Determining the CSR potential
Case: The Norwegian Clothing Business

(Preliminary draft, December 2006)

1. Introduction

The last decade, most articles on corporate social responsibility (CSR) in European and American journals, either analyze CSR at the corporate level, or consider the relationship between CSR and corporate stakeholders, the government or the natural environment. (See review articles by Waddock 1999, Carroll 1999, Gariga & Melé 2004 and Kakabadse et al 2005.) This paper analyzes CSR on a macro level. However it does not analyze the effects of CSR on society.

Studies of CSR in a specific branch of business – it may concern CSR attitudes, incentives and barriers to CSR, or the dissemination of CSR – may benefit from a macro study highlighting features that may be influenced by CSR. The aim of this paper is to identify general features related to international trade – and ultimately the Norwegian clothing business – which have a potential for change through CSR-related activities. I will refer to this potential as a “CSR potential”.

By gaining insights into this area we may

- better assess the risks for corporations failing to invest in CSR, and
- be better prepared for later studies on CSR at the corporate level.

1 This paper is part of a larger research project funded by The Research Council of Norway, entitled “International developments, dissemination and implementation of CSR in the Norwegian clothing sector.”

2 ”Macro level” refers here to the international or national level in the study of politics or business.
The issue here is what determines the CSR potential – not the actual potential for CSR. Imagine this was a study of the effects of the emission of a particular gas from a factory: This paper would consider how we could determine the amount of released gas, not the potential harm resulting from the emission. CSR is however not a precisely defined concept such as a gas. We therefore need to define CSR before we consider this potential.

Most definitions of CSR focus on the corporation as the main actor, operating within a framework of public regulations and social norms. CSR has to do with the responsibility expressed by the corporation, and actions taken by the corporation. By implication, CSR is not defined solely by issues and outcomes (interpreting "socially responsible"), but by a combination of these issues and outcomes and the condition that the corporation should be the main subject.

Some definitions reserve “CSR” for voluntary corporate actions, or refer to actions "beyond compliance", referring to state regulations (see EU Green paper 2001, WBCSD 2000 and Christian Aid 2004). Other definitions have no reference to voluntarism or public regulations (Sethi 1975 and Waddock 2004). Many criticize the emphasis on voluntary-mandatory dimension. (See Jørgensen 2004 and Fox et al 2002) The distinction may be blurred by regulations that encourage corporations to act, rather than dictate them: Framework regulations and state subsidies can create situations where the corporate fulfillment of a public policy objective becomes a competitive advantage for the corporation. In addition, many voluntary initiatives may over time crystallize in to mandatory minimum standards. Finally, the "voluntary" versus "mandatory" divide promotes a narrow understanding of CSR which makes little sense in developing countries.

Figure 1: CSR potential and determinants of CSR at the corporate level
where tools to encourage compliance with minimum legislation can be a significant part of the CSR agenda.

I choose a definition of CSR put forward by Waddock (2004):

*Corporate responsibility is the degree of (ir)responsibility manifested in a company’s strategies and operating practices as they impact stakeholders and the natural environment day to day.*

This kind of responsibility is expressed by corporate actions that impact stakeholders and the natural environment in a way that is judged to be positive. Thus, it is necessary to define not only CSR, but also what constitutes "positive change". This will allow us to distinguish between different degrees of CSR potential.

Instead of analyzing the effects of CSR at the corporate level, we will try to identify the CSR potential at the macro level. This means that I will not analyze the outcome of specific CSR actions, I will only assess the probability of a positive outcome, given certain branch contexts. It is therefore sufficient to define "positive change" as changes in line with requirements in well established global CSR standards: I choose to define “positive change” as changes which fulfill the combined requirements of The UN Global Compact and the SA8000.³ The UN Global Compact covers human rights, labor standards, the environment and anti-corruption, while the SA8000 cover health and safety at work, management systems and more specific human rights and labor standards.

This paper is based on theoretical papers on CSR, reports on trends in the international clothing business, a theory on asymmetric international relationships (Galtung 1971) and interviews with management in the clothing business, NGO community and central government of Norway.⁴

### 2. Requirements and risks related to global CSR standards

In this paper CSR is an intermediate variable between features at the macro level indicating a CSR potential, and the impact of corporate CSR activities (see figure “1”). I take as given

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³ <Her kommer det en kort omtale av de to standardene…>

⁴ This paper is based on 19 interviews with key personnel in Oslo in September 2006.
that CSR may have a positive social effect and a positive effect on the natural environment, but I do not set out to determine the strength of this effect.

The CSR potential is determined by features at the macro level indicating a risk of a breach of the requirements stated in the global CSR standards: The UN Global Compact standard and the SA8000 standard. Both standards refer to the corporation and the corporation's suppliers and subcontractors. That is; both the sales region and the source region of the corporation.5

The simplest way of expressing the risk of a breach of a CSR standard is to reverse the requirements of the standard. We then obtain a set of risks which the corporation should avoid in both its sales and source region. These risks represent the CSR potential for corporations doing business in these regions. In table "1" we list the combined requirements of the UN Global Compact and SA8000, and the CSR risks (reversed requirements) within each CSR area:

<table>
<thead>
<tr>
<th>CSR area</th>
<th>CSR Requirements</th>
<th>CSR Risks</th>
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| Human rights   | Businesses should  
|                | - support and respect the protection of human rights within their sphere of influence (GC),  
|                | - make sure that they are not complicit in human rights abuses (GC),  
|                | - not engage in or support the use of corporal punishment, mental or physical coercion, and verbal abuse (SA).  
| Labor standards| Businesses should  
|                | - uphold freedom of association and the right to collective bargaining (GC + SA),  
|                | - uphold the elimination of all forms of forced and compulsory labor (GC + SA),  
|                | - uphold the abolition of child labor (GC + SA),  
|                | - eliminate discrimination in respect of employment and occupation (GC + SA),  
|                | - comply with applicable laws and industry standards on working hours (SA),  
|                | - ensure that wages meet at least legal or industry minimum standards and shall be sufficient to meet basic needs of personnel (SA).  
| Environment    | Businesses should  
|                | - support a precautionary approach to environmental challenges (GC),  
|                | - undertake initiatives to promote greater environmental responsibility (GC).  
|                | • HUMAN RIGHTS ABUSES                                                                                                                                                                                           | • SUPPRESSION OF INDEPENDENT UNIONS  
|                | • USE OF COMPULSORY LABOR  
|                | • USE OF CHILD LABOR  
|                | • DISCRIMINATION AT WORK PLACES  
|                | • EXCESSIVE WORKING HOURS  
|                | • WAGE LEVELS BELOW MINIMUM STANDARD  
|                | • WEAK ENVIRONMENTAL LEGISLATION AND WEAK EXECUTIVE BRANCH  
|                | • FACTORY MANAGERS ACCEPTING DANGEROUS WORK PRACTICES  

5 This is explicit in SA8000. Global Compact includes the following general phrase above all the specific requirements; "Companies are asked to embrace, support and enact within their sphere of influence…". According to UNDP (2005) this phrase indicates that the standard also encompass suppliers and partners.
The risks listed in table "1" are however of limited value if we want to be able to foresee the CSR potential in a particular business branch. They are not related to features in any particular market, business branch or any specific relationship between businesses, stakeholders, or governments.

In interviews with key personnel in the Norwegian clothing industry, the NGO community and the central government, we asked what they saw as a potential risk factor for the clothing business in relation to ethical and environmental standards. On the basis of these interviews and reports on international trends in the clothing business (OECD 2005, Gaarder 2004, and Harvard Center 2004), I have identified general factors that influence the CSR potential in the clothing business:

- **Low transparency with regard to conditions in the supply chain**
  This is in particular a challenge for small and medium sized corporations selling brand name products, and using import agents.

- **Source factory not freely accessible for inspectors**
  Only one clothing corporation in Norway have named their suppliers. Some have sought to establish a review system based on independent surveyors.

- **No common languages among management at headquarters and management/work personnel at factory site**
  More than 70 percent of the clothes imported to Norway are from developing countries where very few speak English.

- **A buyer's market**
  Many factors play together here. The relatively simple production process does not demand significant investments in partnerships in the source region. There are many alternative source countries available, and many countries/factories fear that lower cost countries will gain market shares. Large clothing corporations (including the top five in Norway) have such a vast supplier structure that the option of changing suppliers is very real and associated with low costs.
• **Short deadline and low predictability in ordering procedures**
  Two large clothing corporations and NGOs underlined this risk in our interviews. So-called replenish garments may be ordered many months in advance and produced in planned intervals, while fashion oriented niche products with an unpredictable sales forecast, may be ordered in irregular intervals and with short deadlines.

• **Labor intensive production / Uses old technology**
  Clothing manufacturing (apparel as opposed to textiles) relies on sewing techniques that have barely changed over the last century. (OECD 2004:19). This prevents the supplier countries from many of the advantages of scale which are possible below (textile/fibre), and above (design/distribution/marketing), in the supply chain.

• **Large differences in general cost levels between the sales region and the source region**
  The labor intensive production of clothes favors low cost supplier regions. When the cost difference between the sales and supply region is very large, the clothing corporations will adjust their business model to a cost level which is unattainable in developed countries.

The presence of any of these risk factors is thought to increase the likelihood of a breach of the requirements in all CSR areas in table "1".

The risk factors concerns the relationship between the clothing corporation in a relatively rich sales region and the relatively poor source region. This relationship may be characterized as a web of international dominance relations and qualify as "imperialism" in the terminology of Johan Galtung. In Galtung’s much cited article "A structural theory of imperialism" (1971) he describes imperialism, not as a marxist-leninist concept, but as a general dominance relation between "center" and "periphery" nations, and center and periphery structures within nations.6

This system approach may be useful for connecting our risk factors, and for placing them in a context of global trade relationships.

3. **Features of the clothing business and a structural theory of imperialism**

Galtung defines “imperialism” as a relation between a center and a periphery nation fulfilling the following conditions:

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6 This dominance perspective is in line with the dependencia theories which originated in Latin America in the late 1950's and early 1960's. (Tausch 2003).
1. There is harmony of interest between the center in the center nation and the center in the periphery nation.

2. There is more disharmony of interest within the periphery nation than within the center nation.

3. There is disharmony of interest between the periphery in the center nation and the periphery in the periphery nation.

(Galtung 1971:83)

Galtung refers to a “harmony of interest” if the gap of living standard between the center and periphery nations are decreasing, a “disharmony of interests” if the gap of living standards is constant, and a “conflict of interests” if the gap of living standards is expanding. Galtung refers to the traditional supply of raw materials from periphery nations to center nations and the center nation’s manufacturing and marketing of consumer goods. There is an asymmetric interaction between the parties on the national and international arena: This may be framed as ‘exploitation’ and has according to Galtung (1971) passed through three stages:

- Looting: The center takes away raw materials without offering anything in return.
- The center in the center nation starts offering something in return and develops a relationship to the center in the periphery nation.
- The third and present stage: There may be balance in the flow between the actors, but the interaction has different effects within center and periphery nations. Galtung explain the difference with reference to the unequal processing level and shows that center nations receives spin-offs in a number of areas that fare surpass the spin-offs of the periphery nations. In short, spin-offs in center nations consist of incentives for investments, innovation, competence building, social mobility, and for self-reliance.

7 Galtung mentions that living standards may be measured by using indicators such as income, standard of living (in the usual materialistic sense) but also by notions such as ‘quality of life’ or ‘autonomy’.
Galtung also includes two “mechanisms” in his model: “Vertical interaction” creates inequalities (more spin-offs for the center than for the periphery), and “feudal interaction structures” protects the inequalities (shields the competitive relationships of each clothing corporation).

How do we make sense of this approach in a study of the CSR potential? We may start by relating the CSR potential in the clothing industry to the terminology of this structural theory.

The Norwegian clothing business imports more than 70 percent of all clothes from low cost nations. (Norges Bank 2005:31.) The level of living standard is very high in Norway (the center nation), compared to the our source countries (the periphery nations). And management and employees in source countries have the characteristics of the “center” and “periphery” in this theory.

Without employees involved in production, the consumer of clothes fit the role of the periphery in the center nation. The processing level in Norway is almost non-existent due to the outsourcing of manufacturing to low cost countries. However, the value content in the Norwegian clothes corporation is high due to their control of design, marketing, and distribution.

The clothing business is characterized by a feudal interaction structure (many small and unique suppliers), especially before the termination of the WTO quota system in 2005 (OECD 2004). Today the supplier structure is less fragmented because the trade liberalization allows the clothing corporations to consolidate their supplier structure within a selected number of source countries. However, the reluctance of most Norwegian and international clothing corporations to identify their supplier factories, indicates that clothing corporations still want to protect their vertical interactions.

Is the Norwegian clothing business part of a dominance relation that constitutes imperialism? To answer this question we need to take a closer look at the risk factors in the clothing industry.

**Hiding differences:** Low transparency with regard to the supply chain, limited access of inspectors at factory site, and language barriers, contributes to the consolidation of the
feudal center periphery structure, and hide differences from consumers, and from small
clothing corporations lacking direct contact with manufacturers.

*Evidence of a dominance structure:* Low costs linked to the change of suppliers, and short
deadlines in order procedures accompanied by low predictability, is an indication of the
continuing dominance of the center nations. This dominance is also expressed by the old
technology and labor intensive production in periphery nations in this business which
contribute to huge differences in value content between the center and periphery nations.

*The clothing business satisfies the definition of imperialism:* We see:

- decreasing differences in living standards between managers in the center nation and
  managers in the periphery nations\(^8\),
- income differences increase in source countries\(^9\), and
- large and stable differences in living standards between consumers in Norway and
  employees at factories in source countries.\(^10\)

In other words, the risk factors linked to the clothing business satisfies Galtung’s definition
of imperialism, hides differences in living standards, and the notion of an international
dominance system.

What does this tell us about the CSR potential of the Norwegian clothing business? The
imperialist model highlights the asymmetric relationships and the dynamics (increasing gaps
in living conditions) inherent in the international trading system, not only the static risk
factors related to the CSR standards.

\(\footnotesize{\text{Vil legge inn dokumentasjon.}}\)

\(\footnotesize{\text{Income differences are on the rise in in China, by far most important exporter of clothes to NorwaySource: Xinhuanel, September 21. 2005. (http://en.ce.cn/Business/Macro-
\text{economic/200509/21/200050921_4737742.shtml). However, the GDP per capita gap between most source countries and Norway is narrowing.}}\)
The difference between the risk factors and the characteristics of imperialism lies in the mitigation effort: The risk factors are static properties that may be corrected by mitigating actions initiated by the trading parties. Mitigating structural imperialism however demands a far more comprehensive approach: The trading parties alone cannot remove the elements which constitute the global dominance system or the gap in general living conditions. To mitigate these features demand changes in the international trading system and in income distribution policies which depend on actions by national governments and international organizations such as World Trade Organization, North-American Free Trade Association and the European Union.

4. Public CSR Cases in the clothing sector

A CSR potential may exist in areas that never receive public attention. Public CSR cases are therefore not a sufficient indicator of the CSR potential in a business area, but they reveal the conditions under which CSR issues receive media attention and the limits of corporation’s mitigation of the risk factors.

There are common denominators in all these cases:

- Ethical issues of the corporation are highlighted in the media.
- It is alleged that the corporation is involved in un-ethical behavior.
- The case displays an image which may damage the reputation of the corporation.

I do not consider how the corporations tackled the challenges they faced in these cases. I focus on the contextual factors: I consider which risk factors were present in each case and further, if features of structural imperialism are relevant in these cases.

IKEA

In 1994 a Swedish TV documentary revealed inhuman working conditions among carpet workers in Pakistan. The workers were exposed to chemical hazards and many children were working at factories supplying IKEA. An eleven year old boy at one of the factories with orders to IKEA (Iqbal Masih) became a spokesperson for child workers in Pakistan. He

collaborated with Swedish NGOs, testified before an ILO committee and was honored in Boston by Reebok Human Rights Foundation in December 1994. In April 1995, at the age of twelve, he was murdered in Pakistan. The case provoked an international protest. At the same time additional TV programs revealed that there were abusive conditions at several of IKEA’s suppliers in South Asia. In India children of four and five years were weaving carpets with IKEA labels.

IKEA started their mitigation process immediately in 1994. In 1998 the company signed a framework agreement with the IFBWW\(^\text{12}\) on employment rights, and in 1999 it agreed to finance a Unicef programme for the struggle against exploitation of workers. In 2000 IKEA adopted new standards focusing on working conditions and the environment, and allocated US$ 500.000 to a pilot project in India.\(^\text{13}\) According to an adviser in Unicef, IKEA is now “almost a model of what a company should do”. Still, IKEA’s CSR report disclosed that 18 children were encountered at their facilities in China and 4 cases were revealed in Pakistan and Bangladesh in 2004.

This case illustrates how low transparency with regard to the supply chain – and probably also a lack of attention on IKEA’s part – was a risk factor. Although IKEA seems to have been meticulously working to fulfill their ethical responsibilities, it does not affect the elements which constitute the global dominance system: On a system level, they have more than 2000 supplier factories in 55 countries which is a strong indication of a buyer's market. On the micro level, we see that in spite of IKEA’s efforts they still encounter child workers at their factories.

\textit{Russeservice AS}\(^\text{14}\)

Russeservice dominates the market of high school uniforms in Norway. But with only a turn-over of 5 million euro and sales restricted to the Norwegian market, they have little influence on both working conditions and the environment. However, many of their customers (high school students) feel strongly about fair trade, and Russeservice has

12 IFBWW is the International Federation of Building and Wood Workers.

13 In 2005 this has a budget of US$ 1.4 million and covers 500 villages in the northern states of India. (IKEA 2005)

received much attention lately. In August 2005 they decided to replace their main Pakistani supplier with cheaper Chinese suppliers. A Norwegian NGO (Norwatch) published an interview with the managing director of the Pakistani factory which complained about a buyer's market and small margins in the developing countries while the margins in the north were said to be huge in comparison. After Russeservice received this attention they decided to join an ethical trade network (IEH). They also announced that they would include clauses on ethical responsibility in their supplier contracts. These clauses demanded the national minimum wage. In an interview by the Norwegian National Broadcaster (NRK) Norwatch claimed that these wages were insufficient to meet the basic needs of the employees.

In this case we see that even very small corporations may be exposed to the risk factors if their customers are concerned about ethical issues. This case also illustrates how the charge of a "buyer's market" may be used against small corporations. Finally it shows that NGOs may put pressure on corporation to engage in ethical trade networks, without changing the main dynamics in the trade system: Russeservice continued to search for countries and suppliers with a lower cost.

**Varner Group AS 15**

Varner is the by far largest clothing corporation in Norway. They control nine retail chains and 17 percent of the market. Their supplier structure consists of 36 factories around Istanbul in Turkey and more than 200 factories in China.

October 27. 2005 the magazine Økonomisk Rapport published an article on "secret suppliers of Varner". It was revealed that their employees in Turkey received one euro per hour, and had to accept a work day of 10.5 hours. In addition no unions were existent at any of their factories in Turkey. In Turkey the official unemployment rate is 12 percent and their huge clothing industry is under threat from cheaper Chinese factories. Varner has the recent years increased their share of both Chinese supplies (60 percent) and Turkish supplies (30 percent). When the article in Økonomisk Rapport was published, Varner had already published their ethical principles, developed together with a Norwegian NGO (IEH). These principles included "the right" to establish unions, to collective bargaining and requiring working hours to be "in line with national legislation and international law". In a newspaper

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15 Økonomis Rapport; October 27. 2005 and supplement in Dagens Næringsliv; February 9. 2006.
supplement four months later, Varner disclosed that they had excluded two Chinese factories as a result of an internal audit. This small number shows "how our efforts bear fruit", according to a spokes women at Varner.

This case shows how Varner tries to reduce the risk factors by restricting access to their manufacturing sites (defensive behaviour) and by implementing a program for ethical principles at the very same sites (offensive behaviour). This case also supports the claim that clothing corporations in the north is part of a buyer's market. However, CSR actions of Varner does not include measures to mitigate the huge differences in living standards (wage levels) – a core element in the dominance system described by Galtung (1971). This is however part of the strategy of the corporation in our last case:

**Stormberg AS**

Stormberg is a small Norwegian clothing corporation specializing in outdoor sportswear consisting of 24 employees and a turn-over of 8.5 million euro. The corporation does not sell any brand names owned by others – all business is devoted to their own brand. All production is done by 15 factories and concentrated in one region in China. Stormberg visits this region regularly and tries to develop a personal and longterm relationship with all suppliers. According to Stormberg they have accepted a Chinese price increase of 5 percent per year. As the only Norwegian clothing corporation, they also publish the names of all their suppliers on their website. Their codes of conduct is translated to mandarin and distributed to all factories.

In Norway they recruit persons which have experienced social problems. This is part of an effort to build a stable and caring work culture. Finally they donate five percent of their annual profits to charity organisations.

According to the CEO of Stormberg, these CSR actions are part of a conscious effort to counter the lack of transparency and the risk of exploitation of the work force of their suppliers. The case demonstrates that small clothing corporations may influence risk factors such as "short deadlines and low predictability in ordering procedures", and "lack of transparency with regard to the supplier structure". This is possible because they are in a

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business niche without agents representing brand names, and because they choose to handle all contact with suppliers directly without agents. Their efforts at the home market (recruiting policy and significant donations), show that there are many CSR actions that are unrelated to the risk factors highlighted in this paper.

These four public CSR cases demonstrates how clothing corporations are influenced by the risk factors highlighted in this paper, and how an active mitigation of these factors may be effective with regard to risks at the corporate level (reputation, litigation etc.) but fail to address factors that are entrenched in the global dominance system labelled ”structural imperialism” by Galtung (1971).

5. Conclusion

The risk factors highlighted in this paper are clearly positively related to the reverse requirements of the CSR standards. If corporations mitigate the risk factors they may thus contribute to the compliance of the CSR standards. The risk factors are also well represented in the public CSR cases presented in this paper. This suggests that they may be useful guidelines for clothing corporations which want to fulfill the CSR standards and avoid public CSR cases. But the public CSR cases demonstrates that neither the risk factors themselves, nor the CSR actions of corporations manage to mitigate the fundamental elements in the international trading system that constitutes a global dominance structure in which the factory managers and corporate managers have joint interests, while the factory employees have few common intetest with the local management, the management of the clothing corporations or the consumers in developed countries. However, a growing public interest in fair trade / ethical trade may change this.

The public CSR cases and the preliminary theoretical analysis of risk factors and global structural dominance, suggests that CSR actions have an effect when it comes to mitigating risk factors at the corporate level, but have less effect on the CSR potential – or risks – at the macro level. Determining the CSR potential at the macro level seems therefore to be an exercise involving aggregate variables from the corporate level, more than genuine macro level variables that determine the function of the global trading system.
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