Challenges of Environmental and Social Responsibility in the Fashion Industry

Edit Déri

Supervisor: Helena Hansson
Evaluator: Karin Hakelius
COCONTENT

1. INTRODUCTION .............................................................................................................................................1
  1.1 RESEARCH PROBLEM, QUESTIONS, AND PURPOSE .................................................................2
  1.2 BACKGROUND .................................................................................................................................3
2. THEORETICAL BACKGROUND ....................................................................................................................5
  2.1 PORTER’S FIVE FORCES FRAMEWORK .....................................................................................5
    2.1.1 Competitive rivalry ..................................................................................................................5
    2.1.2 Threat of potential entrants ....................................................................................................5
    2.1.3 Bargaining power of suppliers ...............................................................................................6
    2.1.4 Bargaining power of buyers ....................................................................................................6
    2.1.5 Threat of substitutes ................................................................................................................6
  2.2 THE PESTEL FRAMEWORK ...........................................................................................................6
  2.3 ENVIRONMENTAL AND SOCIAL INCENTIVES ..............................................................................7
2.4 SUMMARY ....................................................................................................................................................10
3. RESEARCH METHODOLOGY .....................................................................................................................11
  3.1 TYPES OF DATA .............................................................................................................................11
  3.2 LITERATURE REVIEW .......................................................................................................................11
  3.3 CASE STUDIES ..................................................................................................................................12
    3.3.1 Company report ......................................................................................................................12
    3.3.2 Primary data - Interview ..........................................................................................................13
    3.3.3 Selection ..................................................................................................................................13
4. EMPIRICAL RESULTS ...............................................................................................................................14
  4.1 LITERATURE REVIEW .......................................................................................................................14
    4.1.2 Pressure for sustainable decision making ................................................................................14
    4.1.3 PESTEL framework in the fashion industry ..........................................................................14
  4.1.2 Porter’s five competitive forces in the fashion industry ...........................................................20
  4.2 SYNTHESIS .........................................................................................................................................22
  4.3 CASE STUDY – JOHANNA HOFRING ............................................................................................24
    4.3.1 Porter’s competitive forces ......................................................................................................24
    4.3.2 PESTEL framework ................................................................................................................25
  4.4 HENNES AND MAURITZ ...................................................................................................................27
5. DISCUSSION AND CONCLUSIONS .........................................................................................................30
6. RESEARCH LIMITATIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH ................35
7. ACKNOWLEDGEMENT .............................................................................................................................36
REFERENCES ...................................................................................................................................................37
  BOOKS .......................................................................................................................................................37
  JOURNAL ARTICLES ...............................................................................................................................38
  OFFICIAL PUBLICATIONS ON THE WORLD WIDE WEB ......................................................................39
  COMPANY WEBSITE .............................................................................................................................41
Challenges of Environmental and Social Responsibility in the Fashion Industry

EDIT DÉRI


Abstract: The purpose of the thesis is to reveal and address macro-environmental sustainability problems in the fashion industry. A qualitative research approach was used to reach the purpose. Throughout the empirics, the existing literature was studied, and two case studies were carried out. The one about Hennes and Mauritz is based on secondary data by using its sustainability report, and in the other case, primary data were obtained about Ekovaruhuset, an ecological fashion company, through a face-to-face interview. It was found that the fashion industry has a significant environmental impact and often violates the fair labour practices throughout its supply chain. The root causes of the unsustainable operation are the labour-intensity, water and chemical intensity throughout the fashion supply chain, and the lack of political and legal regulations in the producing countries. These problems can be addressed by careful sourcing, and higher control over the cotton growers, fabric mills and suppliers. In addition, using and developing eco-friendly raw materials, like organic cotton, and fabrics reduce the environmental impact. It can be concluded that there is much room for sustainable development in the fashion industry, but there are corporate social and environmental responsibility endeavours from both small and big companies.

Keywords: sustainable development, fashion industry, corporate social and environmental responsibility, fashion supply chain, ecological fashion, organic cotton

Edit Déri, Department of Earth Sciences, Uppsala University, Villavägen 16, SE- 752 36 Uppsala, Sweden
Challenges of Environmental and Social Responsibility in the Fashion Industry

EDIT DÉRI


Summary:

The thesis aims to study the macro-environment of the fashion industry from a sustainable development point of view. The macro-environment was studied based on the PESTEL framework, including political, economic, social, technological, environmental, and legal factors. The competitive forces within the fashion industry were also revealed throughout the Porter’s five forces model. The social and environmental problems, arising from the macro-environment and the competitive forces, were also addressed as well as the sustainable solutions.

The thesis is based on qualitative research including literature review and two case studies. One case study was made about Hennes and Mauritz (H&M) by using its sustainability report. The other case study was carried out about Ekovaruhuset, which is an ecological fashion company. The information about Ekovaruhuset was obtained through a face-to-face interview with its founder, Johanna Hofring.

It was found that the fashion industry in general largely pollutes the environment and often violates human rights. The problems seem to arise from the phenomenon that fashion companies produce along geographically dispersed supply chains which are difficult to control. Most of the companies outsource the production processes to developing countries in order to minimize their costs and maximize their profits. To start with, the clothing industry uses abundant amount of cotton which is the most insecticide-intensive crop. Insecticides are not only harmful for the environment, but the workers on the fields and the dwellers around the fields are exposed to these hazardous chemicals. Then from the raw materials such as cotton, the fabrics are produced in textile mills which discharge loads of toxic chemicals which enter the rivers, soil, and thereby through crops and animals the food chain. In the clothing factories, the employers not even seem to be ensured the basic rights such as safety, hygiene and minimum living wages. In addition, they are working in long hours shifts. Moreover, it was reported, that fashion industry encourages the disposability of the clothing items in order to encourage consumers to buy more. The root causes of the unsustainable operation are the labour-intensity of clothing production, water and chemical intensity throughout the fashion supply chain, and lack of political and legal regulations in the producing countries.

As a result, there has been an increased public pressure on fashion companies to shift their production strategies into a more sustainable direction. The sustainability problems in the fashion industry can be tackled by higher control over the whole fashion supply chain and by effective law enforcement. Legislations about labour law and chemicals should be implemented by national governments and international organizations. Hofring suggested that the polluters and those who violate human rights should pay fines, yet in the reality those who want to buy organic or fair trade certificates are charged as the certificates are expensive. Yet, there are sustainable endeavours in the fashion industry, such as growing organic cotton, eliminating toxic chemicals, inventing and using environmentally-friendly substances and fabrics, auditing factories and recycling. It was also suggested that without the engagement of the big fashion companies into corporate social and environmental responsibility and sustainable development, significant changes cannot be achieved in the fashion industry.

Keywords: sustainable development, fashion industry, corporate social and environmental responsibility, fashion supply chain, ecological fashion, organic cotton

Edit Déri, Department of Earth Sciences, Uppsala University, Villavägen 16, SE- 752 36 Uppsala, Sweden
Abbreviations

CSR  Corporate Social Responsibility
NPE  Nonylphenol Ethoxylates
WHO  World Health Organization
H&M  Hennes and Mauritz
NAFTA  North American Free Trade Agreement
ILO  International Labour Organization
SVHC  Substances of Very High Concern
EC  European Community
CEO  Chief Executive Officer
US  United States
UK  United Kingdom
OHS  Occupational Health and Safety
EJF  Environmental Justice Foundation
PESTEL  Political, Economic, Social, Technological, Environmental, Legal
DDT  Dichlorodiphenyltrichloroethane
EPA  Environmental Protection Agency
N₂O  Nitrous Oxide
CO₂  Carbon Dioxide
OTA  Organic Trade Association
Bt  Biotechnology
ITC  International Trade Centre
UNICEF  United Nations International Children's Emergency Fund
BCI  Better Cotton Initiative
PFC  Perfluorinated Compounds
PET  Polyethylene Terephthalate
SEEP  Supplier Energy Efficiency Programmes
WWF  World Wide Fund
UN  United Nations
EU  European Union
1. Introduction

Nowadays we face the green challenge of developing a new physical business view, and it has to be understood that the world does not only consist of economic concepts such as markets, but of many important ecosystems with its flora and fauna (Pettie, 1995). Pettie (1995) explains that the current physical environment took 4.5 milliard years to develop, yet in the last 250 years with the industrialization, involving pollution and exploitation of resources, we reached an unsustainable level.

“The notion of “sustainability” usually implies that all human and business activities are carried out at rates equal to or less than the Earth’s natural carrying capacity to renew the resources used and naturally mitigate the waste streams generated.” (Rainey, 2006, p 33)

The above definition is elaborated by Pettie (1995). According to her study, sustainable development is a concept, originated from the 1970’s World Conservation Strategy where the planning of the optimal usage of renewable resources started. The concept spread after The Brundtland Report in 1987. It implies that the natural resources can only be consumed in a pace which is slower or equal to the replenishment capacity of the nature, and pollution can only be emitted in a pace as it breaks down in the nature. Furthermore, the living standards of the current generation should not deprive the conditions of the generations to come. The renewable resources have a relatively short replenishment time, and for instance if a tree is cut, another can be planted. However, non-renewable resources such as oil have a geological timescale to be created. Therefore, people need to look for renewable alternatives.

The most widely accepted definition of sustainable development was formed in the Report of the World Commission on Environment and Development:

“Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” (United Nations, 1987, p 37)

At first glance, the concept of ‘needs’ seems to be subjective as they could be anything from bread to luxury goods, but the report clarifies the term: it refers to the basic needs of the poor across the world, to which prevailing importance should be given (United Nations, 1987). Sustainable development entails limitations which are determined by the available technology, the social organization of the natural resources, and the ability of the biosphere to absorb the human impacts. Both social organization and technology can be improved to enable economic growth (United Nations, 1987).

Through green marketing and corporate social responsibility (CSR) practices companies can get closer to the requirements of sustainable development. The Commission of the European Communities (2002) suggests that CSR entails that the main goal of a company is to create value by providing goods and services based on the social demands. In this manner the owners and shareholders profit, and the welfare of society increases mainly through job creation. It defines CSR as follows:

“CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. (...) CSR is intrinsically linked to the concept of sustainable development: businesses need to integrate the economic, social and environmental impact in their operations.” (Commission of the European Communities, p 1, 5 2002)

Green marketing is a similar concept to CSR. It stresses the physical sustainability and the social acceptability of the marketing methods. It recognizes the evolving concern of the society about the natural environment which can be tackled in a profitable and sustainable way if companies apply holistic management practices by considering the relationship of the economy, society and the ecosystem (Pattie and Charter, 1994). Peattie (1995) lists four ecological principles. Everything is connected to everything else: companies, customers, competitors, shareholders, citizens, and the ecosystem affect each other. Everything is going somewhere: materials and energy cannot disappear, but only transform. Nature knows best: It took milliards of years till the ecosystem
reached its sustainable and stable state. This balance should not be harmed for short-term economic gains. At last, but not least, there is no “free lunch”, but the natural harm should be paid by someone sooner or later (Peattie, 1995).

Peattie (1995) criticises the view of corporate and social economists according to which only growth can solve the society’s problem. Peattie (1995) claims that they prefer the fastest possible growth, yet the ecosystem has its own optimal growth rate. This optimal pace is significantly slower than the maximized economic growth. Centralization, reduction and scale are basic reasons for environmental disturbance. Centralization entails that in the traditional non-industrialized society the goods and services were designed for local needs. However, with the industrialization mass-production technique substituted the local handicraft manufacturing, and the factories contaminated the nature. Reduction means that many managers decide to solve complex problems by reducing complexity into simple parts. Scale refers to the traditional economic theory with a mentality of “big is beautiful”. It implies that increasing the output results in lower unit cost (Peattie, 1995).

The theory of the firm suggests that the objective of the firm is to maximize its net revenue by optimizing its mix of outputs (products) and inputs (factors), and minimizing its costs (Cyert and March, 1992). Petty (1995) however, suggests that companies have to make a well-considered decision about how they maximize their profits, otherwise they cause environmental problems. Simintiras et al (1994) found that the degradation of the natural environment has received an increased international focus; campaigns are raising the awareness about the environmental harm caused by companies, and encourage environmental protection and conservation. Several organizations such as Greenpeace and World Wide Fund for Nature have put pressure on firms to develop their environmental performance (Simintiras et. al., 1994).

Regarding the fashion industry, twenty world leading fashion brands were tested by Greenpeace (2012). They found that each brand was selling garments containing environmentally harmful chemicals such as Nonylphenol ethoxylates (NPEs) and phthalates which are also harmful to human health. NPEs are cheap and effective washing materials used at the preparatory stage of the textiles. When they break down they are toxic for the aquatic organisms, and disrupt the hormones. Phthalates are additives often used in plastics to make them more flexible (Björklund et. al., 2009). In the fashion industry the printed sections of the fabrics contain phthalates (The Independent, 2004).Greenpeace (2012) explained that the main problem with the toxic chemicals is that manufacturers release them into the wastewaters. As wastewater treatment plants are ineffective in treating them, they enter rivers and lakes. When NPEs break down, they form toxic, persistent and hormone-disrupting nonylphenol, which accumulate in sediments and get into the food chain, through fish and other wildlife. They are harmful even in low concentrations. After the clothes are sold, consumers wash the clothes and further pollute the water with the toxic chemicals. Many discarded garments are delivered to landfills, phthalates leak, and reach the groundwater. Thus, the chemicals reach even those countries where their use is banned (Greenpeace, 2012).

Not only the use of toxic chemicals is unsustainable, but fashion companies often abuse human rights. They buy the products from suppliers in low-wage countries. This way they access to abundant cheap labour in countries like China, Indonesia and India without direct control over the workers. By outsourcing they make manufacturing issues “somebody else’s problem”, and do not feel responsible for the exploited workers (Merk, 2009).

1.1 Research problem, questions, and purpose

The above issues lead to the research problem of the thesis. Fashion companies aim to achieve their profit maximization endeavours within their business environment which often harms the natural and social environment. Therefore, there is an increasing pressure to implement sustainable business practices.

To address the above problem, the following research questions need to be answered throughout the thesis project. The main research question is: How does the fashion industry take the key macro-environmental drivers into consideration? In order to answer the main research question with relevance to the research problem, the following sub-questions need to be answered: Which are the main forces which drive the competition in the fashion industry? What are the key drivers of environmental and social shortcomings in the fashion industry? How do fashion companies address the environmental and social shortcomings?
Thus, the purpose of the thesis is to reveal and address macro-environmental sustainability problems in the fashion industry. Through cases the thesis also aims to detect the best environmental and social responsibility practices which might serve as a positive example for the competitors to follow. Thereby, the thesis aims to contribute both to the current literature.

Regarding the existing literature on the topic, several researchers and organizations have dealt with the environmental and social shortcomings in the fashion industry. Yet, there does not seem to exist a study, which comprehensively analyses the key macro-environmental drivers and the competitive forces of the fashion industry from a sustainable perspective. There seems to be a lack of literature about the successful implementation of sustainable marketing practices and CSR in the fashion industry. Most of the literature focuses on the working conditions, especially in sweatshops (Perry, 2012; Park and Rees, 2008; Fan and Lo, 2012; Jones and Williams, 2012; Fan and Lo, 2012; International Trade Centre, 2009; International Labour organization; Institute for Global Labour and Human Rights, 2010; Ethical Consultants and Research Associates, 2011). Consumer behaviour in the fashion industry is mostly researched by Perry (2012), Cervellon and Wernfelt (2012), Jones and Williams (2012), and Fan and Lo (2012). The environmental impacts are mostly studied by Ethical Consultants and Research Associates (2011), Mead and Cataldi (2013), World Health Organization, Environmental Justice Foundation (2007), Environmental Protection Agency (2012), Bartels (2012), Steiner (2012), Kramer et al in Organic Trade Association (2006), Gomez-Hens and Aguilar-Caballos (2003), Ellis et al (2012) and Jones and Williams (2012).

1.2 Background

According to Hines and Bruce (2001) the sustainably problems are highly visible in the fast fashion industry as it is the type of fashion which aims to move trends from catwalk to retailers in the fastest possible time to keep up with the current market trends. The main goal of fast fashion business is obsolescence, it excludes originality, glamour, luxury, and replaces exclusivity with “massclusivity”. Buyers enjoy updating their wardrobe as frequently as possible. Joy et al (2012) found that consumers argue that if the garments are trendy for a year they do not need high quality clothing. Thus, due to their basic nature, fast fashion companies face many challenges which hider the implementation of CSR strategies (Hines and Bruce, 2001).

Fast fashion companies, such as Zara, Gap, Benetton, H&M are speeding up and shortening the fashion cycle. Traditionally there were 2 to 4 collections yearly, but now there are 6 to 8 in case of the most fast fashion brands. Companies implemented “just in time” manufacturing by reducing their turnaround time through the whole supply chain (Greenpeace, 2012).

The root problem is that they design the garments for 10 washes, thus use poor-quality materials. This encourages consumers to buy new clothes (Joy et. al., 2012). The short deadlines require low labour costs and environmentally irresponsible strategies. Low prices and poor quality promote short product life cycle and a “throwaway mind-set”. The biggest problem with the short turnover is the disposability of the garments. The massive production accelerates the environmental footprint of clothes through the whole life cycle. At the first stage of the production vast amount of water and chemicals such as pesticides are needed to grow and produce cotton. Dyeing and finishing the textile also requires much water; producing a tonne of textile needs in average 200 tonnes of water and much chemicals. Some of these chemicals are toxic, persistent and bio-accumulative when released. These pollutants accumulate in sediments and organisms over the years, and thereby, they may be transported far away (Greenpeace, 2012).

The test results of Greenpeace (2012) showed that around ¾ of the 141 garments contained NPEs, 4 contained significant amount of toxic phthalates, and due to the use of azo dyes 2 Zara products contained some cancer-causing amine. The levels of amines were within regulatory threshold, yet any cancer-causing ingredient is unacceptable. Clothing items from Mango, Metersbonwe, Levi’s, Zara, Calvin Klein, C&A, Marks & Spencer and Jack & Jones contained the largest concentrations of NPEs (Greenpeace, 2012). Their use in the EU is banned, yet the import of textiles treated with NPEs is trade is not banned (Hök, 2007). Phthalates were found in all the 31 plastisol printed clothes. Extremely high concentrations (up to 37.6% by weight) were found in 4 garments produced by Tommy Hilfiger, Armani, and Victoria’s Secret. In addition, the tests identified 5 industrial chemicals, which are “toxic” or “very toxic to aquatic life” (Greenpeace, 2012).
First, through theoretical background the macro-environmental drivers and the competitive forces will be studied in general, then through the literature review in relevance to the fashion industry and sustainable development, and finally it will be revealed how a Swedish pioneer and a big fashion company tackle the sustainability problems driven by the macro-environmental factors and competitive forces.
2. Theoretical background

Marketing decision makers meet numerous driving forces before choosing a strategy which addresses their problem. This section will study those theories about the marketing decision making frameworks which can help to tackle the problem and purpose of the thesis determined in the “Background” section. The Porter’s five forces framework addresses companies’ profit maximizing aims, while the PESTEL framework provides a perspective to the environmental and social issues as well. As the main aim of the thesis is to study those, they will be addressed through green marketing and CSR.

Decision theory analyses how the individual participants chose the alternative which maximizes their expected utility (Hooker et. al., 1978). Organizations look for alternative actions in the future, predict their consequences, compare them, and decide on the preferred alternative. Decision making is a way to solve problems, when the problems can be managed in different ways. These alternative solutions create uncertainty. Decision-makers often lack information or do not know the consequences of their actions. Standard decision theory argues that decision makers are responsible for their choices as they had several alternatives to choose from (Brunsson, 2007). Strategic decision making is done at the top of the organizations (Hickson et. al., 1986). According to the bounded rationality within the behavioural theories of the firm, rational actors have limited information; therefore they cannot make exact and optimal calculations for decision making. In neoclassical theories of the firm, optimal alternatives are chosen. Yet, according to behavioural theories, organizations set targets, which they can reach in alternative ways; they do not look for the best solution (Cyert and March, 1992).

2.1 Porter’s five forces framework

An industry is “a group of firms producing the same principal product” (Rutherford, 1995). Porter (2008) claims that competition goes beyond the rivalry among existing firms, but there are more other competitive forces: potential entrants, substitute products, customers and suppliers. Their combination defines the competitive structure and the drivers of profitability of an industry. In case the five forces are strong, the prices and the returns of interest of the companies on the market are low (Porter, 2008), thus the market may not be attractive for the potential entrants (Gerry et. al., 2008). These forces are connected to the financial reports of the companies as they determine the costs, prices and the required amount of investments to compete. Thus, if managers study the model, they can make an informed market entry decision (Gerry et. al., 2008). The five forces framework entails the following factors: competitive rivalry, threat of potential entrants, bargaining power of suppliers, bargaining power of buyers, and threat of substitutes.

2.1.1 Competitive rivalry

Increased number of competitors makes the situation of the incumbents worse. The competition within the industry is characterized by numerous traits. Competitor balance denotes that competitors of the same size result in intense competition as each competitor aims to dominate the market. Industry growth rate indicates that low growth results strong price competition and weak profitability. Thus, if there is low growth or decline in a market, a slight growth occurs at the expense of a rival. High fixed costs connote that in case of high investments in capital equipment and research, companies tend to reduce their unit costs by increasing sales volumes. This involves the reduction of prices, thereby causing price war among the competitors. High exit barriers implies that expensive or complicated closure or divestment increases rivalry particularly in declining industries as incumbents aim to maintain their market share. Low differentiation entails that in markets with similar products, consumers can easily switch between them; therefore firms can only compete with lowered prices to attract consumers (Porter, 2008).

2.1.2 Threat of potential entrants

High entry barriers are beneficial for already competing firms (incumbents) as entry barriers protects them from the new competitors who reject to enter the market (Gerry et. al., 2008). Yet, new entrants aim to gain market share, thus they decrease the profit potentials within an industry. Therefore the existing competitors push prices
down to deter new entrants. The treat of a new entry is determined by the entry barriers; in case the barriers are low, the threat is high. Thus, entry barriers are beneficial for the incumbents. There are numerous important determinants of entry barriers: Factors of barriers to entry entail economies of scale are crucial. When the incumbent firms achieve large-scale production, it is very costly for the new entrants to reach the same production level. Until this level they have high per unit costs. Demand-side benefits of scale are also called network effects and arise when buyers’ willingness to purchase from a given firm depends on the actual number of the other buyers. Buyers often trust companies with larger customer base. Customer switching costs are fixed costs which occur when a firm changes supplier. When switching vendors for instance, suppliers need to change product specifications, retrain employees about the usage of the new product, and alter information systems and processes. Capital requirements are high initial investments may deter new entrants. These costs include inventories, funding of start-up losses, up-front advertising and research and development expenses. Incumbency advantages independent of size. Certain cost and quality advantages are only available for incumbents as only they have access to the highest quality raw material sources, best geographic location, established brand image and experience. In addition, due to unequal access to distribution channels the wholesale and retail channels might be limited as the incumbents have tied them up. Thus, new entrants often have to build up their own distribution channels which increase the entry barriers. Finally, governance policies either help or hinder new entrants through restricting foreign direct investments and licensing. Yet, they might subsidize investors (Porter, 2008).

2.1.3 Bargaining power of suppliers

Suppliers provide raw materials, fuel, equipment, labour and finance (Gerry et. al., 2008). High supplier power means that suppliers can charge high prices, shift costs to industry participants, limit their services and quality. strong if concentrated, see thesis. In case a supplier serves different industries, and is not dependent on one, it maximizes it sales prices. If it is difficult to change supplier for instance due to high specialization, the supplier power is further increased. In addition, suppliers which offer differentiated products, are stronger then the ones offering general ones. Strong if no substituted. Suppliers might become competition threats if they cut the intermediary buyers, and integrate vertically forward to the final consumer for instance by selling online Porter (2008).

2.1.4 Bargaining power of buyers

Powerful buyers can push down the prices, demanding better quality and more services which increase the costs of the companies. The power of buyers is high, if there are few buyers, or if one buys in a very big quantity, if buyers can easily switch among the vendors due to the lack of product differentiation for instance, if the switching costs of changing buyers are high, and if buyers can integrate backwards and produce for themselves (Porter, 2008).

2.1.5 Threat of substitutes

Substitute products and services offer similar benefits by different processes. Larger volume of substitutes has negative effect on the prices. Furthermore, the attractive price/ performance ratio is a crucial substitution threat. Yet, in case a substitute has a superior value for the customers, but is relatively expensive, it can still have a competitive advantage. In addition, substitutes have extra-industry effects: They are doing business outside the incumbents industry; therefore managers have to look outside their industry and the threat of their competitors. The number of substitutes decreases the attractiveness of an industry (Porter, 2008).

2.2 The PESTEL Framework

The PESTEL framework examines the six main macro-environmental influencing factors of companies: political, economic, social, technological, environmental and legal. These influences determine the future success or failure of the corporate strategies. The political influence include the role of the governments; economics embraces the macro-economic factors such as growth rate, exchange rates and business cycles; the
social component stands for changing cultures and demographics; technological influences include innovations; environment refers to the “green” issues including pollution and waste; and legal entails legislative changes and constraints (Gerry et. al., 2008).

Gerry et al(2008) argues that identifying the key drivers for change helps to focus on the important PESTEL factors. Based on those managers can make the optimal decision for effective action. Thus, the key drivers for change determine the success or failure of a strategy. For instance the clothing retailers are concerned about the social changes which drive consumer taste and behaviour. When there is a high uncertainty in the business environment due to complexity or rapid change, it is unlikely to build a single vision of how the environment can affect companies’ strategies. Thus, various scenarios are built on PESTEL analysis and the key drivers for change (Gerry et. al., 2008).

2.3 Environmental and social incentives

As described in the introduction, CSR and green marketing have the same objective, thus they will not be treated separately during the thesis.

We can speak about Corporate Social Marketing when an organization promotes a “behavioural change campaign” which supports environmental concerns including water conservation, use of pesticides, wildlife habitats, and air pollution; public health issues such as cancer, physical activity, and HIV/AIDS; wellbeing; safety; and community involvement issues such as volunteering and crime prevention. The issues a company supports mostly depend on the company’s business (Kotler and Lee, 2005).

Green marketing recognizes the intrinsic value of the natural environment, and does not only consider its usefulness for the society. It has an open-ended perspective, and focuses on global societies (Pattie and Charter, 1994). It recognizes that the company is not only a collection of divisions, functions or “single business units”, but a holistic entity. The holistic system is a mixture of “hardware” and “software”. Some companies put the biggest weight on improving their technology regarding their products and manufacturing processes. Others rather focus on their “software”, and improve their policy making and trading strategies (Peattie, 1995).

![Figure 1: Extension of the traditional marketing concept, “the magic triangle” (Peattie, 1995, p 81)](image)

Fig. 1 (Peattie, 1995, p 81) denotes that the green challenges of marketing require balance between the material interests of the individual consumers and the broader interest of both the consumers and the society as well as the weighting of the short term profits against the long-term needs in order to manage a sustainable growth. This extends the traditional marketing concept “the magic triangle” of company customers and competitors. The extension includes the relations of the company and competitors to the society and the environment and concerns the long-term future of the broad public (Peattie, 1995).
Fig. 2 (Peattie, 1995, p 82) illustrates a green management view of the relationship among business, society and environment. The union of these three components forms the green marketing.

Fig. 3 illustrates the green perspective of the connection between business, society and the physical environment (Peattie, 1995, p 83).
Kotler and Lee (2008) suggest that in the recent years an increasing number of environmentally and socially responsible business practices have been implemented due to regulations, pressures of interest groups, and consumer complaints. The decisions for CSR strategies have several driving forces. Through transparency regarding sources of raw materials, product content, and manufacturing processes, consumers can make informed buying decision. CSR is appealing to customers, whose decisions are determined by company reputation based on sustainable business practices. It also attracts sophisticated investors with enhanced public scrutiny, may result in positive media coverage, increased employee satisfaction, productivity and retention (Kotler and Lee, 2008). Peattie (1995) examined the personal stimulus of the managers’ behaviour regarding the implementation of CSR. The social values which corporate managers take with them are parts of a larger culture. Thus, if environmental awareness increases within a society, it reflects in the managers. Furthermore, family and friends are the strongest motives of managers to reach better environmental results. Financial stimulation such as laws and regulations can also encourage companies to introduce more environmental friendly policies by exposing taxes and fees or providing subsidies. Taxation is an effective method, but in countries with abundant natural resources (e.g. Canada) the taxation system rather supports the extraction of natural resources than their preservation (Peattie, 1995).

CSR management has to integrate the social and environmental dimensions of sustainability, whereas economic profits are rather seen as a potential outcome of CSR strategies, not as a part of it. Thus, CSR may be seen as an additional investment into human capital, stakeholder relations and environment (Weber, 2008). CSR is built on ‘triple bottom line’ where corporations do not only have financial interests, but feel responsible for both their internal and external shareholders (Rotter et. al., 2012). Thus, corporate responsibility and sustainability may be used interchangeably.

Kotler and Lee (2008) propose numerous common CSR practices. They suggest that managers should make careful decisions about the locations of plants, outsourcing and retail locations so that companies have a positive economic impact on the local communities. Designing facilities which comply the environmental and safety standards, improving processes including the elimination of hazardous waste, reducing the usage chemicals when grooving crops, selecting sustainable suppliers, using environmental friendly packaging materials, providing full disclosure of production materials, and implementing employee-wellbeing programs also enhance CSR.

Successful planning in green marketing requires the consideration of five “I” factors (Peattie, 1995):

- **Informed**: In order to build a strategy which copes with the green challenges, companies need much new information.
- **Innovative**: Novel solutions are required to manage the newly arisen green problems.
- **Involving**: The planning process has to involve a broad scale of stakeholders, such as suppliers and distributors.
- **Integrating**: Integrated holistic strategic thinking is required to succeed the green efforts. The strategic processes have to be integrated with the marketing planning in an invisible way.
- **Iterative**: The companies operates in a dynamic environment, thus their strategies have to be improve all the time in order to survive. Green issues should not only be included in environmental rapports, if they are really wanted to be part of the corporate strategic planning.

To further increase the chance of getting good results in green marketing, the seven following green “C”-s have to be followed (Peattie, 1995):

- **Customer oriented**: It is important to continuously focus on customers throughout the whole business.
- **Commercially viable**: It means that the revenues from a given product exceed its costs, thus the product yields profit.
- **Credible for customers, top management and other stakeholders**: It is crucial that the given brand is trustworthy and reliable for the stakeholders.
- **Consistent**: There has to be compatibility among the company’s goals, strategies and assumptions.
- **Clear**: Technical and environmental jargons have to be avoided so that the broad public understands the message.
- **Co-ordinated**: There should be collaboration among the operative strategies and planning within the different units.
- **Communicated**: The brand has to be managed in an effective way, both internally and externally.
Organizations can be classified into four categories according to the level of their CSR practices. Laissez-faire organizations feel only responsible for the short-term interests of shareholders, to make profit, pay taxes and provide jobs. These organizations only meet the minimum obligations. Organizations with enlightened self-interest recognize the shareholders’ long-term financial interests. It understands that good reputation is a prerequisite of long-term financial success. It is proactive in social issues so that it can recruit and retain employees, does not only feel responsible for its shareholders, but for the other stakeholders as well. Such organizations may comply with best practices such as ISO 14000 and human rights. Organizations with forum for stakeholder interaction include the expectations and interests of various stakeholders. Organizations’ performance is not only measured by the financial bottom line, but in a pluralistic way. Such companies might keep unprofitable units in order to prevent employees from being unemployed. They do not sell antisocial goods, and sacrifice high profits for the benefits of the society. However, it is often complicated to align the interests of the different shareholders. Organizations, which are shapers of the society, consider financial profits to have secondary importance. They are mostly activists aiming to change the social norms. Some firms, such as Body Shop was established with this purpose. In order to achieve their goal of "changing the rules of the game" they need to form partnerships with commercial organizations (Gerry J. et al., Ch4, 2008).

2.4 Summary

The theoretical framework is summarized by Fig. 4.

Figure 4: Theoretical model
3. Research methodology

Throughout the empirical research different types of data will be used from different sources. These are described below. The empirical research will be built only on qualitative due to the qualitative nature of the research question. Firstly, they will be aimed to answer through secondary data including literature review and a company report, and finally, they will be complemented and verified by a primary interview with a pioneer in the Swedish ecological fashion industry.

3.1 Types of data

Thomas (2006) stresses that the main distinction between data is whether it is qualitative or quantitative. Qualitative data in qualitative research are usually not represented as variables as the aim is not to measure, but to explain the human actions, in the present case the actions of decision makers in the fashion industry. Data are presented in form of text, where the meanings are obtained from textual sources such as interview notes, field notes, transcripts, diaries, and visual materials. These data are not expressed numerically, and therefore they are not analysed by using statistical methods, but they are categorized, and the themes and patterns are combined into descriptive interpretations. Similar distinction can be made between soft and hard data. Hard data include the measurements, while soft data entails the descriptions (Thomas, 2006, p 90-2). Due to the qualitative nature of the research questions and aim, qualitative data will be collected and analysed in the thesis.

Raw data consist of the data before filtering and interpretation. Filtered data are the data after conclusions (Thomas, 2006, p 92). A related distinction can be made between primary and secondary data. We can speak about primary data when a researcher collects data for his or her specific purpose. Not like secondary data, primary data have not been analysed yet. Secondary data are gathered by other researchers for their own projects. Sometimes it might not be obvious whether secondary data are filtered or is passively presented (Thomas, 2006, p 92-3).

As mentioned, secondary information is obtained for different purposes then the one at hand. Yet, researchers can access this information through various sources, and can be valuable for the given researcher regarding his or her problem (Green and Tull, 1978, p 76-7). Green and Tull (1978, p76-7) claim that in case adequate secondary data are available and can solve the problem, primary data collection is not needed. It is an advantage of secondary data collection that usually it takes less time and financial resources to get them than to obtain primary data. Yet, secondary data might not be sufficient to solve the research problem, but it supplements the primary data (Green and Tull, 1978, p 76-7).

Distinction is also made between internal and external secondary data and information. We can speak about internal secondary data in case the researched company collected and published the data about itself. This information entails orders, sales numbers and different reports for instance (Green and Tull, 1978, p 77). In contrast, external secondary information is mainly available mainly through the services of institutions, trade associations, governments, and periodicals.

3.2 Literature review

The purpose of the literature review is recalling the existing work in the field which the current thesis is written in. Throughout the literature review, academic journals and official online publications are used. The journal articles are academic and peer reviewed to ensure the academic quality of the thesis (Fischer, 207). These can be accessed through the electronic library of Uppsala University (http://www.ub.uu.se). Through the World Wide Web the official publications and company information were accessed. In order to find the needed literature keywords such as fashion, textile, cotton, organic fashion, organic cotton, sustainable fashion, apparel industry, textile chemicals were applied. As the ‘Journal of Fashion Marketing and Management’ proved to contain the most relevant articles for the thesis, its volumes were reviewed, and a special issue about sustainable fashion was found. Most of the articles were published by the Emerald Group Publishing Limited. Regarding the official
publications in the Internet, articles on the webpage of ILO were intentionally looked for, yet the publications of
the other organizations were found through references and typing the keywords into the Google search engine.
By using the mentioned keywords, biases toward an overly positive or negative picture about the fashion
industry were intended to be avoided.

3.3 Case studies

"The case study is a research strategy which focuses on understanding the dynamics present within
single settings." (Johnson and Clark, 2006, p 220)

A case study can be performed by using either quantitative or qualitative research (Johnson and Clark, 2006, p
209). Yet, traditionally case studies are qualitative analysis methods (Gerring, 2007, p 10). In this thesis
qualitative evidence from an interview and a company report will be used to perform organizational case studies
as they seem to be the best methods to address the research questions. To conduct such a research, it is important
to approach organizations with a specified focus in order to collect the right data in a systematic way; otherwise
the researcher becomes overwhelmed by the large loads of data (Johnson and Clark, 2006, p 221).

Case study approach is good for studying a single unit (case) or a sample of them with the aim of understanding
a population (Gerring, 2007, p 10). However, it is a disadvantage of the case studies that they cannot test theories
properly as they are not representative because they usually include a small amount of cases of a common
phenomenon (Gerring, 2007,p 42). Johnson and Clark (2006,p 236) also have a concern about the
generalizability of the case studies. The findings might not be generalizable as they describe a unique
phenomenon. In addition, using many empirical evidences might result in too complex theories (Johnson and
Clark, 2006,p 236). The case study method was chosen due to its advantages: With case studies it is possible to
describe a phenomenon in details which enables researchers to learn a lot. In addition, the details raise further
questions to research (Lanthier, 2002).

Gillham (2010) suggested different methods to collect evidence for case studies: documents, records, interviews,
“detached” observation, participant observation and physical artifacts. To answer the research questions,
interviews and documents seem to be the best methods. Observation of the production processes would be very
useful, but it is not a viable option to visit the sweatshops for instance because of safety and financial concerns.

Alternative methods of the case studies include questionnaire, correlation and experiment. Questionnaires, also
called surveys, are suitable for the purpose of gathering information from a sample of people. The questions
usually regard their behaviour, attitude, and thoughts. The answers are usually consolidated. The correlation is an
appropriate method to measure the relationship between two variables. It is a good way to predict the change in
one variable as a result of a change in another. The correlation can be either positive or negative. The experiment
method is used to reveal a cause and effect linkage between two variables. For instance the causes of mental
processes can be studied by experiments. The researcher changes the environment, and then measures the
consequences of the change (Lanthier, 2002). As the research questions of the thesis have qualitative nature,
correlation analysis is not suitable. Changing the macro-environment, or the competition is not feasible, thus,
experiment method is rejected, too. The questionnaire method was not found to be appropriate, either, as too
much company information was needed, and the open-ended questions were not assumed to be answered by a
representative sample size of companies. This method was thought to be more appropriate for consumer research
to answer simple questions or multiple choice questions. As in-depth information was needed about the fashion
industry, case study method was found to be the most appropriate.

3.3.1 Company report

In order to validate or challenge the literature review, an interview was intended to make with the fashion giant
Hennes and Mauritiz (H&M). However, the company refused to give an interview, and recommended using its
sustainability report for data collection as it contains abundant amount of information. Therefore, internal
secondary data were obtained through the sustainability report H&M. The report is available through the company’s website.

3.3.2 Primary data -Interview

According to Green and Tull (1978, p 135-138) there are structured versus unstructured and direct interview techniques. The current thesis is not engaged in any of them, but will use a mixture of them. As a result, a ‘semi-direct semi-structured’ interview was carried out. Structured-direct interviews are conducted by applying formal questionnaires with the intention of getting the facts. The questions are asked in a systematic manner, and in order to avoid misunderstandings, and the manipulations of the answers, the worlds are carefully formulated in advance. In case of unstructured-direct interviews is mainly used in exploratory studies to answer “Why” questions. Based on a given question further questions can be raised to fully understand the reasoning of the interviewee. Therefore, this type of interview is also referred as ‘depth interview’. Indirect interviews however, do not include direct questions asking for facts, but they intend to obtain data by projection. The interviewee is usually asked to describe a problem and based on word association for instance conclusions are drawn. it is useful, when the respondent is not able or willing to answer. In reality most indirect interviews are partially structured by determining some words prior the interview (Green and Tull, p135-138, 1978).

Yet, the disadvantage of interview method may be that the respondents are important officials, thus it might be difficult to approach them. In addition, imaginative answers may be given to make the interview more interesting (Kothari, 2004).

Primary descriptive data are obtained through ‘semi-direct semi-structured’ interview method. Its purpose is to validate the findings in the literature review, and to find more explicit answers to the research questions, especially for the one asking how fashion companies address the environmental and social shortcomings. Thus, the answers will be used to evaluate if the findings in the literature are valid or biased, and to fill the gap in the literature. A face-to-face interview was carried out with a Swedish fashion designer, Johanna Hofring. She was one of the founders of Art Fiend Foundation in Manhattan and Ekovarohuset-House of Organic in Stockholm. She is engaged in sustainable fashion, has lived and worked in New York, and participated in the New York Green Fashion Week (Ekovarohuset, 2013). Most questions will be predetermined, but others will be made up during the meeting. Personal interview methods will have several advantages: More and in-depth information can be found, the resistance of the respondent can be overcome, if needed, the question can be restructured, the probability of no-response is very low, and the interview can be recorded (Kothari, 2004). If the interviewee agrees, the interview was tape-recorded.

3.3.3 Selection

Two Swedish fashion retailers were chosen to make the case studies as Sweden has a reputation of being environmentally aware, and according to the Ministry of the Environment (2011) the country aims to be the green forerunner:

“We will show that it is possible for a rich, industrialised high-tech country to develop in harmony within the boundaries of the natural environment” (Ministry of the Environment, 2011).

Ekovaruhuset was selected to study as its founder Johanna Hofring was a pioneer in the Swedish ecological fashion industry, and had successful eco-fashion shows also in New York. Through Ekovaruhuset she has been marketing the collections of numerous designers after careful selection. Due to her long history in the eco-fashion branch and high professional knowledge, she was found to be a suitable interviewee. The study of the online documents of Hennes and Mauritz (H&M) was chosen as it is one of the biggest and most well-known fashion companies in Sweden with a global presence. It can be interesting to see the views and actions of a small, yet pioneer actor, and a fashion giant on the market.
4. Empirical results

4.1 Literature review

The literature review will study the urge for sustainable decision making, Porter’s competitive five forces model and the PESTEL framework in the fashion industry. Then a synthesis will be formulated, and finally the costs and benefits of the sustainable strategies will be described. The shortcomings and successful practices regarding sustainable development will be integrated throughout the section.

4.1.2 Pressure for sustainable decision making

Park and Rees (2008) suggest that through conscious stakeholder management companies aim to legitimize themselves in the market which they operate in. They can achieve this goal by behaving in a way which corresponds to the social norms, beliefs, and expectations in the given market. Therefore, they engage in sustainable issues, and attempt to act in an ecologically responsible way (Holm and Holm, 2010). The media are especially sensitive towards ethical issues in the fashion industry. They report child labour and unfair working conditions within the supply chains (International Trade Centre, 2009). Moreover, growing consumer consciousness and demand are making the long-term profits of sustainable fashion optimistic. Tham (2010) suggest that an integration process has to be taken place deep at cultural, product, and organizational levels so that the fashion industry respects the planet and the humans. In order to have a positive customer and media perception, fashion companies implement sustainable strategies (Cervellon and Wernerfelt, 2012; Fan and Lo, 2012). In order to make their supply chain transparent, fashion companies standardize their CSR work and Code of Conduct documents, and maintain long-term relations with the stakeholders (Tham, 2010).

“CSR requires companies to acknowledge that they should be publicly accountable not only for the financial performance but also for their social and environmental record... CSR encompasses the extent to which companies should promote human rights, democracy, community improvement and sustainable development objectives throughout the world.” (Confederation of British Industry, 2001, cited in Morgan and Birtwistle, 2009, p 13)

Yet, the implementation of the above request is not that simple. The findings of Morgan and Birtwistle (2009) and Perry (2012) show that maintaining a sustainable fashion brand is challenging as green fashion might be contradictory: the growth of the fast fashion sector promotes impulse shopping, change, short life cycles, low sales prices and production costs, high product variety and volatility, and low predictability, while sustainability encourages durability, reuse and recycle.

4.1.3 PESTEL framework in the fashion industry

This section will analyse the PESTEL framework as a basis of managerial decision making. Relatively bigger attention will be given to the social and environmental components as those mean the biggest challenges for sustainable development.

Political conditions

The political and legal conditions in the fashion industry are difficult to separate as often the governments make the laws. The common political conditions will be analysed mostly in the production countries as they raise sever social and environmental issues there.

The very beginning of the fashion supply chain raises morally questionable labour practices. The Human Rights Watch (2012) claims that Uzbek authorities deny that forced and child labour is used in cotton harvesting in the
country. Yet, due to the government’s quota system this is not the reality. Under the US law both are considered as human trafficking. Several activists have tried to monitor and talk to the workers on the cotton fields, but some were attacked and detained. Yet, it was reported that even 10 year old children were picking the cotton. It is reported that harvesting conditions incorporate long working hours, deficient food and water, exposure to toxic pesticides, inadequate shelter, and verbal abuse. Moreover the Uzbek government seems to be unwilling to tackle the problem. Moreover, foreign media and international nongovernmental organizations are prohibited from operating in the country. This complicates the reporting on the labour conditions (Human Rights Watch, 2012).

The manufacturing part of the supply chain is also ethically questionable. According to Jones and Williams (2012) free trade has encouraged companies to outsource the manufacturing processes to factories in countries with exceptionally low labour costs. Thus, in the apparel industry, companies outsource the production processes to the Global South. The production costs including taxes are low where which is ensured by international trade agreements such as the Central American Free trade Agreement and the North American Free trade Agreement. Due to the poor labour conditions described earlier outsourcing may raise human rights issues. Fair trade, however, defeats the negative aspects free trade (Jones and Williams, 2012).

Economic conditions

The economic characteristics differ in case of each sales market, therefore, only the general influential forces will be elaborated on throughout the thesis. The competitive forces which determine the profit potentials will be analysed based on the Porter’s five forces model in the next chapter.

The International Trade Centre (2009) found that the ethical fashion market is indeed expanding, but it represents a small fraction of the market. It proposes that the sector can only sustain its growth if large brands and retailers get engaged. The forum is optimistic that the long-term sales figures of the unethical retailers will fall if they do not address the problems within their supply chains, and do not clarify the recognized ethical standards which ensure fair labour conditions.

It is noteworthy that Anuj et al (2012) found that the percentage of apparel items produced in the US was 40% in 1997, yet in 2012 it decreased below 3%. The demand for low-cost labour market has a long history. In the early 20th century, the apparel industry was attracted to Korea, Hong Kong and Taiwan where cheap manufacturing was feasible. In the 1970s, China gained comparative advantage to these countries, and the most of the production was shifted to India, Pakistan, Cambodia, Vietnam and China. Thereby, retailers did not have to comply with environmental regulations (Anuj et al, 2012). Thus, it can be concluded that the economic motives to cut production costs forms a tight synthesis with the technological, social and environmental issues.

Social conditions

In this section the social problems in the clothing industry will be divided into two based on their occurrence in the supply chain; manufacturing and consumption are usually located in different markets. Therefore, the social issues should not only be studied on the sales market, but on the labour market, too. First, serious social issues concerning the working conditions on the labour market, then the consumers’ behaviour will be reviewed.

Regarding the labour market, because of the complexity of the clothing industry, the management of the working conditions is difficult. The supply chains are dispersed and vertical with many changing levels and networks where contractors, subcontractors and auxiliaries have to cooperate. Outsourcing reduces direct involvement, thus makes the business less complex. In case of outsourcing the manufacturing often takes place in sweatshops with unfair, inhuman and unacceptable labour practices. The questionable labour conditions in the clothing industry have been under intense investigation and in some cases, when sweatshop conditions were found, negative publicity and public boycotts arose. Debates were high about child labour and worker exploitation (Park and Rees, 2008).

The Institute for Global Labour and Human Rights (2010) reports shocking facts about sweatshops in Jordan. It found that at the International British Garments factory 75% of the workers are young women trafficked from Sri
Lanka, India and Bangladesh. Their passports are confiscated, and they are kept like slaves. They work every
day of the week in 16-hour shifts, and they are paid of their legal wages. They live in miserable dorms without
heat and constant access to water. Their sleeps are disturbed by infected bed bugs, and do not get any pesticides.
Moreover, there were reports about sexual harassment. When the guest workers are complaining, they are
slapped. If they skip a ship for any reason, they are denied two days’ wages. Although this factory sells clothes to
non-Swedish retailers (Nygård, Dillard’s, J.C. Penney and Wal-Mart) (Institute for Global Labour and Human
Rights, 2010), the major multinational Swedish clothing retailer, Hennes & Mauritz AB also plays an
intermediary role, and sources the clothes from Asian countries, too (ILO, 2011). Outsourcing companies have
less control over the labour conditions than those producing in their home countries (Jones and Williams, 2012),
thus subcontractors make suppliers less traceable and therefore the salaries and labour conditions of the workers
can be suboptimal. In case a company has no auditing process or other controlling policy, then there is an
increased likelihood of sweatshop conditions (Moore, 2011).

It might be unexpected that Moore (2011) found that not only cheap garments are produced under sweatshop
conditions, but designer brands have bad CSR results too:

“Vow of silence on social and environmental impacts. Huge profits. CEOs paid hefty annual bonuses.
Production outsourced. No commitment to fair wages or safe workplaces.” (Moore, 2011)

Moore (2011) states that CEOs of luxury companies allocate themselves high yearly bonuses, some even £5
million. However, the workers cannot cover their basic living expenses, such as food, shelter and school fees,
from their wages; they are not even paid the minimum wage. Not surprisingly, Moore (2011) did not find any
information about worker rights on the companies’ website, and they were resistant to talk about these and other
sustainability issues. They conform that workers manufacture clothes in crowded, unsafe, and unhygienic
conditions for long hours. Workers are not allowed to join trade unions, thus they do not have the power to
demand anything like wage increase (Moore, 2011).

Yet, Fan and Lo (2012) found that scandals on occupational health and safety (OHS) issues harm brand value,
and thereby its financial performance. Therefore, fashion retailers tend to oblige their suppliers to implement
code of conducts, and eliminate OHS risks. Perry (2012) also found that insufficient CSR practices result in
negative perception and decrease in retail brand value. In addition, conflicts with the subcontractor facilities and
the suppliers hinder the product flow and increases tie risks throughout the supply chain. CSR on the other hand
eliminates the undesirable social influences of the global industry operations (Perry, 2012).

Regarding the consumer market, Perry (2012) maintains that socio-cultural changes are especially fast in the
fashion market. To respond the demand, some “fast fashion” companies market 20 seasons yearly. Therefore,
according to Connolly and Prothero (2003), the focus should not only be on the sustainability of the products,
but on over-consumption as well. Yet, to keep the economy moving, consumption is necessary (Connolly and
Prothero, 2003). However, there is an increasing pressure also from consumer side for producing eco-friendly
fashion items. Yet, as mentioned, even conscious consumers prioritize price and style before environmental
concerns. Jones and Williams (2012) claims that there is an international movement of consumer who demand
ethical manufacturing in the fashion industry. They expressed their concerns over the violation of workers’ rights
in the sweatshops. They want workers to be provided safe labour conditions and fair wages. Cervellon and
Wernfelt (2012) maintain that particularly in the eco-fashion sector consumers look beyond the fashion pieces
and base their buying decision on health concerns and support of social welfare including fair working
conditions and the avoidance of fur and leather. Fan and Lo (2012) also suggest that fashion consumers take
more attention to CSR; they are concerned about who and how made the products. Yet they claim that not every
consumer is like that, but have a narrow knowledge about green fashion. Therefore, they need to be educated
which takes time (Cervellon and Wernfelt, 2012). The International Trade Centre (2009) that it is not enough to
produce a few fair-trade product lines, but they have to integrate the responsible strategies throughout the whole
supply chain, become transparent, and innovative., and thereby obtain competitive advantage.

As a response to social concerns and pressures, the apparel industry introduced the implementation of the codes
of conduct on a voluntary basis, factory monitoring, and increased transparency in operations. These actions are
part of companies’ CSR practices. Nowadays CSR in the apparel industry are getting widespread. The objectives
of CSR are similar; organizations aim to guarantee fair prices for manufacturers, safe working conditions,
abolition of child labour, improving the skills and capacities of producers. In addition, environmental stewardship and transparency between producers and businesses are (Jones and Williams, 2012). Tham (2010) suggest that an integration process has to be taken place deep at cultural, product, and organizational levels in order to fashion industry respects the planet and the humans.

Some famous luxury fashion designers such as Tom Ford realized that sustainable fashion is stylish, but it might be challenging to make it mainstream. Yet, it is argued that if famous brands and designers market ecological apparel goods as the current trend, than sustainable fashion has more chance to be successful (International Trade Centre, 2009).

"I think that in the future, approaching fashion in an ethically responsible manner will be the way to behave. The problem is not only for the designers but also for consumers because it will take time to teach them how to recognize and choose sustainable items." (Sozzani, 2009)

The McMullen (2013) reveals the reality behind the ‘conscious collection’ campaign of H&M. LBL claims that thousands of workers in factories, which supply to H&M, are undernourished because their wages are below the living wage.

**Technological conditions**

Due to the focus of the thesis the technological characteristics in the fashion industry will not be analysed purely on a geographical level, but rather on industry level.

The textile and apparel industries are technologically different in a way that textile industry focuses on the manufacturing of bolts of clothing, while the latter emphasizes the production of clothing articles from the fabrics. The textile segment can be highly automated; however, the apparel segment stays low-technology and highly labour-intensive. There are computer-aided design (CAD) technologies, automatic mechanical knives and lasers only in pre-production and the cutting operations (Anuj et al, 2012). Other researchers confirm that due to frequent textile and design changes, the clothing industry is very labour intensive with limited automation (Jones and Williams, 2012 and Park and Rees, 2008). Jones and Williams (2012) claim that due to the labour-intensity, fashion companies outsource the production to countries with minimal labour costs. They argue that this often results labour abuses as the sweatshops where the production takes place do not ensure safe working conditions, and workers are not paid fair wages. Fan and Lo (2012) supports that the manufacturing of textiles easily causes injury, illness, and sometimes fatality. This raised the concern that workers’ rights are violated (Jones and Williams, 2012).

**Environmental conditions**

Moore (2011) found that clothing companies not only fail to optimize socially responsible manufacturing processes, but they do not seem to tackle their environmental footprint either. Several researchers found that abundant toxic chemicals are used in the textile and clothing industry.

According to EJF (2007) grown in more than 80 countries, cotton is responsible for a large part of environmental harm in the fashion industry as it is a major raw material. Nowadays intense use of hazardous chemicals characterizes the industry, but it was not like this throughout the history. First it was cultivated in South America 3000BC, and till the 1950’s cotton was produced principally without hazardous agrochemicals. During this 5 thousand years pests were controlled so that growers took the pest cycles into consideration before and during the harvesting. They used crop rotation techniques, and the plants were less dense which reduced the impact of the pests. However, after the Second World War, global cotton production was radically changed. New technologies were introduced which form a synthesis between the technological and environmental components of PESTEL. The DDT and other neurotoxic chemicals were used instead to control pests instead of the traditional methods. With the innovations cotton production became cheaper, as less labour and machinery were needed to control pest. Yet there are developing countries where toxic chemicals were not intensively used till the 1980’s. For instance in Pakistan, pesticides were applied on only maximum 10% of the cotton fields in 1983,
yet this ratio grew to around 95% by 1991. Pesticides kill pests by damaging their biological processes including their reproductive and nervous systems. Yet, not only are the pests affected, but other animals and humans, too (EJF, 2007).

Moore (2011) points out that growing cotton is economically crucial for many countries globally. Yet, the ecological impact of clothing industry is severe. EJF (2007) in its ‘The deadly chemicals in cotton’ report emphasizes that out of the total global insecticides release 16% comes from growing cotton which makes cotton the most insecticide-intensive crop. Around US$ 2 billion is spent on pesticides to grow cotton yearly, far exceeding the amount spent on any other crop in the world. Moore (2011) also found that the growing of non-organic cotton requires vast amount of water and chemicals. While the territory which non-organic cotton is grown occupies 2.5% of the global agricultural land, 22.5% of all the insecticides and 10% of the pesticides is used to cultivate it.

Steiner (2012) reported that textile and clothing industry means a high risk regarding potential Substances of Very High Concern (SVHC). Kishi (2002) in a report of the World Health Organization writes that aldicarb, parathion, and methamidophos are three of the most hazardous insect repellent to human health. Yet, they rank in the top ten most popular insecticides used in cotton growing. Six others out of the ten are moderately or highly hazardous. Aldicarb is the second most used insecticide in cotton production, yet the most toxic to people. According to EJF (2007) it is applied in 26 countries, and it was found in the groundwater of 16 states in the US. EPA (2012) classifies aldicarb as a “very toxic chemical”, which should not be used in any home as exposure to high amount may cause blurred vision, headache, weakness, nausea, sweating, tearing, and tremors. Moreover, as it works by paralyzing the respiratory system, very high doses can also kill people. (EPA, 2012)

Kramer et al(2006) found that nitrogen based synthetic fertilizers have the biggest environmental impact. When and running off it pollutes wells and freshwater habitats. They are major causes of increased N₂O emissions. N₂O is a greenhouse gas which is told to be 300 times more powerful than CO₂ (Kramer et. al., 2006).

It is noteworthy that according to EJF (2007) 99% of the cotton farmers live in the developing countries, and grow 75% of the cotton globally, therefore they suffer most of the impact of cotton production. Moreover, they lack protective clothing and other safety equipment. They are not given any training about handling hazardous fertilizers either. In India about one third of pesticide uses results in reported health. Some farmers store pesticides in their bedrooms, near their food, and reuse pesticide containers to store drinking water. Thus, they are exposed to especially high risk for serious pesticide poisoning and long-lasting effects. Moreover, in India and Uzbekistan they are directly involved in pesticide application on the cotton fields (EJF, 2007).

EJF (2007) reports that cotton is not only used for producing textiles, but the cottonseed hull, as a residual, is consumed as animal food commodity. It is problematic as it contains the hazardous pesticides. According to the estimations 65% of cotton gets into our food chain, either through food oil or via milk and meat (EJF, 2007).

Not only the cotton production, but textile manufacturing is also hazardous to the ecosystems including humans. Steiner (2012) explained that because the production processes were shifted from developed to developing countries, the use of chemicals significantly increased. OTA (2011) draws the attention to the fact that the processing of cotton into fabrics involves many harmful materials such as silicone waxes, softeners, harsh petroleum scouts, heavy metals, ammonia, flame and soil retardants, formaldehyde, mutagenic dyes and other pollutants (OTA, 2011; Steiner, 2012). Chemical cleaning, dyeing, and finishing of fabrics all produce toxic wastewater. When getting into freshwater, it depletes the oxygen, and thereby disturbs the aquatic ecosystems (OTA, 2011). Go’mez-Hens and Aguilar-Caballos (2003) warns that the phthalates -used as plasticizers in prints and soft plastics- cannot be chemically bound in the plastics, but they are leachable and may be lost from the plastic after a while. Hence, both during the manufacturing and use of the products, they are released to the environment. Due to their widespread use they contaminate water, soil and air. Thus, they get into the food chain and the human body (Go’mez-Hens and Aguilar-Caballos, 2003). The Mead and Cataldi(2013) reported that the yearly textile chemical consumption consists of approximately one million tons of dyes and seven million tons of other chemicals globally. According to Steiner (2012) China itself uses 42% of the textile chemicals worldwide. Moreover, the spending on pesticides has increased by almost 60% since the end of 1990s (Steiner, 2012).

Moore (2011) also suggest that the ‘wet processes’ and dying of textiles need much water and hazardous chemicals (Moore, 2011). Making a cotton T-shirt needs about 2700 litres of freshwater (Textile Exchange,
Not only the growing and processing of cotton have significant environmental impacts in the fashion industry, but animals are also farmed for their furs. Moore (2011) revealed that fur traders were arguing that fur coats are eco-friendly alternatives of fake fur. Yet, it was found that formaldehyde, chromium, and other chemicals used to preserve real furs have carcinogenic potentials, and are environmentally harmful as they pollute the waters. It was calculated that the amount of energy used to prepare a real fur coat is 66 times more than the energy used to manufacture a fake fur coat when taking into consideration cages, feed, cages, skinning, pelt-drying, processing, and transportation (Moore, 2011).

However, despite the environmentally harmful practices described above, there are eco-friendly endeavours in the fashion industry. Ellis et al (2012) found that consumers have an increased awareness regarding the environmental impact of the products they buy as well. Thus, a growing consumer segment tends to make informed ethical purchasing decisions. Their decisions are motivated by worries about child labour, sweatshops, political and social marketing, fair trade and wages, as well as by natural resource depletion, and environmentally harmful manufacturing (Ellis et al, 2012). Thus, fashion companies are targeting this segment, and are expected to implement changes in their supply chains, and become good environmental stewards (Jones and Williams, 2012).

According to EJF (2007) the growing demand for organic cotton exceeds the supply. It is argued that growing cotton in an organic way is economically viable, and environmentally and socially viable. Therefore, it is suggested that cotton traders should encourage the shifting of conventional growing to organic techniques. Currently organic cotton is grown in 20 countries, and its amount became five times bigger than it was in 2003.

When producing organic cotton genetically modified plants cannot be grown, and the use of pesticides, fertilizers, and other synthetic agricultural chemicals is not allowed (Ellis et al, 2012). Therefore, organic farming protects the planet and peoples’ health. No toxic chemicals get into the air, water, soil and food supply. This eliminates the risk of asthma and cancer (OTA, 2011). Organic agriculture applies natural fertilizers such as compost and animal manure. This way the nitrogen is recycled in the soil, but no more is added. Thereby, N₂O emission is reduced (Kramer et al, 2006). The US and Turkey produce most of the organic cotton globally (Chaudhry, 2007), yet as mentioned before, 75% of the cotton is grown in the developing countries (OTA, 2011). With the introduction of Biotechnology (Bt) the use of insecticides has been reduced in the last 10. In case of Bt farming the insecticide is in the plant; no periodic spraying is performed. Yet, it has the drawback that the immune systems of the pets will strengthen, and the probability for superpests increases (Chaudhry, 2007). Therefore, organic cotton and textiles seem to be favourable substitutes to traditionally produced textiles. Yet, growing organic cotton is still a small fraction of the total cotton production. While 30 million farmers in about 65 countries produce conventional cotton, organic cotton is grown only in 22 countries by 220,000 (Ellis et al, 2012).

Legal conditions

Park and Rees (2008) found that the prevailing view about sweatshops is that their operation is legally and morally undesirable as they violate human rights. Yet, labour legislations are often insufficient, and society has to encourage companies to implement fair labour management. According to the Institute for Global Labour and Human Rights (2013) the laws about labour protection have improved, yet they are still not effective enough. For
instance the North American Free Trade Agreement (NAFTA) included agreements about child labour, health and safety violations and minimum wage, but no other requirements regarding the local labour laws in 1994. Recent trade agreements, however comply with the ILO standards. Yet, they are weak, and cannot be fully enforced. Furthermore, ILO's labour standards are not rules and laws, but rather guidelines, thus there is no penalty for violating them. In Bangladesh for example the government is dysfunctional as claimed by the Institute for Global Labour and Human Rights (2013). In lack of rules ethical trade is not working with the country. The institute revealed the unethical functioning of two factories, Rosita and Megatex. Both manufacture expensive sweaters for numerous European fashion companies which assure that the workers are treated according to ILO regulations such as the elimination of child labour and freedom of association. However, in fact there was child labour, workers were beaten, and their low wages were cheated. On the top of these male supervisors sexually harassed the young female workers (Institute for Global Labour and Human Rights, 2013). Thus, in order to socially legitimize themselves, firms need to change their behaviour into a more responsible direction on a voluntary basis (Park and Rees, 2008).

In addition, Moore (2011) in its Style over substance report found that any luxury companies have holding companies or subsidiaries located in tax heavens with their own laws. As holding companies only own shares in another company, they rarely carry out any activities themselves. For that reason, holding companies and subsidiaries listed in a tax heaven pay less tax than it would pay in the country where it actually operates. This negatively affects the public sector of their home country. Moore (2011) finds it frustrating as by this means the large profits are allocated to the extraordinary high bonuses of the executives.

Inefficient political and legal regulations also case environmental problems. Yet, environmentalists have become a respected group which aims to increase the environmental concern of different interest groups. The European Community (EC), some national governments, industries, and consumers have positively reacted to the pressures. For instance the UK government was a pioneer of introducing a comprehensive environmental statement as a response. The EC dictates environmental legislations beyond the concerns of observing waste and pollution in the agriculture and transport industry, and the marketing of certain products. Eco-auditing and eco-labeling are among the Environmental Directives. Industries reacted by producing more environmentally friendly goods, conducting environmental audits and impact assessments, publishing environmental policy documents and supporting local communities. In addition, they use energy and raw materials in a more efficient way. However, many firms have been criticized by environmental organizations to be superficial. Furthermore, consumers have bought more eco products. Yet, the amount of environmentally acceptable goods they purchase is still not enough mostly due to the price premium. Thus, environmentalists criticize EC, industries and consumers that environmentalism is not their first concern, and that they have only responded to a fracture of the environmental concerns. They claim that green should not only bee a product label, but a company philosophy (McDonagh and Prothero 1993). Moore (2011) also found that due to the poor regulations in the host countries, clothing manufacturers release significant amount of toxic waste into the waterways (Moore, 2011).

Summary

In summary, based on the above literature, the following key strategic drivers of the PESTEL framework can be identified: Labour-intensity of clothing production drives the technological solutions and economic considerations such as low cost labour. Lack of labour and environmental regulations and law enforcement in the producing countries drive the ethical and unethical operation of the fashion companies. Fast socio-cultural changes resulting in shifting consumer demand, over-consumption, price prioritisation, yet need for eco-friendly fashion items in certain consumer segments, and cheap labour in developing countries drive the amount and quality of output, production costs, and business ethics. The high need for abundant cotton, the water fertiliser and insecticide intensity of cotton growing, need for chemicals and plentiful water for textile manufacturing, leather and fur preparation, yet the need for sustainable products drive the extent of environmental friendly operation of the fashion companies. The drivers of economic decision making are the competitive forces, demand for ethical fashion, and low cost labour market in the developing countries.

4.1.2 Proter’s five competitive forces in the fashion industry

As mentioned in the theoretical background, managers can predict their profit potential by analysing the five competitive forces. In case the forces are too high, they might not engage in a given industry in a given market.
The garment industry is the oldest international business. In the last two decades it reorganized its manufacturing by moving it from continent to continent to find cheap labour force, and thus obtain competitive advantage. The fashion industry is one of the most significant segments of the economy in terms of employment, investment, trade, and revenue. Most of the production and trade takes place in the Asia-Pacific region. Globally there are approximately 40 million workers producing garments workers (Bhattacharjee and Ashim Roy, ILO 2012). In addition, Perry (2012) found that the garment industry is a mature industry, and is relatively sensitive to prices. This further strengthens the intensity of the competition.

The problem in the supply chain starts with growing organic cotton. Organic Trade Association (2013) reported that there is a limited access for US farmers to organic cotton seeds. In addition, drought and pests also put pressure on the growers. Moreover, Ellis et al, 2012 found that it is hard for organic cotton farmers to find a market which pays a value-added price for the organic cotton. Therefore, it can be concluded, that farmers growing organic cotton have low bargaining power due to the uncertain harvested amount and the lack of demand for organic cotton.

Regarding fabric manufacturers, the production processes of most clothes are outsourced to developing countries without the direct power of the retailers (Jones and Williams, 2012; Park and Rees, 2008; Merk, 2009). According to the International Trade Centre (2009), several transition and developing countries’ economy is dependent on textile exports. Sri Lanka's textile exports represent 53 %, Cambodia's 80% and Bangladesh's 73% of the country’s economy. Yet, the social and environmental production conditions are not transparent. This is expected to change if consumers require more knowledge regarding the manufacturing of the clothes (International Trade Centre, 2009). Moreover, Perry (2012) found that that retail buyers are resistant to increase the prices they pay to suppliers for a more ethical production. It is argued that low prices, short turnarounds, and higher uncertainties are not compatible with the call for good labour conditions in the supply chain. As described in the theoretical background, if suppliers are highly dependent on the buyers, the bargaining power of suppliers is low. Consequently, as the above textile exporters’ income is dependent on the fashion retailers, they have low bargaining power.

Regarding buyers’ behaviour, Connolly and Prothero (2003) found that consumers’ buying behaviour is often not environmentally responsible. They argue however, that the problem might be attributed to the availability of ecological fashion products. Ecological food products are relatively more widespread, thus more accessible. Moreover, the consumers use their influencing power only for a short-term, following a media scandal. They either forget about the unsustainable actions of the companies or hope that retailers have changed their strategies. They may be right as companies are aware that the media is keen to cover new stories. Conscious consumers would like to purchase ethical clothes, yet they prioritize colour, cut and price before social and environmental ethics (Jones and Williams, 2012). Their needs and wants change fast, which is meat by numerous unpredictable collections per year. As the market is highly competitive, the prices are kept low, and the production costs have to be minimized. Thus, the fashion market faces downward price pressure (Perry 2012). Thus, because there are plenty of competitive fashion retailers, the consumers do not need to be loyal to one, but they can easily switch among retailers; they can shop around among the competitors. As the price largely determines their choice, they have a high bargaining power.

According to (Perry, 2012) the fashion industry has low barriers to entry. Yet, Anju et al(2012) distinguishes between the textile and apparel industry based on labour intensity. As apparel industry produces the final clothing pieces from the textiles, it relies on labour-intensive traditional technologies. Thus, the entry barriers to a market are low relative to the capital-intensive more automated textile industry (Anuj et al, 2012). Therefore, it is proposed that as incumbent fashion companies are not capital-intensive, they are highly threatened by potential entrants to the market.

Kinley (2010) maintains that the retail environment is greatly competitive and overstored. Bloch et al (1994) also claims that consumers have a large scale of goods to select from when they go shopping to malls. In the shopping malls and department stores, mostly fashion goods dominate, but consumers can chose to other products (Finn and Louviere, 1996). The activities of consumers differ in shopping malls, and their aim with consumption is to get positive experiences, but not necessarily the product itself is the most important (Bloch et al, 1994).
4.2 Synthesis

“The fashion system can be described as the complex and interdependent web of all fashion’s stakeholders, a range of parameters – technological, political, financial, socio-cultural – at both micro and macro scales, and the deeper motivations of both those who create, produce and promote, and those who acquire, use, and eventually dispose of fashion.” (Tham, p3, 2010)

Thus, the complexity of the fashion industry may not be easy to understand. Based on the theory empirics the following synthesis therefore aims to find the correlations within this complex web of stakeholders and parameters adding the environmental component.

Fig. 5 shows that due to the lack of sufficient environmental regulations and the laws regarding labour conditions, the political and legal components of the PESTEL framework increases the threat of the potential new entrants to the market. It might be the case because laws and regulations do not hinder the outsourcing and thereby, the cheap production potentials of the potential new entrants. In addition, the fashion retailers do not own the manufacturing companies; therefore, the access to suppliers does not seem to be restricted. Yet, due to the ineffective regulation of working conditions, suppliers can employ cheap labour, and both they and retailers want to keep the costs down. If suppliers increased their prices, retailers would cancel their orders, and switch suppliers as there are many to choose from. Consequently, the bargaining power of suppliers is low. In case the production costs are decreased to the minimum, there might be a danger of human and labour right violation as the factory workers are not ensured the minimum living wages, they work hours beyond human capacity, working children cannot go to school, and many are accommodated and work under in unhygienic conditions.

Regarding the macroeconomic situation on the sales and labour market, there is high competitive rivalry among the existing fashion retailers, and the buyers have high bargaining power. These push the sales prices of the fashion retailers down. Companies compensate these with finding cheap labour markets in order to decrease production costs.

Concerning social issues on the markets, as mentioned above, on the manufacturing market, there have been human and labour rights violations as workers do not have sufficient power. On the sales markets, most buyers base their purchasing decisions on the prices, and tend to accumulate clothes. Due to their high power, they drive the economic success of failure of the fashion companies. In addition, technological and economic aspects interplay, too. Due to the low technological and high labour intensity of the clothing industry, the capital intensity of the industry is low; therefore, the initial investments of the entrants are low. This increases the threat of the potential entrants.

As for the environmental issues, the problem might start with the increasing demand and overconsumption on some sales markets. As mentioned, this dives the companies to lower their production costs, and outsource their productions with low environmental regulations. Non-organic cotton is cheaper than organic, and certain toxic pesticides, dyes and chemicals for textile treatments are cheaper than the environment friendly equivalents. Thus, overconsumption, cheap production and lack of regulations lead to environmental risk.

I suggest that this synthesis calls for sustainable solutions. Yet, the synthesis might work the other way round, too: logically, fair labour conditions and environmental-friendly production lead to increased production costs and therefore higher sales prices in case the companies are not willing to lower their profit margins. Higher prices lead to less consumption, which would solve the overconsumption problem, but might hinder the profit-maximizing aims of the companies.

22
Figure 5: Synthesis
4.3 Case Study – Johanna Hofring

We met for the interview in Mölnbo in her and her husbands, Tor Söderins sustainable cottage. He is also an organic fashion designer, and proudly presented how he is crocheting a cardigan from alpaca and normal sheep. Their lifestyle is worth mentioning in a thesis in sustainable development. They are living in a collective, where more families share a kitchen. They collect the rain water to reduce water usage, grow some food, pick berries in the forest just next to them, do composting, and are keeping their electricity usage at the minimum. They strongly believe that if people lived like that without overusing the natural resources, there would be enough energy and other resources for everyone on the Earth. Even as a designer, her aim is not to maximise her sales. In the followings her way of doing business and her view about the fashion business in general will be described based on the interview.

4.3.1 Porter’s competitive forces

Johanna Hofring explained during the interview that the nature of the competition in the sustainable fashion branch is not the same. When she was a pioneer, there was a very different mentality than the ordinary business mentality. The actors in the industry were passionate about selling and educating about organic products. There was a wonderful collaboration, they all supported each other. They organised fashion shows and exhibitions to promote the global environmental consciousness. However, the market share and the revenues of Hofring and the other smaller companies became lower around 2008 when there was the financial crisis and the big stores like H&M and KappAhl came out with sort of green collections. They are selling these products at a fraction of the price of the pioneers in the market, and as due to the crisis consumers became price-conscious, they chose the cheaper alternative. Thus, organic fashion became a regular business, and companies started compete more with each other and for smaller companies and designers it is hard to compete with them. For Hofring, price reduction was not an option as it would have lead to financial loss. Even if the products contain only 5% organic cotton, the customers still buy that one as it is only half of the price. Jet, still they are somewhat better than the regular ones.

Regarding the supply chain, Hofring herself produces the clothes which she designs. In addition, she sells other designers’ clothes via her webshop, Ekovaruhuset. She used to have one physical store in New York, and one in Stockholm, but she is not that active any longer. In her webshop she used to strictly avoid selling collections which were made in China or Bangladesh. Then the bigger fair trade profile companies started to produce there as well, so it became untraceable where exactly the gods were produced. Nowadays, she does sell some goods which are produced in China and India, and a big part of the certified organic collections are produced in Turkey. Some items are produced in Sweden, though.

Hofring confirmed that it is hard to trace and control the supply chain. If fashion companies put a large effort in it, they could however investigate it. Even if something is fair trade certified, there is no 100% guarantee that the labour conditions are indeed acceptable. Hofring has not been to the factories where the collections of the other designers, she does business with, were produced, so she relies on the fair trade and organic certificates. It is easier to follow the production processes of those goods than the “regular” ones as there is a more developed organization behind the certified products. Hofring suggested that even if she does not know every production detail of the product, it is still better to sell certified ones as their chances are bigger to be ethical. She tries to support those who want to do something in a more responsible way. Not only in Asia are more than 95% of the clothing factories sweatshops, but in New York people are working day and night in basements under really poor conditions. Some friends of Hofring from Southern Sweden wanted to get T-shirts made under non-sweatshop conditions. Therefore, they decided to visit factories which were supposed to be the good ones. They wanted to choose a factory where they could imagine themselves working. Even if the factories had a good reputation, they were shocked about the terrible labour conditions. Therefore, they decided to make their own factory in Sri Lanka. They did it really thoroughly, but they are not that much into business any more. She claimed that the competition has been based on enslaving people and overusing natural resources, and not caring enough about anything, so it is hard to financially survive by doing ethical business in such a competitive environment.

Hofring thinks that it is not right to spend enormous amounts of money on advertising, and at the same time keeping the production costs at minimum. Hofring explained that before she got into the eco-fashion line, she
was a stylist. As a stylist she could afford a luxurious life, while people who were producing the clothes could barely afford to eat properly. They had simply no power to request higher wages. This recognition made her to deal with eco-fashion instead for less money. She think that it would be wise from a large company to make a campaign that they are producing under fair labour conditions, and do it for real. This would open up consumers’ eyes, and the sales of that company would significantly increase. Thereby, fair labour conditions would not cut the profits.

Regarding the accessibility of organic cotton, it was hard to access when the big companies like H&M wanted to buy a large amount, but as a result more farmers engaged in growing organic cotton, so Hofring has not heard that accessibility is a problem nowadays.

As argued in the literature review, In case the **market is expanding**, there is more profit potential, and the **entry barriers** are lower. Therefore, Hofring was asked if she thinks the market will expand in the future. According to her it depends on the consumer preferences. Hofring revealed that before she closed her shop she invested lots of money in it. She closed because she wanted to make the consumers feel that the success of the business depends on them, and if they really want a change towards sustainability, they have to change their buying preferences.

Hofring told that organic cotton is still much more expansive than the regular one. Therefore, it is suggested that it decreases the profit potential of the new entrants to the market.

Regarding the expansion of the big fashion companies into a sustainable direction, there is both green washing and real endeavours present according to Hofring. She argued that even if the proportion of the organic cotton, which H&M uses, is 5% out of the total amount of cotton it uses, it is still a very significant amount as it might equal the total organic cotton usage of small companies which produce from 100% organic cotton. However, they can market a lot their application of organic cotton, and use these campaigns for green washing. They might mislead consumers by writing made with “organic cotton” in their campaigns, and consumers think that the entire product is made by organic cotton; if they do not take a look at the label, where it stands that it the product contains only 5% organic cotton. Thereby, they still support organic farmers, but their gain is much larger than the support. They do not have to raise their sales priced due to the increased costs of organic cotton as they get lots of free marketing and thereby increased profit. However, Hofring is convinced that the big companies are not taking sustainability seriously because if they did, they would use only organic cotton, but they are not willing to sacrifice their profits for the benefit of the nature or people. Thus, it can be proposed that that the use of 5% organic cotton pays back from the campaigns, but not the use of 100% organic cotton.

However, Hofring is optimistic that in the future the green washing will become real sustainable intention.

### 4.3.2 PESTEL framework

Regarding the political and legal environment, Hofring raised an additional problem to the ones already mentioned in the literature review. Firms that do want to produce goods which are good for the environment have higher costs regarding labour and raw material. In addition, they have to pay for certifications which cost lots of money. For Hofring it is very obvious that a political decision should be made so that the polluters and unfair employers should pay instead of the benevolent ones. In case the certificate is not purchased, “organic” cannot stand on the label, and there seems to be no evidence is something is organic. It is problematic as often, organic producers cannot afford the certificate. Hofring proposed that there should be a political decision that the companies, who do not care about the environment and employees, should pay a small amount of money that would fund the organisation which issues the certificate. According to the knowledge of Hofring, the current case is that in order to have the certification companies have to make yearly payments based on the size of the farmland, overall income, and the amount of products they produce. Hofring thinks that it would be easier to switch the costs to the “bad” companies as then the fee per company would be much lower. Moreover, then around 95% of the companies would pay instead of the 5%. Thus the income of the certifying organizations would grow. In addition, the incentive to do a socially and environmentally business would be higher. According to Hofring the switch would make much more sense. Furthermore, Hofring reveals that in China it is
an expanding business to sell organic certificates, but they are not serious about the organic characteristics of the products. This destroys the sustainable endeavours and trust in the certificates in general.

Concerning the economic aspects, the characteristics of the market competition were explained in the previous subchapter. Regarding the openness of the consumers on the market toward sustainable fashion items, the Swedish market is much more open than the one in New York according to the sales experiences of Hofring. There is less awareness in New York, and there was less interest in Hofring’s store.

As for the social aspects, the labour conditions were elaborated in the previous subchapter. In addition, Hofring’s opinion was asked about the phenomenon, stated in the literature, that the economy of several developing countries, like Bangladesh is depend on textile production, yet workers in the industry still starve. Her reaction was that during the history, they knew how to sustain themselves. They grew food for themselves. Big families were living together and supported each other. Now they cannot grow food any more, so they need to work at the factories. In India for instance, some textile factories polluted several lands with the dyes and the chemicals for leather preparation that farmers could not grow anything on the lands. Therefore, she thinks that fair-trade production would be a way that people could grow the food they need for themselves again, and would secure the food for their families. She adds that if we did not overconsume clothing, then they should spend less time in the factories, and could grow food for instance instead.

With regard the fashion consumers, it was asked if companies push consumers to accumulate clothes, or consumers want companies to come up with an increasing number of collections per year. As Hofring sees, buyers are encouraged to overconsume by early-, and mid-season collections. She claimed the whole mechanism with many trends is a well worked-out brainwashing system. Many consumers feel that it is a therapy to buy new fashion goods all the time. Hofring confirms the literature review that most consumers care more about the price than the quality of the products. She suggests that the good role model for consumers would be the upper-class older men who buy very few, but very good quality things, and take care of them. The regular customers buy many cheap fashion items, but if they added up the costs of the cheap goods, the sum might be the same as if they bought an expensive, long-lasting product. The main consumer group for eco-fashion is the 30 to 40 year old academic professionals.

Regarding the technological aspects, Hofring supports the literature that producing clothes is barely automatized, people are sewing every pars of the clothes, while textile production including spinning the threads, weaving and knitting is automatized. The cutting of some fabrics happens with laser knives. The shoe production is more automatized than clothing production.

Concerning innovations, there are sustainable fabrics developed, but Hofring rather prefers the traditional ways of textile manufacturing without chemicals. That way fewer clothes could be made, if people took care of their garments, they would last more and should not buy that much. Here I would like to add that most of the fast fashion companies produce for very short-term usage.

I asked if it was possible to produce fashion goods without compromising average prices, high quality, environmental friendly textiles, fair labour conditions and at the same time keeping the corporate profit on the same level. According to Hofring it is definitely possible by cutting advertisement costs, top management salaries, and doing many factory visits. However, it requires a total shift of thinking. To achieve these endeavours, one should combine a good business mind, managing money in an effective way, and do business in a responsible way. However, later after thinking she added the companies should not expect that high profits, but they might decrease.

Regarding the environmental effects of the fashion pieces Hofring sells in Ekovaruhuset, she does not always know which chemicals are used and which not by the different brands and designers whose clothes she sells. For instance all the denims of Kuyichi are certified including the dyeing processes, but not most of the others. However, for instance the Veja shoes from she sells are fair trade, use natural rubber, organic cotton and naturally tanned leather, but the dying is not organic, but Hofring sells them as everything else is exceptionally responsible. She claims that she always tries to chose the brands which have the most positive characteristics.
Concerning Hofring’s business, she embedded CSR into the everyday business, and did not have extra campaigns.

I also asked Hofring about her media coverage. She had an incredible coverage, there was a time when she did not have time to do her work because of the interviews. Mainly 2006 and 2007 was intense. She has never contacted the media, only through fashion shows. So it can be concluded that the media are really interested in sustainable achievements, not only in scandals as some might think. However, the media interest declined. In 2008 and 2009 there were lots of articles about vintage clothing and recycling, but nowadays it is not that strong.

Regarding Hofring’s benefits from eco-fashion, she does not have any financial benefits from doing eco-fashion business. Her benefits are rather social and environmental. Through her sales she promotes fair trade, and do not contribute to the environmental harm. She added that in this business she can meet wonderful people.

4.4 Hennes and Mauritz

The information in this chapter about Hennes and Mauritz (H&M) is gained from the H&M Conscious Actions Sustainability Report 2012. The information is arranged according to the company’s actions to tackle social, environmental and technological challenges in its business. The political and legal issues are embedded into those actions. In the sustainability report there was no information about the competitive forces, but the literature review addressed those in the fashion industry.

As H&M claims in the sustainability report, its aim is to be a world leader in both sustainability and fashion in the long-term. The company’s vision is based on three P’s, namely people, planet and profit with interdependency and equal importance. They would like to contribute to the development of the communities and tackle environmental problems such as energy, clean water, and cotton scarcity. They are aware of climate change problems, intense water usage of the textile industry and the low wages and overtime in the factories which supply the clothes.

Regarding the social endeavours, H&M has a project in Cambodia were they are aiming to strengthen the negotiation between the employers, employees, and trade unions. There have been conflicts, but they hope to improve the bargaining power of the workers. They also aim to increase the transparency throughout the supply chain, and therefore published the list of their supplier factories. With this action they also aim to encourage their suppliers to be more sustainable.

H&M has 785 suppliers, therefore it is challenging to ensure that they comply with environmental and social standards and that the workers are paid fair wages, do not do much overtime and are working in safe conditions. To improve the working conditions, H&M monitors and organizes trainings to suppliers. They are also collaborating with organizations such as Better Work, the Fair Wage Network and the Fair Labour Association. Yet, most garment production is located in countries with insufficient human rights and environmental regulations. However, H&M claims that for these countries garment production means the first step for industrialization, economic growth, and employment. H&M would like to ensure that their sourcing contributes to the development of the host countries. Thus, they audited 96% of the factories before ordering from them.

H&M has around 100 sustainability professionals in the production offices who audit the suppliers on a regular basis and analyse if they comply with H&M’s Code of Conduct. Auditors conduct management and employee interviews and they also check the documents of the factories. In case of non-compliance, suppliers must set up a plan for addressing their inefficiencies. In addition, Fair Labour Association also conducts audits in the factories to help H&M to further improve the performance and sustainability of the suppliers. H&M aims to choose the socially responsible and transparent suppliers, and reward them by supporting their improvements. Some of the suppliers even made their own sustainability reports. By monitoring and improving suppliers, H&M has formed a partnership.
Through the company’s engagement in the Mill Development Programme they ask their suppliers to provide information about the fabric mill. With this they intend to improve their influence on the mills.

H&M highlights the problem, the factory workers are not even aware of their rights, therefore they cannot claim them. To increase their awareness of their rights, H&M has provided training packages and showed short films to the workers and the middle managers in Bangladesh, and they have developed similar short films for Indian workers which they will show in 2013. In addition, the Code of Conducts is also available for the workers in their local language. In addition, workers are interviewed about their wages and awareness. H&M promotes the higher wages of the workers, they claim that workers should be paid at least the minimum wage stated by the law, or even the salary which is enough to support their families. However, there is a risk, that if a certain supplier increases wages, it becomes less profitable and competitive.

After the CEO of H&M met the prime minister of Bangladesh, Sheikh Hasina, and sent letters requesting higher minimum wages, those were increased by 81%.

Regarding overtime, H&M is aware that still lots of improvements are to be done, but the company aims to decrease overtime by setting fair lead times, and deadlines, and by carefully planning capacity and staff. In 2012, several workers reported nausea, and H&M addressed these issues by implementing measures of illnesses, and improving ventilation, cooling and chemical handling.

There have been many fire accidents in Bangladesh due to the poor electrical installations and maintenance. To address this issue, H&M has provided safety trainings to employees. In addition, they assessed the electricity installation in the factories, the licences of the electricians, and proposed action plans.

Although H&M is not directly connected to spinning mills, it is aware that in India young women are forced to work there. H&M is against forced labour, and thus the company is collaborating with public policy makers and takes part in the Ethical Trading Initiative to increase the awareness and call for action which enhance ethical labour in the spinning mills.

H&M also addresses the forced child labour on the Uzbek cotton fields. Through collaborating with policy makers, H&M aims to eliminate child labour on the cotton field.

Regarding the community improvement projects of H&M, in 2012 together with H&M Conscious Foundation, it provided USD 6.3 million for various projects. H&M emphasized that it created 7402 jobs in 2012, extended its All for Children Programme with UNICEF. They have extended the campaign to Bangladesh as around half of the children (30 million) live below the poverty line there. They are supporting 1 million individuals in and around Dhaka with nearly USD 8 million.

As for addressing the customers, H&M is aiming to keep its prices low in order to make their goods available for a broad range of the consumers. In addition, the company is designing creating materials which are easy to care for.

Concerning the environmental actions of H&M, the company is a member of the Better Cotton Initiative (BCI). Better Cotton would not only contribute to the environment preservation, but to to the wellbeing of the farmers, too. They are educating farmers how to produce more effectively with less input. The company is aware that conventional cotton involves intense use of water and chemicals, while organic cotton, Better Cotton and recycled cotton has lower environmental and social impacts. By 2020 H&M is planning that all the cotton it sources, comes from sustainable sources. As a result of its endeavours, H&M used the most organic cotton in the world in 2011 and 2012.

The clothes which H&M cannot sell are donated. In 2012 3.2 million garments were donated. In addition, H&M is collecting the used clothes and recycle them to reduce waste and raw material usage, thereby their environmental impact. In each markets there are designated stores where consumers can leave their used clothes.
from any brand which then H&M recycles into new clothes. Recycled materials also include polyester from PET plastic bottles. Yet, yarns made of recycled materials are not strong enough. However, H&M is hoping that there will be innovations which tackle the problem. In addition, most of the bags are made of recycled plastic to reduce energy and water usage. The long-term goal of H&M is to send zero waste to landfills. The company emphasizes that reducing the usage of resources also reduces the costs. The CEO of H&M claims that consumers are showing a great interest in sustainable fashion.

The company is aware of the climate change, therefore it aims to reduce its resource usage, and use more energy from renewable sources. According to its chart, most of the energy usage (39%) comes from fabric processing, usage (36%) and raw materials (15%). Production, transport and sales use only 3-4% respectively. In 2012 H&M reduced CO2 emissions by 5%. By 2015 it further wants to reduce despite the annual 10-15% growth rate. It can achieve this aim by installing more solar panels and energy monitoring devices in the stores. The company also choses the most fuel efficient transportation means via sea and rail. In addition, it is collaborating with the Supplier Energy Efficiency Programmes (SEEP) in the producing countries. By the end of 2012 44 factories took part in the project.

In addition, H&M signed a water stewardship with WWF in order to improve its water efficiency. H&M aims to reduce suppliers’ impact on water resources as 1/3 of their wet processing is in countries endangered by water scarcity. H&M monitors waste water to reduce toxic discharges. It has conducted audits in China, Bangladesh, India and Cambodia about the chemical usage of the suppliers, and encourage factories to disclose the list of the chemicals they use. Furthermore, the distribution Centres in Hamburg, Ghlin, Madrid and the UK have rainwater-harvesting facilities.

As for the technological improvements, H&M is supporting the innovation of sustainable fabrics. It recycles cotton and wool, and uses organic linen and hemp, recycle PET plastic bottles also into coctail dresses. Regarding leather goods, H&M only uses the leather of the animals which were bred for meat production, and do not use exotic animals. In addition, the company uses an increasing amount of water-based adhesives for bags and shoes for substituting the use of solvent-based adhesives which are harmful for the workers.

In addition, H&M banned perflourinated compounds (PFCs) from its product lines. PFCs are environmentally hazardous water repellants. Instead they developed a PFC-free repellend, which they aim to scale up. They are trying to use raw materials in an efficient way. Producing fabrics involves much chemicals, water, carbon emissions and poor working conditions. To address these issues, they are working on mill development programmes.
5. Discussion and Conclusions

The following discussion will interpret the empirical results, and explain how they can answer the research questions.

The main conclusion of the thesis is that the macro-environmental characteristics and drivers of the fashion industry in general allow that the industry has significant environmental and social shortcomings throughout its supply chain. As Jones and Williams (2012) points out and as the case studies show, there are sustainable endeavours from both small and large companies, but the shift towards a sustainable way of doing business would require radical changes on political, legal, company, and also consumer level. The labour-intensity of the clothing industry leads to cheap production in sweatshops (Jones and Williams, 2012; Park and Rees, 2008; Anuj et al., 2012). As the literature (Moore, 2011; EJF, 2007; Ellis et al., 2012; OTA, 2011; Kramer et al., 2006; Chaudhry; 2007), Hofring and H&M suggests, producing from organic cotton would reduce the environmental impact, but it is more expensive. On all of these levels a move towards more ethical thinking and maybe, as Hofring suggested, the willingness to accept lower profits would be desirable. The high rivalry among existing firms (Hofring; Perry, 2012) and the high bargaining power of buyers (Jones and Williams, 2012; Perry, 2012) make the competition intense on the fashion market, and cause downwards sales price pressure, which supports overconsumption. As Connolly and Prothero (2003) point out, there is a large consumer demand for increasing number of collections, and thereby the harmful chemicals accumulate.

The main research question asked how the fashion industry takes the macro-environmental drivers into consideration. To answer the question, the macro-environmental circumstances and drivers in the fashion industry were analysed based on the PESTEL framework. Based on previous research it was found that the political and legal drivers influence the fashion companies in the countries of production as most companies decide to outsource the production processes to countries with weak labour and environmental laws and regulations (The Human Rights Watch, 2012; Jones and Williams, 2012; Park and Rees, 2008; Institute for Global Labour and Human Rights, 2013; Moore, 2011). Regarding the technological driver, the literature review revealed that while fabric production is somewhat automated, clothing production is labour-intensive. Therefore, fashion companies produce in countries with low labour costs (Jones and Williams, 2012; Park and Rees, 2008; Merk, 2009). The economic success or failure of the companies is determined by the competitive forces, demand for ethical fashion, and low cost labour market in the developing countries. The social conditions differ on the sales and production markets. Abundant consumption, eagerness for change, and price consciousness on the sales market drives fashion companies to produce more, and come up with more affordable collections (Perry, 2012; Cervellon and Wernfelt, 2012; Connolly and Prothero, 2003). This increases the need for cheap production, and as mentioned, cheap labour markets attract fashion companies. The environmental drivers are the need for sustainable fashion goods (Fan and Lo, 2012; Park and Rees, 2008; Tham, 2010; Cervellon and Wernfelt, 2012; Ellis et al., 2012, Kramer et al, 2006; Chaudhry, 2007), yet also the water and chemical intensity of the fashion industry throughout the supply chain (EJF, 2007; Moore, 2011, Steiner, 2012; Kramer et al, 2006, OTA, 2011; Textile Exchange, 2013). Finding the drivers of the macro-environmental characteristics raised several social and environmental shortcomings which will be discussed below.

The first sub-question is related to the economic aspects of the PESTEL framework. It asked which the main competitive forces were in the fashion industry.

The question was answered by using Porter’s five forces model. Based on the findings from the literature review it might seem so that all of the drivers in the Porter’s five forces model are mostly against sustainable development and social and environmental responsibility (Bhattacharjee and Ashim Roy, ILO 2012; Perry, 2012; Ellis et al., 2012; Jones and Williams, 2012; Connolly and Prothero, 2003). High demand and many actors in the market result intense competition with downwards sales price pressure. Thus, there is a high rivalry among existing firms, high bargaining power of buyers with low switching costs, yet the bargaining power of suppliers is low. To fulfil their profit maximization aims, and keep their costs at minimum, fashion companies decide to outsource the production processes to the cheapest labour markets. This results in unfair labour conditions, and the usage of cheap, hazardous chemicals instead of using organic cotton and eco-friendly fabrics. Yet, it is not reasonable to say that a more monopolistic situation or another form of industry would result in fair labour
condition as the aim of the companies is to maximize their profits, and in a more monopolistic situation the profit margins of the businesses would be higher, but not the expenses spent on labour and sustainable production processes. In this tough competition the consumers profit much from the low production costs through low sales prices, and in a monopolistic situation businesses would profit much. The entry barriers are also low when considering the capital investments, which further increases the competition. However, their barriers are debatable as intense competition decreases the profit potential, and calls for intense advertisement which is costly. Thus, new entrants might be deterred. Regarding substitute products, when consumers are shopping around as a leisure activity, they have abundant goods to choose from; they might prefer to buy cosmetics or home decoration, which might deprive them from the ability of buying fashion goods. Therefore, fashion companies need to look outside of their industry and compete with retailers in other industries as well.

The sustainability report of H&M might raise a paradox regarding the supplier power. H&M outsources the production processes to countries like Bangladesh and India where it can minimize its production costs. Yet, it claims that it wants to ensure that the workers earn enough money to care for their families. This would not allow suppliers to maintain their profits in case H&M does not pay more to them. In the sustainability report it is not written if H&M is willing to increase the power of the suppliers, and pay them significantly more so that they can finance fair labour conditions.

However, sustainable business strategies tend to build a positive corporate image, thereby attracting consumers, and help companies to gain competitive advantage. As a result, companies produce sustainable fashion lines. However, as Hofring told, sometimes it seems so that they are doing only greenwashing, and mislead consumers by saying that they produce with organic cotton for instance, yet “with” does not mean that the clothing item is made of 100% organic fabric. For small sustainable companies it is very hard to financially survive the competition due to their smaller production scale resulting higher unit costs and lower profits.

Ekovaruhuset seems to be a unique case, and its strategies deviate from the regular way of doing business. The founder, Hofring does not seem to compromise her principles for financial profits. Yet, she cannot compete with the big companies, and the financial survival is hard for her. It seems so that when eco-fashion used to be a market niche, her business was really successful with plenty of media coverage, but when the eco-fashion market started to get saturated, it was not enough that small companies cooperated. Consumers preferred the relatively cheap partly ecological lines of the big companies. Further price reduction was not possible for Ekovaruhuset. Yet it is suggested, that if big companies do not become more sustainable, there will not be significant sustainable progress on the fashion market.

The second sub-question asked what the key drivers of environmental and social shortcomings were in the fashion industry.

To find the answer for the above question, each factor of the PESTEL framework was analysed at the stage of the fashion supply chain, where it influences business decisions and operation. There seem to be several environmental and social shortcomings present throughout the production processes as results of the weak law enforcement, intense competition, labour-intensity, as well as due to the abundant consumption.

It can be concluded that the large fashion companies aim to maximize their profits, yet due to the high competition, they cannot keep their sales prices high, therefore they decide to minimize their costs at the expense of the environment and the working class of the producing country. The profit maximizing aims together with the labour intensity of the fashion industry, and the inefficient legal and political laws and regulations create social problems concerning the employees.

Cotton was found to be the most insecticide-intensive crop, also involving the usage of substances of very high concern. It is up to the decision makers of the fashion companies if they chose to produce the cotton clothing items from organic or non-organic cotton. From the empirics it seems so that in general most companies decide to produce from non-organic cotton due to cost-minimising considerations.

Though the cleaning, dyeing and finishing processes, fabric production also pollutes the environment. The pollutants get into the water cycle through the wastewater, thereby pollute the land, and get into the food chain. The chemicals do not only leach into the environment throughout the production, but during washing as well.
Not only the environment, but workers in the fashion industry also have to pay the price of cheap production. As the empirics show, even children are working on the cotton fields, and most workers are exposed to the chemicals on the fields. Their wages are minimal. In addition to the cotton growing, clothing production is labour intensive, too. To keep the labour costs low, fashion companies decide to outsource the “clothing production from fabrics” stage to developing countries in Asia where almost all the clothing factories have sweatshop conditions.

Overconsumption is another social problem at the end of the supply chain. It accelerates the usage of water, chemicals and cheap labour. Therefore, it seems so that in order to make fashion industry more sustainable, both business and consumer mindset and decisions should be radically changed. Both should value long-lasting, high quality goods, and do not encourage disposability and an increasing number of collection per year. Until most producers seem to consider their financial costs more than the environmental costs, the shift towards sustainable production is far.

Regarding the shortcomings caused by the law and politics, labour laws in the producing countries are not enforced, either. Minimal wages are often cheated from the workers, and their overtime is not regulated, either. The operation of the fabric mills should be regulated more strictly, too. Too much toxic wastewater is discharged into the waters, and thereby the chemicals also get into the food chain and endanger organisms. Furthermore, it seems to be a huge problem and even a paradox that the companies, who are operating in a relatively sustainable way, have much higher costs. Organic cotton is more costly to buy, controlling the supply chain and being engaged in fair-labour practices further increases the costs, and on the top of these, as Hofring suggested, companies need to pay enormous amount of money for the environmental and fair-trade certificates which are in line with the company’s size. Therefore the polluters pay principle does not seem to work in case of the fashion industry, but rather the opposite is the case. However, as Hofring suggested, certifying organisations, and maybe governments as well, would have more income from penalties than from certificates. In addition as studied in the empirics, most luxury fashion companies also produce in sweatshops, and used hazardous chemicals. Thus, sales prices do not necessarily reflect the environmental and social costs. Yet, it can be concluded that sustainable way of doing business increases the costs, and thus the sales prices. However, high prices do not mean sustainable “anti-sweatshop” business.

From all the empirical sources it seems so that there are no direct relationships within the supply chain between cotton growers, fabric producers, clothing manufacturers and fashion retailers. They all have their own businesses, and do not have ownership, and thereby much control and influence over each other. As the production processes are taken place in developing countries with lack of environmental regulations, and labour laws, it is challenging for fashion retailers to control the supply chain and enforce sustainable actions. Moreover, producing in a sustainable way would significantly increase the costs.

Therefore, it can be suggested, that the political and legal factors should be more effective to ensure that corporate decision makers in the fashion industry operate in an environmentally and socially responsible way. However, as found in the empirics, most fashion companies are outsourcing to corrupt countries, where it is hard to enforce environmental, legal or any law.

The third sub-question was dealing with the question of how fashion companies address the environmental and social shortcomings.

Fashion industry was not found to be entirely unsustainable as it might seem to be from the answers to the second sub-question. Nowadays there is a tendency to make more sustainable business decisions which will be discussed below. This question will be answered mainly based on the interview with Johanna Hofring and the sustainability report of H&M.

The International Trade Centre (2009) suggested, the fashion industry can only maintain its growth if large brands and retailers get engaged into sustainably strategies. It might be a great challenge to sustain growth while staying within the planetary boundaries. However, if fashion companies operate effectively, and use less input and energy for producing more outcome, then they might achieve sustainable development.
From the empirical results it seems so that Hofring and H&M have different views about the role of textile industry in the developing countries. According to H&M clothing production is the first step for economic growth, industrialization, and employment. Hofring, however, thinks that families should sustain themselves from small-scale agriculture instead of working in textile industries. This view is interesting from someone in the fashion business. These two views might be compromised so that the inhabitants should have the opportunity to choose where to work meaning that child and forced labour should be strictly banned. In addition, the waters and the agricultural lands should not be polluted so that farming still remains an option. Furthermore, job creation might be indeed very important as the population is growing, and farming might not be an option for every family. The issue might not be if textile factories are needed, but how they are operating. Big companies may take away resources from the environment, but if they operate in a conscious way, they can also give much to communities.

H&M states in its sustainability report that it aims to increase the wages on the cotton fields in Uzbekistan. In addition, it controls and audits the fabric mills and the factories to ensure low level of chemical usage and fair labour conditions including wages which support the whole family. However, as included in the literature review, the McMullen (2013) claims that thousands of the factory workers of H&M suppliers are earning below living wages, and are undernourished. Since 2003 H&M might have improved its ethical business practices, yet it is unclear if the wages were raised so that a whole family can be supported, then the fashion goods sold by H&M should be more expensive. H&M is known to be a profitable and expanding company, and their clothes are relatively cheap on the market. Therefore, their sustainability report might be either overstated, or they are very effective. The CEO of H&M achieved that the minimum wages in Bangladesh were significantly increased, yet according to the literature, workers are often cheated the wages. Therefore, it can be concluded that there are laws about the minimal wages, but their enforcement is weak.

H&M organizes trainings and shows videos to factory workers with the aim of educating them about their rights so that they can claim them. However, as found in the literature, according to the Institute for Global Labour and Human Rights (2010) in some factories, if workers are complaining, they are punished and physically hurt. The safety of the factories is also addressed by H&M by proposing actions for repairing the electrical installations. Yet, it is unclear from the report if there have been real actions.

Regarding the sustainable sourcing of Ekovaruhuset, it was found to aim choosing the products of those companies which have the most positive characteristics. It sells those fashion items which involve minimal amount of harmful chemicals. Hofring cannot ensure that the working conditions are indeed ethical even if the fashion items are fair trade certified. She has not visited the factories, but still relies on the certificates as there supposed to be a more organized business behind the certified goods. It would indeed require visiting all the suppliers of the companies which Ekovaruhuset does business with, but the sustainable endeavours of Ekovaruhuset are obvious.

It is a big achievement from H&M that in 2011 and 2012 it used the most organic cotton worldwide. Not all their clothes are made of organic cotton, but as Hofring suggested, even if only 5% of the cotton they use is organic, it is a huge amount. In order to decrease its impact on climate change, H&M aims to reduce its resource usage. It might sound paradoxical from a fast fashion company which produces many collection per year, and encourages continual change in fashion, thereby promoting disposability. Yet, the company is aiming to use more energy from renewable sources, and reduces its CO2 usage. It is collaborating with 44 suppliers to be more energy efficient, yet, there are at least 700 more suppliers. However, changes do not happen from one day to the other, therefore, hopefully, more suppliers will cooperate. In addition, it can be proposed that the supplier’s name should be written on the labels, and in the list of suppliers there should be a stated which ones engage in which actions, and thereby conscious customers could support H&M’s sustainable endeavors more effectively. In addition, H&M is aiming to reduce its water usage throughout the supply chain not to increase water scarcity in the endangered territories. It also installed rainwater-harvesting facilities in Hamburg, Ghlin, Madrid and the UK.. Yet, the it is supposed that the latter does not solve water scarcity issues, as there is relatively much rainfall in those regions.

Technological improvements have also been made to address environmental problems. Instead of growing conventional cotton, organic cotton is also used for clothing production. Recycling of fabrics and PET plastic
bottles for new clothing production is also a significant step. In addition, some toxic instances such as the water repellent PFCs have been substituted with more environmental friendly alternatives.

By answering the research questions, the purpose of the thesis was addressed. The problems concerning the sustainability of the fashion industry were revealed by finding macro-environmental characteristics and competitive forces which lead to the shortcomings. The answers to the second sub-question deal with these problems. Both Ekovaruhuset and H&M gave abundant examples of positive corporate environmental and social responsibility practices.

Regarding the solution for the research problem of the thesis, the challenges of the fashion industry were elaborated through the problems, and the competitive forces. By finding solutions through the cases of Ekovaruhuset and H&M, solutions for the challenges were found. Yet, Hofring suggested that in order to make the fashion industry sustainable, a significant shift in the business mindset is needed, and companies might need to sacrifice their profits due to the increased production costs. I support Hofring’s suggestion as a solution that companies should not aim to maximize the amount of goods sold, but rather focus on quality, even if it involves high sales prices. I agree that consumers should grow up to the “upper class senior man” model and change their buying preferences by buying few, good quality goods, but do not based their buying preferences on the low prices. Their gross expenditures might not increase. Therefore, sustainable solutions are dependent both on the company and the consumers.
6. Research limitations and recommendations for future research

In order to broaden the research, validate the literature review, and ensure primary interviews, H&M, Indiska and several Swedish designers were contacted, yet they refused the interview or did not even reply. Other researchers, such as Park and Rees (2008) intended to examine a broad range of clothing and footwear companies, yet their e-mail surveys only had a 21.6% response rate. They claim that low response rates were typical in case of CSR issues. Moore (2011) contacted many luxury fashion companies to ask about their CSR actions, yet only Burberry replied. As soon as it was told that no other company participates in the research, they refused to answer the questions. This silence about CSR might aim to hide the social and environmental shortcomings during the production processes.

Although the research questions of the thesis seem to be answered, the findings are not generalizable. As mentioned in the research methodology section, case studies do have these limitations. Therefore, to get a broader picture about the fashion industry, more companies should be analysed, and general conclusion should be made about the overall sustainability of the fashion industry.

Regarding the validity of the information and the data, there might be biases. As for the literature review, the articles are from different years, and there might have been recent improvements in the production processes, yet as these changes do not occur fast, the information should be mostly relevant. In addition, some authors might have intended to show only the negative side of the industry, and thereby show an overly negative picture. Yet, as described in the methodology section, neutral keywords were used. Thus, it is random that the literature review mostly shows the negative side of the fashion industry. Regarding the case studies, there might be a bias towards responsible corporate behaviour as companies would like to increase their goodwill, thus emphasise their positive image building actions. The experiences of Hofring regarding the fashion industry seem to validate the literature review, yet the report of H&M shows a far more positive picture about the industry than the authors of the journal articles.

The findings of the thesis raise several questions. Therefore, for further research, the following research questions would be suggested to be answered: What are the exact labour conditions in the clothing production companies? What are the incentives of the fashion companies of implementing CSR strategies? How can companies benefit from sustainable business strategies? What are the benefits of fashion companies from CSR? How much weight do consumers put on sustainable product characteristics when they decide to buy a certain fashion item?

In order to answer these questions, further research is needed. The most reliable information about factories could have been obtained from independent auditors, yet it is not assumed that they by law have to audit and report about the suppliers. A more valid picture could have been also obtained by accessing data about the amount of accidents in the factories, the chemicals, overtime, work-related illnesses and organic fabrics used. However, these data do not seem to be known. Thus, it can be concluded that the fashion industry still has many obscure details throughout the supply chain, mainly in the producing countries which lack transparency and law enforcement.

In order to examine the incentives of companies behind CSR, several interviews should be made with top managers who are in charge of corporate decision making. In order to study the corporate benefits of CSR, the effect of the investments into CSR on corporate profit, sales and goodwill should be measured for instance by making a regression analysis. For this purpose a representative sample size of companies would be needed. Access to these types of data are assumed to be restricted. Finally, a primary consumer research would help to understand consumer decisions more thoroughly and explicitly explain the social aspects, the bargaining power of buyers and the choices among substitutes.
7. Acknowledgement

I would like to thank my supervisor Helena Hansson for the support of my magister thesis. Her advices, comments, positive motivation and knowledge largely helped me in writing this thesis. In addition, I thank my evaluator, Karin Hakelius for her positive and constructive comments. I would also like to thank the thesis committee with the coordination of Elisabeth Almgren that I have received proper instructions about the process and the structure of the thesis writing.

I am especially thankful to my family for both their mental and financial support. In particular I would like to thank my grandparents, Emerencia Lajos and Sándor Vetési; my parents, Emerencia Vetési and Gábor Déri, and my mother in law, Edit Vetési.

I am thankful to my cousin, Renate Peters, for the mental support she gave when I was rejected the interviews by fashion companies and designers. I thank Johanna Hofring for her honest and extensive answers in the interview she gave me.

In addition, I am pleased that my professors, lecturers and fellow students contributed to my academic and personal development in an inspiring environment.
References

Books


**Journal articles**


**Official publications on the World Wide Web**


**Company Website**
