking water and irrigation. The rivers dry up as cover crops are destroyed and erosion runs rampant. Communities who were once cash poor but rich in natural resources are becoming increasingly destitute“( *ibid.*). This statement makes clear what huge environmental impact the production of textiles has.

These examples illustrate that negative social and environmental impacts along the textile supply chain present huge and complex problems. In the next chapter, the problem investigated in this study will be described.

## 1.2 Problem

In light of the scandals and recently published documentary, as well as the environmental problems associated with the textile industry as outlined in the previous section, it is not immediately clear why the already in-place campaigns regarding CSR as well as ethical sourcing codes of conduct, by international brands such as Primark or H&M, seem not to reflect real-life business methods.

Supply chain sustainability, triple bottom line, environmental management, green supply and corporate social responsibility (CSR) are concepts that are receiving increased attention in the media, academia and the corporate world (Andersen and Skjoett-Larsen, 2009, p. 75). Many companies have implemented voluntary codes of conducts, sustainability reports and environmental annual reports (*ibid.*). However, despite all these measures being taken, there often still exists a gap between the ethical standards these companies express and the actual conditions at the supplier (*ibid.*). Only a “limited number of multinational corporations ‘walk the talk’ of CSR” (*ibid.*).

The aforementioned social and environmental impacts of the textile industry present a huge problem worldwide. Many SMEs (small and medium-sized enterprises) are recognizing these issues and implement CSR measures in their supply chains to meet these challenges (Kechiche and Separnot, 2012, p. 97). This study concentrates on small and medium-sized fashion retailers in Germany aiming at integrating CSR practices and codes of conduct in their businesses (see section 4.3). It contributes to research on the role of small and medium-sized businesses when it comes to the implementation of CSR measures and codes of conduct in the supply chain and to solutions to the problems mentioned above (Ayuso *et al.*,2013, p. 505f; Gimenez *et.al*, 2012, p. 149; Pedersen 2009, p. 114).

According to (Hamann *et al*, 2009, p. 49), conducting studies on CSR measures in supply chains of SMEs rather than of large corporations are important, “as they are the heart of the

German economy, and many other economies, and essential members of their communities” (see section 5.1). The next section will specify the aim and research questions of this paper.

### 1.3 Aim and research questions

The aims of this study are to explain why ethical sourcing codes of conduct are introduced in small and medium-sized fashion retailers and what challenges these retailers have to face when it comes to ethical sourcing supported by these codes. In order to do so, this study will analyse three small and medium-sized fashion stores with two having introduced a code of conduct. In order to gain a different perspective on ethical sourcing codes of conduct, a multi-stakeholder non-profit organisation that aims at improving working conditions in the textile industry was interviewed. The study aims at answering the following research questions:

- Why are ethical sourcing codes of conduct implemented in small and medium-sized fashion retailers?
- What are challenges when it comes to implementing ethical sourcing codes of conduct in SMEs?
- How can these challenges be met?

## 1.4 Definitions

The following table illustrates definitions of central concepts used in this study. There exist numerous definitions for these concepts. Those that seemed to suit the context of this paper best were selected. In chapter 3, these definitions are explained in detail.

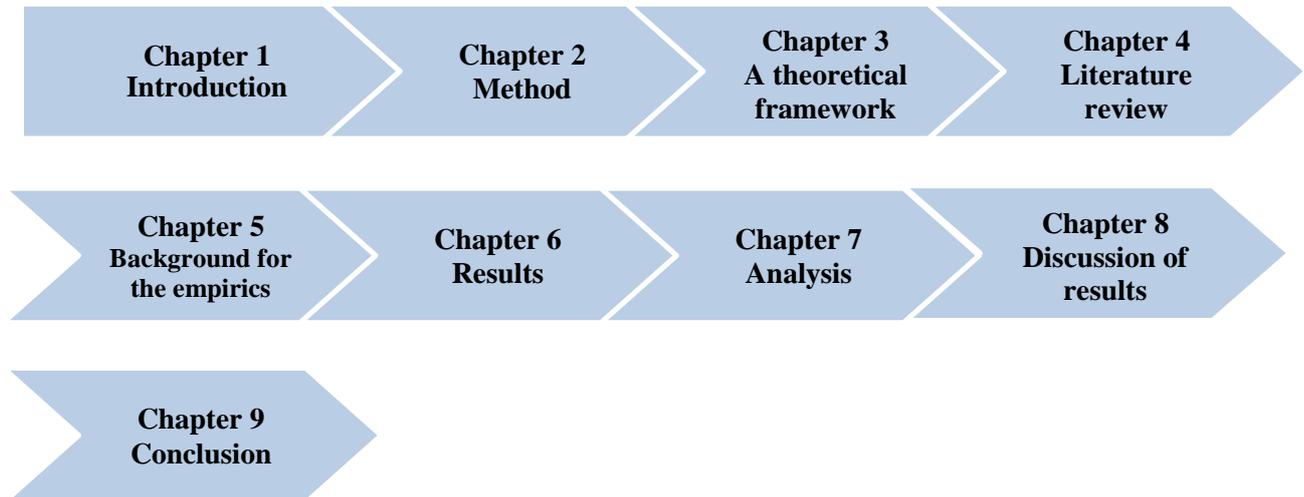
Table 1 Definitions

<b>Concept</b>	<b>Definition</b>
Corporate social responsibility (CSR)	Concept that “describes the relationship between business and the larger society and “refers to a company’s voluntary activities in the area of environmental and social issues” (Andersen and Skjoett-Larsen, 2009, p. 77).
Ethical sourcing	Part of CSR activities of a company. It includes meeting ethical norms in the process of global sourcing while taking laws in the respective countries and economic criteria into account. An important aspect of ethical sourcing concentrates on good labour conditions and fair working hours, especially in companies sourcing in developing countries (Zentes and Schramm-Klein, 2009, p. 98).
Ethical sourcing codes of conduct	Guarantee that the products are sourced by a company meet specific environmental and social standards (Roberts, 2003, p. 159)
Supply chain	“A set of three or more entities (organisations or individuals) directly involved in the upstream and downstream flows of products, services, finances, and/or information from a source to a customer” (Mentzer <i>et al</i> , 2001, p.4)
Sustainable Supply Chain Management	“Management of material, information and capital flows as well as cooperation among companies along the supply chain while taking goals from all three dimensions of sustainable development, i.e., economic, environmental and social, into account which are derived from customer and stakeholder requirements” (Seuring and Müller, 2008, p. 1700)

## 1.5 Study outline

This section presents the outline of this study. Figure 1 provides an illustration of the study's outline. Chapter 1 presents a problem background, the aim and research questions as well as definitions of key notions used in the study.

Figure 1 Study outline



Chapter 2 presents the research method used to obtain the empirical results provided in chapter 7. Chapter 3 presents a theoretical framework with which the analysis of chapter 7 is carried out. Chapter 4 and 5 present a background for the empirics with chapter 4 analysing relevant empirical studies from a wider context and chapter 5 providing background information for the empirics. In chapter 8 the results are discussed before chapter 9 draws a conclusion and gives suggestions for further research.

## 2. Method

This chapter describes the research method used in this study as well as its delimitations. The process of data collection, ethical considerations and methods to ensure trustworthiness are presented.

### 2.1 Research approach

According to Doz (2011, p. 583, p. 585), qualitative research can contribute to scientific discoveries in many ways by aiming at answering the “how”, “who” and “why” of individual and collective action as it unfolds over time in context. Moreover, qualitative methods can contribute to theory building by “providing rich, thick descriptions of real phenomena and action instances (or streams)” and, by doing so, “stimulate deeper thought” (*a.a.*, p. 584). Qualitative research can also be used for testing theories (*ibid.*). While investigating a phenomenon, various theories can be applied. The nature and extent of the insights provided can be compared systematically (*ibid.*). According to Eisenhardt (1989, p. 548), case study is most appropriate in the early stages of research or to provide a new perspective to an already researched topic. Moreover, case studies are suitable to answer research questions starting with “how” and “why” (Yin, 2009 p.8, p.10).

Nevertheless, Eisenhardt (1989, p. 536) points out, that the research questions might shift during the research process. Sinkovics and Alfoldi (2012, p. 823) argue, that this is normal and to be expected. According to Diefenbach (2009, p. 877), “Qualitative researchers should feel encouraged to ask themselves throughout the whole research process whether they ask the right questions, to change these whenever it seems appropriate, to challenge even their most basic assumptions and to see ‘things’ from as many different perspectives as possible”. Sinkovics and Alfoldi (2012, p. 823) define the evolvement of qualitative findings “via the interaction between theory and data, often through a cyclical process” as “progressive focusing”, pointing out that “this approach acknowledges the importance of theory and context: It explicitly builds the contextualisation of theory into the research design, and a degree of flexibility is retained in all parts of the research process” (*a.a.*, p. 824).

Moreover, Sinkovics and Alfoldi (2012, p. 823) regard these “dynamic, progressive and non-linear” characteristics of qualitative research as strengths. They note that “typical parts of the research process are better conceptualised as tasks whose progression follow a general direction, but may be repeated to accommodate emergent questions and concepts” (*ibid.*). The “development of theoretical and conceptual foci, data collection and data analysis” are interlinked.

It is likely that case studies create novel theory (Eisenhardt 1989, p. 546). However, one weakness of the case study approach is that, given the often complex empirical material, there exists the temptation to create a theory that captures everything (*ibid.*). After all, “case study theory building is a bottom up approach such that the specifics of data produce the generalizations of theory” (*a.a.*, p. 547).

In this study, the qualitative research approach of case study research was used. Eisenhardt (1989, p. 545) suggests that studying between 4 and 10 cases works well, since “with fewer than 4 cases, it is often difficult to generate theory with much complexity, and its empirical grounding is likely to be unconvincing” and “with more than 10 cases, it quickly becomes difficult to cope with the complexity and volume of the data” (*ibid.*).

Four cases were analysed in this study including the fashion retailers hessnatur, SIMÓN ESE, Blutsgeschwister as well as the multi-stakeholder organisation Fair Wear Foundation (FWF). In order to compare the role of ethical sourcing codes of conduct in small and medium-sized fashion stores, the case study approach seemed suitable for the aforementioned reasons. It is beyond the scope of this study to generate a new theory out of the cases analysed. However, the findings might provide a basis for further research.

## 2.2 Research focus

The textile industry was chosen as the sector for this research since CSR and ethical sourcing topics are highly topical, as numerous media scandals show (see section 1.1). The German textile industry has been scrutinized by the media, leading German enterprises to look for solutions to CSR-related problems (Internationaler Verband für Naturtextilwirtschaft, 2015). Moreover, Germany’s market for sustainable textiles is still very young and sustainable labels or “green labels” are not very popular yet (Widder, n.d.; Janclaes, 2015). Since many of the green labels are small or medium sized companies, this study concentrated on SMEs (Bohn, 2013).

However, people are aware of the problems in the textile industry leading to a growing the popularity of sustainable fashion labels (Widder, n.d.; Meyer-Behjat, n.d.). The turnover in the sustainable textile industry increased between 2000 and 2013 5% each year (Internationaler Verband für Textilwirtschaft, 2015). Moreover, the customers demand increasingly sustainable clothes that look fashionable (Weller, 2013). Investigating the German fashion market during this development with focus on ethical sourcing codes of conduct in SMEs is relevant. Such an investigation can create basis for further research in the field of ethical sourcing.

The units of analysis in this study include the fashion retailers hessnatur , SIMÓN ESE, Blutsgeschwister and the multi-stakeholder organisation Fair Wear Foundation (FWF). Criteria for choosing these units of analysis described above are summarized in table 2.

Table 2 Criteria for the choice of units of analysis

Criteria for industry sector and location of sector	Criteria for focusing on SMEs
<ul style="list-style-type: none"> <li>- pressure from media scandals</li> <li>- constantly growing, dynamic market - “Green labels” are not well known yet</li> </ul>	<ul style="list-style-type: none"> <li>- many SMEs on the market for sustainable textiles in Germany</li> </ul>

This table summarizes criteria according to which the units of analysis were chosen for this study based on industry sector, location and size of units of analysis.

## 2.2 Data collection

The following sections describe the process of collecting secondary and primary data.

### 2.2.1 Secondary data

As a first step in the research process, a literature study was conducted. Various articles were analysed since, according to Eisenhardt (1989, p. 544), examining literature which is conflicting with the emerging theory is equally important as examining literature supporting findings of the case study. Literature contradicting findings can put the researcher in a more creative way of thinking and let him gain more confidence in his research (*ibid.*).

Literature that supports the theory emerging from the case study on the other hand ties together similarities in phenomena not associated with each other so far. Therefore, literature research is an important component of carrying out case studies (*ibid.*).

Moreover, during the research process, sources such as web pages of companies, sustainability reports, media articles and press releases were analysed as well. These documents were supported by the primary data collected through semi-structured interviews (see section 2.2.2). By using different data collection methods, the researcher aimed at increasing the trustworthiness of the study (see section 2.4).

### 2.2.2 Primary data

Interviews are one of the most common methods to collect qualitative data. There are many types of interviews with different styles of questions such as unstructured, semi-structured and structured, each appropriate in different circumstances (DiCicco-Bloom and Crabtree, 2006 p. 314; Leech, 2002, p. 665). Regardless of the format, interviewing requires “a respect for and curiosity about what people say, and a systematic effort to really hear and understand what people tell you” (Rubin and Rubin, 1995, p. 17, cited in: Qu and Dumay, 2011, p. 239).

Semi-structured interviews are usually scheduled in advance at a designated time and location and can be conducted with an individual or in groups (DiCicco-Bloom and Crabtree, 2006, p. 315). Moreover, semi-structured interviews are capable of disclosing important and often hidden facets of human and organisational behaviour (Qu and Dumay, 2011, p. 246). Provided a good preparation, the interviewer can modify the style, pace and ordering of questions to get as much information as possible from the interview (*ibid.*).

However, it is important to keep in mind that the interview process is not a neutral tool to evoke rational responses and uncover truths. Different interviewers will get different responses from the same interviewee, depending on the way questions are asked and probed. Therefore, the results of the interview depend also on characteristics of the interviewer, such as gender, race, socioeconomic class and ethnicity (*a.a.*, p. 247). Even if the researchers reflects on the data and analyses it in sophisticated ways, conclusions drawn from interviews are still an interpretation of the researcher and can never be an exact description of reality (*a.a.*, 2011, p. 256).

This study used semi-structured interviews, the most widely used interviewing format for qualitative research. The interview guides used can be found in appendix 1.

Table 3 The interview process

Interviewee	Position	Company	Interview date	Validation request	Validation received
Bergmann,S.	Press and Public Information Officer	hessnatur	2015-03-20	2015-04-15	2015-04-15
Bernhard, A.	Distribution	SIMÓN ESE	2015-03-25	2015-04-14	2015-04-15
Heyckendorf, A.	CSR Manager	Blutsgeschwister	2015-04-21	2015-05-05	2015-05-07
Köppen, V.	Country Representative Germany	Fair Wear Foundation	2015-04-09	2015-04-14	2015-04-29

Table 3 illustrates the interview process including interviewees, the interview date and the date when validation of the written interview summary was received.

The semi-structured interviews illustrated in table 2 were carefully designed. Some questions were formulated as broadly as possible to allow the interviewee to talk about their individual experiences with the topic. As suggested by Andersen and Skjoett-Larsen (2009, p. 76), in each interview, room was left for discussing issues that were not covered by the interview guide, but which the interviewees found relevant.

Since the interviewees requested it, thematic questions serving as a guide for the dialogue were sent to the respective interviewee before the interview. In this study, telephone interviews were conducted due to time constraints and location of the interviewees. Each interview lasted between 30 and 40 minutes.

The interviews were recorded and summarized. Summaries of the interviews were sent to the respective interviewee in order to make sure that the interviewee was understood correctly and additional comments could be made. Besides conducting interviews, secondary data was analysed as well, as described in the previous section. The following section presents the process of creating trustworthiness in the entire research process.

## 2.3 Delimitations

### 2.3.2 Methodical delimitations:

As mentioned above, the study focuses on ethical sourcing in German small and medium-sized fashion retailers. Research about the textile industry worldwide or a comparison of ethical sourcing across industries is not part of this study. Moreover, research is conducted from a retailer's perspective on ethical sourcing. This study does not focus on other perspectives on ethical sourcing such as a consumer or supplier perspective, for example.

### 2.3.3 Theoretical delimitations

A limited amount of theories and conceptual frameworks were used in this study which is based on the perspectives of fashion retailers and a multi-stakeholder organisation. The perspective of customers is not taken into account unless it was mentioned by the retailers or the multi-stakeholder organisation.

Moreover, the principal agent theory can be applied to analyse supply chains. This theory has its origins in economics (Kaluza et al., 2003, p. 14). According to Kaluza *et al.* (2003, p. 27), it often concentrates on logistics and the optimisation of the supply chain. However, this study

aims at analysing the motivation and challenges of an implementation of codes of conduct along the supply chain (see section 1.3), taking economic, social and environmental aspects into account. For these reasons and due to the scope of this study, the principal agent theory was not taken into account.

#### 2.3.4 Empirical delimitations

In total four cases were studied (see sections 5.3.1 to 5.3.4). According to Eisenhardt (1989, p. 545), case studies can be conducted with up to ten cases which would provide a more in-depth understanding of the research phenomenon. Finally, four interviews with four different interviewees were conducted. Each interview had a length of 25 to 45 minutes due to time constraints of the interviewees. With more and longer interviews from each organisation, a deeper insight into retailers' perspectives on ethical sourcing would have been possible. An interview with one person from each organisation represents one perspective from each organisation on the problems thematised in the interview. However, conducting more in-depth interviews would have been beyond the scope of this study.

### 2.4 Trustworthiness

There are several provisions a researcher can make in order to promote confidence that he or she has „accurately recorded the phenomena under scrutiny“ (Shenton, 2004, p. 64) and created a trustworthy study. These provisions will be described in the following.

First, it is important to describe the research process as detailed as possible. For this study, this was done in the at the beginning of this chapter above. Lincoln and Guba (1994) further point out, that ensuring credibility is one of the most important factors in establishing trustworthiness.

According to Shenton (2004, p. 64), there are several provisions a researcher can make in order to ensure credibility of his research. First of all, he notes that the development of an early familiarity with the culture of participating organisations is crucial in order to gain an understanding of the organisation and to establish a trustful relationship between the two parties (*ibid.*).

In this study, this was done by collecting information about the organisations via websites and documents published by the organisations (see section 2.2.1).

As Eisenhardt (1989, p. 538) and Shenton (2004) argue, triangulation involves different data collection methods. The use of different methods in concert “compensates for their individual limitations and exploits their respective benefit” (Shenton, 2004, p. 65).

Triangulation in this study was achieved by collecting data via interviews, literature research, documents such as sustainability reports and websites (section 2.2). Data obtained from documents and literature research was used in order to support the findings from the interviews conducted.

The researcher was aware of the fact that the documents analysed (see section 2.2.1) are not free of bias. Moreover, the questions asked during semi-structured interviews can be subject of bias as well (see section 2.2.2). However, the researcher tried to remain as objective as possible throughout the research process. Through the aforementioned triangulation of methods bias was avoided as much as possible, as recommended by Shenton (2004, p. 65).

Moreover, Shenton (2004, p. 67), points out that frequent debriefing sessions “between the researcher and his or her superiors” is important, since “the vision of the investigator may be widened as others bring to bear their experiences and perceptions”. Additionally, Shenton

emphasizes that people “responsible for the work in a more supervisory capacity may draw attention to flaws in the proposed work of action” (*ibid.*). The same is true for “opportunities for scrutiny of the project by colleagues, peers, and academics”, since “the fresh perspective that such individuals may be able to bring may allow them to challenge assumptions made by the investigator, whose closeness to the project frequently inhibits his or her ability to view it with real detachment. Questions and observations may well enable the researcher to refine his or her methods, develop a greater explanation of the research design and strengthen his or her arguments in the light of the comments made” (*ibid.*).

This was achieved in this study through numerous discussions and feedback sessions with the researcher’s supervisor and peers throughout the course of this study. Both written and spoken feedback was provided.

Shenton (2004, p. 69) further points out, that the “examination of previous research findings... and the ability of the researcher to relate his or her findings to an existing body of knowledge is a key criterion for evaluating works of qualitative inquiry. In this respect, reports of previous studies staged in the same or a similar organisation and addressing comparable issues may be invaluable sources”.

This study fulfils this criteria with a literature review conducted in chapter 4.

## 2.5 Ethical considerations

During the research process, the researcher carefully made ethical considerations relating to the conduction of interviews (see section 2.2.2). The interviewees were informed prior to the interview about the aim of the study, about the fact that it will be published online as well as about the background of the researcher. Moreover, the interviewee participated voluntarily by giving a positive answer to the request for an interview via E-Mail. In addition, a summary of the interview was sent to the respective interviewee in order to avoid misunderstandings and to give the interviewee the possibility to make corrections of the statements given. Finally, the researcher was aware of potential bias that might occur in the research process as described in section 2.4 and aimed at remaining as neutral as possible.

As Qu and Dumay (2011, p. 252) point out, research dilemmas occur most of the time “due to a lack of awareness and/or proper procedures designed to establish mutual understanding and trust”. Therefore, the aforementioned ethical considerations were made during the interview process.

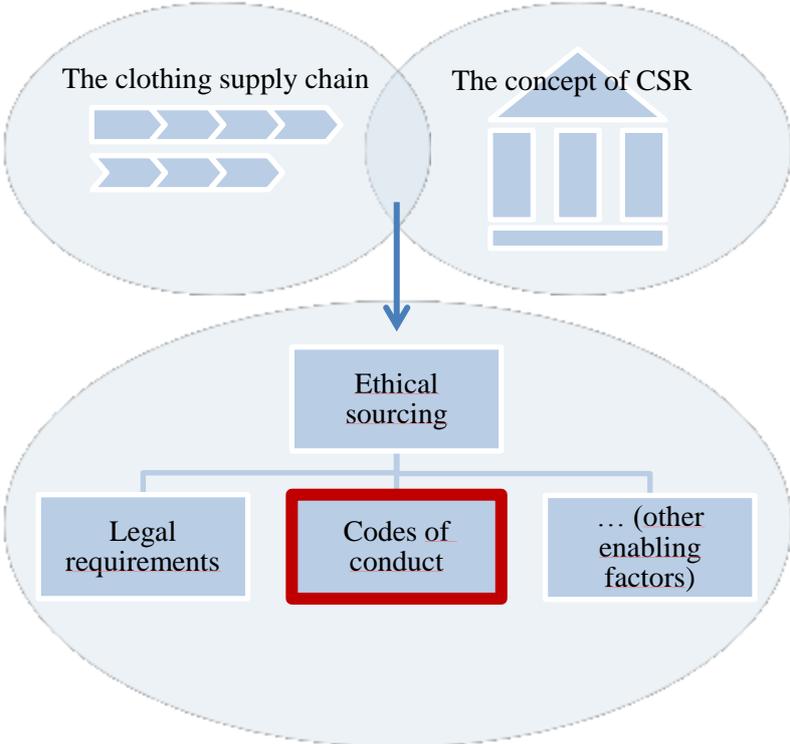
Qu and Dumay (*ibid.*) argue, that “the general ethical principle with regard to the interviewee is to impose no harm” and that “foremost is assuring that the interviewee has freely volunteered and was not coerced into participating in the research, and knows the intended outcomes” (*ibid.*). This was avoided by the measures process described at the beginning of this section.

The next chapter presents the theoretical framework used to analyse the empirical findings (for the analysis see chapter 7)

### 3. A theoretical framework

In this chapter, a theoretical framework is presented that serves as a basis for the analysis conducted in chapter 7 of the empirical findings presented in chapter 6. First, the concept of CSR will be described (section 3.1). Afterwards, the features of a supply chain in the textile industry will be defined. Finally, the connection between these two concepts will be drawn by describing the concept of ethical sourcing and one of its tools, ethical sourcing codes of conducts (section 3.4). Figure 2 illustrates the structure of the theoretical framework of this study.

Figure 2 A theoretical framework



This figure illustrates the theoretical framework explained in this chapter. Ethical sourcing can be achieved by integrating the concept of CSR along the supply chain.

### 3.1 The concept of Corporate Social Responsibility (CSR) in supply chain management

Figure 3 CSR and the triple bottom line

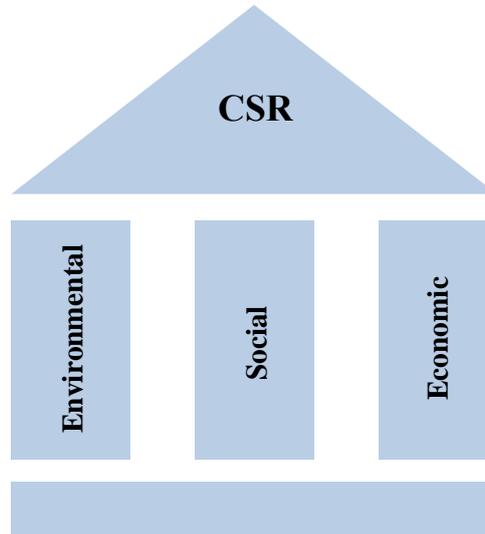


Figure 3 illustrates the concept of CSR that is based on environmental, social and economic aspects.

Corporate social responsibility (CSR) is a very broad concept describing companies' overall treatment of human beings and the environment and is extensively discussed in academia (Andersen and Skjoett-Larsen, 2009, p. 77). Nevertheless, there is no general consensus on the meaning of CSR in practice (*ibid.*). Table 4 summarizes several definition of CSR used in academic literature.

Furthermore, if there was a clear definition of CSR, the determination of operational managerial implications would present a problem since companies differ in size, product, profitability, resources, societal impacts etc. (Andersen and Skjoett-Larsen, 2009, p. 77). According to van Marrewijk and Werre (2003, p. 119), CSR is a custom-made process. Each organisation should approach CSR in its own way so that it meets the organisation's intentions and is aligned with the organisation's strategy. CSR should be an appropriate response to the circumstances in which the organisation operates (*ibid.*).

Finally, a vast amount of concepts are used to describe largely the same phenomenon contributing to the confusion about the notion CSR (Andersen and Skjoett-Larsen, 2009, p. 77). These concepts include sustainable development, corporate citizenship, sustainable entrepreneurship, the triple bottom line and business ethics (*ibid.*; Elkington, 1998.).

Table 4 Definitions of CSR in academic literature

Context of definition	Definition
Defining CSR potential of the international clothing industry	“Companies engage in CSR when they integrate social and environmental concerns in their business operations and thereby improve human well-being and fulfill or exceed requirements in international CSR standards“ (Laudal, 2010, p. 64)
CR in the garment industry	“The essence of corporate responsibility is to create shared value for the corporation and its stakeholders. Carroll (1991: 43) argues the company’s responsibility is to ‘make a profit, obey the law, be ethical and be a good corporate citizen’. Corporate responsibility can both be considered a business case and a strategy for risk mitigation” (Larsson <i>et al.</i> 2013 , p.263)
CSR in SMEs	“...the concept... focuses on the role of companies beyond their traditional scope of seeking profit, and evolved from emphasizing the social responsibility of business to incorporating also the concern for environmental protection... CSR refers not only to responsible behaviour within the organization itself but also to ensuring proper social and environmental conditions throughout its supply chain” (Ayuso <i>et al.</i> , p. 497)
CSR in fashion supply chains	“CSR addresses the moral, ethical and social consequences in supplier countries of global business operations...CSR derives from the altruistic desire to do good, which is rooted in moral philosophy and is commonly known as the normative case ...undertaken in a strategic manner, CSR can confer significant benefits upon the firm in terms of reputation management, employee recruitment and motivation, operational efficiency, investor relations and risk management, as well as delivering benefits to society at large” (Petsy and Towers 2013, p. 480f.)
CSR in global supply chains	“...the construct of CSR as we know it today has two main characteristics. Firstly, it describes the relationship between business and the larger society. Secondly, it refers to a company’s voluntary activities in the area of environmental and social issues” (Andersen and Skjoett-Larsen, 2009, p. 77)

While keeping in mind that there is no “one solution fits all concept”(van Marrewijk and Were, 2003, p. 107), in this study CSR will be defined as a concept that first, “describes the relationship between business and the larger society” and secondly, “refers to a company’s voluntary activities in the area of environmental and social issues” (Andersen and Skjoett-Larsen, 2009, p. 77).

This study focuses on the implementation of CSR measures along the supply chain of fashion retailers, since companies are engaging in complex supply-chains and supplier based

manufacturing across borders (*ibid.*, see section 3.3). This development transforms the concept of CSR, which makes “a company...no more sustainable than its supply chain” (Krause *et al.*, 2009, p. 18). Addressing the supply chain perspective is crucial when implementing CSR measures in global business (Petsy and Towers, 2013, p. 479). According to Andersen and Skjoett-Larsen (2009, p. 82), practising CSR in supply chains requires that it is embedded in the entire organisation. CSR should not merely be another corporate functional or staff at the headquarters, but “the firm must live and breathe” its values (Crane, 2001, p. 370). If this is the case, CSR aims at maximising value creation in a triple-bottom-line framework along the supply chain. This framework incorporates three aspects of equal importance: Social, environmental and economic (Elkington, 1998; Larsson *et al.*, 2013, p. 265, see figure 3). The social issues of CSR can be broken down into three main areas of wages, working hours and working conditions (Petsy and Towers, 2013, p. 479). When it comes to CSR strategies of companies, NGOs play a crucial role as well. While they still exert pressure on companies concerning their CSR measures, they increasingly became partners for companies in the work towards a sustainable CSR strategy creating win-win situations for both sides (see section 5.3.4; Larsson *et al.*, 2013, p. 270). In order to develop a sustainable corporate responsibility strategy along the supply chain, companies in the garment industry have to focus on the countries where their materials and clothes are produced. In the next section, the concept of supply chains will be defined by differentiating it from the concept of value chains.

## 3.2 Value Chains vs. Supply Chains

In the following section, the difference and similarities of a value chain and a supply chain are discussed. These two concepts are often not distinguished in scientific literature and in many cases they are used interchangeably (Hughes *et al.*, 2014, p.2).

“Value chain is a concept introduced by Porter that describes a chain of key activities performed within an organization that generates value relating to a product (or service)” (Hughes *et al.*, p.2). Along the value chain, value is added to a product (or service). This concept contributes to an “understanding of how, where, and how much of the value created by the product is achieved at various refinement stages throughout the supply chain (...). Each activity along the value chain will create value that exceeds the cost of providing the product (or service), therefore resulting in net profit for the company. The goal of the value chain optimization is to maximize the value achieved at each stage while minimizing costs. (...) Value chains differ dramatically based on the type of product produced” (Hughes *et al.*, 2014, p.2).

A supply chain on the other hand is “a set of firms or a linkage of separate agents, each with their own individual value chains that pass materials forward and bring products or services to the market” (*ibid.*). In this study, the definition of Mentzer *et. al* (2001, p.4) will be used to define a supply chain “as a set of three or more entities (organisations or individuals) directly involved in the upstream and downstream flows of products, services, finances, and/or information from a source to a customer”. This study will focus on the concept of the supply chain.

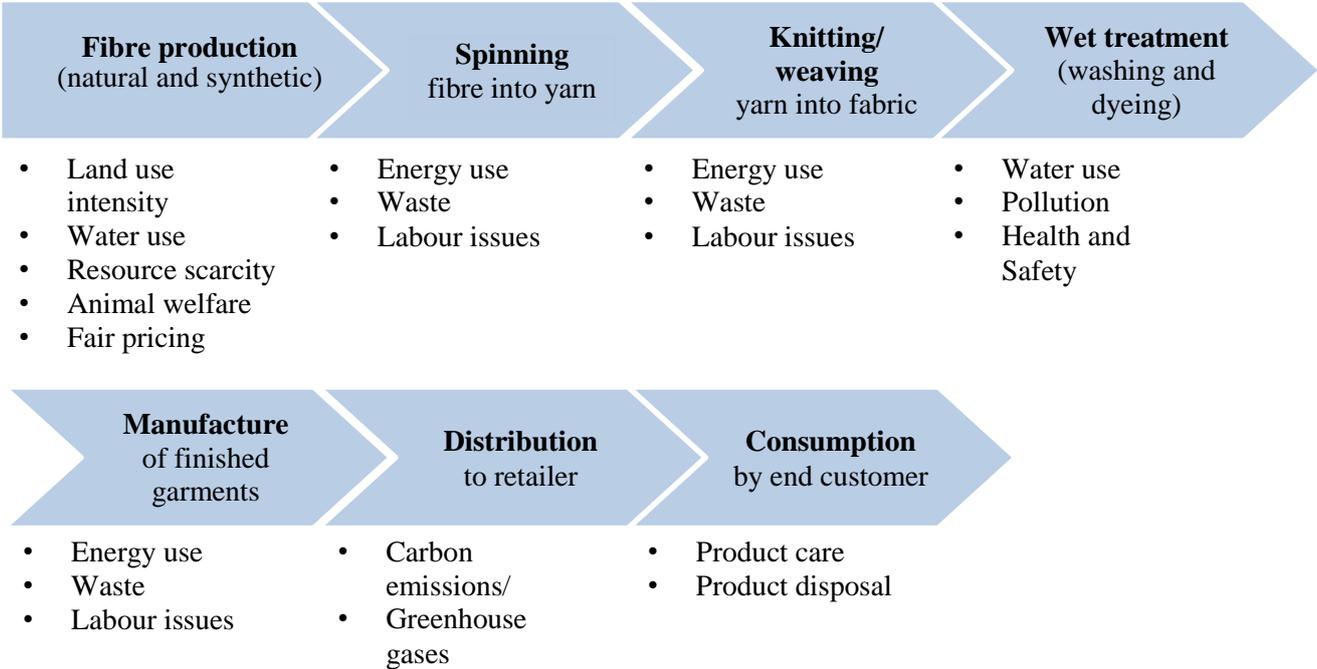
The reason for concentrating on the supply chain concept is that it is prevalent in the academic literature as well as in the literature selected for this study (Roberts, 2003; Andersen and Skjoett-Larsen, 2009; Kaluza *et al.*, 2003; Krause *et al.*, 2009). The next section will define a specific type of supply chain, the clothing supply chain.

### 3.3 The clothing supply chain

In this section, clothing supply chains are described before linking this concept with the concept of CSR (see section 3.1). The garment industry can be seen as an extreme case when it comes to managing supply chains. First, there are frequent shifts in product portfolio. Secondly, supply chains in the garment industry are internationally organised which influences and extends the stages where social, economic and environmental impacts can occur (Ashby *et al.*, 2013, p. 71). Social and cultural differences between supply chain members as well as differences between government regulations add to the complexity of the supply chains in the garment industry (*ibid.*).

The clothing supply chain has seven key levels (see figure 4). First, the fibre production, that includes growing, harvesting and cleaning of fibres. In the next step fibres are converted into yarn by spinning before the yarn is weaved or knitted into fabric. It follows the dyeing and finishing of the fabric, garment production and finally the distribution of the finished product to the retailer and at the end the customer (Ashby *et al.*, 2013, p. 71). Each of these steps has ecological and social impacts (*ibid.*). However, this model is a simplified illustration of work steps along the clothing supply chain. In reality, each step can involve several parties, such as factories, farms, agents or transport companies making this industry very complex (Fair Wear Foundation, 2015).

Figure 4 Clothing supply chain and its environmental and social impacts (based on Ashby *et al.*, p. 71)



This figure illustrates most important steps of the clothing supply chain including environmental and social impacts of each step.

In the next section, this concept will be linked with the concept of CSR by introducing the term of ethical sourcing.

### 3.4 Ethical sourcing

In this section, the concept of ethical sourcing that links the concept of CSR with the concept of supply chains (see previous sections), is introduced. Moreover, the notion of ethical sourcing codes of conducts, a tool that helps realizing ethical sourcing, are presented.

Ethical sourcing is a part of CSR activities of a company (Zentes and Schramm-Klein, 2009, p. 98). It includes meeting ethical norms in the process of global sourcing while taking laws in the respective countries and economic criteria into account (*ibid.*). An important aspect of ethical sourcing concentrates on good labour conditions and fair working hours, especially in companies sourcing in developing countries (*ibid.*). When it comes to establishing ethical sourcing, standards across corporate boundaries play an important role (*ibid.*). These standards aim at developing a wide accepted understanding of ethical sourcing that should serve as a basis for the (international) implementation of ethical sourcing (*ibid.*). Moreover, they play an important role when it comes to selection of suppliers and the documentation of ethical sourcing (*ibid.*). There exist numerous sector-specific standards from non-profit organisations focusing on ethical standards in the textile industry including WRAP (Worldwide Responsible Apparel Production) and the Fair Wear Foundation (see section 5.3.4).

Company specific standards play an important role as well when it comes to the establishment of ethical sourcing in companies (*ibid.*). Numerous companies established individual standards serving as a basis for ethical sourcing, often formulated in ethical sourcing codes of conduct (*a.a.*, p. 99). These standards demonstrate the relevance of ethical sourcing. According to the “Handels Monitor Spezial”, a study conducted in Germany in 2007, around 40% of companies in Germany attach ethical sourcing standards high or very high significance, especially when it comes to sourcing in developing or emerging countries (*a.a.*, p. 100). 55% of the companies that had suppliers in India attach ethical sourcing standards high or very high significance (*ibid.*). Finally, Roberts (2003, p. 159) argues that regarding the complexity of current supply chains, “individual company action makes little sense”. Rather, companies of an industry joining together, influencing suppliers and “organise joint monitoring is likely to be a much more effective way forward” (*ibid.*).

In the next section, the concept of ethical sourcing codes of conduct will be described in detail. In addition, the concepts used in the analysis in chapter 7 will be defined.

### 3.5 A conceptual framework for analysing codes of conduct

In this section, ethical sourcing codes of conduct will be defined; tools that can enable ethical sourcing activities and is implemented by an increasing number of companies worldwide (Mamic, 2004, p. 10). Additionally, focus of the analysis carried out in chapter 7 will be introduced.

A complete analysis of the role ethical sourcing codes of conduct play when it comes to ethical sourcing would cover the following aspects: Motives, content, enforcement and monitoring, challenges in implementation as well as financial aspects (3.5.1 -3.5.5).

### 3.5.1 Motives

According to Roberts (2003, p. 159), ethical sourcing codes of conduct guarantee that the products are sourced by a company meeting specific environmental and social standards. Companies use this mechanism to tackle complex and physically remote CSR issues. Ethical sourcing initiatives are highly topical and often promoted as the solution to managing supply chains sustainably. Roberts (2003, p. 168) identified four supply chain characteristics that influence the propensity to implement an ethical sourcing code of conduct:

- Number of links between supply network member demanding code of conduct and stage of supply network under scrutiny
- Diffuseness of stage of supply network under scrutiny
- Reputational vulnerability of different network members
- Power of different members of supply network

A detailed analysis of motives discusses why firms desire or decide against implementing codes of conducts to source their materials ethically.

### 3.5.2 Content

In general, codes of conduct set forth a list of workplace rights and standards for the factories along the companies' supply chain (Mamic, 2004, p. 10). An analysis could focus on differences in scope and core themes of codes of conduct by a range of companies as well as where these ideas originate (Preuss, 2009).

### 3.5.3 Enforcement and monitoring

Along with these codes, firms have developed managerial systems for labour monitoring, labour auditing or social compliance (Mamic, 2004, p. 10; Preuss, 2009; Shaw and Hale, 2009). Moreover, new kinds of intermediaries besides unions and work councils apply pressure, offer services and provide areas for coordinated action when it comes to compliance with ethical sourcing codes of conduct (Mamic, 2004, p. 10). These intermediaries include, among other, for-profit auditing firms or multi-stakeholder organisations (*ibid.*, Shaw and Hale, 2009).

### 3.5.4 Challenges in implementation

Implementation of codes of conduct can bring with it a number of challenges including aforementioned monitoring of compliance. One aspect where monitoring is particularly important is working conditions, creating tensions between factory and home-based workers (such as women and children) as a strictly regulated environment is required. The need to implement and monitor codes of conduct may force home-based workers out of the supply chain (Lund-Thomsen, 2008, p. 1011). In these cases the family income drops significantly (*a.a.*, p. 1012). Another example is a leather factory in a developing country that has ISO14001 certification. In order to clean its wastewater, the company installed primary and secondary water treatment plants. However, the factory ended up dumping the hazardous waste filtered out during the cleaning process into the nearby river. This is due to the fact that there are no publicly owned landfill sites where the waste can properly be disposed of (*a.a.*, p. 1009). These examples make clear, that simply implementing and complying with codes of conducts does not necessarily improve the environmental and societal impact for a given factory as the specific context of each factory has to be considered (*a.a.*, p. 1010).

### 3.5.5 Financial aspects

As businesses have to think about making a profit in order to survive in a business environment, codes of conduct could be seen as a tool to create value and attract customers. It could be analysed whether or not codes of conduct help firms in achieving these goals by impacting the reputation of a company positively, motivating employees and thereby leading to a cost reduction and an increase in profits (Hammann *et al.*, 2009).

The analysis of the results in chapter 7, focuses on point 3.5.1, the motives for desiring or deciding against the implementation of a code of conduct and point 3.5.4, the challenges in implementation.

After having developed a theoretical framework for the analysis of the empirics, a background for the empirical study is offered in the next chapters, to provide a scene for the empirical case studies in chapter 7. The next chapter provides a literature review of empirical studies on CSR strategies of SMEs and codes of conduct in various industries.

## 4. Literature review

This chapter provides a review of scientific literature about studies on CSR along supply chains of SMEs and on codes of conduct in different industries. A presentation of key findings from this literature is offered.

### 4.1 CSR along supply chains of SMEs

According to Kechiche and Separnot (2012, p. 97), discussion about CSR strategies and their implementation in practice has increased both in variety and volume over the past fifteen years. Since “the SME business sector is such a significant sector worldwide in terms of the economic, environmental and social impact it makes, attention has been turned to discussion and analysis of the principles and practices in small and medium size businesses with the result that this sector no longer finds itself outside the CSR movement” (Kechiche and Separnot 2012, p. 97). Several studies have been conducted on the implementation of CSR along supply chains of SMEs in order to determine impacts of CSR on various aspects including economic performance or the supply chain.

Hammann *et al.* (2009) carried out a survey trying to determine whether CSR measures have positive impact on the economic performance of SMEs. This survey addressed roughly 1200 SME entrepreneurs and owner-managers, assigned managers or self-employed persons such as lawyers, consultants, etc. (*a.a.*, p. 42). The findings suggest that the most important stakeholders for SMEs are its employees, to which decision makers often have close contact as well as customers and the society. Moreover, the implementation of CSR had a positive impact on the firm’s reputation as well as on employee satisfaction and motivation, leading to positive economic consequences, including cost reduction and the increase of profit (*a.a.*, p. 48f.).

A survey conducted by Ayuso *et al.* (2014) among over 410 Spanish SMEs from transport and service, commerce and hospitality, manufacturing as well as construction focused on supply chains of SMEs. The study aimed at finding out to which extent companies pass on social and environmental requirements by their customers to their suppliers. Their findings implied that the imposition of CSR requirements of SMEs on their suppliers depends rather “on the resources and/or bargaining power of buyers than on the resources and competences of suppliers. CSR requests from customers makes it more likely that CSR requests are posed to suppliers, and that the higher the level of CSR customer demands (formalization or verification), the higher the level of demands passed on to suppliers will be” (*a.a.*, 2014, p. 504).

Nawrocka *et al.* (2008) conducted a study examining how environmental requirements are reaching smaller companies in the electronics supply chain that supports the findings of Ayuso *et al.* (2014). The study is based on 21 qualitative interviews carried out with managers of 21 SMEs (Nawrocka *et al.*, 2008, p. 349). Findings suggested that SMEs experience low pressure from customers and SMEs in the electronics industry have few significant drivers to implement proactive measures when dealing with environmental issues (*a.a.*, p. 352).

Jorgensen and Knudsen (2006) conducted a study to determine the role of small Danish firms when it comes to CSR in supply chains that is linked to the survey of Ayuso *et al.* (2014). Based on a survey among 304 Danish SMEs from manufacturing and service industries, the study aimed at finding out to what extent SMEs are affected by social and environmental

requirements from buyers and to what extent SMEs apply these requirements to their suppliers (Jorgensen and Knudsen 2006, p. 452). The paper draws the conclusion, that “SMEs face requirements from their buyers much more frequently than they apply such requirements to their own suppliers. Also many buyer requirements in the value chain seem to be latent in that they are neither contractual nor subject to verification” (*a.a.*, p.449).

Moreover, Pedersen (2009) carried out a survey among 1071 Danish SMEs, the majority of which from manufacturing as well as trade and servicing sectors. The study draws the conclusion, that the larger the SME, the more likely it is to manage CSR in the supply chain. As a reason, Pederson (2009, p. 114) suggests that such SMEs “hold more bargaining power in the chain and are able to allocate more resources to CSR”.

Another study dealing with a similar topic was conducted by Baden *et al.* (2009). It aims at exploring what influence pressure from buyers has on supplying SMEs (*a.a.*, 2009, p. 430). The results suggest that in two-thirds of the cases pressure exerted by buyer functions as an incentive to engage in CSR activities. However, at the same time the findings suggested, that the most important motivation to engage in CSR activities are the SME owners or managers values (*a.a.*, 2009, p. 439).

SMEs are facing numerous challenges when implementing CSR strategies along their supply chains. Ciliberti *et al* (2008) analysed the practices adopted as well as the difficulties experience when SMEs implement CSR strategies at suppliers in developing countries. The study includes five case studies in Italian SMEs with which the researchers conducted focused face-to-face interviews (Ciliberti 2008 *et al*, p. 1581). The findings suggested that the main obstacles SMEs face in their CSR activities include cultural differences, low interest by customers in CSR, small influence by SMEs on their suppliers and communication problems (*a.a.*, p. 1586). The SMEs included in the study adapted a management strategy towards suppliers that “combines the compliance with requirements and the capacity building approaches (*ibid.*). The latter is aiming at expanding the capacity of the supplier to deal with CSR issues. Table 5 summarizes empirical studies on SMEs and CSR.

Table 5 Empirical studies on SMEs and CSR (extended, based on Ayuso *et al.*, 2014)

<b>Authors</b>	<b>Research aim and perspective</b>	<b>Empirical analysis</b>	<b>Major findings</b>
Ayuso <i>et al.</i> (2014)	Determine to which extent companies pass on social and environmental requirements by their customers to their suppliers (buyer perspective)	Survey that addressed 410 Spanish SMEs	SMEs can be “transmitters” of CSR throughout the supply chain
Baden <i>et al.</i> (2009)	Determine the extent to which supply chain pressure exerted by buyers motivate SMEs to engage in CSR activities (supplier perspective)	25 semi-structured in interviews with SMEs and survey among 103 SMEs in England	In the majority of cases, supply chain pressure is an additional incentive to engage in CSR activities
Ciliberti <i>et al.</i> (2008)	Exploring difficulties experienced by SMEs when dealing with suppliers in developing countries as well as CSR management strategies used (buyer perspective)	Study of 5 Italian companies involved in relationships with suppliers from developing countries	Challenges include (among others) cultural differences and low interest in CSR from suppliers; strategies combine compliance with requirements and capacity building at the suppliers to deal with CSR issues.
Hammann <i>et al.</i> (2009)	Determine whether CSR measures do have positive impact on economic performance of SMEs (buyer perspective)	Survey addressing 1200 SMEs	CSR has a positive impact reputation, employee satisfaction and motivation, leading to cost reduction and the increase of profit.
Jorgensen and Knudsen (2006)	Determine to what extent SMEs receive CSR-related requirements from their buyers and to what extent they apply these requirements to their suppliers (buyer and supplier perspective)	Survey among 304 SMEs	SMEs receive more requirements from their buyers than the apply to their suppliers; many buyer or supplier requirements are not strictly enforced
Nawrocka <i>et al.</i> (2008)	Examining how environmental requirements are reaching smaller companies in the electronics supply chain (buyer and supplier perspective)	Interviews carried out with managers of 21 SMEs in Sweden	SMEs experience low pressure from customer and have few significant drivers to implement proactive measures when dealing with environmental issues
Pedersen (2009)	Outline the anatomy of SMEs that try to manage CSR in the supply chains	Survey Of 1071 Danish SMEs	Larger SMEs are more likely to manage CSR in their supply chain

The next chapter provides a literature overview of studies on codes of conduct.

## 4.2 Codes of conduct

In 1998, the WWW (Women Working Worldwide) carried out a research and consultation study with its partners in Asia (Shaw and Hale, 2002, p. 104). In each country, including Indonesia, the Philippines, Sri Lanka, Pakistan, India, Bangladesh, the WWW worked with a workers' organisation. These organisations cooperate with female workers in the garment sector and support them concerning organisational, educational and work issues (*a.a.*, p. 105). As a first step, the extent of workers' knowledge was explored. Afterwards, an educational programme was initiated before workshops and consultations were held in the factories. (*ibid.*). Over time, more and more workers got involved learning more about their rights and the implementation of codes of conduct.

Results implied that supports needs to be given to the workers in order to understand, where codes are coming from. Workers need a "strong enough position to be involved" (*a.a.*, p. 107). Otherwise, they are "vulnerable to retaliations by companies" and "even the best intentioned initiatives could be another mechanism to undermine workers' rights" (*a.a.*, p. 107)

Similar results found a study of the ILO carried out in sports footwear, apparel and retail sectors summarized by Mamic (2005). The aim was to identify systems and processes to implement codes of conduct (*a.a.*, p. 83).

During the research project, interviews were conducted with 22 MNES and 74 of their suppliers. The latter were located in countries as China, Sri Lanka, Guatemala, Honduras, Mexico, Cambodia, and Thailand (*a.a.*, p. 82). Findings of the study suggested, that training and education are key in order to implement codes of conduct effectively (*a.a.*, p. 99). Moreover, top management has to support the implementation of a code of conduct and code of conduct responsibilities have to be integrated throughout the entire organization (*a.a.*, p. 98). MNEs and their suppliers have to work together on the solutions of problems (*ibid.*).

Preuss (2009) conducted a study to determine how "widespread codes on CSR have become, whether they are concentrated in particular sectors, what behaviour companies expect of their suppliers, what principles companies emphasise as underlying their supply chain relationships and whether there are any important aspect the codes omit" (Preuss, 2009, p. 735 f.). A content analysis of codes of conduct of FTSE100 Index Constituents, a share index of the 100 companies listed on the London stock exchange, was carried out.

The study draws the conclusion, that adopting ethical sourcing codes is "not the only approach to addressing CSR challenges in purchasing and supply" (*a.a.*, p. 744). Most companies have other tools including general codes of conduct that guide the behaviour of the entire company or the inclusion of CSR clauses into supply contracts. Working conditions of the suppliers' employees received the most attention in most of the companies' codes (*ibid.*).

Chen *et al.* (2014) conducted a study to compare CSC9000T, a collective code of conduct for the Chinese apparel and textile industry, to other CSR standards as well as to describe motives for the implementation in the Chinese textile and apparel industry (Chen *et al.*, 2014, p. 36). Findings of the projects suggest, that external drivers are the main reason for the implementation of the standard, including pressure from NGOs, international and domestic groups, the Chinese government as well as the adjusted structure of global textile industry and national textile industrial transferring (*a.a.*, p. 41). CSC9000T has similarities to international standards. However, it lacks focus on third-party certification and "the capacity to improve

working conditions and environmental aspects largely depends on self-regulation and corporate understanding on the benefits of proactive corporate responsibility” (*ibid.*). Table 6 summarized aforementioned studies.

Table 6 Empirical studies on codes of conduct

<b>Authors</b>	<b>Research aim and perspective</b>	<b>Empirical analysis</b>	<b>Major findings</b>
Chen <i>et al.</i> (2014)	Identify communicated motivations for the implementation of CSC9000T and comparison with other standards	Corporate illustrations in combination with secondary data (industrial reports, web pages etc.)	External drivers are main motivation for implementation and there exist similarities to other standards though, in comparison, CSC9000T depends more on self-regulation
Mamic (2005)	Identify systems and processes to implement codes of conduct (buyer perspective)	Interviews with 22 MNEs and 74 of their suppliers	Training and education at MNEs and suppliers, cooperation and integration of responsibilities throughout the entire organisation are key
Preuss (2009)	Identify content and frequency of codes of conducts well as their underlying principles	Content analysis of codes of conduct of FTSE100 companies	Additional tools are used to guide behaviour of the company companies, working conditions of the suppliers’ employees received most attention in the codes
Shaw and Hale (2009)	Identify knowledge of workers about codes of conduct and consequences of this knowledge (buyer perspective)	Examination of workers’ knowledge with partners of WWW in Asia, introduction of educational programmes and repetition of examination after the implementation of educational programmes	Education of workers is key as well as supporting them in forming organisations in order to get them involved in the implementations of codes of conduct

The next chapter presents the background for the empirics presented in chapter 6.

## 5. Background for the empirical study

This chapter will provide a background for the empirical study. It illustrates the general role of SMEs in Germany, before examining features of SMEs the German textile industry. Furthermore, background information about the cases studied will be presented.

### 5.1 The role of SMEs in the German fashion and textile industry

The European Commission (2003) defines SMEs as enterprises “which employ fewer than 250 persons and have annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro”. SMEs play an important role in the German industry. “In 2005, 3.38 million SMEs with about 20 million employees, representing 70.1% of all employees in private business, were undertaking their activities in Germany” (Hammann *et al*, 2009, p. 38). However, these facts underline the economic role of SMEs neglecting social and psychological characteristics of SMEs that are essential for understanding what SMEs are (Hammann *et al*, 2009, p. 38). These include “individual personalities, private ownership, personal relationships, multi-tasking, freedom of decision-making and contracting, as well as the individual responsibility of the entrepreneur or the owner–manager for the success or the failure of their own enterprise” (*ibid.*).

The textile and fashion industry is one of the most important consumer goods sectors in Germany employing around 120.000 people in 1200 mainly small and medium-sized companies (Umweltbundesamt, 2014). Producing in the branches fashion- and clothing-textiles, house and home-textiles as well as technical textiles, the turnover of the industry was 19 billion in 2012 (*ibid.*; Gesamtverband textil + mode, 2015a). Due to the increasing globalisation of markets, 90 percent of the textiles sold in Germany are imported mainly from China, Turkey and Bangladesh (Umweltbundesamt, 2014).

### 5.3 Case presentations

In this section the cases analysed in this study, hessnatur, SIMÓN ESE, the Fair Wear Foundation and Blutsgeschwister, are presented. The cases have been chosen on the basis of the criteria described below. These criteria are summarized in table 7:

Hessnatur is a traditional enterprise founded in order to produce ecological fashion (see section 5.3.1). The company successfully incorporated the idea of sustainability in its core business and along its supply chain. Hessnatur implemented the Fair Wear Foundation’s (FWF) “Code of Labour Practices” and is a member of the foundation, a multi-stakeholder organisation that aims at improving the working conditions in the textile industry (see section 5.3.4). Hessnatur serves as an example of a traditional, middle-sized business that produced sustainable clothes for nearly 40 years now.

SIMÓN ESE is a young, small company that initially produced clothes without waste (see section 5.3.3). The company has no code of conduct and maintains very close contact to its suppliers. Currently, SIMÓN ESE is in a phase of restructuring and looking for alternative ways to source their material ethically. By studying SIMÓN ESE, challenges small fashion stores are facing on the market could be identified.

Blutsgeschwister is a middle-sized fashion label founded in 2001 that is also a member of the FWF. As hessnatur, Blutsgeschwister committed itself to implement the organisation’s code of conduct along its supply chain. The label designs individual and unique clothes (see section

5.3.2). The case of Blutsgeschwister represents a middle-sized fashion retailer founded in Germany that decided to incorporate CSR along its supply chain and that joined the Fair Wear Foundation in 2013.

In order to investigate an alternative, non-retailer perspective on the topic an interview with the Fair Wear Foundation was conducted (see section 6.4). By comparing these cases, two fashion retailers with an ethical sourcing code of conduct and one without as well as a multi-stakeholder organisation, motives for implementing codes of conduct in small and medium-sized fashion retailers will be defined as well as challenges SMEs in the fashion sector meet by doing so.

Table 7 Characteristics of the cases studied

<b>Hessnatur</b>	<ul style="list-style-type: none"> <li>• middle-sized fashion retailer (343 employees)</li> <li>• founded to produce sustainable baby clothes</li> <li>• 39 years of experience in producing sustainable clothing</li> <li>• several codes of conducts</li> <li>• member of the Fair Wear Foundation, a multi-stakeholder organisation with its own code of conduct (see section 5.3.4)</li> </ul>
<b>Simón Ese</b>	<ul style="list-style-type: none"> <li>• small-sized fashion retailer (around 5 employees)</li> <li>• founded to produce sustainable clothes</li> <li>• founded in 2011</li> <li>• no codes of conduct</li> <li>• very close contact to its suppliers</li> </ul>
<b>Fair Wear Foundation (FWF)</b>	<ul style="list-style-type: none"> <li>• perspective of a non-profit multi-stakeholder organisation, complements the two cases</li> <li>• expertise of working with a variety of companies in the textile sector over the years</li> </ul>
<b>Blutsgeschwister</b>	<ul style="list-style-type: none"> <li>• middle-sized fashion retailer (around 100 employees)</li> <li>• founded in 2001</li> <li>• member of the Fair Wear Foundation , a multi-stakeholder organisation with its own code of conduct</li> </ul>

This table summarizes characteristics of the cases studied which were described at the beginning the chapter. A detailed description of each case follows in the next sections.

### 5.3.1 Hessnatur

Hessnatur was founded in 1976 in Bad Homburg, Germany, by Dorothea and Heinz Hess (hessnatur, 2013, p. 10). The company is a pioneer in the production of ecological clothing and produces clothing free from toxics and made under fair working conditions (*ibid.*). In 2008, hessnatur won the German Sustainability Award (“Deutscher Nachhaltigkeitspreis”) in the category “Germany’s most sustainable purchasing department” (*a.a.*, p. 12). Currently, hessnatur has 343 employees and a turnover from around 69.77 million per year (*a.a.*, p. 28). In 2005, the company joined the “Fair Wear Foundation” as the first German enterprise (*a.a.*, p. 60). In the financial year 2011/2012, hessnatur worked with 83 suppliers in the textile area, around 75% of them from Europe (*a.a.*, p. 56).

### 5.3.2 Blutsgeschwister

Founded in 2001, the fashion label „Blutsgeschwister“ is based in Stuttgart and Berlin (Blutsgeschwister, 2015). The label aims at “creating new trends by combining traditions with modern urbanism” (Blutsgeschwister, 2014a). The brand’s symbols, the cross, the heart and the anchor, stand for the company’s “belief in the individual, love of creativity and down-to-earth attitude. In practice, this means that the company cultivates fair treatment of colleagues, customers and suppliers alike” (*ibid.*). More than 50 employees are working for the company with Karin Ziegler as head of design. Currently, Blutsgeschwister has several collections including „Blutsgeschwister Ladies“, „Blutsgeschwister-Kids“, „Blutsgeschwister Homewear“ and „Blutsgeschwister Accessoires“. Since June 2013 the company is a member of the multi-stakeholder organisation Fair Wear Foundation (see section 5.3.4). In 2015, Blutsgeschwister published its most recent CSR report and in 2013 the Social Report that is required from the members of the Fair Wear Foundation (Blutsgeschwister, 2015; 2014b).

### 5.3.3 SIMÓN ESE

The fashion label SIMÓN ESE was founded in 2011. “SIMÓN ESE” is a notion used in Mexican street slang and means ‘Alright, my friend!’, symbolising the company’s close connection to Mexican culture as well as its down-to-earth attitude the label approaches in its designs and company culture. Both design and production of SIMÓN ESE are based in Mexico City (pers.comm., Bernhard, 2015). The organisation aims at producing clothes under fair working conditions and is cooperating with small, family-operated sewing businesses. Since the label is currently selling its clothes to 35 to 40 stores and need to deliver their clothes on time, using solely leftovers of Mexican textile companies for their clothes is not possible anymore. Therefore, SIMÓN ESE is currently in a period of restructuring. Parts of the label’s collections are still made out of material stock leftover by the Mexican fashion industry. For the rest of its clothes, SIMÓN ESE uses bamboo viscose and modal fibre mixed with conventional cotton. The company plans to use ecological cotton in the future (*ibid.*). SIMÓN ESE is cooperating with the Mexican artist René Harayshi. German and Mexican artists design prints for T-Shirts. Proceeds from the sale of these T-Shirts go to René Harayshi supporting social art projects in Mexico (SIMÓN ESE, 2014, p. 2; pers.comm., Bernhard, 2015).

### 5.3.4 Fair Wear Foundation

There are a number of industrial collaborations in the German textile industry. One is the International Verband der Naturtextilwirtschaft, IVN (International partnership of natural textiles). Founded in 1989, the IVN defined standards concerning ecological and social aspects of the textile production as well as quality of the finished product (Internationaler Verband der Naturtextilwirtschaft e.V., 2011a). The collaboration’s seal NATURTEXTIL is supposed to guarantee that products carrying this seal are eco-friendly, socially accountable

and high-quality textiles (*ibid.*). Among the 90 members of IVN are retailers, manufacturers, mail order- and service companies and contractors. Finally, private individuals support the organisation with membership fees (Internationaler Verband der Naturtextilwirtschaft e.V., 2011a, 2011 b).

The Bündnis für Nachhaltige Textilien (Partnership for Sustainable Textiles) aims at improving social, ecological and economic aspects along the textile supply chain (Bündnis für Nachhaltige Textilien, 2015a). In 2014, upon an initiative from Gerd Müller (see section 5.3.4), the partnership was founded by various enterprises and organisations fashion retailers (*a.a.*). Currently, the organisation has 68 members (Bündnis für Nachhaltige Textilien, 2015b). Membership is notified via a declaration of enrolment, with which the respective enterprise or organisation agrees to implement measures to improve conditions along the supply chain. These measures are included in a plan of action that contains Partnership standards and goals towards which the members are working (Bündnis für Nachhaltige Textilien, 2015a).

The Confederation of the German Textile and Fashion Industry represents the interests of the industry as a whole concerning economic and social aspects as well as collective bargaining policies. Rather than a collaborations with focus on CSR aspects as the forementioned IVN or Partnership for Sustainable Textiles, the confederation is the „spokesperson for the industry on the international economic, political and social arena“ (Gesamtverband textil + mode, 2015a). Objectives of the confederation include to „safeguard the general appeal of Germany as a commercial location compared to other countries in the world“ (Gesamtverband textil + mode, 2015a). However, the confederation addresses CSR-related topics as well and has its own code of conduct which is based on ILO-norms (Gesamtverband textil + mode, 2015b).

A unit of analysis in this study is the Fair Wear Foundation (FWF), an independent, non-profit organisation that works with companies and factories aiming at improving labour conditions for workers in the garment industry (Fair Wear Foundation, 2009).

FWF is a multi-stakeholder organisation that creates meeting grounds for business associations, trade unions, and NGOs as equal partners at every level of the foundation's activity – from decision-making at the Board level to workplace verification and code implementation. Each stakeholder group has an important role in improving working conditions in the garment industry (Fair Wear Foundation, 2009). Currently, the organisation has 80 member companies representing 120 brands based in seven European countries (*ibid.*). Products of member companies are sold in over 20,000 stores in more than 80 countries around the world (*ibid.*). The foundation works in 15 production countries in Asia, Europe and Africa (including, among others, China, India, Bangladesh, Turkey, Poland), where it maintains close contact with local stakeholders (*ibid.*).

FWF focuses on those phases of production where sewing is the main manufacturing process, one of the most labour intensive phases of the production process where many labour problems occur (Fair Wear Foundation, 2009). The organisation has its own Code of Labour based on the conventions of the International Labour Organisation (ILO) and the Universal Declaration on Human Rights (Fair Wear Foundation, 2009b). Table 8 summarizes the main points of the Code.

The foundation’s verification system consists of three levels: First, FWF verifies at factory level and implements a complaints procedure in all countries where it is active (Fair Wear Foundation, 2009). Secondly FWF carries out management system audits of its member companies to check whether companies implement the FWF Code of Labour Practices in their management systems effectively (*ibid.*). Finally, the foundation shares its knowledge as well as its (local) contacts with its member companies (*ibid.*).

Table 8 Fair Wear Foundation: Code of Labour Practices: Key aspects

<b>FWF Code of Labour Practices</b>
<ul style="list-style-type: none"><li>• Employment is freely chosen</li><li>• There is no discrimination in employment</li><li>• No exploitation of child labour</li><li>• Freedom of association and the right to collective bargaining</li><li>• Payment of a living wage</li><li>• No excessive working hours</li><li>• Safe and healthy working conditions</li><li>• Legally binding employment relationship</li></ul>

This table illustrates key aspects of the Code of Labour Practices of the FWF. The next chapter presents the empirical results of the data gathered.

## 6. Results

In the following, results from the case studies are presented. They were obtained through semi-structured interviews as well as the analysis of academic literature and documents such as sustainability reports. Comments from the interviews are cited with “pers.comm.” and the name of the interviewee that has made the statement. First, each organisation’s definition of CSR as well as the implementation of codes of conduct is presented followed by a description of motives and challenges linked to the introduction of codes of conducts.

### 6.1 Hessnatur

#### 6.1.1 Hessnatur’s definition of CSR

Hessnatur aims at implementing a holistic approach of CSR that includes the environment, fair working conditions and human-toxicological aspects along the supply chain (Bergmann, pers.comm., 2015, hessnatur, 2013, p. 10). Hessnatur does not realise CSR in areas such as manufacturing or design. The company aims at implementing the aforementioned holistic approach of CSR along the whole supply chain, starting at the fibre production and ending at the consumptive phase (Bergmann, pers.comm., 2015). Fair and ecological production being a reason for the company’s foundation, hessnatur’s long-term expertise with CSR is an advantage when it comes to implementing CSR along the supply chain. There are many discussions going on about CSR along the textile supply chain, especially after the foundation of the Bündnis für Nachhaltige Textilien by Gerd Müller.

Many organisations claim that they can take responsibility for the previous stage of the supply chain, but that they do not have any information about sub-suppliers or previous production stages and therefore cannot be hold responsible for conditions in their whole supply chain (*ibid.*). However, many fashion companies producing very “fashionable” clothes would like to become more sustainable. There is a certain convergence of these two “branches” of the textile industry, that is of sustainable labels and fashionable labels. Many organisations produce parts of their collections sustainably. Hessnatur was founded in the sustainable textile branch and aims at becoming more fashionable. The demands of customers have changed. Customers would like to buy fashionable and sustainable clothes. Fashion retailers have to combine both elements in their collections (*ibid.*).

#### 6.1.2 Hessnatur’s Management System

In order to manage its holistic approach, hessnatur developed a comprehensive management system that includes a supplier guide (“Lieferantenleitfaden”) and a Code of Labour Practices (“Arbeitsverhaltenskodex”) (Bergmann, pers.comm., 2015; hessnatur, 2013, p. 56 f.) with the former including labour rules, ecological standards and human rights (*ibid.*). This guide has to be signed by each supplier of hessnatur (hessnatur, 2013, p. 56 f.). In addition, the suppliers’ workers receive the Code of Labour Practices of the FWF (Fair Wear Foundation) that is written in the respective native language explaining working standards. These standards are based on the core labour standards of the ILO (International Labour Organisation) and includes contact details that workers can use to file complaints (*a.a.* p. 60). With these documents, hessnatur clarifies what they expect from their suppliers and vice versa before entering a new work relationship (Bergmann, pers.comm., 2015).

To make sure that suppliers comply with hessnatur’s standards, employees from various corporate divisions, such as purchasing, technology, financial accounting and corporate responsibility, evaluate the suppliers twice a year (hessnatur, 2013, p. 56). Based on these evaluations it is decided whether hessnatur deepens the business relationship with the

suppliers evaluated (*ibid*). Due to this cooperation, both sides develop know-how on ecological standards and processing technology over the years (*ibid.*). Hessnatur builds long-term relationships with its suppliers, considering this key to improve working conditions at the suppliers in the respective countries (Bergmann, pers.comm., 2015). The company avoids “textile tourism”, a term that describes a frequent change of suppliers (Bergmann, pers.comm., 2015).

Internal and external audits are carried out in the suppliers’ factories. The FWF conducts these audits with local teams taking cultural aspects into account (hessnatur, 2013., p. 63). Internal audits are carried out by hessnatur’s employees (*ibid.*). Trainings are another tool used in order to increase awareness of sustainability problems and to encourage the dialogue between hessnatur and its suppliers as well as between the factories’ management and their workers (*a.a.*, p. 60).

Besides social aspects, hessnatur takes environmental impacts of its supply chain into account. The company aims at offering as many textiles made of ecological fibre as possible. However, some fibers, such as cashmere or alpaca, cannot be produced ecological yet. Moreover, some ecological fibers are still scarce (hessnatur, 2013, p. 68). In the business year 2011/2012, 29.8% of the textile products sold by hessnatur were made out of conventional fibers or a mix of ecological and conventional fibers. In 2013, 70.2% of the products sold were made out of 100% ecological fibers (*ibid.*). hessnatur has many long-time customers who trust the company. In the past, the company had to recall products that did not fulfil the ecological standards of the company. However, these recalls never lead to waning of customer loyalty. Concerning its customers, this transparency rather seems to make the company more trustworthy (Täubner 2012).

### 6.1.3 Cooperations of hessnatur

The cooperation with the FWF is most important for hessnatur, since it is relevant for anything concerning social standards in the production, especially in manufacturing. Moreover, the FWF is a practice-oriented multi-stakeholder organisation that includes certain neutrality due to its different members. Finally, these members offer different perspectives on a problem (Bergmann, pers.comm., 2015; see section 5.3.4). FWF as a multi-stakeholder organisation specialised on social conditions in the supply chain offers a different perspective on the textile industry than hessnatur, an enterprise that has to keep several things in mind, including economic aspects (*ibid.*)

Concerning ecological standards, hessnatur cooperates with the organisers of the GOTS seal (Bergmann, pers.comm., 2015). Moreover, hessnatur is a founding member of the IVN (see section 5.3.4). Finally, hessnatur cooperates on a project basis as well. An ecological cotton project in North West Africa was built in cooperation with Helvetas, a Swiss NGO, for example (*ibid.*).

### 6.1.4 Motivations for implementing the Code of Labour Practices

To hessnatur, social standards have always been important (Bergmann, pers.comm., 2015). However, in 2000 the NGO “Clean Clothes Campaign” approached the company concerning its working standards (*ibid.*).The NGO pointed out, that though hessnatur gets its supplier guides and standards signed, they do not conduct any follow-up audits at the production sites to control if the standards are actually met. This initiated a learning process at hessnatur. Up to this point, the company assumed that after talking to the suppliers, explaining them the standards and getting a signature, standards would be met (*ibid.*). As a consequence, hessnatur developed a comprehensive management system including the definitions of standard and

audits of supplying factories (*ibid.*). By doing so, the company aims at ensuring that the standards written on paper are actually implemented (*ibid.*).

### 6.1.5 Challenges

Hessnatur defines the step from paying a minimum wage to a living wage as a major challenge. According to the FWF, a living wage should “cover basic needs and some discretionary income” (Fair Wear Foundation, 2015). Payment of a minimum wage is a precondition to become one of hessnatur’s suppliers (Bergmann, pers.comm., 2015). Though hessnatur has suppliers where the workers’ salary is higher, many suppliers are struggling with this standard and are paying a salary below living wage (*ibid.*).

A second challenge presents hessnatur’s low purchasing power that limits hessnatur’s influence at its production sites. As a SME, hessnatur often uses only 10 to 15 percent of a supplier’s capacity with 85 to 90 percent of production being undertaken for other companies (*ibid.*). Demanding higher wages for workers producing for hessnatur is impossible. This would be similar to splitting the workplace (*ibid.*). In order to increase its influence, the company aims at cooperating with other companies. By joining together, SMEs get more power to demand changes such as payment of a living wage, for example (*ibid.*).

Communicating the complexity of issues concerning CSR along textile supply chains is a huge challenge; the problematic has not reached the masses yet and the price orientation still dominates purchasing decisions of customers (*ibid.*).

Moreover, the complexity and unreliability of existing seals combined with scandals covered in the media (see chapter 1) leads to decreased trust of customers in the industry (Bergmann, pers.comm., 2015). Hessnatur is the first German enterprise that signed the “Bündnis für nachhaltige Textilien” (see section 5.3.4), since according to hessnatur, developing a seal that takes social and ecological aspects into account and that is additionally controlled by the state might gain back trust from customers (*ibid.*).

Finally, the aforementioned holistic approach on CSR presents a permanent conflict area, since not every aspect can be considered to the same extent. Hessnatur is an enterprise that has to make profit in order to survive. Moreover, without profit there is no investment and no possibility to change the situation for the better (*ibid.*).

## 6.2 Blutsgeschwister

### 6.2.1 Blutsgeschwister’s definition of CSR

Blutsgeschwister is a very emotional label as is its definition of CSR (Heyckendorf, pers.comm., 2015). It is already embedded in Blutsgeschwister’s philosophy to promote cohesion of humans with their environment. The label aims at uniting people through fashion and yet letting humans preserve their individuality (*ibid.*). According to Blutsgeschwister’s representative, this philosophy is accompanied with the desire to rather enrich environment and people than causing them harm. The company aims at implementing this approach of CSR along its whole supply chain in the long run (*ibid.*).

### 6.2.3 Motivations for implementing the Code of Labour Practices

The Code of Labour Practices of the FWF was not the decisive factor for joining the foundation, since it is, as many other codes, based on the standards of the ILO (Heyckendorf, pers.comm., 2015). For Blutsgeschwister, the working method of the FWF was crucial for signing the Code of Labour Practices. The Foundation aims at identifying weaknesses at

production sites and addresses them in cooperation with the supplier (*ibid.*). It does not match Blutsgeschwister's definition of CSR to approach suppliers with a checklist and require the implementation of certain social standards without supporting them in the implementation of these standards (*ibid.*).

#### 6.2.4 Challenges

Transparency in the textile industry poses a huge difficulty and has to be improved (Heyckendorf, pers.comm., 2015). The politics and engagement of the respective countries present another challenge as it is very difficult for a company to demand from its supplier paying its workers a higher salary than the legal minimum wage, for example. For suppliers, it is often hard to understand why this is necessary. To sum up, the general political situation of the country as well as the lack of transparency in the supply chain adds to the complexity of the problem (Heyckendorf, pers.comm., 2015).

Blutsgeschwister tries to deal with the circumstances given and aims at improving them. The extent to which an understanding of CSR exists, depends on the country (*ibid.*). Currently, Blutsgeschwister produces in China, India and Turkey (*ibid.*). Another challenge Blutsgeschwister has to deal with is its small purchasing power at suppliers. Moreover, especially when it comes to topics of code 6, "no excessive working hours" or code 5 "the payment of a living wage", Blutsgeschwister were often the only customer demanding such standards at the production site. In this case, it is very difficult for a supplier to put these codes into practice (Fair Wear Foundation, 2009b; Heyckendorf, pers.comm., 2015)

Moreover, the lack of internal resources presents another challenge. Blutsgeschwister's team would like to monitor its suppliers more frequently. However, with limited internal resources this is hard to put in practice. Working with corrective action plans poses another difficulty (Blutsgeschwister, 2014b). So far, 2 persons at Blutsgeschwister worked on 8 corrective action plans aiming at keeping track of improvements or corrections made at the suppliers. As a consequence, the time span in which these plans were realised used to be very long. For this reason, 5 employees of Blutsgeschwister are currently working on these plans. However, if Blutsgeschwister would have more internal resources, progress would be faster (Heyckendorf, pers.comm., 2015).

#### 6.2.5 Strategies to meet challenges

A code of conduct is an important tool in meeting the challenges along a supply chain (Heyckendorf, pers.comm., 2015). A company aiming at improving the situation of its workers has to make a start and the code is a basic definition of things it would like to work on. However, currently a vast amount of codes exist.

According to Blutsgeschwister, as a SME, it is a good solution to join an organisation, adapt their code of conduct and receive support in the conduction of audits. For Blutsgeschwister, the code of the FWF is very helpful in order to identify problems the company wants to work on. By doing so, Blutsgeschwister's team realised, that implementing the Code of Labour Practices requires many small steps. These steps are often not obvious and it is not always easy to assign each step a code. One often notices, that undertaking one measure leads to a domino effect with two or more codes being affected by the change made, as the example of the introduction of contracts of employment illustrates (*ibid.*). Introducing contracts of employment has a positive effect on working hours and lead to regular payment of salary at the same time. Moreover, contracts of employment influence the code dealing with freedom of association and the right to collective bargaining, since the workers gain awareness of their

rights and duties. As a consequence, they increasingly make use of their rights and meet their duties (Heyckendorf, pers.comm., 2015, Fair Wear Foundation, 2009).

Moreover, trying to build a monitoring system as a SME and conducting audits is rather difficult due to the lack of internal resources. Finally, the Fair Wear Foundation's approach is very good in that sense that it recommends its members to examine the company's own processes as a first step in order to make sure, that the supplier can fulfil meet requirements of the respective company (Heyckendorf, pers.comm., 2015).

At one production site, Blutgeschwister cooperates with three other member companies of the FWF and shares the work of conducting audits (*ibid.*). Since Blutgeschwister aims at deepening the relationship with its suppliers, the company looks for brands with the same interests at their existing suppliers rather than for new suppliers (*ibid.*). Another problem poses the languages: For Blutgeschwister, it would be impossible to work with documents in Chinese, Tamil or Turkish as the Fair Wear Foundation does.

In India for example, Blutgeschwister noticed that the relationship between workers and factory owners or supervisors is not very professional but rather on a friendship kind of base. If it is the birthday of a worker's grandmother, for example, this worker might be absent without prior notification. His absence leads to a gap in production which has to be made for by working overtime hours (*ibid.*). Due to the introduction of contracts and the education programmes involving the workers, Blutgeschwister notices positive changes. Workers take days off, absence times are better planned and the supplier can plan its capacity utilization (*ibid.*).

Currently, textile companies are under a lot of pressure. Though this pressure leads to Greenwashing and superficial solutions as well, the current development seems to have taken the right direction (*ibid.*). Awareness of brands, consumers as well as of governments and NGOs will contribute to political changes in the respective countries. China shows with its development over the last years that improvements are possible. Besides that, companies aiming at implementing CSR along their supply chains have to realise that it takes a lot of time and endurance. It is important to keep being on top of things and always try to explain to suppliers, why it is important to only work with *one* weaving mill, or *one* spinning mill (*ibid.*). By doing so, a trustful relationship between a company and its suppliers can be build (*ibid.*).

## 6.3 SIMÓN ESE

### 6.3.1 SIMÓN ESE's definition of CSR

To SIMÓN ESE, fair treatment is very important. This includes sales as well as production aspects and treating customers and workers fair (Bernhard, pers.comm., 2015). Moreover, for SIMÓN ESE, CSR includes taking the people working on the product into account. The workers of SIMÓN ESE have a short way to work, for example, which something that is not taken for granted in Mexico City (*ibid.*). Moreover, workers have a 40 hours week and are paid five times above the average salary in Mexico (*ibid.*). All in all, SIMÓN ESE does not aim at producing as cheap as possible, but at treating the workers fair and paying them a good salary. This is very important to SIMÓN ESE (*ibid.*). Additionally, each collection of SIMÓN ESE includes an artist series giving artists from Mexico and Europe the chance to design a print for T-shirts. The revenue from selling these shirts goes to a project in Mexico managed

by René Hayashi. He is responsible for several social projects. One of the projects included teenagers that live on the street, e.g. Together, they built a climbing park on an abandoned square (*ibid.*).

### 6.3.2 Challenges

Until now, the complete purchase of production material and the design of SIMÓN ESE was located in Mexico City (Bernhard, pers.comm., 2015). Sourcing fabrics in Mexico City proved to be difficult as most manufacturers required SIMÓN ESE to buy a quantity the company could not take. Therefore, the SIMÓN ESE decided to work with overproduction of fabrics (*ibid.*).

Outside of Mexico City huge amounts of remnants of fabrics bought from big manufacturers, such as “Miro”, are stored in a big hall. One panel of fabric weighs up to 70 kilos.

With the help of a “Ping-Pong-System”, SIMÓN ESE designed its collections. First, the team drafted a collection and went to look for fabrics. However, there were often completely different fabrics available than the ones SIMÓN ESE initially planned to use (*ibid.*).

Therefore, the collection was changed twice or three times depending on the fabrics available (*ibid.*).

Moreover, fabric had to be bought immediately, since a panel of fabric reserved by SIMÓN ESE might be sold to someone else (Bernhard, pers.comm., 2015). In addition, the company never knew how much clothes would be ordered. This could mean for example, that the team would buy a panel of fabric for 500 or 1000 Euro, with a weight of about 40 kilo – and in the end no one would like the colour. The company would have no use of the fabric. SIMÓN ESE now has reached a point, where this production process is not possible anymore, since it is too time consuming and does not produce sufficient amounts of clothes (*ibid.*). Currently, the company is selling its designs to about 40 stores and still produces parts of its collection with remnants of fabrics (Bernhard, pers.comm., 2015)

Nevertheless, the company is in a period of transition. SIMÓN ESE plans to use ecological cotton in the future. However, there are farmers that fight to survive and cannot afford to grow ecological cotton, since it needs huge amounts of water (Bernhard, pers.comm., 2015). Finally, the fashion market has to become more transparent.

### 6.3.2 Strategies to meet these challenges

In the production of their basic pieces, the label works with modal fibre, a regenerative fibre that is mixed with conventional cotton. Therefore, the company does not produce 100% ecological at the moment (Bernhard, pers.comm., 2015).

Moreover, the company aims at cooperating increasingly with European suppliers since the distance is smaller. Currently, the company has a partner in Portugal that is producing SIMÓN ESE’s “Basic” shirts made out of a modal fibre.

The company has no code of conduct. SIMÓN ESE has very close contact to its suppliers. One of its team members lives in Mexico, knows all suppliers personally and visits their workplaces (Bernhard, pers.comm., 2015). If SIMÓN ESE publishes photos, they were all taken by this team member (Bernhard, pers.comm., 2015). However, concerning the manufacturers of the fabric overproduction, SIMÓN ESE cannot trace where the fabric comes from. The company has a supplier of yarn, where the team selects threads SIMÓN ESE wants to use (Bernhard, pers.comm., 2015).

In order to meet these challenges, communicating with customers is key (Bernhard, pers.comm., 2015). Each of SIMÓN ESE's collections has a "lookbook" in which one or two pages explain what and how the company is producing. Besides, SIMÓN ESE has a flagship-store in Munich, where the team talks to people and explains their working processes. According to SIMÓN ESE, the masses have to understand what producing a cheap T-Shirt entails. Moreover, there is a huge overproduction in the industry with thousands of T-Shirts not sold or worn in the end (Bernhard, pers.comm., 2015). People have to understand, that there are people sitting in Asia sewing T-Shirts day and night for starvation wages and in the end the shirts might not be even used. In order to meet the aforementioned challenges, customers have to be educated so that they understand why it might be necessary to spend more money on high-quality, fair produced clothes (Bernhard, pers.comm., 2015).

## 6.4 Fair Wear Foundation (FWF)

### 6.4.1 Work of the FWF

Companies that join the FWF oblige to implement the FWF's "Code of Labour Practices" (Köppen, pers.comm., 2015). In order to meet these guidelines, members of the FWF have to undertake changes by themselves in cooperation with the respective suppliers (Köppen, pers.comm., 2015). A special characteristic of the FWF's work is that they do not only audit the factories abroad but additionally examine the business processes of its members, the brands in Europe (*ibid.*). These processes include purchasing practices, price policies, supplier relationships as well as the selection of suppliers. Changes might include a different price policy or the development of longstanding relationships with suppliers (*ibid.*). Measures as giving the production of clothes enough lead time without undertaking short-term changes have proven to be effective as well. All these internal processes influence working conditions in production facilities. If a company exerts downward pressure on pricing for example, it is not possible for fabric owners to pay the legal minimum wage or if a company undertakes last-minute changes after placing an order, workers in the respective factories have to work extra hours resulting in extensive working hours (Köppen, pers.comm., 2015). According to the FWF, responsibility for improving working conditions lies with the brands as well as with the factories (Köppen, pers.comm., 2015)

### 6.4.2 Motivation for companies to introduce the Code of Labour Practices

A code of conduct alone cannot improve the situation in the textile industry but is a kind of declaration of intent of a company that formulates rules and guidelines. Agreeing on a code of conduct itself is preceding a negotiation process during which problems are discussed. However, it is most important to put the code in practice (Köppen, pers.comm., 2015).

### 6.4.3 Challenges

The complexity of the supply chain presents a huge challenge. FWF members are located in Europe, but most of them, as it is the case in many industries, do not have their own production sites. Though a company might have influence on its suppliers, it does not possess decision power. Implementing standards at suppliers located in different countries is challenging (Köppen, pers.comm., 2015).

Excessive working hours is one of the most common problems members have to deal with. Moreover, the types of problems depend on the country supplier is located in. In Turkey for example, problems concerning freedom of association and founding of trade unions are predominant. In Bangladesh main issues concern building protection, safety at work or

harassment of women (Köppen, pers.comm., 2015). Additionally, exposure of workers to harmful substances presents a problem.

The payment of living wages presents another complex problem. Even if a customer is willing to pay more for a piece of clothing in order to raise the workers' wages, this money does not reach workers directly. Additional costs are added along the supply chain by agents, transport companies or even the value-added tax. As a consequence, the price of the end product increases much more than the amount by which the wages of the workers increased. All these small parts come together and hinder or complicate the payment of living wages.

Finally, the FWF has members in the fashion sector, but also brands that produce outdoor and work clothes. The fashion sector has to deal with huge time pressure forcing companies to produce numerous collections each year. This problem is not that predominant in the production of outdoor or work clothes, since this branch is not that dependent on seasons as fashion companies (Köppen, pers.comm., 2015).

SMEs meet specific challenges. Many SMEs argue that they do not have any influence on their suppliers due to their small size (Köppen, pers.comm., 2015). However, any company can exert influence on its suppliers. If SMEs that share a supplier cooperate, they have more power. If more than one SME demand changes at a production site, factories owner are more likely to consider these demands (Köppen, pers.comm., 2015). For example, during audits, the FWF identified problems at a supplier of several FWF members. The companies cooperated and looked for solutions together with the supplier. However, cooperating might be difficult in some cases, since good suppliers are a big competitive advantage. Therefore, companies do not simply recommend good suppliers to their competitors (Köppen, pers.comm., 2015).

Moreover, building long-term and collaborative relationships with suppliers is key (Köppen, pers.comm., 2015). If the supplier knows what order is placed when, he has planning security and is in turn more willing to invest and improve the situation for the workers (Köppen, pers.comm., 2015). According to the FWF, changing suppliers should be the last option since in this case, there can be no improvements made (Köppen, pers.comm., 2015).

Another challenge poses the communication of aforementioned problems. According to the FWF it does not certify, since due to the complexity of the supply chain no guarantee can be given that the production of any piece of clothing has been a 100% fair (Köppen, pers.comm., 2015). The FWF rather controls the steps being undertaken by companies and suppliers (see section 5.3.4).

However, it is hard to communicate, that at FWF's member companies problems such as child labour or excessive working hours occur. Customers would like to have easy solutions and to know what they can buy and what not. Unfortunately, it does currently not work this way (Köppen, pers.comm., 2015). Small, progressive changes leading to a change in the long-term quickly loses attractiveness: Steps such as reduction of supplier numbers or placing orders of clothes off-season that are not seasonal in order to distribute the utilisation of capacity more evenly throughout the year, are not very attractive. However, these steps within a company can, in the long run, change the whole system. It is therefore important to gain greater interest of customers about production processes and at the same time be honest about existing problems (Köppen, pers.comm., 2015).

Catastrophes covered by the media add to this problem. Courage and endurance of companies is needed in order to admit: Small, progressive change is taking place. However, the more companies initiate these changes, the more will follow. This is an important point: Every company has to figure out, where along the supply chain small steps can be made (Köppen, pers.comm., 2015).

#### 6.4.4 Strategies to meet these challenges

The way the textile industry has developed cannot be turned around within a short time. Systemic changes of this kind need a long time (Köppen, pers.comm., 2015). However, it is important to start with small things. The FWF notices for example, that many big companies do not know where their clothes are produced and orders are often placed via an agent (Köppen, pers.comm., 2015). By doing so, it is impossible for a company to know the working conditions in the factories and the company cannot undertake any risk management (Köppen, pers.comm., 2015). Raising companies' awareness about the whole supply chain of their product might be a starting point, even if they might not have influence on every step of the production process (Köppen, pers.comm., 2015).

Concerning the payment of living wages, the FWF launched an online platform called "Living Wage Portal" (Köppen, pers.comm., 2015, Fair Wear Foundation, 2015). This portal illustrates the aforementioned obstacles along the supply chain hindering the payment of living wages. Breaking down the supply chain into small steps, it gets clearer, where brands, local unions or factory owners can start making changes or where political action is required, for example. With this portal, the FWF aims at educating as well as counteracting the excuse of actors that claim "We cannot change anything, the supply chain is too complicated" (Köppen, pers.comm., 2015).

The FWF implemented complaint mechanisms enabling workers to contact advisors in their native language via phone (Köppen, pers.comm., 2015). Complaints filed through this mechanism concern labour standards, including harassment at the workplace or default in payment of wages, for example (Köppen, pers.comm., 2015). When a complaint was considered legitimate, the respective members of the FWF and the supplier have to find a solution for the problem. This is published on the website of the FWF as well. According to the foundation, there are problems everywhere. However, only if they are addressed publicly, a solution can be found (Köppen, pers.comm., 2015).

This leads to an important measure to meet aforementioned challenges: Transparency about production processes and proactive risk management. An attitude change needs to take place, since for many brands it is a big step to be transparent and see the advantages of being honest about conditions along their supply chains. This includes admitting that complaints are filed. However, as soon as something negative comes up, many still employ a defence mechanism. But only if the problem is known it can be addressed (Köppen, pers.comm., 2015). However, in the long run, sustainability has to become an integral part of production and not the only sales argument (Köppen, pers.comm., 2015). Clothes should be both fashionable and sustainable. This is true for other industries as well including the food or electronics industry, for example.

## 7. Analysis

In the following, the empirical findings described in the previous chapter will be analysed with the theoretical framework illustrated in chapter 3.

### 7.1 Definition of CSR

As pointed out in chapter 3, CSR is a custom-made process and each organisation should approach CSR in its own way according to its intention and respective strategy (van Marrewijk and Werre 2003, p. 119). CSR should be an appropriate response to the circumstances in which the organisation operates and there is no “one solution fits all concept”(a.a., 2003, p. 107).

The empirical findings suggest that the case companies each have their own individual definition of CSR. Hessnatur for example follows a holistic approach while SIMÓN ESE focuses on fair treatment of workers and Blutsgeschwister on enriching the world and uniting through fashion. However, all companies consider economic, ecological and social aspects of their supply chains . This suggests that basing production processes on the triple bottom line (Elkington, 1998; see chapter 3) is crucial for all case companies.

### 7.2 Motives for companies to implement codes of conduct

According to Roberts (2003, p. 159), ethical sourcing codes of conduct guarantee that the products are sourced by a company meeting specific environmental and social standards. Companies use this mechanism to tackle complex and physically remote CSR issues. The following four supply chain characteristics influence the propensity to implement an ethical sourcing code of conduct (a.a., p. 168):

- Number of links between supply network member demanding code of conduct and stage of supply network under scrutiny
- Diffuseness of stage of supply network under scrutiny
- Reputational vulnerability of different network members
- Power of different members of supply network

A detailed analysis of motives discusses why firms desire or decide against implementing codes of conducts to source their materials ethically. The data gained from interviews, websites and documents imply that the motives for implementing or deciding against an ethical sourcing code of conduct are closely linked with the company’s definition of CSR. Hessnatur implemented a code of conduct to put its holistic approach into practice while Blutsgeschwister aims at cooperating with suppliers through their code which fits the company’s definition of CSR as a concept that unites people and enriches the world. External pressure from NGOs play a crucial role as well when it comes to CSR strategies of companies (Larsson et al., 2013, p. 270). At the same time NGOs increasingly become partners for companies while working towards a sustainable CSR strategy creating win-win situations for both sides (*ibid.*). This is supported by the empirical findings. Hessnatur implemented the Code of Labour Practices by the FWF after being criticised by the NGO “Clean Clothes Campaign”. However, by joining the FWF, a multi-stakeholder organisation supports hessnatur in implementing CSR along the supply chain. Additionally, customer demand for sustainable and fashion clothes is increasing pressuring SMEs in the fashion industry to implement CSR measures at their suppliers (Bergmann, pers.comm., 2015).

The FWF is a partner of Blutsgeschwister as well. In this case, the Code of Labour Practices was not the decisive factor to join the organisation but rather the working processes of the FWF. Roberts (2004, p. 168) argues that the propensity to implement a code of conduct depend on the power of different members of the supply network as well as on the diffuseness of stage of supply network under scrutiny, among others. The empirical data supports this. So did SIMÓN ESE not implement a code of conduct, since the company has an overview over its suppliers and visits their workplaces located in Mexico and Portugal. Hence, the small diffuseness of the supply chain made the implementation of a code of conduct not necessary. Hessnatur and Blutsgeschwister on the other hand produce in several countries with numerous suppliers. Adopting the Code of Labour Practices and cooperating with the FWF was necessary in order to implement CSR along their supply chains. This leads to Roberts (2003, p. 159) argument, that regarding the complexity of current supply chains, “individual company action makes little sense”. Rather, companies of an industry joining together, influencing suppliers and “organise joint monitoring is likely to be a much more effective way forward” (*ibid.*). The empirical findings support this statement. Two of the case companies joined the FWF and aim at cooperating with other companies in order to increase their purchasing power at their production sites. In the case of Blutsgeschwister, the company shares audits with three other members of the FWF at one supplier. Moreover, the FWF points out, that there is more potential for more cooperation between companies at production sites.

### 7.3 Challenges

According to Ashby *et al.* (2013, p. 71), the garment industry can be seen as an extreme case when it comes to the management of supply chains. The supply chain includes several production steps (see figure 4). Each of these steps has ecological and social impacts and involves several parties, such as factories, farms, agents or transport companies (Ashby *et al.*, 2013, p. 71; Fair Wear Foundation, 2015).

In addition, frequent shifts in product portfolio occur, since fashion retailers often produce several collections each year. Moreover, supply chains in the garment industry are internationally organised which influences and extends the stages where aforementioned impacts occur (Ashby *et al.*, 2013, p. 71). Social and cultural differences between supply chain members as well as differences between government regulations add to the complexity of textile supply chains (*ibid.*).

According to the case studies, the aforementioned complexity of the fashion supply chain poses one of the biggest challenges when implementing an ethical sourcing code of conduct. So it is not possible for SIMÓN ESE to know where and under which working conditions the remnants of fabrics were produced out of which the retailer designs part of its collection. Due to social and cultural differences between the fashion retailers and their suppliers, the predominant problems that the studied cases met during the implementation of ethical sourcing codes of conduct varied. Blutsgeschwister as well as the FWF pointed out, that depending on the sourcing country, problems focused on harassment at the workplace, building safety or difficulties with freedom of association and the right to collective bargaining.

As Lund-Thomsen (2008, p. 1011) argues, monitoring of compliance to the codes of conduct presents another difficulty. This proved to be the case for the studied companies, especially regarding the fact that they were all small or medium-sized businesses with limited internal resources. Blutsgeschwister and Hessnatur argued, that they joined the FWF in order receive support in the conduction of audits. This is linked to the aforementioned argument that

organising “joint monitoring is likely to be a much more effective way forward” made by Roberts (2003, p. 159).

Furthermore, it is important to realize that codes of conduct can have serious unintended consequences if the voices of suppliers, workers and communities are not incorporated in the design, implementation, monitoring and impact assessment of codes of conduct (Lund-Thomsen 2008, p. 1012). Simply implementing and complying with codes of conduct does not necessarily improve the environmental and societal impact for a given factory as the specific context of each factory has to be considered (*a.a.*, p. 1010).

The data collected supports this argument. According to the case study, the FWF does not only conduct audits in the factories, but also communicates with workers and people outside the factories. By doing so, the FWF gets information they would not receive when only conducting audits in the factories. Moreover, the FWF implemented a complaints mechanism, where workers can file complaints in their native language and get advisors. Finally, all documents, including the Code of Labour Practices, are distributed in the factories in the native language of workers.

Though SIMÓN ESE does not have a code of conduct, the label pursues a similar approach in its production processes. By maintaining close contact to its suppliers through a team member living in Mexico who knows the culture and the language of the county, the specific context of the suppliers are considered, as Lund-Thomsen (2008, p. 1012) suggests.

To sum up, the complexity of the supply chain, effective monitoring as well as cultural differences are the biggest challenges a SME meets when implementing a code of conduct. The empirical findings illustrate that these challenges make it very hard to communicate CSR issues in a way to get the majority of customers considering buying ethically produced clothes. According to the FWF and Blutsgeschwister, only small steps can help to meet the challenges examined above. However, given the complexity of fashion supply chains, these small steps and their consequences are hard to explain to customers so they become aware of the problem and change their purchasing behaviour.

In the following chapter, the results of this study will be discussed.

## 8. Discussion of results

In the following, the empirical findings of this study aiming at answering the research questions introduced in section 1.3 will be discussed in a broader context by referring to other studies conducted in the field of SMEs, supply chain management and codes of conduct.

### 8.1 Motives for implementing codes of conduct in small and medium-sized fashion retailers

The empirical findings of this study suggest that implementation of codes of conduct is closely linked to the company's individual definition of CSR that goes along with the company's values. External pressure by NGOs and customers was an additional motive for implementation of codes of conduct.

These findings are supported by the studies of Ayuso (2014) and Baden *et al.* (2009). They concluded, that SMEs can be "transmitters" of CSR throughout the supply chain and that for many suppliers supply chain pressure is an incentive to engage in CSR activities.

However, a study conducted by Nawrocka *et al.* (2008) among SMEs in the electronic industry reached the conclusion, that companies receive low pressure from their customers and therefore do not implement CSR strategies at their suppliers. This finding contradicts the result of this study which emphasized increasing pressure and awareness when it comes to problems in the production of clothing. The contradiction might be explained by the fact that the clothing industry was subject of many scandals covered in the media that raised awareness of issues in this industry. Nevertheless, empirical findings of this study show that price still plays an important role in purchasing decisions of customers (Bergmann, pers.comm., 2015) which decreases the pressure big fashion chains experience from customers and allows them to produce cheap clothes without enforcing CSR measures (The Economist 2013, BBC, 2014).

Pedersen (2009) argues that larger SMEs are more likely to manage CSR in their supply chains. Analysing the cases in this study, this finding was not supported. In all three fashion retailers employing between 5 and 343 people, CSR measures are implemented in the supply chain, though in the case of SIMÓN ESE, a code of conduct was not used as a tool for doing so. Moreover, Jorgensen and Knudsen (2006) argued, that SMEs receive more pressure from their buyers than they apply to their suppliers. In addition, CSR measures are not strictly enforced (Jorgensen and Knudsen, 2006, p. 449). Finally, Chen *et al.* determined external drivers as the main motivation for implementing the common CSR standard CSC9000T in the Chinese textile and apparel industry.

This study draws a different conclusion. With support of the FWF, CSR measures included in the code of conduct were enforced at suppliers and compliance with the codes was monitored on a regular basis. In addition, though pressure exerted by customers is increasing, the studied companies implemented CSR measures at their suppliers due to internal motivations. Though hessnatur joined the FWF after being criticised by the Clean Clothes Campaign, this can be regarded as the company's next step in implementing CSR measures since the reason for hessnatur's foundation was the production of sustainable clothes (Bergmann, pers. com., 2015). Findings might differ from the study by Chen *et al.* due to the fact, that this study analysed companies based in Germany. External pressure on these companies, especially from international NGOs or customers, might be not as high as on Chinese companies.

## 8.2 Challenges in implementing codes of conduct in small and medium-sized fashion retailers

This study identified as the main challenges faced by small and medium-sized fashion retailers when implementing codes of conduct included the complexity of supply chains and its non-transparency, cultural differences between supplier countries and the buying brands based in Europe as well as monitoring of compliance of codes of conduct.

These findings are supported by previous studies as conducted by Ciliberti *et al.* (2008) concluding that main difficulties SMEs face when dealing with suppliers from developing countries include cultural differences and low interest in CSR from supplier side. However, according to the empirical findings of this study, the understanding of CSR and occurring problems depend to a large extent on the respective country.

Another challenge that the fashion industry has to meet is the vast amount of labels that exist in the fashion industry (Bergmann, pers.comm., 2015). Recent scandals in the fashion industry covered in the media in combination with the vast amounts of seals on the market that are supposed to identify sustainably produced clothes leads to decreased trust of customers in the industry (*ibid.*). The empirical findings suggest that middle-sized fashion retailers are looking for a code of conduct that secures a sustainable production process and increases customers' trust. Customers look for easy solutions based on which they can decide what clothes are produced sustainably (Köppen, pers.comm., 2015).

However, textile supply chains are complex and have several stakeholders, including customers and employees, who have to be considered when a company aims at an implementation of CSR measures in their supply chain (Ashby *et al.*, 2013, *ibid.*, Bergmann, pers. com., 2015). In addition, companies have to make profit in order to survive, as Hammann *et al.* (2009) point out. These factors support the result, that a simple solution is currently not possible and that companies have to take small steps in order to implement CSR strategies (Heyckendorf, pers.comm., 2015; Köppen, pers. com., 2015).

The finding, that the general awareness of problems in the textile industry is increasing (Heyckendorf, pers.comm., 2015). This is supported by the numbers of the IVN presented in section 5.3.4: Between 2000 and 2013, turnover in sustainable textile industry increased 5 % each year indicating that more people are buying "Green Labels" (Internationaler Verband für Textilwirtschaft, 2015).

Empirical findings of this study suggest, that fashionable labels aim at introducing more sustainable production processes and vice versa (Bergmann, pers.comm., 2015). Moreover, in order to overcome aforementioned challenges in the long run, sustainability should be a natural feature of the production process and not the most important sales argument (Köppen, pers.comm., 2015). Weller (2013) supports this finding in her study. Between the years 1993 and 2000, the articles Weller analysed, this was an increasingly important factor when it came to discussion about ecological fashion. This reflected the increasing demand for "fashionable" ecological clothes (Weller, 2013, p. 191).

Finally, the findings of this study suggest, that the implementation of living wages presents a huge problem (Bergmann, pers. com., 2015, Köppen, pers.comm., 2015) which is linked to the complexity of the supply chain described above.

This issue is linked to the question, what role codes of conduct play when it comes to legal enforcement. The findings of this study imply, that a change of the political situations of the

supplier countries are key in order to implement CSR strategies in the fashion supply chain in the long run and that codes of conduct alone cannot solve the problems (Heyckendorf, pers.comm., 2015; Köppen, pers.comm., 2015). This is supported by Laudal *et al.* (2010, p. 63) and Larsson *et al.* (2012, p. 13) who suggest that in order to increase the implementation of CSR measurements, governments have to get involved. However, CSR initiatives of companies can build the basis for changes that might lead the way for legislation (Larsson *et al.* 2012, p.13).

## 8.2 Meeting challenges

In order to meet the challenges presented in the section above, education and training both at suppliers and SMEs are important. This is supported by studies undertaken by Mamic (2005) and Shaw and Hale (2009). They conclude that workers have to be educated about their rights and the purpose of codes of conduct in order to implement them effectively. Findings from this study support this argument. Blutsgeschwister introduced employment contracts informing workers in India about their rights and duties. Moreover, the FWF developed a complaints mechanism giving workers the opportunity to file complaints about their working conditions. Both measures have proven to improve working conditions at the respective suppliers. Mamic (2005) further argues, that the cooperation with suppliers as well as the implementation of codes of conduct responsibilities throughout the whole enterprise is also important to a successful implementation (Mamic, 2005, p. 82). All companies with a code of conduct in this study adopted the code of the FWF that supports the SMEs and suppliers in their implementation. When problems occur, SMEs cooperate with their suppliers to solve them. Therefore, findings of this study support Mamic's argument. Finally, Preuss (2009) argued that, besides codes of conduct, additional measures are used in order to implement CSR-measures. This is supported by empirical findings of this study. Additional measures include aforementioned employment contracts and complaint mechanisms. Finally, this study found that issues relating to working conditions of employees receive the most attention in codes of conduct as argued by Preuss (2009).

## 9. Conclusion and suggestions for further research

In the following, conclusions from the cases studied are drawn. In this study, three small and medium-sized fashion retailers and one multi-stakeholder organisation that aims at improving working conditions of garment workers are analysed. Results concerning motives and challenges linked to the implementation of codes of conduct were discussed.

The findings suggest that motives for implementing codes of conduct are closely linked to the company's individual definition of CSR. External pressure from NGOs was a contributing factor to the implementation of codes of conduct. However, the companies studied based their introduction of a code of conduct on internal decisions. The codes concentrated to a large extent on working conditions at suppliers, however, this was linked to environmental impacts of production as well.

The main challenges SMEs face when implementing codes of conducted included the complexity of the clothing supply chain, its lack of transparency and cultural differences between suppliers and brands. The lack of trust in sustainable production by customers was identified as another challenge.

Meeting these challenges include measures such as educating workers about their rights and duties, getting them involved, supporting them to express their rights and in forming unions. Complaints mechanisms, for example, help to identify problems in factories and give workers a voice.

Due to their size, SMEs face unique challenges on the fashion market. When implementing CSR strategies in their supply chains, their small purchasing power at suppliers presents a huge challenge. Multi-stakeholder organisations that support, among others, SMEs improving working conditions at suppliers seem to be very effective on the way to a sustainable fashion industry. The FWF supports companies in audits of production sites as well as in changing structures at the brand itself, since these structures have an impact on suppliers in developing countries. Moreover, multi-stakeholder organisations involve different actors including companies, trade unions and NGOs and provide various perspectives on issues in the fashion industry. Considering different opinions might enhance the horizon of each actor and contribute to the solution of problems.

However, this study concentrated on SMEs in the German fashion industry as well as on the Fair Wear Foundation, a multi-stakeholder organisation. Suggestions for further research include the investigation of potential of cooperation between SMEs to increase their purchasing power. This could include examples of successful cooperation and strategies SMEs could adopt in order to cooperate at suppliers. This research could be conducted in other countries than Germany as well.

This study focuses on many social issues in the supply chain concerning working conditions at suppliers. Further research could include environmental and economic aspects of the fashion supply chain. Growing ecological cotton draws from resources as land and water, for example. Exploring alternative, resource-saving materials for clothes could be a research topic.

Finally, taking the perspective of customers into account is important in order to solve the issues discussed in this study. The empirical results show, that purchasing decisions of customers have a huge influence on social and environmental impact of the textile production processes. Educating customers about issues in the textile industry could be an important measure that contributes to a solution. This education includes the consumptive phase in

which customers use their clothes. During this time, a huge amount of resources such as water, are consumed. These aspects concerning consumers of clothes could be taken account in further research.

SMEs play a vital role in the German economy, including the fashion industry. The study showed, that though awareness about issues along clothing supply chains may rise, there is still a long way to go before the industry produces in a sustainable way. Small steps, endurance and the willing to cooperate are required if SMEs want to contribute to reaching this goal.

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## Interviews

Bergmann, S.: Press and Public Information Officer, hessnatur  
Interviewed by: Elisa Wagner (20th of March 2015)

Bernhard, A.: Distribution, SIMÓN ESE  
Interviewed by: Elisa Wagner (25th of March 2015)

Heyckendorf, A.: CSR Manager, Blutschwister  
Interviewed by: Elisa Wagner (21st of April 2015)

Köppen, V.: Country Representative Germany, Fair Wear Foundation (FWF)  
Interviewed by: Elisa Wagner (09th of April 2015)

## **Appendix: Interview guide**

This appendix contains the interview guides that were used for conducting the interviews. Some questions were modified during the interviews depending on the course of the conversation. All interviews were conducted via phone and in German.

### **Corporate Responsibility in the Supply Chain**

- What is the organisation's definition of CSR?
- What does CSR mean for you?

### **Ethical sourcing**

- What role do ethical sourcing codes of conduct play for SMEs?
- *In case the organisation has an ethical code of conduct: Why did your organisation implement a code of conduct?*
- What are the biggest challenges you face when it comes to implementing the code of conduct?
- How does your organisation meet these challenges?
- *If there is no code of conduct: Why did your organisation decided to source their materials ethically?*
- What are the biggest challenges when it comes to ethical sourcing?
- How does your organisation meet these challenges?

### **Ethical products**

- What is an ethical product for you?

### **Private Public Partnerships**

- Does your company have a public partner (NGO etc.)?
- Why/Why not?
- What are the biggest challenges when it comes to Private-Public-Partnerships?

### **Future**

- What are the biggest challenges when it comes to the sustainability in the fashion industry as you see it=
- What must be done to work towards a more sustainable future in the fashion industry as you see it?





