

**Retail buying as the main decision-making entity in responsible fashion. A stakeholder approach.**

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<p>This thesis report aims at investigating how global fashion retailers should manage their corporate social responsibility when sourcing garments to be sold to German consumers?” The topic arises from the recent discussion about corporate responsibility in incidents such as factory fires and collapses in Bangladesh.</p> <p>The theoretical framework for the research conducted consists of several key concepts which set the basis for the assumption that fashion purchasers are key decision-makers regarding the scope of the corporate social responsibility activities of their business; their most important source to base their decisions on being the consumer willingness to pay the price premium for a responsibly sourced product.</p> <p>Two different research methods were used in the study. Exploratory research was conducted in the form of a literature review to create a knowledge base. Furthermore, a consumer survey was conducted (Jun/Jul 2013).</p> <p>In conclusion, companies are recommended to take actions allowing them to avoid negative publicity regarding social / environmental misconduct in their operations. The cheaper the clothes offered, the larger is the mistrust in the company. Consumers are generally willing to pay a price premium for the added value of responsible clothing. However, the increase must be kept small.</p>	
<p><b>Keywords</b> Supply chain management, corporate social responsibility, purchasing, sustainability, fashion industry, stakeholder orientation</p>	

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# 1 Introduction

Recently fashion corporations' social responsibility has been in the media with slave-like working conditions, famine wages and factory fires and collapses leaving hundreds of workers dead (see chapter 4.1.2 for further information). Since most fashion corporations outsource their production, these incidents and conditions are in the responsibility of buyers, purchasers, supply chain managers or what their names might be. In a complex business environment, however, whether to source socially and environmentally responsibly is a complex decision. This research project aims at tackling this complexity in order to support firms working in the mass production fashion retail business in the decision-making process leading to profit maximization – with or without corporate social responsibility.

This thesis has been commissioned by HAAGA-HELIA University of Applied Sciences as signed by Elizabeth San Miguel on the 30<sup>th</sup> January 2013. The institution and its representatives are therefore allowed to use all parts of this thesis for teaching purposes.

Regarding the structure of the thesis there is to say that I start by outlining the research question, investigative questions, topical demarcation of the research and benefits of the research project in chapter 1. It follows the theoretical framework (chapter 2), a description of research methods (chapter 3), secondary research in form of an industry analysis (chapter 4), the analysis of the consumer survey I conducted (chapter 5) and finally the discussion of the collected data and theory leading to recommendations to companies operating in the targeted industry (chapter 6).

## 1.1 Research question and investigative questions

The research question this thesis project aims at answering is the following.

How should global fashion retailers manage their corporate social responsibility when sourcing garments to be sold to German consumers?

To be specific, the research question is split into four investigative questions which are the following.

- Investigative question 1: To what extent do German fashion consumers value corporations' efforts to source responsibly?
- Investigative question 2: How significant is the share of ethics related factors when pricing fashion?
- Investigative question 3: How much are German fashion consumers willing to pay extra for responsibly sourced clothes?
- Investigative question 4: How significant is the risk of unethical purchasing leading to brand avoidance by German consumers?

It is important to notice that I tackle the topic from a stakeholder perspective which means that the investigative questions are mostly targeted at ethics and corporate responsibility from a consumer point of view. This implies that the environmental and social dimensions are dealt with in a preferred way. However, business professionals must be well aware of the fact that the third dimension, economics, is absolutely necessary in responsible business which is why the investigative questions clearly include the economical dimension (see chapter 2.3 for details).

To clarify which specific topic areas of these questions are included in my research and which ones are omitted the next chapter deals with demarcation of the research.

## **1.2 Demarcation**

Most important is to spell out which consumers shall be targeted in this research. The survey was conducted in German language targeting German consumers. Besides this being my native language, it also had the advantage that I could study the biggest market in Europe. Being highly segregated and consequently difficult to operate in, Germany seems to be an interesting focal point to monitor industry trends. My recommendations can support companies' in remaining and gaining market share in this competitive business environment.

Speaking of consumers, demographics are no demarcation factor; this research rather aims at comparing different demographic groups in order to be able to recommend actions based on a fashion retailer's target customers. However, the research project does not aim at studying consumer fashion buying behavior as such. The marketing departments of fashion retailers' are only peripheral stakeholders of this research. The subject is only that part of the consumer decision-making where supply management and its ethics-related decision-making is concerned.

When speaking about supply chain management, I concentrate on creating a base on which recommendations on ethical supply management practices can be given. However, planning and execution of these is not the goal of the project. To be specific, the aim is to state clearly to which extent corporate supply management departments should have corporate responsibility on the agenda in order to maximize German consumer favor. This includes the identification of factors related to social and environmental responsibility taken by the purchasing department and the importance of each.

Additionally this project cannot cover all laws and regulations possibly in place in sourcing countries and consumer markets. This relates, for example, to workplace security regulations, minimum wage and labeling of products. Moreover I exclude those ethical purchasing factors that are related to the purchasing process as such like "prompt payment" or corruption.

As far as the fashion industry is concerned, I do not demarcate my stakeholders further than the mass production fashion industry. This can include low-price retail chains such as Kik or H&M and also high end brands such as Jack Wolfskin or Benetton.

In order to not confuse regulations and standards, the sourcing country to play the example role is Bangladesh as one of the major countries of fashion production, yet probably the most referred to media-wise.

### 1.3 Benefits

There are four stakeholders of my thesis: My degree program, my specialization, companies in the field of study and myself.

The rules of my degree program for the choice of the thesis topic are met. The topic is international in nature and in the topic area of my specialization. One might argue that studying the consumer is a marketing topic at heart; however, as discussed in detail in chapter 2.5 concerning stakeholder orientation, the consumer must be at the center of every business decision made. Consequently, this thesis is written for retail buyers working with garments. Besides, two contemporary issues in supply chain management play a key role in my research project: corporate social responsibility and the strategic importance of supply management, or purchasing. These together, as examined in chapter 2.4 form the concept of responsible purchasing.

Since I decided to not work together with a single corporation, but aim my research at more general questions, the outcome of this project can be interesting to all companies operating in the mass production fashion industry. My recommendations on the level of corporate responsibility optimal for a fashion retailer's success in Germany are hopefully of so high quality that fashion brands would want to consider them.

Additionally this research report can give other supply chain management students an insight into ethical sourcing. Moreover, the rather modern approach of stakeholder orientation gives students just as businesses a new view-point. Generally speaking, my thesis research contributes to the way HAAGA-HELIA University of Applied Sciences teaches business by seeing ethics as a central research point to consider. Which is why I am delighted to have this institution as a commissioning party increasing the meaning and value of my work. The feedback of HAAGA-HELIA University of Applied Sciences has been positive throughout.

Finally the research project benefits me. First of all it does by fulfilling the requirements I need to graduate from the bachelor's degree program at HAAGA-HELIA University of Applied Sciences. Furthermore I was very happy that I was able to work



on this project since I found it interesting and motivating. In addition to that it gave me valuable knowledge regarding corporate responsibility, purchasing, retail and the fashion industry that I will appreciate on my track pursuing a career in retail buying.

## **2 Theoretical framework**

This chapter establishes the theoretical background for the research at hand. It examines several key concepts that finally build a theoretical framework, illustrated in the conceptual picture.

Since this thesis addresses supply (chain) managers, first of all the concept of supply management is defined. As the second key concept, standing at the heart of the research project and being present in all investigative questions, I review the term of corporate social responsibility. Following, these two key concepts are merged to create the idea of responsible purchasing, comprising green procurement, codes of conduct in purchasing agreements and a strategic approach to these in buying. Moreover, the concept of stakeholder orientation and the consumer as a key stakeholder, which all investigative questions imply, is dealt with in detail, which establishes the reason why buyers should mind the consumer when making corporate buying decisions. Finally, in order to answer investigative question 2, I examine sustainable product pricing.

In the end of the chapter the summarizing conceptual picture can be found.

### **2.1 Supply management**

The management function this thesis addresses is the purchasing function, also called supply management, sourcing, buying or procurement function. Cousins et al. (2008, 6-7) acknowledges small deviations in the connotation of these, states however, that no general agreement has been made. Consequently I use all of these terms interchangeably. By the definition of Van Weele (2010, 3) purchasing is:

“The management of the company’s external resources in such a way that the supply of all goods, services, capabilities and knowledge which are necessary for running, maintaining and managing the company’s primary and support activities is secured under the most favorable conditions.”

Another definition can be found in Emmett and Sood (2010, 59) where procurement is defined as the business process functioning as a port for products, materials, labor, and

services to enter the supply chain. As the sourcing sectors, the origin of the products purchased by an organization, they name the primary sector (raw materials), the secondary sector (conversion of raw materials; manufacturing, production, assembly) and the tertiary or service sector (business, personal and entertainment services such as packaging, logistics, finance, retail).

The following key concepts are, where possible, looked at from the perspective of supply management.

## **2.2 Corporate social responsibility**

In general the term corporate social responsibility (CSR) refers to "a company's commitment to minimizing or eliminating any harmful effects and maximizing its long-run beneficial impact on society" (Mohr et al. 2001, 45-72). The Institute for Supply Management (ISM) defines social responsibility in detail as the following:

"a framework of measurable corporate policies and procedures and resulting behavior designed to benefit the workplace and, by extension, the individual, the organization and the community in the following areas: Community, diversity and inclusiveness-supply base, diversity and inclusiveness-workforce, environment, ethics, financial responsibility, human rights, health and safety, and sustainability." (The Institute for Supply Management 2013).

In this thesis I will use the terms corporate social responsibility and (corporate) responsibility referring to these corresponding definitions.

The definition of CSR by the ISM comprises also two other concepts that need to be defined in a business sense: Ethics, or business ethics, and sustainability. Fraedrich et al. (2011, 7) define business ethics as a set of principles, values and standards providing guidance in the business world. Principles thereby refer to universally accepted "boundaries" that are often further developed into rules. Fraedrich et al. (2011, 7) refers to the principle of freedom of speech as an example. Values, however, are a social basis to decide on "rights" and "wrongs" such as trust or integrity, Fraedrich et al.

(2011, 7) states. The definition of CSR at hand consists of value (e.g. environment) as well as principle based factors (e.g. human rights).

As far as sustainability is concerned, in this report, I refer to the business focused definition by Lamming et al. as referenced in Cousins et al. (2008, 198-200). Therein, ENVIRONMENT, ECONOMICS and SOCIAL POLICY are determined as the key elements of sustainable development. Thus, due to Lamming et al., all three elements must receive sufficient consideration in order to keep up a profitable business. In the key concept of “code of conduct” (chapter 2.4.2) I discuss these elements further in detail.

In order to establish a certain degree of measurability, Carroll’s CSR pyramid can be introduced. As described by Carroll and Buchholtz (2006, 39-40) Carroll’s CSR pyramid, first published in 1991, is not supposed to identify certain steps to CSR, but rather the different aspects of CSR that form a whole. However, for the purposes of this report, I want to see Carroll’s pyramid as comprising levels of CSR a company can possibly reach, being aware of the fact that this simplifies the model as well as the reality. The following figure 2 depicts the model as can be found in Carroll and Buchholtz (2006, 39).



Figure 2. The Pyramid of Corporate Social Responsibility by Carroll, first published in 1991 in *Business Horizons*. (Carroll & Buchholtz 2006, 39)

Due to Carroll's model (figure 2) the economic responsibility of a company is the foundation of a responsible business. Without profitability a company does not serve its main target and will rather be a burden to society than being beneficial by creating gains for share- and stakeholders. This is also the basis for Milton Friedman's opinion on corporate social responsibility that is, due to his article published in the *New York Times* in 1970, simply to "increase its profits" within the framework of law and fair competition (Balderjahn 2013, 47-48). This statement also includes the next level of Carroll's pyramid: The responsibility to obey the law or "play by the rules of the game". The third level, however, goes further than Friedman wanted in 1970. It refers to ethical business behavior. Fairness and justice are seen as the keys to avoiding to harm the society. The last level, philanthropic responsibility, takes the ethics matter a

step further by requesting to “improve the quality of life” in the community the company operates in.

In a classical business sense, as represented by Milton Friedman, businesses had the one and only responsibility to be profitable, and, admittedly, to obey the law. In a modern world, this is not anymore sufficient as far as corporate social responsibility is concerned. To conclude, nowadays, due to Balderjahn (2013, 49) there are five action fields of responsible business: Compliance (obeying the law), corporate social responsibility (economic, ecological and social), product stewardship (chapter 2.4.1) and corporate fairness (suppliers, employees...). All of these action fields must necessarily be taken into account when aiming at sourcing responsibly.

### **2.3 Responsible purchasing**

When combining the two concepts of supply management and corporate social responsibility, I create a third concept: responsible purchasing. This concept consists of the two aspects of environmental friendliness and social responsibility in procurement. The Responsible Purchasing Network (RPNa) uses the term responsible purchasing referring to its commitment "to leveraging the power of responsible procurement to conserve resources, mitigate pollution and waste, and promote a healthy economy", therefore the RPN is "committed to the identification, utilization and dissemination of standards and practices that minimize or eliminate destructive impacts without compromising performance or cost-effectiveness."

Responsible purchasing is examined in further detail in the following, first by describing green procurement and second by analyzing an example code of conduct in purchasing agreements. Finally, I review advices by responsible purchasing professionals on how to tackle the issue strategically.

#### **2.3.1 Green procurement**

One way for an organization to buy sustainably is to focus on increasing environmental friendliness of the supply chain in each and every activity that is done in the purchasing

department. Emmett and Soon (2010, 60-65 & 87-88) examine potential activities to green-up the buying department's operations as summarized below.

- Define a Green Procurement policy (i.e. a Green Code of Conduct, see chapter 2.4.2 about code of conduct)
- Create healthy supplier relationships
- Provide education to suppliers (e.g. related to green materials / pollution prevention)
- Motivate suppliers to themselves address sustainability in their supply chains
- Incorporate green procurement criteria to contracts
- Choose or develop resource efficient suppliers (savings in energy, water and fuel)
- Ask suppliers to use recycled substitutes
- Buy designs that are designed for disassembly
- Audit the purchases
- Use environmental assessments (emissions, landfill etc.) to monitor procurement

As a consequence, the importance of the collaboration of the buying organization with its suppliers is a key factor for greening up the supply chain. Knowledge transfer, supplier development, supplier assessment, green contracting and ambitious supplier requirements are just as crucial as design and materials when designing a green supply chain. As far as materials are concerned, asking specifically for recycled materials can commit to creating a market for recycled materials. This, in return, makes recycling as such valuable and encouraged which leads to another reason to design for disassembly: easier recycling (or reuse). Moreover, purchases should be audited frequently to ensure compliance with internal responsible purchasing guidelines. Additionally environmental assessments can support buyers in quantifying goals and achievements on the way to a green supply chain. (Emmett & Soon 2010, 60-65 & 87-88)

Emmett and Soon (2010, 63) are convinced that the business benefits striving after a sustainable supply chain are plenty: Cost savings, easier compliance with government regulations, reduced safety risks for workers through hazardous materials, competitive advantage, combating climate change and the improvement of the corporate profile are

just a few to name. Consequently the "closer look" at the environmental aspects of the supply chain can pay off. The "closer look" is called product stewardship.

Product stewardship relates to the responsibility of a firm to ensure that all actors of the value chain including manufacturers, suppliers and retailers, do business based on the social and ecological principles in place. However, product stewardship in its consequence can create trade-offs between competitive (price) position, environmental and societal factors. (Balderjahn 2013, 176-177) These trade-offs are examined in further detail in chapter 2.6 regarding sustainable pricing and chapter 4.2 regarding fashion pricing.

In order to create a sustainable product, the analysis of the carbon-footprint is a possible tool to make out the impact and start reducing it. The CO<sub>2</sub>-emissions of a product during its whole life cycle are therefore analyzed including raw material production, manufacturing, packaging, distribution, transportation, catalog, usage and disposal. The analysis can quantify improvements and consequently function as a performance analysis for a sustainable supply chain (Gabath 2011, 109-111). See chapter 4.1.1 for a fashion industry example.

In general, to reduce the carbon footprint the following measures can be taken or directions followed (Balderjahn 2013, 174).

- Design for efficiency (minimizing material and energy consumption in production and transport through scrap, smart packaging et cetera)
- Usage of ecological and healthy materials (e.g. natural coloring)
- Decrease material variety
- Labeling materials used
- Design for recyclability
- Design for disassembly
- Design for durability (products should possibly be updated, re-used and repaired)
- Eco-friendly usage and production
- Use sustainable business models: sharing, leasing, second hand shopping
- Green transportation



As far as the footprint is concerned, Balderjahn's (2013, 174) measures concentrate on the design of the product including materials used, efficiency of material usage, production, usage and the product's abilities to be disassembled and recycled. Moreover logistics topics are addressed such as packaging and transport that need to be greened-up.

As one can notice, Balderjahn's measures to reduce the footprint of a product (2013, 174) and Emmett and Soon's environmentally friendly practices for buyers as summarized above (2010, 60-65 & 87-88) contain several similar ideas. We can conclude that the retailer's responsibility for a green supply chain lies to a large extent in the buying department who procures possibly materials, designs, production services and other related raw materials and services. In order to summarize green procurement, the green procurement framework by Emmett and Soon (2010, 64) can be used (figure 3).

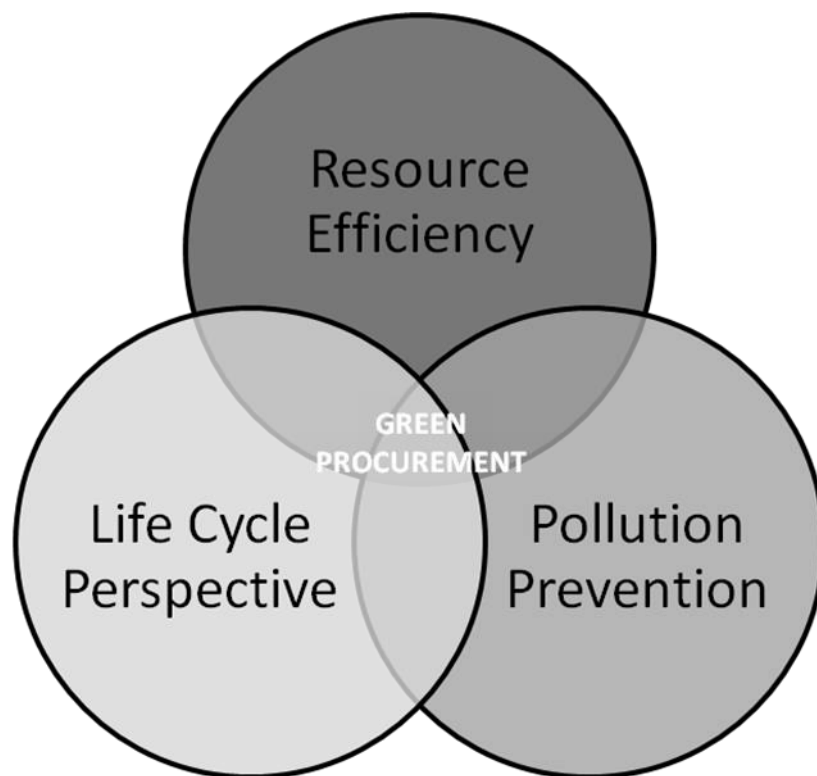


Figure 3. Green Procurement Framework. (Emmett & Soon 2010, 64)

The Green Procurement Framework (figure 3) consists of the three factors resource efficiency, life cycle perspective and pollution prevention. Resource efficiency can be

addressed by choosing re-usable and recycled materials as well as saving water and energy. An example for the life cycle perspective is examined below in the carbon footprint analysis (see chapter 2.4.1 for a definition of carbon footprint, see chapter 4.1.1 for an example analysis). Generally speaking, it is an evaluation of the product's environmental impact over its entire lifespan. Moreover, to prevent pollution (e.g. reduction of chemicals) is important when aiming at buying green.

### **2.3.2 Code of conduct in purchasing agreements**

As a second interest area, we examine responsible buying by taking a look at the codes of conduct possibly used in purchasing agreements. Lysons and Farrington (2012, 637) state that “adherence to a code of conduct” is essential to every profession there is; thus also to the purchasing profession. Codes of conduct are beneficial since they establish consistent rules, boundaries and guidelines that support employees and managers to make decisions on a common basis. The mostly blurry field of ethical behavior is thereby clearly outlined. (Lysons & Farrington 2012, 636) The authors therefore introduce the Global Compact by the United Nations aiming at sustaining the new global economy by taking into account social and environmental aspects when doing business. The Global Compact comprises principles on human rights (1-2), labor (3-6), environment (7-9) and anti-corruption (10). (Lysons & Farrington 2012, 636)

As suggested by Lysons and Farrington (2012, 636) also the Confederation of the German Textile and Fashion Industry (t+m) bases their code of conduct, adopted in 2010, on the UN Global Compact. “Wherever possible and wherever economically feasible”, the foreword of the Code of Conduct states, the principles should be supported. This is also to apply to suppliers and purchasers. (Gesamtverband Textil und Mode / Confederation Textile and Fashion 2009) This supports the theory of the necessity of economic responsibility as stated in Carroll’s model (Carroll & Buchholtz 2006, 39), the definition of sustainability given above and also my interpretation to see it as the first level of sustainability to be reached. Consequently, the compliance with a well-designed code of conduct is socially and environmentally responsible and thus sustainable if economically feasible.

Furthermore t+m's application of the code of conduct to suppliers and purchasers establishes the need to spread the corporate code of conduct throughout the supply chain to create a consistent CSR strategy. In order to specify which aspects should or could be included in a code of conduct used in purchasing agreements, I will examine the UN Global Compact in detail.

**The UN Global Compact** can be used as a basis for the corporate code of conduct. As stated above, the Global Compact consists of guidelines regarding human rights, labor, environment and anti-corruption divided into ten principles. The first principle reads "Businesses should support and respect the protection of internationally proclaimed human rights." Hereby the UN Global Compact stresses a corporation's responsibility towards workers and other stakeholders. (United Nations Global Compact 2013a) To be specific, the organization formulated a set of examples that can function as guidelines when creating a code of conduct used in purchasing agreements.

**Some examples of how companies are supporting and respecting human rights through their daily activities**

(United Nations Global Compact 2013a)

- In the workplace:
  - by providing safe and healthy working conditions,
  - by guaranteeing freedom of association,
  - by ensuring non-discrimination in personnel practices,
  - by ensuring that they do not use directly or indirectly forced labour or child labour,
  - by providing access to basic health, education and housing for the workers and their families, if these are not provided elsewhere,
  - by having an affirmative action programme to hire victims of domestic violence, and
  - by making reasonable accommodations for all employees' religious observance and practices.
- In the community:
  - by preventing the forcible displacement of individuals, groups or communities,
  - by working to protect the economic livelihood of local communities,
  - by contributing to the public debate. Companies interact with all levels of government in the countries where they operate. They therefore have the right and responsibility to express their views on matters that affect their

- operations, employees, customers and the communities of which they are a part,
- through differential pricing or small product packages create new markets that also enable the poor to gain access to goods and services that they otherwise could not afford.
- by fostering opportunities for girls to be educated to empower them and also helps a company to have a broader and more skilled pool of workers in the future, and
- perhaps most importantly, a successful business which provides decent work, produces quality goods or services that improve lives, especially for the poor or other vulnerable groups, is an important contribution to sustainable development, including human rights.
- If companies use security services to protect their operations, they must ensure that existing international guidelines and standards for the use of force are respected.

The following and second principle addresses complicity of human rights abuses, meaning a company that “facilitates, legitimizes, assists, encourages” another company in abusing human rights (United Nations Global Compact 2013b). This is especially important when supply management is concerned since a company that purchases from human rights abusers is consequently indirectly involved in these abuses; it is a case of complicity.

Principles 3 to 6 are related to labor issues. Principle 3 regards freedom of association and collective bargaining which, due to the Global Compact, should not be abolished. This for example includes the formation of trade unions. (United Nations Global Compact 2013c). Freedom of association generally addresses the rights of workers and the improvements of labor standards. In westerns countries these associations often fight for example for better pay. If freedom of association is not in place, workers often are in a weak bargaining position. Principle 4 and 5 address compulsory, forced and child labor which should be eliminated. (United Nations Global Compact 2013d, e). The sixth principle states that “discrimination in respect of employment and occupation” should not be tolerated (United Nations Global Compact 2013f). Discrimination could be based on factors such as race, age, gender, sexuality or religion.

Principles 7 to 9 consist of statements regarding business and its environmental activities. Due the compact businesses should operate using a precautionary approach to

prevent environmental damages through their undertakings (principle 7). Moreover companies should promote environmental initiatives (principle 8) and take part in developing and improving environmentally friendly technologies (principle 9). (United Nations Global Compact 2013g). The tenth principle regards corruption and is not part of this thesis.

Codes of conduct can naturally be different for different businesses. However, I conclude that the example examined above can be a basis for most companies as it is a respected and often quoted model.

### **2.3.3 Responsible purchasing as a strategy**

How companies can buy truly ethically, is explained by several initiatives, activists and buying professionals.

Maren Sartory from the organization Transfair calls transparency of the supply chain a key factor to responsible fashion, "Companies often don't know how and where their products are manufactured" (Motzkau, M. 2 Jun 2013). It seems obvious that a company who does not know its supply chain in detail cannot improve social and environmental standards; neither can it reliably communicate a responsible way of doing business.

Berndt Hinzmann from the CCC suggests that companies join a multi stakeholder initiative (Motzkau, M. 2 Jun 2013). These initiatives bring together several stakeholder groups for interest and knowledge transfer and, most importantly, to find solutions that all stakeholders can agree upon. These initiatives are generally a more convincing solution than purely corporate alliances or initiatives since they combine several standpoints. (Lexikon der Nachhaltigkeit 2013)

Get Changed! The Fair Fashion Network, a Zurich based project, presents its "Eight questions to the favorite company" comprising questions targeted at social and environmental challenges in the garment production (Starmann, M. & Brodde, K. 25 Jan 2012). However, these questions can also be applied to other industries.

- Does the company know its entire supply chain?
- Did the company specify high labor standards for all production steps?
- Does the company search solutions together with its competitors and critics?
- Does the company take work safety in factories seriously?
- Did the company define high environmental standards?
- Does the company think the whole life-cycle?
- Does the company pay fair prices?
- Does the company take responsibility?

These questions again stress that a responsible company knows its entire supply chain. Consequently, it would be the buyer's responsibility to request information from the firm's suppliers regarding the origin of their products. Moreover also Get Changed! suggest engaging together with stakeholders (critics, competitors) in order to find solutions to CSR problems. The other points are pointing at factors usually specified in a code of conduct. However, whether suppliers comply with the signed code of conduct and how challenging audits can be, is a different question.

The RPN offers advice to ethically minded purchasers in one of its purchasing guides aiming at summarizing best practices in the area of responsible buying. As mentioned above, the inclusion of a, as called by the RPN, stakeholder team (=multi stakeholder initiative) is essential when implementing responsible policies. The next step is to collect data regarding social and environmental impacts of stocked products in order to calculate impact indicators. Additionally goals should be set regarding socially and environmentally responsible practices in procurement. These goals must then be tackled in a corporate policy ensuring guidance for staff in ethical matters. (RPNb) A corporate code of conduct, as examined above is a suitable tool for this guidance. Further, the RPN (b) calls for suppliers evaluation and issuing of supplier performance indicators in order to identify which producers have the attributes required for the buyer to reach his or her sustainability goals. In addition to that practices, by staff as well as by end-users, must be monitored and improved in order to "minimize costs and maximize effectiveness". Finally, progress towards goals set for responsible buying must be measured. (RPNb)

Overall there is to say that strategic purchasing can commit a valuable set of activities towards a more responsible way of doing business, environmentally as well as socially.

## **2.4 Stakeholder orientation**

For a long time the investors, consequently shareholders, of a company were seen as the only external interest group to be satisfied when business decisions were to be made. M. Friedman and later J. Boatright established this way of thinking business. However, in business theory this model is, as mentioned above, basically "old fashioned" as it was complemented by the idea of the stakeholder concept. (Bruton, J. 2011, 158-159) As outlined in chapter 2.4 regarding responsible purchasing, integrating stakeholders, their opinions, ideas and needs, in decision-making is necessary in modern responsible business. The concept, stakeholder orientation, is examined in this chapter.

Stakeholders are defined as "Customers, investors and shareholders, employees, suppliers, government agencies, communities, and many others who have a "stake" or claim in some aspect of a company's products, operations, markets, industry or outcomes". Stakeholders matter since they are the ones that supply the company with resources, whether it is materials or money, buy their products, issue certificates and so forth. (Fraedrich et al. 2011, 31) Bruton (2011, 162) quotes Clarkson who wrote in 1995 that stakeholders can be divided into primary and secondary stakeholders, those where there is a high level of interdependence (primary) and those who are not essential for a businesses' survival (secondary).

The stakeholder concept established a "two-way street" between the companies and their stakeholders (Fraedrich et al. 2011, 31) as they are increasingly studied in the course of a stakeholder-oriented business approach aiming at harmonizing business and stakeholder needs. When arguing about stakeholders, first the relevant stakeholders and their preferences need to be identified (Bruton 2011, 164-165). As Mitchell, Agle and Wood, as quoted in Bruton (2011, 165), wrote in 1997 one of the following factors must be present in order to identify a group as stakeholders.

- The power to influence the enterprise
- The moral or legal legitimacy of the relation between the group and the enterprise
- Urgency of claims towards the enterprise

The following table introduces seven stakeholder types generated from these stakeholder identification factors.

Table 1. Stakeholder typology after power, legitimacy and urgency due to Mitchell et al. in 1997 (Bruton 2011, 167).

Types of stakeholders	Power	Legitimacy	Urgency
1. Dormant stakeholders	x		
2. Discretionary stakeholders (e.g. recipients of philanthropic measures)		x	
3. Demanding stakeholders ("irksome but not dangerous")			x
4. Dominant stakeholders (e.g. owners, creditors, employees)	x	x	
5. Dependent stakeholders (e.g. environment, in banking: small customers)		x	x
6. Dangerous stakeholders (e.g. activists, terrorists)	x		x
7. Definitive stakeholders	x	x	x

These types can be categorized into three categories. The first category consists of the first three types, they are latent stakeholders that only own one of the three attributes. These stakeholders receive the least attention from managers. The next category, stakeholder types 4-6, is the one of the expectant stakeholders. Since they own two attributes of the three the attention they receive is bigger than for the first category,



however, still moderate. The last category, the definitive stakeholders, are the most important ones. (Bruton 2011, 168-169)

#### **2.4.1 The importance of the consumer as a stakeholder**

The source available (Bruton 2011, 164-169) does not specify in which of the categories the consumers belong. However, in the case of the fashion industry I find it appropriate to categorize them as definitive stakeholders. The power lies in the profit generating spending of the consumers that are the only group generating income to a conventional fashion retailer. As opposed to the "dependent stakeholders", which could be for example small private customers of a big investment bank, the customers of an international fashion retail chain can be interpreted as definitive stakeholders, since there are no other customers that are richer in capital. The buying power only lies in the small private customers.

Additionally, the legitimacy on the one hand lies in the legal responsibility of a firm to offer safe products and honest marketing and on the other hand, from a business point of view, in the fact that "money does business". There is no better reason for a stakeholder to be legitimate than the fact that he is the one paying for the product a business creates. Moreover, the claims of end-customers are also urgent in nature mostly resulting from a branding point of view that strives firms to not jeopardize their brand image.

The idea of the consumer as a powerful stakeholder whose claims are legitimate and urgent is also shared by Carroll & Buchholtz (2006, 40) who consider consumers a company's most important stakeholders who need to be satisfied with the way a company does business. To build on that, Fraedrich et al. (2011, 32) can be referred to who state that consumer willingness to buy goods and services is directly linked to the perceptions consumers have of product offerings and the company's image. "Stakeholders define ethical issues in business", headline Fraedrich et al. (2011, 21) in regard to this. Studying the consumer in ethics-related business research is consequently not only a task for marketing communication professionals but also for other functions that aim

at detecting optimal business behavior. This business approach is called stakeholder orientation (Fraedrich et al. 2011, 34).

Bhattacharya et al. (2011, 31-32) suggest that there are two routes to turn corporate responsibility activities into business value (CR value). The direct route creates value for example by increased energy or production efficiency. The company engages in these activities and earns from the added value immediately. The second route is “the stakeholder route to CR value”. Similarly as in Fraedrich et al. (2011, 32), Bhattacharya et al. (2011, 32) explain that to an increasing extent consumers (and other stakeholders) decide to reward “good” business behavior and punish the less favorably acting companies. In a consequence this can for example mean increased sales, higher number of job applicants or improved employee morale for those companies doing “good”. However, the indirect, stakeholder route to CR or CSR is more challenging than the direct one since a detailed picture of the stakeholders aimed at pleasing is needed in order to engage in social and environmental activities in an optimal way. (Bhattacharya et al. 2011, 32)

#### **2.4.2 The ‘conscious’ consumer and ethical consumerism**

The ‘conscious’ consumer, or the values-driven consumer, bases his buying decisions on his values more than on his income, demographics or geography (Aburdene 2005, 92). Thus, the importance of the price of a product, as the main comparing factor of this thesis, is decreasing as far as the ‘conscious’ consumer is concerned.

The ‘conscious’ consumer can, varying from source to source, also be named differently; for example the Ethical Consumer. The Ethical Consumer Research Association Ltd (The Ethical Consumer), a non-profit organization (NGO) makes use of this name to promote ethical buying, or ethical consumerism, in the UK and all over the world (Ethical Consumer 2013a). The Ethical Consumer (2013b) states that everybody can do well by buying ethically, “using (...) spending power wisely”, on an every-day basis. To be more specific, The Ethical Consumer divides ethical buying (by the consumer) in four categories: positive buying, negative purchasing, company-based purchasing, and the fully-screened approach. Positive buying relates to buying products that are

sustainable, green or in another way ethically “positive”. Negative purchasing, on the contrary, describes the avoidance of a polluting, unsustainable or otherwise ethically “negative” product. Avoiding a whole company based on its actions, may it be marketing, production or any other operation, is called company-based purchasing. The fully-screened approach combines all the three mentioned before and evaluates both the corporations and their products in order to determine the most ethical option. (Ethical Consumer 2013b)

## **2.5 Sustainable product pricing**

Due to Balderjahn (2013, 176-177) sustainable products must be priced similarly as classical products. A product with a higher price can only be competitive if the sustainable value added can justify the add-up. In general the fact that a product is sustainable will be a competitive advantage; however, it is a strong one only when the price add-up is marginal as sustainability loses its attractiveness with the increase of its price.

(Balderjahn 2013, 176-177). Consequently, in order to understand which effects transforming a classical product into a sustainable and socially responsible one have on its selling price, we need to understand how products are priced in general.

### **2.5.1 Pricing strategies**

Due to Easey in "Fashion Marketing" (2009, 184-186), there are two main pricing strategies that all other pricing strategies are built on: Cost-plus and market-based pricing methods. Cost-plus pricing refers to a method that ensures to cover all costs by adding a markup/markdown to the costs. The markup/markdown can be shown by the following formula:

$$[(\text{Price} - \text{Cost}) / \text{Cost}] * 100 = \text{Markup}$$

$$[(\text{Price} - \text{Cost}) / \text{Price}] * 100 = \text{Markdown}$$

If the costs for a product are 20 Euros and the selling price is 30 Euros, the markup is 50 per cent, the markdown 33.33 per cent.

$$[(30\text{€} - 20\text{€}) / 20\text{€}] * 100 = \text{Markup} = 50$$

$$[(30\text{€} - 20\text{€}) / 30\text{€}] * 100 = \text{Markdown} = 33.33$$

Market-based pricing is a more sophisticated method that involves market research in order to know and take into account competitors' prices and consumers' expectations and demands. (Easey 2009, 184-186)

Having understood this, we need to clarify which price factors are related to sustainability and CSR.

### **2.5.2 Green total cost of ownership**

Total cost of ownership (TCO) describes the amount of money a product (...) costs a company over the period of its life. TCO includes consequently the purchase price, acquisition costs, such as freight, taxes and others, usage costs, for example costs related to inventory, scrap or opportunity costs, and end-of-life costs, such as disposal or clean-up. (Handfield et al. 2009, 408) To specify one TCO factor that is important to the retail business that is focused on in this thesis, we can utilize Handfield et al.'s (2009, 393) "Elements of price". The purchase price is due to this model comprised of direct materials cost, direct labor cost, production overhead, selling and administration cost and the profit margin. Splitting the purchase price reveals which costs included in the TCO are related to ethics. This is, first of all, direct labor cost. However, also the profit margin that a buyer grants the supplier can be ethically charged as well as the production overhead that could for example comprise also investment in sanitation facilities or ventilation. Not to forget, the direct material costs. To conclude, a buyer must see the whole set of costs involved, namely TCO, in order to calculate the impact of changes of ethics-related price components to the consumer buying price.

Emmett and Soon (2010, 90-91) additionally created the Green TCO that adds "environmental and social consequences costs" to the known TCO model.

Table 2. Green TCO (Emmett & Soon 2010, 90-91)

TCO environmental costs	TCO social consequences
- Compliance with legislation	- Health and safety of employees
- Risk of incidents, such as pillages, pollution	- Customers relationships
- Waste disposal	- Society relationships
	- Supplier relationships

Taking these extra costs into account, socially responsible and environmentally friendly businesses might not be financially too disadvantaged over companies solely focused on the TCO as described further above. As noted by Emmett and Soon (2010, 90-91) the compliance with government legislation is usually easier and penalties can be avoided when a company focuses on environmental issues on a regular basis. Risks of incidents related for example chemicals used in production are eliminated if a firm has replaced these hazardous components with natural ones. Additionally, costs for waste disposal can be decreased if fewer waste is produced due to recycling, reusing, smart design (less scrap) et cetera. Moreover, the risk of destructive media reporting is lowered significantly if a company does not provide a target in form of insufficient employee health and safety, pollution or other immoral or illegal practices. Consequently, customer and societal relationships are less likely to be endangered. Finally, supplier relationships can be a cost factor when they do not work and the "rights" (place, time, quantity, quality and price) are at risk. Consequently, a close relationships to suppliers as created in responsible purchasing decreases supplier risk.

## 2.6 Conceptual picture

The conceptual picture combines all central aspects of the theoretical part of this report into an illustrated framework (figure 1).

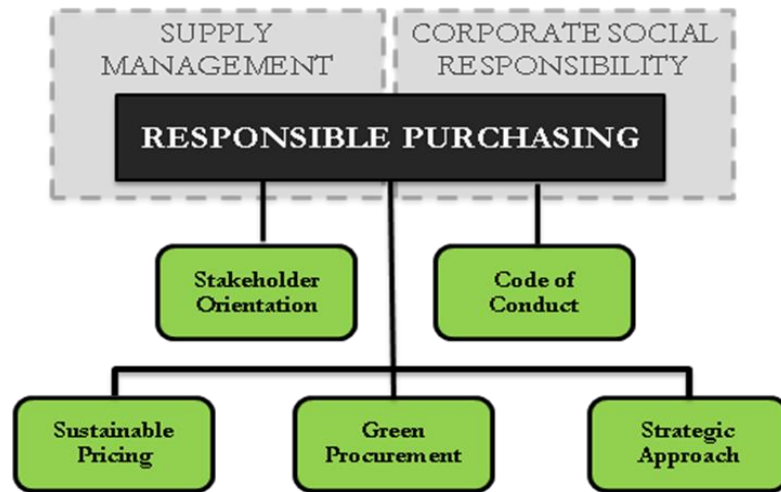


Figure 1. Conceptual picture of theoretical framework.

The concepts of corporate social responsibility and supply management are merged into the most central concept of responsible purchasing. All other key concepts are necessary in order to analyze the corporate function of procurement under the aspect of corporate social responsibility; these concepts are located under the central concepts. Due to their importance the concepts of stakeholder orientation as a base for the whole idea of sourcing responsibly and code of conduct as a book of guidelines for doing so, these concepts are located at the top.

The stakeholder orientation, as the first of the related key concepts, provides the procurement department with necessary information in order to prioritize social and environmental activities by importance; but also to make out which efforts in the area of responsibility will not pay off. A code of conduct, for the staff as well as for the suppliers, will then guide actions throughout the supply chain. Additionally the idea of green procurement is taken into account when designing a responsible purchasing action plan since it tackles the environmental aspect in detail comprising also sustainable design as in materials, scrap reduction and energy efficiency. All of this must happen strategically in order reach full benefits. Finally, also the pricing can be looked at from a sustainable point of view since costs can vary for sustainable products and processes as well as can financial risks.

In the following the theory discussed in this chapter is applied to the business of fashion retailing.

### 3 Methods

In this chapter I describe the research methods which I used to gain knowledge in order to be able to give recommendations to fashion companies regarding CSR strategy in buying. I used exploratory as well as descriptive methods.

#### 3.1 Exploratory research

The first step to gain background knowledge on the industry and the matter at hand was to conduct exploratory research. Due to Silver et al. (2013, 71-72) exploratory research can be done to identify possible respondents and key issues in the topic area but also to generally create background knowledge in order to facilitate descriptive research. Exploratory research is a qualitative research method which emphasizes words, actions and records rather than numbers (Silver et al. 2013, 57). One way to conduct that research is the literature review (Silver et al. 2013, 59-60) which I used to generate ideas and educate myself about the industry. I used internet search engines, utilizing several keywords such as responsible fashion, fashion pricing, Bangladesh, fashion, factories, workers' rights, accidents, living wage, 'conscious' consumer and so forth. Additionally I researched in business literature and followed certain online newspapers that I considered important to gain knowledge of the fashion industry as is described in German media. I followed for example Spiegel Online, Zeit Online and n-tv. Specifically those articles wherein the topic of responsible, or alternatively irresponsible fashion, was concerned, were of interest. The following issues were the targets of the information collection, being carefully chosen to answer the investigative questions.

First of all it was necessary to find out *which specific aspects of fashion define corporate responsibility*; taking social and environmental concerns into account. The results of this were the grounds for further steps towards answering the investigative questions introduced in chapter 1.1 as well as for the following research objectives of the secondary research (in italic). The purchasing price add-up for responsible fashion (Investigative question 2), for example, can only be calculated if information on those aspects of production,

transportation and labor that are necessary for turning a product into a responsible one are known.

Further, I researched information on *purchasing prices in the fashion industry*, mainly aiming at answering investigative question 2 regarding the price premium for responsible fashion, however, also contributing to answering investigative question 3 about German consumer willingness to pay that price premium. Concerning investigative question 1 and 3 about consumer value of CSR and consumer willingness to spend extra for CSR, I researched the *'conscious' fashion consumer*. Finally by the help of company cases and CSR evaluations of companies investigative question 4 could be answered regarding *risks of unethical purchasing*.

Alternatively, I could have approached professionals working in the field and conduct a different kind of exploratory research with them in order to gain knowledge on the industry. However, the chance of getting an appointment with buyers in the fashion industry was so low, that counting on that option would have consumed too many resources and was likely to fail from the start. Another option would have been to study consumers in in-depth interviews or focus groups as introduced by Silver et al. (2013, 60-61). I did not choose this option since the topic of CSR is too sensitive to discuss it in person. The likelihood of receiving "sugarcoated" numbers was too high.

To conclude, this exploratory research supplied the industry background for my study which was absolutely necessary in order to design the survey and interpret its results. Without knowing the business, it would have been impossible to depict the focal points and give strong recommendations.

The results of the secondary research can be found in chapter 4.

### **3.2 Consumer survey**

After having finished the exploratory research, I had enough background knowledge to conduct a descriptive research in order to gain quantified answers (Silver et al. 2013, 71-72) to investigative questions 1, 3 and 4.



The target group of my survey were German consumers; all age groups, all interest groups, nobody specifically. This was because the fashion industry is an industry where everybody can be seen as a consumer and everybody needs to be considered when giving recommendations. Based on demographic (age, gender) data was I able to give different recommendations to different companies depending on their target group. The questions in the survey were specifically targeted at answering investigative questions 1, 3 and 4 as indicated in the overlay matrix (attachment 1).

The survey was conducted online via the survey service Webropol between 30<sup>th</sup> of June and 18<sup>th</sup> of July 2013 with the note that only people living in Germany can participate. The survey was distributed by the social media website Facebook and via E-Mail to friends, family and then further shared by those to their friends and family. The survey was only available in German language. The original and the English translation can be found in the attachments (attachment 2 and 3).

As an alternative to an online survey I could have conducted the descriptive research face-face, for example in a shopping mall. This option was not chosen due to resource efficiency. The extra time, or money, that it would have taken to collect responses on the street was simply not available for this research project.

As described in Silver et al. (2013, 8) the form of this marketing research was a “public opinion survey” meant to give insights into the minds of consumers regarding the CSR in the fashion industry. Thereby as defined by Silver et al. (2013, 8) the survey gave information about consumer opinions on CSR in fashion, regarding their overall awareness of the topic and how they rank the importance of certain issues.

The questionnaire design and the results of the survey will be dealt with in detail in chapter 5.

## **4 Responsible purchasing in the fashion industry**

With 4 500 garment factories Bangladesh is the second largest producer of fashion in the world. The industry is worth \$20 billion (ca. 13.4 billion Euros) every year accounting for roughly 80 per cent of Bangladesh's export in 2012. (Australia Network News 2013)

In the following I examine the topic of fashion sourcing and in what connection it stands to corporate social responsibility. Thereby I concentrate on factors where companies could or should take responsibility, socially and environmentally, calculate the price of CSR in the garment industry, examine case companies and introduce the 'conscious' fashion consumer. Bangladesh is thereby my example sourcing country.

### **4.1 CSR risks in fashion purchasing**

The two main factors to be considered when ethics in fashion purchasing are concerned are the environmental impact of the product's life cycle (see chapter 2.3.1 for an explanation) and the social standards in the factories (Gabath 2011, 109).

#### **4.1.1 Environmental impact**

As the main source for garment production is cotton a key to environmental friendly clothes. The environmental impact of the cotton fields is large; the water necessary for the plants resulting in one simple shirt amounts for example to roughly 2 000 liters of water. In addition to that pesticides and other chemicals have a negative impact on the ground and natural waters. Assumptions report that 10 000 to 20 000 people a year die directly or indirectly through the cotton production. (Gabath 2011, 108)

Companies can use organic cotton or alternatively bamboo fibers, waste reduction, recycling and cleaner dyeing and finishing processes to decrease their environmental impact. Cleaner ways to dye cotton are for example synthetic "low-impact" dyes and natural dyes stemming from leaves, flowers, berries, insects and other natural sources. However, dying naturally is not more economical than classical dyes. Estimations see

an add-up of 10 to 40 per cent to the cost of the product. (Burns, L. D. & Bryant, N. O, 2008)

In order to tackle the environmental impact of fashion in a quantified example, we can look at the carbon footprint of a simple long-shirt as can be bought at basically every store (figure 4).

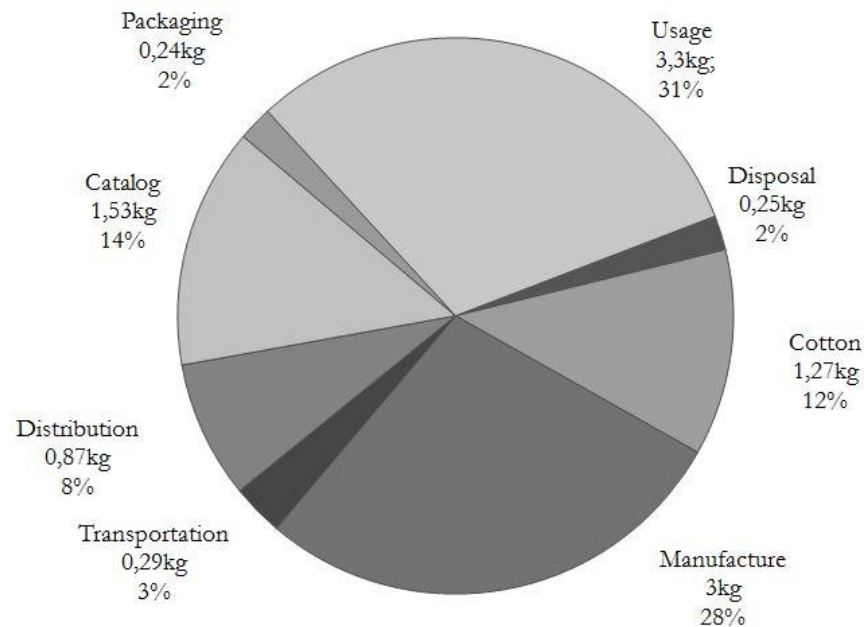


Figure 4. Carbon Footprint of a long-shirt by Systain Consulting GmbH. (Gabath 2011, 110)

Figure 4 shows the carbon footprint of a long-shirt. As you can see, the part that lies in the responsibility of the buyer amounts to at least 40 per cent (cotton and manufacture), if a company decides to outsource the manufacture.

In order to quantify another example, one can look at the production of an organic cotton t-shirt by Patagonia. The shirts travels 25 000 kilo meters before one can buy it in the store. On its way through the production steps it produces 4.7 kilos CO<sub>2</sub> (which is less than in the example above), 148 grams of waste and used 703 liters of water and 12 kilowatt hours of energy. (Starmann, M. & Brodde, K. 25 Jan 2012).

Consequently the environmental impact of fashion is not neglectable. Companies can reduce the impact by tackling cotton production, dyeing, water use, CO<sub>2</sub> production and energy use.

#### **4.1.2 Social impact**

The positive impact of garment production in low income countries mainly lies in the creation of work and consequently income for the workers in these countries (Gabath 2011, 108). However, the compliance to a code of conduct is due to Gabath (2011, 109) a must in order to ensure fair working conditions such as fair wages, no child labor, right to form unions and so forth.

However, as indicated in the introduction, in the last decade media reported repeatedly about incidents and facts regarding the working conditions of garment workers in China, Bangladesh and other low-cost Asian production countries that overshadow the positive impacts of fashion sourcing.

The wage is one of the factors often criticized, as by the Clean Clothes Campaign (CCC) (2010a, 4) who states that even six to seven fourteen hour days a week often do not create enough income for a worker to sufficiently support himself or herself and his or her family. Recently protests in Bangladesh have led to the formation of a panel to raise the minimum wage of the garment workers. Last time the wage was raised in 2010 when it was increased by 80 per cent (Australia Network News 2013), leaving the garment workers with roughly 29 Euros (3 000 Takas) monthly income to live on (Handelsblatt 2013). However, a 5m<sup>2</sup> cabin in the slums of Dhaka costs already roughly 32 Euros; even over-time of 30 to 40 hours a week are often do not pay sufficiently for a family to afford “extras” like school or a doctor. The Fair Wear Foundation requires a basic wage of 100 Euros a month from its members – not including over-time. (Starmann, M. & Brodde, K. 25 Jan 2012). Members of the Fair Wear Foundation are for example Takko Fashion, Mammut, Jack Wolfskin, Haglöfs and Deuter (Fair Wear Foundation 2009).

Another issue where many factories run short, especially in Bangladesh, are the safety precautions at the workplace. In 2010 over 50 workers in Bangladesh died in factory fires (Clean Clothes Campaign 2010a, 11) and in 2012 even only one incident caused at least 111 deaths (Bajaj 25 Nov 2012). This destructive fire in a garment factory near Dhaka, Bangladesh in November 2012 showed once again that safety precautions are often neglected. Lovely Yesmin, coordinator of the National Alliance for Protection of Garment Workers and Industries, as many others, blames the buyers who "make huge profits and (...) are morally responsible to compensate the (...) victims immediately." (Institute for Global Labor and Human Rights 2013a).

The compliance with the corporate **code of conduct** of the western retailer, the buyer's way to ensure safety at the factories, is, due to Phil Robertson from Human Rights Watch, often certified by the factories, but not actually put across. Certificates are often bought or faked in order to be able to manufacture by the price demanded by the western retailer. Even so called **social audits** hardly brought any benefit, says Gisela Burckhardt from the CCC, since the audits usually only supply findings related to easily corrected aspects. However, aspects like forced over-time, discrimination or inappropriate behavior of supervisors are usually not found. (Kazim, H. 27.11.2012). Also child labor is indeed an issue in Bangladesh (The Institute for Global Labor und Human Rights 2013b).

To conclude, the Institute for Global Labor und Human Rights (2013b) is for certain: "Corporate monitoring has never worked, because people lie. Only enforceable binding laws can protect the legal rights of workers, including the right to organize independent unions and to bargain collectively." To be responsible on social grounds is from the corporate perspective consequently not as easily done as said.

## 4.2 Pricing responsible fashion

In most cases, when the issues explained above are raised, whether in the media or by campaigns such as the CCC, those companies contracting the factories for production are held responsible for the shortcomings of their suppliers (as in Kazim, H. 27.11.2012) . Quite often there is to read that these shortcomings derive from the price

pressure put on factories by sourcing companies (also in Kazim, H. 27.11.2012). However, the CCC argues that even if wages were to be doubled in an example country of origin, the price of an item would only increase by 5 per cent at most (Clean Clothes Campaign 2010b). The German trade union Verdi calculated that a t-shirt would even only cost 12 cents more if every factory worker was to earn 50 Euros more a month which would be roughly twice as much (or more) as they earn at the moment (Handelsblatt 2013).

However, only looking at the wages does not create a full picture of the cost-plus turning a classical product into a responsibly sourced one would create. In order to analyze fashion prices in more detail, we need to look at how a price is composed in the fashion industry. Matthew Carroll (22 Feb 2012), a contributor on Forbes and a fashion industry insider, explains "how fashion brands set prices" with the Keystone Markup pricing methodology. In general, so Carroll writes, a brand producing a product would multiply the buying price by the factor of two, as would then the retailer (by a factor of 2.0-2.4), creating a consumer price of roughly four times the former buying price. (Matthew 22 Feb 2012) Consequently, those retailers that only sell their own brands to the consumers could offer prices roughly half of the ones offered at multi brand retail stores.

However, pricing in the fashion industry is not as simple as that. Matthew (22 Feb 2012) takes the example of a boat shoe to explain market factors in fashion pricing. A boat shoe usually costs \$70 - \$90 (ca. 50-70 Euros). The example company Cloven consequently wants to price its boat shoe in this range, avoiding the "red flag" being outside the expected price range would create for the consumer. However, Cloven is not Sperry, who have offered their Authentic Original boat shoe since 1935. This is why Cloven's boat shoe is priced slightly under Sperry's version. It is a strategic incentive to make the consumer try on the shoe and notice its technological advantages and finally decide for Cloven. We understand, that in the mass production fashion industry a mixture of the above explained theoretical pricing methods (chapter 2.6.1), cost-plus and market-based, is applied – strongly depending on a company's strategies and concepts.

In order to specify the price composition, we can look at several examples. Starting with the price composition of a t-shirt at a discounter as shown in figure 5.

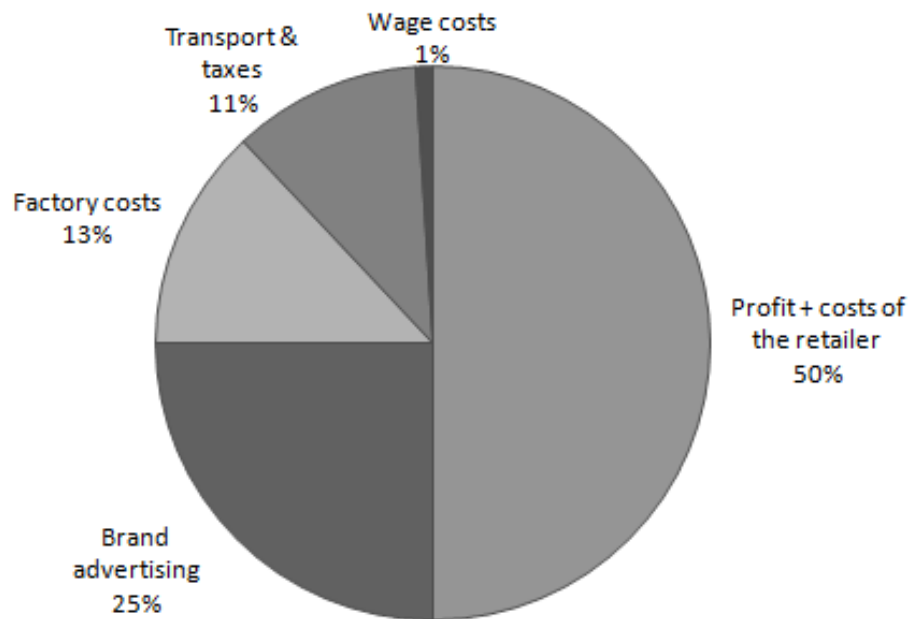


Figure 5. Price composition of a t-shirt at a discounter. (Alam et al. 2008, 13)

Figure 5 shows that only one per cent of the costs of a t-shirt are wage costs. Doubling these would consequently, as said by Verdi and the CCC, hardly make a difference. The costs for sustainable materials and production as well as safety measures in production, as represented by 13 per cent factory costs, however, could increase the consumer price noticeably.

Regarding the fashion product jeans several other sources use the same percentages as given in the t-shirt example at hand. However, the price of a sports shoe can be composed slightly differently as can be seen in figure 6.

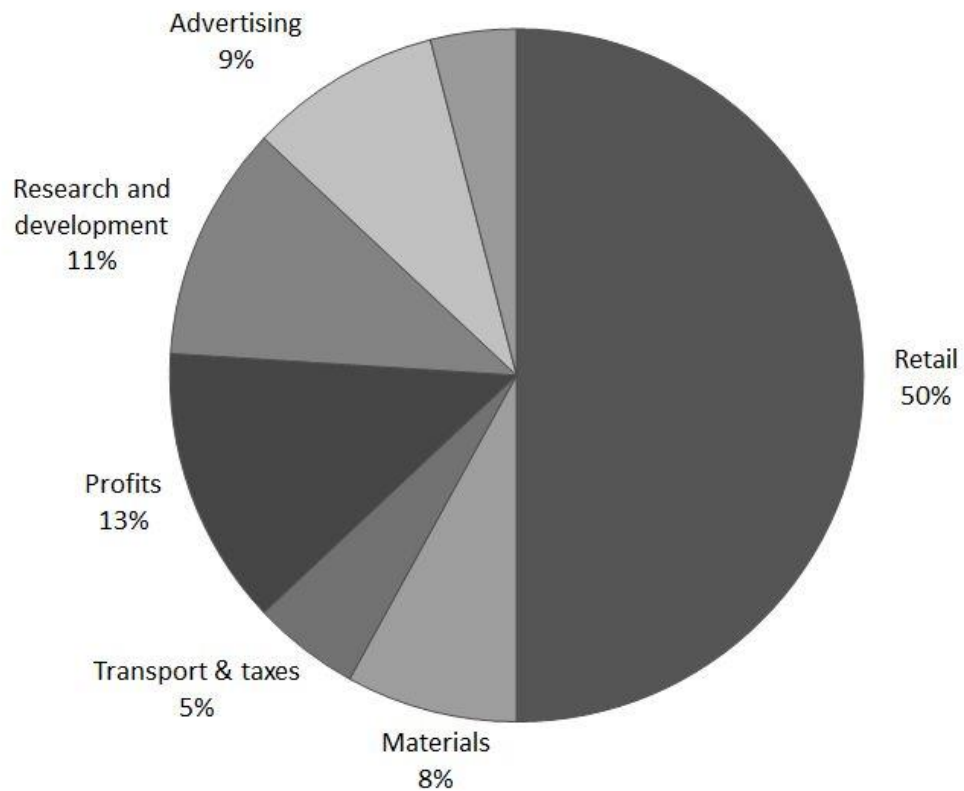


Figure 6. Price composition of a sports shoe, price: 100 Euros. (Weltbewusst.org)

As presented in figure 6, in the case of a sports shoe, percentage-wise the sewer earns even less per pair of shoes, in the 100 Euros example roughly 40 cents. However, the costs for sustainable materials and research and development for innovative designs can be higher than the one for conventional materials.

In order to find a quantified price increase rate that describes the add-up of CSR to a product, one needs to examine in detail which sustainable processes and alternative materials add how much to the costs. Starting with the materials, choosing organic cotton can save a person's life and lower the environmental impact significantly, as described in chapter 4.1.1. Due to the extreme market variations in the area of cotton, it is difficult to say how much more expensive organic cotton actually is. However, pricing is usually done by adding a certain premium-percentage to the market price for conventionally grown cotton (Textile Exchange 2011, Sustainable Sartorial 2011). This premium add-up can range between 5 and 50 per cent due to Textile Exchange (2011) or between 25 - 30 per cent as estimated by Printwear (Sustainable Sartorial 7 Apr 2011). Further in the process, when this cotton is dyed, another price add-up must be



taken into account: The cost of natural dyeing which can add 10 - 40 per cent to the cost of the entire production. (Burns, L. D. & Bryant, N. O. 2008) Natural dyes and organic cotton are only two examples of how sustainability adds to the costs of a product. However innovative ways of production that save water, fuel and energy, additionally costs improvements from low-scrap initiatives can indeed also decrease costs.

In general, it is impossible to find straight industry numbers quantifying the costs CSR adds to a product. That CSR can be understood and applied differently from company to company adds to the difficulty of supplying a number. However, with the numbers regarding natural dyeing and organic cotton one could calculate a new price for the t-shirt analyzed above. If we take averages of a 25 per cent add-up for natural dyeing, 27.5 per cent for organic cotton, taken the t-shirt costs 10 Euros, of which 1.3 Euros stand for factory and materials costs with which the add-ups are summed up, rounded the t-shirt might end up costing 10.70 Euros.

$$\begin{aligned} \text{Factory costs} + \text{dyeing premium} + \text{cotton premium} &= \text{sustainable production price} \\ 1.3 \text{ Euros} + 1.3 * 0.25 \text{ Euros} + 1.3 * 0.275 \text{ Euros} &= 1.9825 \text{ Euros} \end{aligned}$$

$$\begin{aligned} \text{Brand advertising} + \text{transport \& taxes} + \text{sustainable production price} + \text{wages} + \text{profit} \\ &= \text{Sustainable sales price} \\ 2.5 \text{ Euros} + 1.1 \text{ Euros} + 1.98 \text{ Euros} + 0.1 \text{ Euros} + 5 \text{ Euros} &= 10.68 \text{ Euros} \end{aligned}$$

Moreover, as stated above, doubling wages would hardly make a difference and could consequently in a rather cheap way increase corporate responsibility. In the 10 Euros t-shirt example this would add 0.1 Euros to the price (= 10.80 Euros). Further investments in sustainability research, worker safety, social audits, compliance with a code of conduct and other CSR topics would further increase the price so that the strategically often used price of 12.99 Euros for the t-shirt at hand would possibly be an academic estimate for a responsible version of the 10 Euros ( or: 9.99 Euros) example shirt. Which consequences raising the price from 9.99 Euros to 12.99 Euros would have on sales is another issue. See chapter 5.2 for an analysis of the German consumer and his / her price consciousness.

This calculation confirms the statement made by the CCC in n-tv: “Price differences [between branded and discount clothing] can be explained by design, garment quality, store rents and advertising – but seldom by fairness in production” (Herwartz, C. 26 April 2013). Due to Sustainable Life Media Inc. (Herrera, A. 11 Feb 2013) who operate a sustainable brand online shop in the United States costumers can even save money when buying from alternative, in this case, sustainable brands. However, this, due to Sustainable Life Media Inc. (Herrera, A. 11 Feb 2013) is not as apparent in the lowest price categories that the example examined above belongs to. However, we can conclude from the calculation and the given sources that ‘conscious’ fashion is not necessarily more expensive than traditionally sourced fashion.

### **4.3 CSR in the fashion industry – Brand assessment**

When consumers enter the world of shopping, they do find brands that try to attract customers by offering green or socially responsibly sourced fashion. However, as the Clean Clothes Campaign blames H&M's ‘conscious’ brand to stand in "extreme contradiction to the working realities in the Asian garment factories" ("krassen Gegensatz zur Arbeitsrealität in Asiens Textilfabriken") (Motzkau, M. 2 Jun 2013), one must figure that corporate promises do not necessarily stand by themselves. A lie never lives to be old, thanks to the internet and social media. Where fashion marketing promises CSR, there must be CSR in fashion buying. Otherwise the negative press is to come sooner or later and its effects are hardly predictable.

One example how insufficient knowledge of the supply chain, as noted in chapter 2.4.3, and disaster can damage a company’s brand image is the German textile discounter Kik. When in spring 2013 a factory collapsed in Dhaka, the discounter was not aware that its clothes were sewed there because an importer was responsible for choosing the factories for production. However, in the ruins of the factory a blouse of a recent collection being sold at Kik’s stores was found. (Zeit Online 8 May 2013) The news about Kik’s blouse was all over the German media, in the newspapers, online magazines, blogs, TV shows – hardly anyone was even interested in which other companies could have produced in the factory since there was proof that Kik did. A scapegoat was found.

However, not only disasters like the one at hand endanger a fashion company's brand image. Many different brands and retailers have been exposed in the media as "unethical" or "irresponsible" due to their daily purchasing practices. In the following some of them are shown.

The Austrian *derStandard.at* (10 May 2013) published a list of companies who are criticized for the labor standards in the factories that manufacture their fashion items. First of all H&M is named, mostly for refusing to raise wages for production workers, however, also for bad labor practices in cotton picking. Further is C&A criticized for insufficient safety precautions of their suppliers due to which more than 100 people died in a factory fire in November 2012. Besides C&A also the German textile discounter Kik had production in this factory. Primark, an Irish company, offers the possibly lowest prices in the market, significantly lower than the ones of for example H&M. When a factory in Dhaka, Bangladesh collapsed in April 2013, Primark was revealed as one of the customers of this factory. Additionally Benetton is named as a problematic brand by *derStandard.at* (10 May 2013).

Also Zara was criticized recently when in spring 2013 videos were revealed proving that Zara had production in illegal factories in Buenos Aires where employees worked under slave-like conditions (*Zeit Online* 15 Apr 2013).

*Stern.de* (Brakemeier, T. 7 Dec 2012) quoted a study by the CCC conducted between 2010 and 2012 that put fashion brands and retailers into certain categories depending on their CSR efforts. Interestingly, the assessment differs from the ones above.

Table 3. CSR efforts of fashion brands and retailers. Results of a study made by the CCC (Brakemeier, T. 7 Dec 2012)

Category	Explanation	Companies
Advanced	The firm puts a lot of effort into CSR	Haglöfs, Jack Wolfskin, Maier Sports, Mammut, Odlo, Patagonia, Schöffel, Switcher, Vaude
Average	The firm has started to improve conditions	C&A, Columbia, Esprit, Fjällräven, G-Star, H&M, Helly Hansen, Jack & Jones, Levi Strauss & Co, Only, Salewa, Tatonka, The North Face, Vero Moda
Newbies	The firm is turning towards the topic of CSR	Billabong, Charles Vögele, Icebraker, InWear/IC Companys, Kaikkialla, Lee, Lowa, Marmot, Meindl, Meru, Mexx, Northland, Promod, s.Oliver, Street One, Tally Weijl, Triumph, WE, Wrangler
Negligent	The firm does not care at all	Benetton, DC Shoes, Erima, O'Neill, Orsay, Quick-silver, Skiny Bodywear
Denial	The firm does not comment	Burton, Carhartt, Diesel, Etnies, Kilimanjaro, New Yorker, Nikita, Nitro, Pimkie, Quechua, Rip Curl, Seven Summits

Interestingly, the two retailers H&M and C&A that are criticized in the Austrian magazine quoted above, are in the second best category; comprising those that have started to improve conditions. Benetton's score is similarly bad as in the Austrian source; they are placed in the "negligent" group. Primark, Zara and Kik are not included in the study. However, other retailers popular in Germany like New Yorker and Pimkie ("denial"), Orsay ("negligent"), Billabong and S. Oliver (newbies), Vero Moda and Only ("average") and Jack Wolfskin ("advanced") are included. With Jack Wolfskin, Haglöfs, Maier Sports, Odlo, Schöffel, Switcher, Vaude and Mammut are all except one (Patagonia) of the brands in the highest category members of the Fair Wear Foundation which as mentioned in chapter 4.1.2 require a minimum of 100 Euros monthly wage for the workers of their members. (The Fair Wear Foundation 2009)

#### 4.4 The 'conscious' fashion consumer

When seeing the issues at hand from an industry perspective one easily gets hands on H&M's strongly advertised 'conscious' collection. As presented in chapter 2.4 regarding stakeholder orientation, also H&M see their customers at the core of everything they do acknowledging that their success is strongly dependent to being able to supply what customers want to buy. (H&M 2013) However, the statements on H&M's website do not specify which customers those consumers are that are 'conscious'. (see chapter 2.4.2 for the definition)

Due to a survey made by the German Forsa research institute 66 per cent of the Germans no longer want to buy fashion from companies that manufacture under inhuman working conditions. However, neither do we know whether consumers will actually remember their opinion on ethics in the moment of question nor is buying ethically, fair or green always easy due to missing information from the manufacturers.

(Motzkau, M. 2 Jun 2013)

Consequently, the question which consumers are actually so 'conscious' that engaging in CSR is beneficial for the company supplying to these consumers is still to be answered. Tamsin Lejeune, Managing Director of EFF, stated on a panel regarding ethical and sustainable fashion buying that there are currently two consumer groups that these products can be targeted at (McHugh, G. 2012):

1. "The established market of 30-35 year olds who are interested in sustainability who seek it for social reasons rather than design" (McHugh, G. 2012)
2. "An emerging market of younger customers who are more trend-led and fashion-focused" (McHugh, G. 2012)

In chapter 5 I analyze the consumer in further detail having the key question in mind: How 'conscious' are German consumers?

## 5 Consumer survey

This chapter deals with the results of the consumer survey. Overall I received 201 responses of which 61 per cent were of the age 16 – 25, 21 per cent age 26 – 35 and 18 per cent over age 35. The age groups were created after the survey was completed, ensuring none of the age groups would be too small. As expected, sharing the survey online led to more respondents being of a very young age, than those over 36. However, there is good reason to believe that these age groups serve the target as they contain reasonable quantity of teenagers and early twenties (group 1: 16-25), young adults (group 2: 26-35) and more mature customers (group 3: 36 and over).

Gender-wise the survey received sufficient attention from both sides; 44 per cent of the respondents were male and 56 per cent female. The option of “other”, included for reasons of non-discrimination for transgender, was selected once (figure 7).

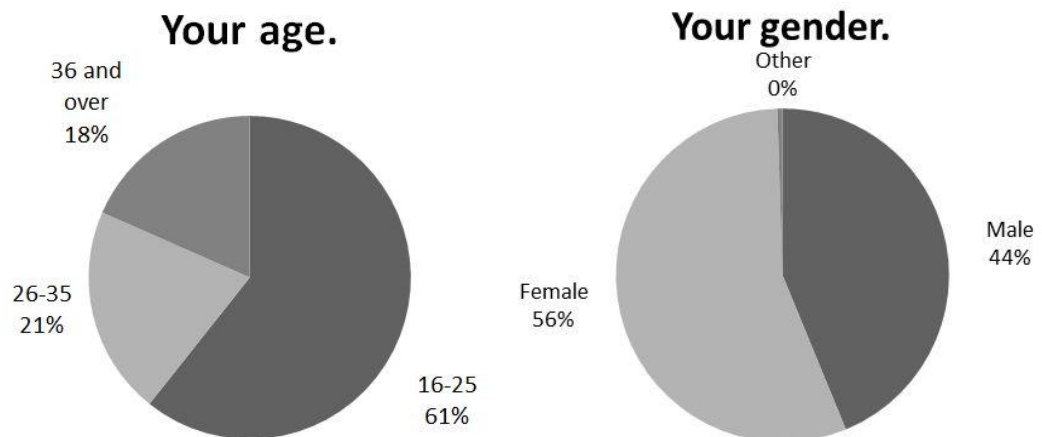


Figure 7. Age and gender distribution in online survey “Fashion”. 201 respondents.

Regarding the research viability there is to say that the size of the sample is sufficient for the means of this report, does, however, have certain risks. Due to the economic resources available certain demographic data such as income, size in clothes and social background were not taken into account in the survey. Consequently one must be careful when applying the collected data to the whole of German consumers since we do not have full demographic profiles available to validate the sample representative of German society. Additionally the topic of ethics is likely to be a difficult one since re-

spondents are likely to think and state of them as more ethical than they actually are. Nevertheless, the survey in conjunction with the secondary research conducted can offer answers and set a rough agenda for companies offering products to consumers in Germany since some of the results, as can be seen in the following, are indeed distinct.

In the following chapters the investigative questions 1, 3 and 4 are to be answered in detail by analyzing the results of the survey. Furthermore I explain certain aspects of questionnaire design decisions and tackle survey risks and validity of the answers.

## **5.1 Consumer expectations and preferences: CSR**

This chapter aims at answering investigative question 1 (“To what extent do German fashion consumers value corporations’ efforts to source responsibly?”) with help of the results of the consumer survey questions 4 and 5.

Question 4 was targeted at finding out what consumers expect from companies regarding their CSR activities. Four statements that refer to Carroll’s CSR pyramid examined in chapter 2.3 were given. Respondents were asked to agree on one of the statements in short representing the following: Profit only/no CSR, profit and legal compliance, avoiding harm (social and environmental) and the company as a role model. The results in percentage of total respondents (199 in question 4) are shown in figure 8.

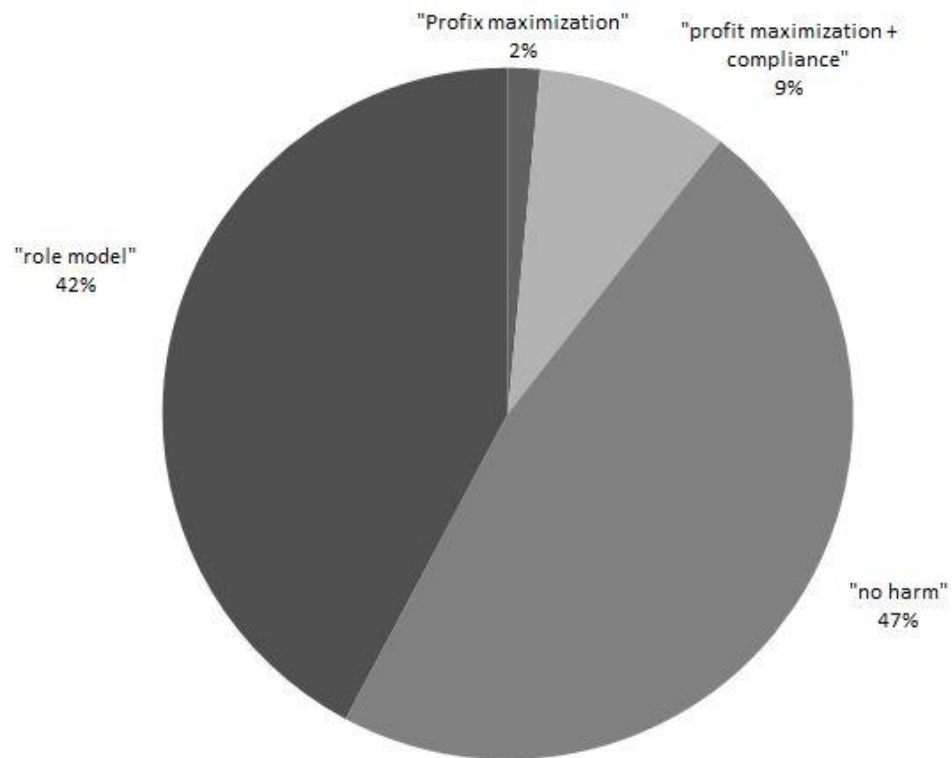


Figure 8. Results of question 4. Consumer expectations of CSR. 199 respondents.

The results shown in figure 8 show clearly that German consumers (89%) expect companies to engage in CSR activities. Only 11 per cent do not expect companies to show social or environmental responsibility. This question cannot put CSR into a relation to any other consumer buying decision-making factors as those analyzed in question 3 (see chapter 5.2). However, one can learn out of this question that German consumers in general consider CSR important. This statements sets the basis for further analysis regarding the related factors buyers should take into account when sourcing garments from countries like Bangladesh.

Price is the main factor why companies would decide against taking social responsibility for their businesses. It is a legitimate idea to concentrate on certain factors that German consumers consider especially important to engage in CSR and still keep costs low.

In order to find out which criteria of responsible fashion sourcing are most important to German consumers, in the following question 5 is analyzed. Respondents were



asked to rank CSR criteria by importance, give the 1 to the most important, 2 to the second most important and 3 to the third most important. All other criteria had to be left unranked. For the analysis I reversed the numbers, giving 3 points to the most important, 2 points to the second and so forth. These points were then summed up. The results can be seen in table 4 for each criteria. It shows how many points were given per rank (e.g. 42 points for “most important” for fair wages) as well as the total points per criteria summed up from all 200 respondents who answered to this question.

Table 4. Importance ranking CSR criteria. 200 respondents.

<b>Criteria</b>	<b>3</b>	<b>2</b>	<b>1</b>	<b>Total</b>
Respect for human rights	264	78	14	356
Prevention of child and forced labor	183	76	19	278
Safe working conditions (Chemicals, fire protection, etc)	57	82	47	186
Fair wages	42	76	46	164
Products that are harmless health wise for the consumer	36	30	20	86
Commitment to environmental protection	0	22	8	30
Freedom of association	6	10	11	27
Limitation of over-hours to protect workers	3	10	8	21
Corporate health patient care	3	6	10	19
Zero tolerance for discrimination in personnel issues	3	6	6	15
Participation in social initiatives in the communities of the factories	0	2	7	9

From the table 4 one can clearly see that there are four criteria which are of special importance to German consumers: Human rights (356), prevention of child and forced labor (278), safe working conditions (186) and fair wages (164). Interestingly, the criteria commitment to environmental protection received only 30 points and is consequently of marginal importance to German consumers.

The analysis of the impact of gender and age on the results of question 5 revealed minor differences that, however, do not change the result. All age groups and both genders considered the four named criteria as most important.

We can conclude from these results that buyers who have not engaged in CSR before and want to start or those who need to prioritize should focus on those social issues that concern the lives of the workers in the factories directly and substantively.

## **5.2 Consumer willingness to spend extra on CSR**

This chapter aims at answering investigative question 3 (“How much are German fashion consumers willing to pay extra for responsibly sourced clothes?”) with help of the results of the consumer survey questions 3, 8 and 9.

First of all, question 3 aims at giving information on which role price plays compared to CSR in German consumer buying decision-making. In order to get a clear picture on how important these decision-making factors are, I included “dummy” decision-making factors that are not important for this study as such. However, the respondents were not informed that the reason for the survey was to gain information on social and environmental aspect of fashion consumer buying behavior. The “dummy” factors ensured a full range of options to choose from, making sure respondents who did not consider social or environmental factors before would not be led to consider them in the survey either. The respondents had the possibility to choose their top three decision-making factors giving the 1 to the most, 2 to the second most and 3 to the third most important one. Similarly as in chapter 5.1 I reversed the numbers for the calculations and transferred them to “points” giving them respective weights. All other factors received a 0, no weight. The results are shown in table 5. 201 respondents gave their answers to this question.

Table 5. Results of survey question 3. 201 respondents.

Factors	3	2	1	Total
Fitting	240	70	25	335
Quality	141	110	28	279
Price	60	104	65	229
Design	135	52	21	208
Social criteria	15	30	24	69
Environmental impact	6	14	20	40
Brand	9	18	15	39

Table 5 shows the summarized importance ranking of all 201 respondents. The fitting (335 points) and quality (279 points) of the product are consequently more important than the price (229 points), which stands on rank three of seven decision-making factors. Social criteria and the environmental impact are far behind with 69 points and 40 points. Only the brand is seen less important by German consumers with 39 points. Consequently is the price still 3.3 and 5.7 times more important than social criteria and the environmental impact when buying clothing.

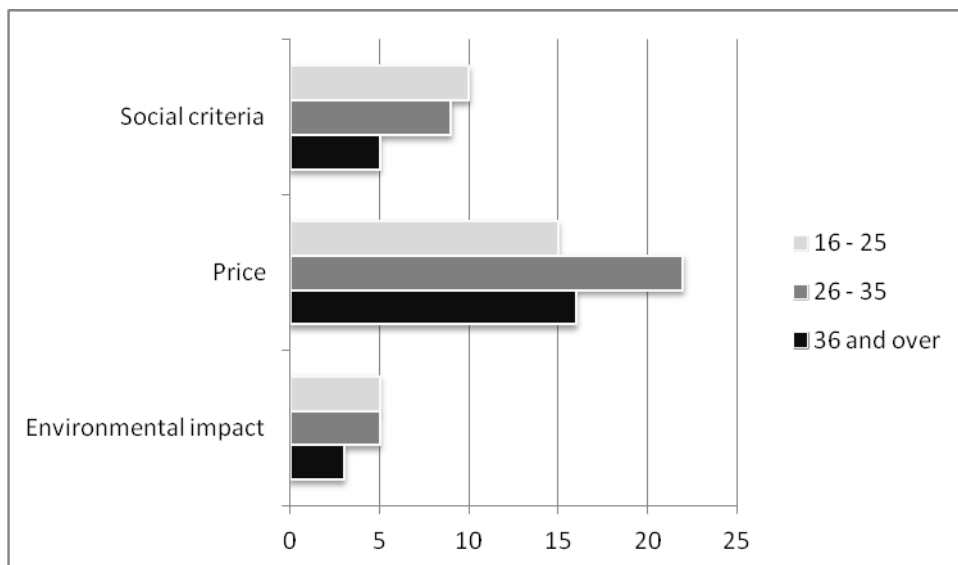


Figure 9. Comparison of age groups in importance ranking of decision-making criteria when buying clothing, three of seven criteria included (in %). 201 respondents.

Figure 9 shows the three selected decision-making factors in an age comparison chart. For this chart the total number of points as shown in table 5 is split up by age groups as defined in chapter 5 in order to make out differences in the importance ranking by age groups. Interestingly, awareness of social issues in garment production is strongest with the younger respondents, while respondents of age group 2 are specifically price-conscious. Older respondents rank both CSR factors lower compared to group 1 and 2. The comparison of the answers by gender did not reveal relevant variations. This analysis supports the statement of Tamsin Lejeune, Managing Director of EFF that young and mid-aged (female) consumers are best targeted with responsible fashion. (McHugh, G. 2012) (see chapter 4.4).

In order to analyze the co-relation of price and CSR factors in further detail, I calculated how many respondents have given points (1, 2 or 3) to either of the decision-making factors related to corporate social responsibility. I did this with two samples, the one of total respondents of this question (201) and only with those who have not given any priority to price, meaning zero points (64 respondents). The result can be seen in figure 10.

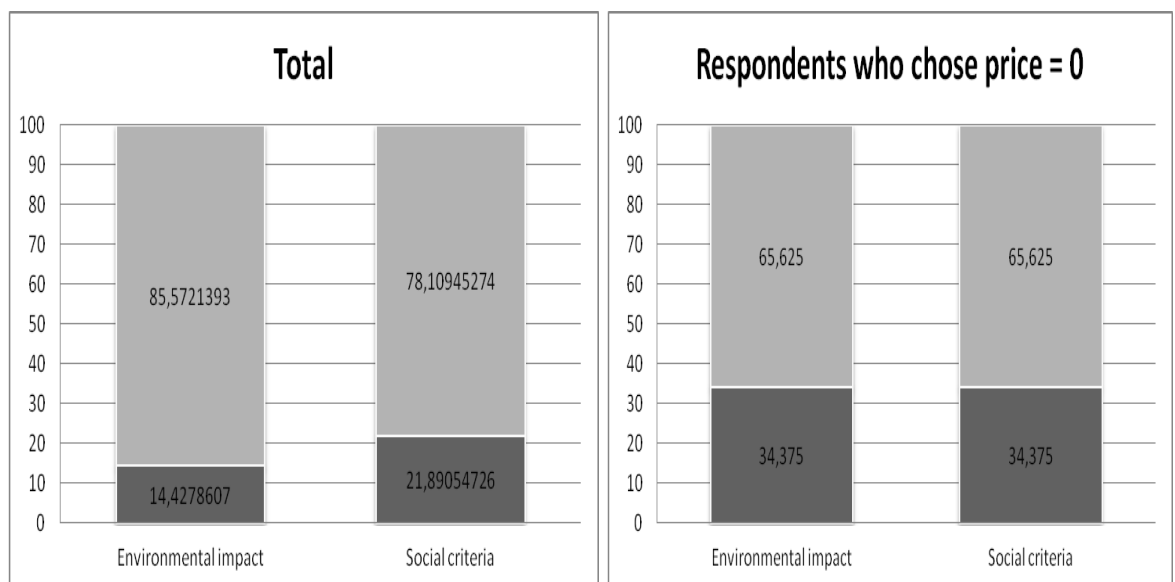


Figure 10. Proportion of respondents having chosen environmental aspects / social criteria as a major decision-making factor (1, 2 and 3). Left: proportion of total respondents, right: proportion of respondents who did not choose price as a major decision-making factor (price = 0)

Figure 10 shows that respondents who are less price-conscious, namely who did not choose either of the numbers (1, 2 or 3) for the factor price, were more likely to choose environmental impact or social criteria as a decision-making factor. The proportion of total respondents who chose environmental impact as a factor when buying clothing is 14.4 per cent, while it is 34.3 per cent when only considering those of the total number that chose that price is no factor. Regarding the factor social criteria the proportion rises from 21.9 per cent of the total to 34.4 of those that did not choose price as a factor. Consequently are customers who are less price-conscious by tendency more aware or focused on social and environmental factors when buying clothing.

In addition to question 3, questions 8 and 9 were supposed to answer investigative question 3. Survey questions 8 and 9 referred to the change (increase) in consumer buying price in case a product is sourced socially and environmentally responsibly. While question 8 (200 respondents) aimed at finding out what consumers think how much more expensive such a product will be in the store (expected increase), question 9 (193 respondents) was targeted at having the consumers guess how much it should cost if it was priced fair (fair increase, German: “gerechtfertigt”). In figure 11 the results of these two questions can be seen. The respondents could choose one percentage range out of the six given in both questions. Figure 11 shows on the x-axis the percentage ranges and on the y-axis number of respondents.

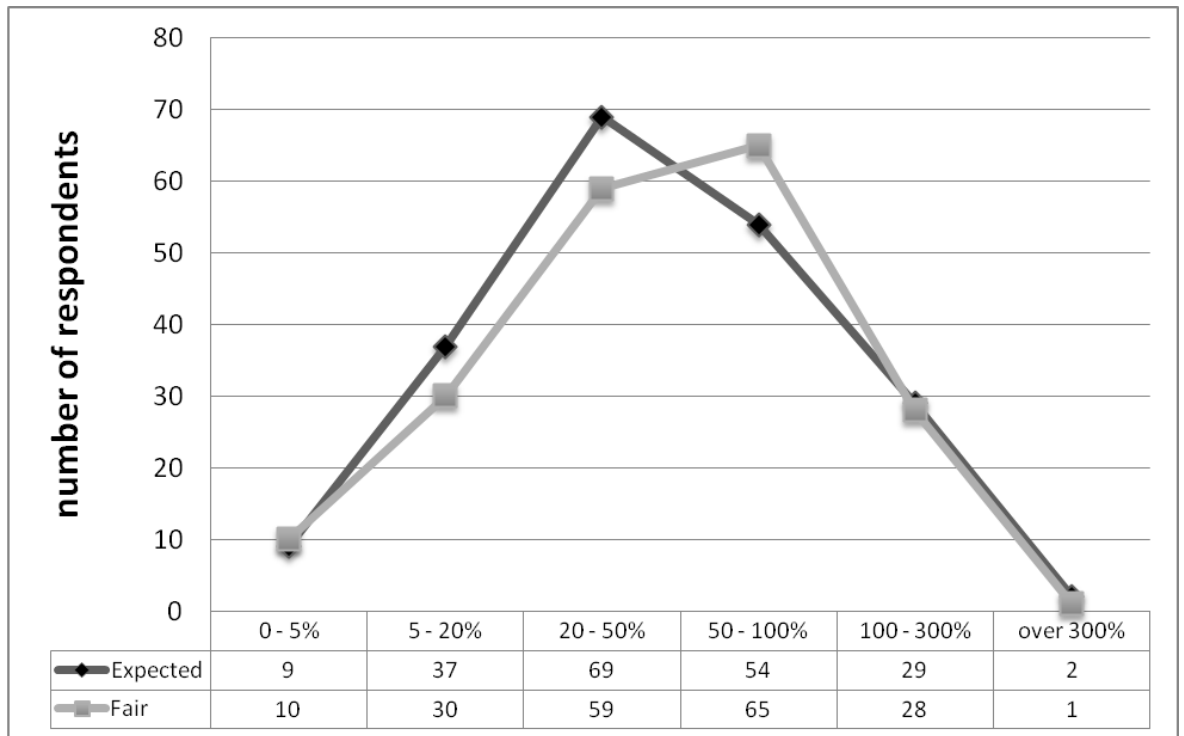


Figure 11. Results of questions 8 (expected price increase, 200 respondents) and 9 (price increase perceived fair, 193 respondents)

The graphs in figure 11 generally show a similar picture. The detailed analysis of each respondent's choices whether the fair price is possibly lower or higher or equal to the one they expect to be charged in the store did not reveal a consistent trend. Most persons (96 respondents) chose the same percentage increase for both questions. 55 persons thought the price premium is not fair while 50 respondents thought companies could charge more for responsible clothing.

The key risk factor in these two questions is that respondents are led by the answering options and tend to choose the middle option. When designing the questionnaire that was the reason why I added the last option "over 300%" to create an even number of options. However, still it is possible that respondents have been led which could be the reason for the clear peak in the middle and the yielding towards minimum and maximum. A better idea could have been to let respondents type in the percentage increase instead of offering options. However, with the results at hand, one could conclude that an increase of consumer price by 20 to 100 per cent is by tendency acceptable for the consumer if what he / she receives for his / her money is a responsibly sourced product. However, knowing that consumers most likely tend to say they would pay more

but in fact would not, I set the increase range more careful at up to 50 per cent; the t-shirt in the example would cost 14.99 Euros instead of 9.99 Euros.

The analysis of respondents not having chosen price as a key decision-making factor in question 3 did not reveal significant variations in distribution compared to the total set.

Overall there is to say that German consumers are quite aware that a responsibly sourced product is more costly than a traditionally sourced one. Since price is a way more important decision-making factor in consumer buying behavior than CSR related factors, the price increase related to CSR must be kept small. An increase of 50 per cent could be seen as an upper limit based on my survey results; however, I must admit that the calculation based on what consumers say is in this case probably too optimistic.

### **5.3 Consumer brand assessment: CSR**

This chapter aims at answering investigative question 4 (“How significant is the risk of unethical purchasing leading to brand avoidance by German consumers?”) with help of the results of the consumer survey questions 6 and 7.

In chapter 4.3 I outlined a CSR brand assessment by reviewing online sources. This analysis aims at matching these results with the results of the assessments made by the respondents of the survey.

In the survey the respondents were supposed to rate each brand listed in the question on the scale of four different assessment options: exemplary, okay, rather poor and insufficient. In the analysis I created a score for each brand based on the options chosen; each option being given a number of points: five points for exemplary, three for okay, minus three for rather poor and minus five for insufficient. These points were summed up and created a total shown in table 6. 189 respondents answered the question.

Table 6. Results of questions 6, brand assessment. 189 respondents.

<b>Brand</b>	<b>Points</b>
Kik	-753
Primark	-488
H&M	-363
Orsay	-275
Zara	-168
Vero Moda	-125
C&A	-109
Benetton	47
Haglöfs	61
Jack Wolfskin	319

The results in table 6 show a clear “looser”, the fashion discounter Kik with - 753 points, and a clear “winner”, Jack Wolfskin with 319 points. As outlined in chapter 4.3 Kik has been in the media reportedly due to insufficient social standards in Asian factories. Jack Wolfskin, on the contrary scored high in this survey which is consistent with the assessment of the CCC outlined in chapter 4.3. Also Haglöfs which is considered advanced in the area of CSR due to the CCC received good assessment by the respondents (61 points). This leads to the general statement that extremes, good as well as bad, are indeed recognized by consumers.

Another interesting trend can be detected in the relation of consumer prices and CSR assessment by consumers. Without having access to detailed sets of prices, I would categorize the brands as follows based on personal shopping experience in Germany:

- Affordable: Kik, Primark, H&M, Orsay
- Mid-class: Zara, Vero Moda, C&A
- Higher mid-class: Benetton
- High-class: Haglöfs, Jack Wolfskin

One can clearly see that the cheaper the clothes, the fewer consumers think the company engages in CSR. In Benetton's case, categorized as "negligent" by the CCC (see



chapter 4.3), this is an advantage. In the case of H&M, whom the CCC at least acknowledged to have started to improve conditions and who are heavily advertising their 'conscious' line, the consumer price factor as the apparent main assessment factor when CSR perceptions are to be described is clearly a disadvantage.

Nevertheless, this analysis is only target-oriented if consumers base their decision in which shops to shop and in which not actually on reasons related to CSR. Whether they do (i.e. avoid shops for social or environmental causes) was asked in question 7 (192 respondents). 58 per cent of the respondents said that they do not avoid any stores for the given reasons, consequently 42 per cent actually do.

Going a step further, of those that avoid certain stores 77 per cent explicitly named the German fashion discounters Kik; once again the damage media reports, or actually irresponsible purchasing practices, have done to Kik's brand image, is apparent. Two other brands gaining significant mistrust are the German fashion discounters Takko (13%) and the Irish fashion discounters Primark (25%) who recently entered the German market and created a hype around girls and young women (comparable to age group 1). Both of these chains offer extremely low prices. Takko, however, is actually a member of the Fair Wear Foundation working hard on their CSR (The Fair Wear Foundation 2009). Primark subsequently has been criticized repeatedly as in *derStandard.at* (10 May 2013).

However, my assumption is that these two brands rather suffered from the earlier detected consumer prejudice that low priced garments cannot be responsibly sourced. Zara as an example, who was openly criticized for human rights violations (see chapter 4.3) was named only once as an avoided brand – Zara's clothing is not as cheap, consequently is the company's brand not as endangered as Kik's, Primark's or H&M's (7% said they avoided H&M).

We can conclude that irresponsible purchasing practices can damage a brand significantly as can be seen in the example of Kik. However, it does not necessarily have to. More expensive brands do not have to fear the consumers' mistrust as much as cheaper ones. Discounters hardly have a chance to win consumers' trust regarding CSR; they fall from favor easily and unstoppably.

## 6 Discussion

This chapter aims at concluding the thesis by discussing the outcomes of the theory, the exploratory research and the consumer survey. Thereby I concentrate on answering the investigative questions and finally the research question. The investigative questions to be answered in each subchapter are indicated in italic. In addition to that I discuss research viability and evaluate the thesis process.

### 6.1 Customer added value: CSR

*Investigative question 1: To what extent do German fashion consumers value corporations' efforts to source responsibly?*

As introduced in chapter 4.4 German fashion consumers do indeed value responsibly sourced products. In chapter 5.1 this was quantified by the results of the consumer survey. The number resulting from that (89%) was even higher than the one introduced in chapter 4.4 (66%); both basically stating the percentage of Germans who do no longer want to buy clothes that were manufactured under bad working conditions or which harmed the environment. Companies operating in the German market should take these clear numbers into account when deciding on the scope of responsible purchasing; mapping opportunities and risks.

Further in chapter 5.1 the most important CSR criteria were depicted based on German consumer ranking. The respect for human rights, prevention of child and forced labor, safe working conditions and fair wages scored the highest in the ranking. Companies should concentrate on these criteria first when aiming to improve their corporate social responsibility. Doing well in these areas will significantly reduce the risk that irresponsible purchasing imposes on a fashion brand (see chapter 6.4)

## 6.2 Pricing responsible fashion

*Investigative question 2: How significant is the share of ethics related factors when pricing fashion?*

*Investigative question 3: How much are German fashion consumers willing to pay extra for responsibly sourced clothes?*

Whereas sustainable sourcing creates cost savings as well (see chapter 2.5.2), the sources reviewed (chapter 2.5, 4 and 5) acknowledge the premium add-up for sustainable fashion. As mentioned in chapter 2.5 by Balderjahn, the premium add-up for a sustainable product must be as small as possible is, however, indeed accepted. This is also the result of my consumer survey. While price is the third most important decision-making factor when buying clothes (chapter 5.2), consumers state that they expect a price premium for sustainable clothing; they find it fair (chapter 5.2). My calculation in chapter 4.2 came to the conclusion that turning a normal, cheap piece of clothing into a fair one increases the consumer price by circa 30 per cent (markup). The 9.99 Euro t-shirt would cost about 12.99 Euro. In chapter 5.2 it was stated that due to consumer perceptions the price could even be increased by 50 per cent (markup) which would result in the t-shirt costing 14.99 Euro. However, as stated in 5.2, I assume that respondents tend to exaggerate their willingness to spend more than they must. Consequently, I would set the maximum price premium for responsible sourced clothing at 30 per cent markup as calculated in chapter 4.2. When sourcing for less price-conscious consumers, this maximum could be extended as they value CSR more than less price-conscious consumers (see figure 10).

## 6.3 The impact of CSR in purchasing on brand image

*Investigative question 4: How significant is the risk of unethical purchasing leading to brand avoidance by German consumers?*

Chapter 5.3 deals with the respondents' perceptions of brands and how good their CSR is. First there is to say that consumers are not well informed on how well companies or

brands are actually doing on the front of CSR (see chapter 5.3 and 4.3). Consequently companies can easily “hide” behind this shade of missing information. The fact that high end brands are unlikely to be targeted by consumers’ mistrust in CSR adds to this. The price of their clothing lets consumers know that there is quality in everything they do, obviously, for consumers, also in their CSR. Consumers are not aware that this is not necessarily true. Consequently, from a financial point of view, high end brands do not need to engage in CSR if politically or ethically they do not see the need.

Next it is necessary to understand that, as written in chapter 5.3, extremes are remembered by consumers. As a consequence, companies should on all cost avoid being scapegoated on bad CSR (see Kik example in chapters 4.3 and 5.3). This is, however, as stated above, mostly applicable to low-cost brands. Consumers tend to forget negative media exposure of more expensive brands (see Zara example in chapter 4.3) and focus on the mistakes of cheaper brands such as Kik, Primark or H&M (see table 6).

#### **6.4 Research viability and significance**

The theoretical framework supplies the commissioning party with a comprehensive summary of theory regarding the topic of ethical sourcing which can be used for teaching purposes. Further this report tackles the topic of sourcing from an angle that is important to the principles of the commissioning party which is the ethics perspective. The modern viewpoint of stakeholder orientation can moreover add to the repertoire of HAAGA-HELIA University of Applied Sciences.

The methods used, exploratory and descriptive, served the target well. In the exploratory research a large number of different sources were used. The sources were international with a focus on German media being explained in the focus on the German market. In order to increase the meaning of the exploratory research interviews could have been conducted; however, the resources were not available. In addition to that a larger scale project could have included a review of similar researches conducted. However, in the time available no such researches could be found that were available for free.

Regarding the research viability of the consumer survey there is to say that the sample size (201 respondents) was sufficiently large to make conclusions about general directions and perceptions in consumer buying behavior regarding responsible fashion. However, since demographic data was limited to age and gender conclusion also need to be handled with care. Social background, income and sizes in clothes were for example left out due to resources' scarcity. In addition to that there are limits to research viability due to content related reasons such as the generally blurry topic of ethics. These reasons are dealt with in detail in each sub chapter of chapter 5 where the consumer survey is analyzed. Moreover this consumer survey only researched consumer behavior by surveying consumers, not by actually monitoring their actions. The result of monitoring consumers while shopping could have been very different to the ones of the research at hand.

Overall there is to say that this research is one of very view hardly accessible ones in the field of ethical fashion sourcing. Consequently this report functions as an exploration of fashion consumers' expectations and perceptions. The significance should, however, not be overrated due to the limited resources available for this research project.

## **6.5 Thesis process evaluation**

The thesis process started in October 2012 with the development of the research topic. The thesis plan was as planned presented in January 2013 after which a thesis advisor was assigned. The contact with the thesis advisor was professional, limited to the necessary and successful as in depicting parts of the report that needed improvement. The thesis process timeline was postponed inbetween due to the fact that I was busier in my internship (e.g. long working hours, business trips) than I expected. However, a possible delay was part of the immediate plan making it possible for me to present the thesis as planned in September 2013. Overall the thesis process went smoothly; no major barriers to overcome. All goals accomplished.

The learning during this thesis writing process was mainly in the area of purchasing, the fashion industry, ethics and stakeholder orientation. Meaning, I learned plenty

content-wise from the conducted research and studied literature. In addition to that I deepened my knowledge on quantitative research. My approach of writing "a little once in a while" to not get stressed or overloaded at any time was appropriate and functioned well in terms of project management. My knowledge and experience of handling projects was useful in this project and did not need to be extended. The intended scale, length and quality of the report was reached on the spot. Overall the result of this thesis project is as planned.

## 6.6 Conclusion

In order to conclude this report the research question needs to be answered.

*Research question: How should global fashion retailers manage their corporate social responsibility when sourcing garments to be sold to German consumers?*

In this report several reasons to engage in CSR in purchasing were named, cost savings, compliance with laws, and the brand image (Emmett & Soon 2010, 63) being just a few to name. Due to Gabath (2011, 111) creating sustainable supply chains is a must for good traders. It is a long-term investment that will pay-off one way or the other for example by preventing short-term hectic decision-making when acting is actually already too late. Situation like this could be the immense price increase of raw materials and scarcity of fossil energies.

However, if a company does not have the corporate culture for ethical or sustainable decision-making as such and is not willing to create it without the business benefit being measurable in the close future, the stakeholder orientation can be applied as described in chapter 2.4.

My stakeholder oriented research can be concluded in the following statements.

- German consumers value responsibly sourced fashion and are willing to pay a price-premium of up to 30 per cent markup.

- High-end fashion brands neither suffer nor profit as much from bad/good CSR as cheaper brands do.
- When engaging in CSR companies should focus on those issues being close to the factory workers first: Respect for human rights, prevention of child and forced labor, safe working conditions and fair wages.

To conclude, the stakeholder approach can help companies dealing with complex business decisions as presented in the example of responsible fashion sourcing.

For further research I suggest to consider other markets, for example the USA which is of special interest due to its size. Moreover the costs of CSR could be explored further in case that a case company would share internal data in regard to this. Additionally I consider it interesting to research CSR in fashion with a stronger behavior centered approach; meaning to analyze actual consumer choices in the shopping center.

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## Attachments

### Attachment 1. Overlay matrix.

Investigative Questions (IQs)	Theoretical Framework	Measurement Questions
IQ1: To what extent do German fashion consumers value corporations' efforts to source responsibly?	<ul style="list-style-type: none"> <li>– CSR / responsible purchasing</li> <li>– The 'conscious' consumer / stakeholder orientation</li> </ul>	<ul style="list-style-type: none"> <li>– Ethical standards application (Carroll's CSR pyramid)</li> <li>– Code of conduct examples (importance rating 2, corporate responsibility factors)</li> </ul>
IQ2: How significant is the share of ethics related factors when pricing fashion?	<ul style="list-style-type: none"> <li>– Sustainable pricing / TCO</li> <li>– Responsible buying / CSR</li> </ul>	<ul style="list-style-type: none"> <li>– Secondary research</li> </ul>
IQ3: How much are German fashion consumers willing to pay extra for responsibly sourced clothes?	<ul style="list-style-type: none"> <li>– The 'conscious' consumer (stakeholder orientation)</li> <li>– Sustainable product pricing</li> <li>– CSR</li> </ul>	<ul style="list-style-type: none"> <li>– Decision-making factors (importance ranking 1: consumer buying decision-making factors)</li> <li>– % - questions               <ul style="list-style-type: none"> <li>○ expected plus</li> <li>○ perceived fair</li> </ul> </li> </ul>
IQ4: How significant is the risk of unethical purchasing leading to brand avoidance by German consumers?	<ul style="list-style-type: none"> <li>– The 'conscious' consumer / stakeholder orientation</li> </ul>	<ul style="list-style-type: none"> <li>– Brand assessment/avoidance (brand image)</li> <li>– Secondary research</li> </ul>



## Attachment 2. Survey, original in German language.

Page 1. Introduction and background questions.

### Mode und der deutsche Konsument

Hallo,

Ich freue mich, dass du dich zur Teilnahme an meiner Umfrage entschlossen hast. Deine Teilnahme unterstützt mich auf meinem Weg zum Bachelor of Business Administration, der mir nach Vollendung meines Studiums von der Haaga-Helia University of Applied Sciences in Helsinki verliehen wird.

Diese Umfrage ist an alle jene gerichtet, die wohnhaft in Deutschland sind; unabhängig von Alter, Geschlecht oder anderen Kriterien. Die Teilnahme an dieser Umfrage wird etwa 7 Minuten dauern. Es gibt dabei keine "richtigen" oder "falschen" Antworten; stattdessen geht es um deine Meinungen und Wahrnehmungen, die ich im Zuge meiner Bachelorarbeit analysieren möchte. Es ist dafür unbedingt notwendig, dass du die Fragen ehrlich beantwortest. Für Rückfragen stehe ich dir gerne zur Verfügung.

Viel Spaß!

Mit freundlichen Grüßen,

Valerie Rentsch  
E-Mail: Valerie.Rentsch@myy.haaga-helia.fi

#### 1. Dein Alter. \*

Bitte eintragen.

#### 2. Dein Geschlecht. \*

- Männlich  
 Weiblich  
 Sonstiges



Page 2. Importance ranking 1: Consumer buying decision-making factors.

### Mode und der deutsche Konsument

3. Was ist dir persönlich beim Kauf deiner Kleidung wichtig? Wähle die 1 für den, deiner Meinung nach, wichtigsten Aspekt und fahre absteigend bis zur 3 fort. Ordne den übrigen Aspekten keine Zahl zu.

	1	2	3
Preis	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Soziale Kriterien	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Qualität	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Design	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Umweltbelastung	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Passform	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Marke	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>



Page 3. Carroll's CSR pyramid.

## Mode und der deutsche Konsument

**4. Viele Textilien werden in Niedriglohnländern produziert. Welcher der unten aufgeführten Meinungen bezüglich der Umwelt und der Arbeiter vor Ort würdest du dich anschließen? Wähle eine Option.**

- Unternehmen sollten sich vorbildlich verhalten. Besonders gute Löhne, umfassender Umweltschutz und nachhaltiges wirtschaften sind unabdingbar; ebenso wie soziales Engagement z. B. in Form finanzieller Unterstützung kommunaler Einrichtungen.
- Unternehmen sollten sicherstellen, dass sie den Menschen und der Umwelt vor Ort keinen Schaden zufügen.
- Neben der Profitmaximierung sollte auch das Einhalten von lokalen Gesetzen gesichert sein.
- Es ist kein besonderes Engagement von Nöten. Profitmaximierung ist die Hauptaufgabe eines jeden Unternehmens.



Page 4. Importance ranking 2: Corporate responsibility factors.

## Mode und der deutsche Konsument

**5. Unternehmerische Verantwortung bei Produktion in Niedriglohnländern. Wähle die 1 für den, deiner Meinung nach, wichtigsten Aspekt und fahre absteigend bis zur 3 fort. Ordne den übrigen Aspekten keine Zahl zu.**

	1	2	3
Verhinderung von Kinder- und Zwangsarbeit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Begrenzung der Überstunden zum Schutz der Arbeiter	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Teilnahme an sozialen Initiativen in den Gemeinden der Fabrikstandorte	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Betriebliche Krankenversorgung	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Sichere Arbeitsbedingungen (Chemikalien, Brandschutz etc.)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Faire Löhne	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Für den Kunden gesundheitlich unbedenkliche Produkte	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Einhaltung von Menschenrechten	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Vereinigungsfreiheit (Betriebsräte u. ä.)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Keine Toleranz für Diskriminierung in Personalangelegenheiten	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Engagement zum Umweltschutz	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>



### Mode und der deutsche Konsument

6. Bewerte die Unternehmen. Für wie sozial und umweltbewusst hältst du sie?

	Vorbildlich	In Ordnung	Mangelhaft	Ungenügend
Zara	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
H&M	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Vero Moda	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Benetton	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Kik	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
C&A	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Primark	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Haglöfs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Orsay	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Jack Wolfskin	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

7. Gibt es Geschäfte, bei denen du aus sozialen oder ökologischen Gründen nicht einkaufst? Wenn ja, welche?

- Ja
- Nein



### Mode und der deutsche Konsument

8. Welchen Preisanstieg gegenüber konventioneller Fertigung erwartest du, wenn ein Produkt unter umweltfreundlichen und sozial verträglichen Kriterien hergestellt wurde? (Anstieg in %. Das Beispiel T-Shirt kostet konventionell hergestellt 10€)

- 0 - 5% (10 - 10,50€)
- 5 - 20% (10,50€ - 12€)
- 20 - 50% (12€ - 15€)
- 50 - 100% (15€ - 20€)
- 100 - 300% (20€ - 40€)
- über 300% (über 40€)



## Mode und der deutsche Konsument

**9. Welchen Preisanstieg hältst du als Premium-Aufpreis für umweltfreundliche und sozialverträgliche Kleidung für gerechtfertigt? (Anstieg in %. Das Beispiel T-Shirt kostet konventionell hergestellt 10€)**

- 0 - 5% (10 - 10,50€)
- 5 - 20% (10,50 - 12€)
- 20 - 50% (12 - 15€)
- 50 - 100% (15 - 20€)
- 100 - 300% (20 - 40€)
- über 300% (über 40€)



## Attachment 3. Survey, English translation for reporting purposes.

Page 1. Introduction and background questions.

### Fashion Eng

Hallo,

I am glad that you decided to take part in my survey. Your participation supports me on my way to the bachelor of business administration which I will be awarded when finishing my studies at Haaga-Helia University of Applied Sciences in Helsinki.

This survey is targeted at everybody who lives in Germany; regardless of age, gender and other criteria. The participation will take roughly 7 minutes. Thereby there are no "right" and "wrong" answers; instead this is about your opinions and perceptions that I want to analyze in my thesis project. Therefore it is absolutely necessary that you answer honestly. In case you have any questions, feel free to contact me.

Have fun!

Best Regards,

Valerie Rentsch

E-Mail: Valerie.Rentsch@myy.haaga-helia.fi

#### 1. Your age. \*

Please type in.

#### 2. Your gender. \*

- Male  
 Female  
 Other

Next -->



Page 2. Importance ranking 1: Consumer buying decision-making factors.

### Fashion Eng

**3. For you personally, what is most important when you go shopping for clothes? Choose 1 for the, in your opinion, most important aspect and continue until 3. Do not choose any number for the other aspects.**

	1	2	3
Environmental impact	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Brand	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Fitting	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Quality	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Design	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Social criteria	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Price	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

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### Fashion Eng

**4. Many textiles are produced in low-cost countries. Which of the opinions below regarding the environment and workers in the countries at stake would you agree with? Choose one option.**

- Companies should act as role models. Especially good wages, broad environmental protection and sustainable business are inevitable; just as social commitment for example in form of financial support for community facilities.
- Companies should make sure that they do not harm the people and the environment in the production countries.
- Beside the profit maximation also compliance to local laws must be ensured.
- No special commitment is necessary. Profit maximation is the key task of every firm.



### Fashion Eng

**5. Corporate responsibility in case of production in low-cost countries. Choose 1 for the, in your opinion, most important aspect and continue until 3. Do not choose any number for the other aspects.**

	1	2	3
Prevention of child and forced labor	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Limitation of over-hours to protect workers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Participation in social initiatives in the communities of the factories	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Corporate health patient care	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Safe working conditions (Chemicals, fire protection, etc)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Fair wages	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Products that are harmless healthwise for the consumer	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Respect for human rights	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Freedom of association	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Zero tolerance for discrimination in personnell issues	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Commitment to environmental protection	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>



## Fashion Eng

### 6. Assess the companies. How social and environmental friendly to you think they are?

	Exemplary	Okay	Rather poor	Insufficient
Zara	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
H&M	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Vero Moda	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Benetton	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Kik	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
C&A	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Primark	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Haglöfs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Orsay	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Jack Wolfskin	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

### 7. Are there any shops that you do not shop at by social or environmental causes? If yes, which ones?

- Yes  
 No

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## Fashion Eng

### 8. Which price increase compared to conventional production do you expect if a product was produced socially and environmentally friendly? (Increase in %. The example t-shirt costs conventionally produced 10€)

- 0 - 5% (10 - 10,50€)  
 5 - 20% (10,50 - 12€)  
 20 - 50% (12 - 15€)  
 50 - 100% (15 - 20€)  
 100 - 300% (20 - 40€)  
 ove 300% (over 40€)

[<-- Previous](#) [Next -->](#)



## Fashion Eng

**9. Which price premium for socially and environmentally friendly clothes do you think is fair? (Increase in %. The example t-shirt costs conventionally produced 10€)**

- 0 - 5% (10 - 10,50€)
- 5 - 20% (10,50 - 12€)
- 20 - 50% (12 - 15€)
- 50 - 100% (15 - 20€)
- 100 - 300% (20 - 40€)
- ove 300% (over 40€)

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