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# Corporate Social Responsibility

- A Case study on Private and Public Corporations in Sweden

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## **Abstract**

Corporate Social responsibility (CSR) has become a key issue for today's corporations. This type of responsibility refers to the continuing commitment of businesses to voluntarily behave ethically and contribute to economic development while simultaneously improving the quality of life of the workforce, families, local community and society at large. While traditional business models primarily emphasize the economic aspects of a company's activities (e.g. profitability and growth), the modern one stresses the social and environmental impacts. Recent scandals have put customers' trust on the frontline, leading to an exponential growth in the interest of corporate social responsibility. Today, unethical behavior can no longer hide in the dark waiting around for an investigation to ensue. Wrongdoings are in an instant communicated to the world via computers and broadcasted by media. Consequently, it is no longer about what corporations say they will do but rather when and how they will do it.

Findings and resulting conclusions show that although there is a lack of definitional clarity of the notion of CSR, the concept is embodied by and refers to the triple bottom line: Profit, People and Planet. CSR can be implemented through codes of conduct, contracts, education, training, guidelines and principles.

The benefits of having a CSR engagement program are numerous and include strengthening profits, enhancing brand recognition and reputation, risk management and boosting employment relations. Motives behind having good CSR include social betterment and sustainable change. It is about building up a well-functioning corporation that possesses strong values and can manage risks and become a more competitive brand. The brands that will succeed in the future will be those that tap into the social changes that are taking place today.

**Keywords:** Globalization, CSR, implementation & monitoring, motives, benefits and challenges.

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## Abbreviations

AI	Amnesty International
BE	Business ethics
BSR	Business for Social Responsibility
CA	Corporate accountability
CAid	Christian Aid
CC	Corporate citizenship
CG	Corporate governance
CSR	Corporate Social Responsibility
ETI	Ethical Trading Initiative
FLA	Fair Labor Association
GC	Global Compact
IBLF	International Business leaders forum
ILO	International labour organization
ISO	International Organization for Standardization
MNC	Multinational Corporation
NGO	Non governmental organization
NTM	The Network for Transport and Environment
OECD	Organization for Economic Co-operation and Development
SA8000	Social Accountability 8000
SIFA	The Swedish International Freight Association
TNC	Transnational Corporation
UNICEF	The United Nations Children's Fund

## **About the Authors**

Setareh Korkchi is an entrepreneurship student at the South Stockholm University (Södertörn School of Economics and Business Studies) in Sweden. She recently came back from Paris, France after studying there for a year at the French American business school INSEEC (Institut Des Hautes Études Économiques Et Commerciales). It was in France where Setareh's interest for the subject of business ethics and Corporate Social Responsibility arose. In 2007, Setareh will be receiving a Bachelor in International business from INSEEC Paris and a Masters of Science in Business Administration and Economics (M.Sc. in Ba and Econ.) from the South Stockholm University.

Azalee Rombaut studies at the program of language, culture and market (the program called the SKM program) at the same University as Setareh. She as well recently came back to Sweden after studying six months at INSEEC Bordeaux in France where she became familiar with the subject of CSR. In 2007 Azalee will be receiving her Bachelor of Science in Business Administration and Economics (B.Sc. in Ba and Econ.) from the South Stockholm University.

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Setareh Korkchi

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Azaleé Rombaut

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## Layout of the thesis

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The author's thesis is structured into 9 chapters. An outline of each chapter is given below.

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**Chapter 1** includes an introduction to the subject of Corporate Social Responsibility. Problem wording will be followed by the author's research questions, aims and focus.

**Chapter 2** gives an account for method and sources used in this thesis. An introduction to the author's investigation objects, The Body Shop, H&M and Green Cargo will be followed by a criticism of source section

**Chapter 3** will provide the reader a detailed description of relevant theories used. Definition of Corporate Social Responsibility (CSR), arguments against CSR, CSR pyramid, motives and benefits are parts that will be highlighted and explained in chapter three.

**Chapter 4** gives the reader an account of the author's empirical studies. Material on The Body shop is taken from an interview with Sandhya Forselius at the body shop Sweden, The Body Shops Annual report and Accounts (2005), Code of business conduct (2006), Code of conduct (2005) and Individual stakeholder Account (2004). Material on H&M is mainly coming from an interview with Karolina Dubowicz at H&M's CSR department in Sweden and from the company's 2005 CSR report and website. Information on Green Cargo has primarily come from the interview with Ingela Melkersson and from Green Cargos website and 2005 Annual and Sustainable development report.

**Chapter 5** will demonstrate how applicable the theories have been in reality on the author's three investigation objects. The implementation and monitoring process will be analyzed as well as the motives and challenges that the three companies faces.

**Chapter 6** reports the findings and conclusions of the author's investigation. A comparison between the three selected companies will be highlighted and described. This chapter enables the author's to answer their research questions and aims, namely how corporations perceive CSR, what the motives are for having a CSR policy implemented, how CSR is implemented and monitored, what the benefits are for having good CSR and finally the challenges and responsibilities that corporations faces.

In **Chapter 7** the authors discuss practical issues and challenges that they have met during the writing process. Finding previous material in English and writing in a language that is not their native tongue are good examples of that.

In **Chapter 8** the authors' reflections and thoughts are described and discussed (e.g. governments versus companies' responsibilities and whether CSR should be a voluntary action or compulsory).

**Chapter 9** is the last part of the authors' thesis in which the reader will be introduced to suggestion for future research e.g. CSR activities in Small Medium Enterprises (SME).

# 1. Introduction

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Chapters 1 introduce the reader to the subject of Corporate Social Responsibility and the changes that have been taking place throughout the last decades. Problem wording, research questions, aims and focus will be discussed later in this chapter.

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## Introduction to the Subject

The idea of Corporate Social Responsibility is nothing new, nor is the idea that corporations should act in a social responsible way. However, today's corporations are operating in a more connected world, one that is improving their conception of their social responsibilities. Ethic codes which include guidelines on child labor, working conditions, wages & environmental issues stating their obligations is a good example. Globalization has brought many changes such as the increased number of MNC's & TNC's as well as the issues of business ethics & scandals presented beneath.

## Globalization & the Increased Number of MNC's and TNC's

Globalization and the technological revolution, such as the Internet, have created new economic expansion opportunities for corporations. Instead of just doing business in their own domestic market, corporations are now entering world markets in hopes of increasing sales and profits.

With globalization the number of multinational corporations (MNC)<sup>1</sup> and transnational corporations (TNC)<sup>2</sup> has increased. In 2003 the number of MNC's boosted from 7000 to 63 000 parent companies operating with around 69 000 subsidiaries (Behind the mask: The real face of CSR, 2004) in 1997. The number of TNC includes roughly 63,000 firms, with more than 800,000 subsidiaries (Kytte & Ruggie, 2005).

MNC's and TNC's are today mainly governed by the national legislation of the countries in which they operate, however national legislation in developing countries are weak and many lack an acceptable legal framework to adequately protect social and environmental rights. In such

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<sup>1</sup> Multinational corporations are companies that may be based in one country, but has bases in other countries, for management, manufacturing or distribution.

<sup>2</sup> Transnational corporations are companies that have its headquarters in one country but operates most of the time outside that home country in a number of other countries

places the necessary laws may not exist due to a lack of political will or technical 'know-how' to enforce them (Behind the mask: The real face of CSR, 2004). Corporations operating internationally where rules are unclear and control is difficult can do whatever they want to do and get away with it, or they can simply choose not to do what they ought to do because they have no clear legal obligations. This has led to unethical behavior and many corporate scandals.

### **Problems with Ethics and Corporate Scandals**

***Inside Trading and Questionable Accountants:*** Recent corporate scandals have put corporations in the limelight. Accusations about inside trading and questionable accountants suddenly became commonplace. For six years running, Enron was seen as an "extraordinary & unique business" (Fortune Magazine, 2006)<sup>3</sup>, but in 2001, one of the biggest corporate scandals was revealed. \$618 million was lost, \$1.2 billion in reduction in shareholder equity. In December the company filed for bankruptcy and 4,000 employees were fired. In total 20,000 workers lost their job (Miller, 2005)<sup>4</sup>. The company had overstated corporate profits and understated debts, giving the public and its shareholders a false profile of the company's economic condition. Employees lost billions of dollars due to the disappearance of their pension plans which were mostly invested in the company stock. In addition to this WorldCom filed the largest bankruptcy in the history of US. The telecom company had inflated its profits to \$3.8 billion during 2001 and 2002. 17,000 jobs were lost and a market value of \$100 billion was gone (Miller, 2005)<sup>5</sup>. What everyone thought was a nightmare suddenly became a reality.

***Employment Practice and Violation of Human Rights:*** Nike, the biggest Shoe and Apparel Company in the world<sup>6</sup> was, on the other hand, put in the spotlight for its questionable employment practice, low wages, poor working conditions and human rights violations. Nike was now being attacked from every corner and because of its wide spread brand recognition everyone seemed to know that 'swoosh'. This trademark which had made them so successful was now causing difficulties. The Swoosh, which once stood for victory and self-empowerment, became synonymous with something else- human rights violations. Suddenly Nike did not seem so 'cool' anymore. The immensely successful company was now facing challenges. "Whatever

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<sup>3</sup> <http://solari.com/articles/FortuneEnronVerdicts060530.htm>

<sup>4</sup> [http://www.bizethics.org/files/Corporate\\_Scandals\\_and\\_Macroeconomic\\_Impact.ppt](http://www.bizethics.org/files/Corporate_Scandals_and_Macroeconomic_Impact.ppt)

<sup>5</sup> [http://www.bizethics.org/files/Corporate\\_Scandals\\_and\\_Macroeconomic\\_Impact.ppt](http://www.bizethics.org/files/Corporate_Scandals_and_Macroeconomic_Impact.ppt)

<sup>6</sup> <http://business.nmsu.edu/~dboje/nikestockstories.html>

the Swoosh touched turned to gold. Now the hardships they're going through are going to make them work for it" (McCall, 1998)<sup>7</sup>.



*Lack of Environmental Responsibility:* Environmental disaster has also been exposed by the media. For example, in 1989 Exxon spilled 11 million gallons of oil being carried on its Valdez oil tanker into the water surrounding Alaska. The accident caused huge environmental damages; harbour seals and otters suffered a great loss in their population. The fishing industry in Alaska was also affected by the spill<sup>8</sup>.

*Corporate Scandals: Nothing New:* It is nearly impossible today to turn on the television or read the newspaper without being confronted with yet another corporate scandal. Corporate scandals are however, though nothing new. They started in the early 1900's with Charles Ponzi and Ivar Krueger. Charles Ponzi, an Italian immigrant discovered that he could buy international total coupons abroad and then sell them in the US for a much higher price. The Ponzi scheme was a pyramid scheme, where Ponzi collected money from his initial investors, who were making profit. This created a buzz which attracted more and more investors. But at one point Ponzi stopped buying these coupons and instead started to pay off the earlier investors with the money of the latecomers. He conned investors in excess of \$10 million in total.<sup>9</sup> Ivar Krueger, also called the "Match King" is another early example of corporate scandals. After he committed suicide it was discovered that Krueger's accounts were inaccurate, US investors had also been swindled out of millions of dollars through fraud.

As a result of these corporate scandals and the lack of trust that they have brought, corporate social responsibility (CSR) has become an important issue for companies to address. The erosion of trust has put pressure on corporations to improve their Corporate Social Responsibility policies and practices. Time, focus and money are not only put on increasing the economical dimension of ones business, but also on other dimensions. In particular social and environmental issues have been pushed into the limelight. Corporations are now looking into their "triple bottom line", trying to make a sustainable change. Transparency and accountability are today two important elements which have made it difficult for corporations to escape scrutiny. It is no longer a question about whether or not to act responsibly or ethically, but rather how.

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<sup>7</sup> <https://cleanclothes.org/companies/nike12-11-98.htm> (2006-11-26)

<sup>8</sup> <http://iml.jou.ufl.edu/projects/Fall02/Susi/exxon.htm> (2006-11-26)

<sup>9</sup> <http://www.psc.state.pa.us/investor/brochures/ponzi.html> (2006-11-26)

## **Problem Wording**

The issue of corporate social responsibility (CSR) has been of growing concern among businesses. Being socially responsible is the new reality of businesses. However there is difficulty in defining what is meant by corporate social responsibility. What would be interesting for us is to examine the notion of Corporate Social Responsibility; its definition and motives. Furthermore, the implementation & monitoring process and the benefits of having a good CSR approach.

## **Research Questions**

- How do corporations perceive Corporate Social Responsibility?
- How is Corporate Social Responsibility implemented and monitored?
- What are the motives for having a Corporate Social Responsibility policy implemented?
- What are the corporate benefits of having good Corporate Social Responsibility?

## **Research Aims**

Our main aim is to examine and compare how Corporate Social Responsibility is perceived by public and private corporations in Sweden. The study is also designed to describe and explain the challenges that each corporation might face and the responsibilities that they are expected to fulfill.

## Research Focus

Our focus is solely on two private corporations, namely The Body shop and Hennes & Mauritz (H&M) and one public owned; Green Cargo. All located in Sweden. The Body shop in Sweden is a franchise company that sells naturally inspired beauty and cosmetics products that are animal cruelty free. They are known as one of the leaders in CSR and corporate transparency and became the first international cosmetic company to receive an award from the Humane Cosmetics Standard for their “Against Animal Testing” policy<sup>10</sup>. H&M, a retail corporation located in 24 countries was on the other hand exposed for the use of child labour in its Asian factories. Bad publicity in the media became a reality and a step towards improving their code of conduct and CSR work. Green Cargo is a Swedish state owned logistic company transporting goods both nationally and internationally, mainly by train. Sustainable development is a large part of the Green Cargo’s business operations.

We have selected these three companies due to the fact that two of them are private and one public. All three are also successful established firms and have furthermore well developed Corporate Social Responsibility reports (for Green Cargo an Annual and Sustainable development report) stating what the company is working towards and what the acceptable rules and principles are.

We limited our search to the perspective of an business; the corporations’ definitions of CSR, its motives as well as the implementation & monitoring processes. We solely examine these corporations from a business perspective and not a customers since they do not have the knowledge about (for example) the implementing and monitoring process that the company might have. Their motives might also differ from the company’s. Perhaps in the future, this would be an interesting subject we could investigate further.

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<sup>10</sup><http://www.thebodyshopinternational.com/Values+and+Campaigns/Our+Values/Against+Animal+Testing/Against+Animal+Testing+detail.htm> (2006-11-26)

## 2. Methodology

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Chapter 2 is aimed at introducing the reader to research methods and methodological tools used. It also includes an introduction to primary & secondary sources and brief background information on the investigative objects: The Body Shop, H&M and Green Cargo. This chapter will end with a criticism of source section.

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When writing a thesis there are three parts the writer must tackle. The first part is planning how to design research, the second phase collecting relevant information and the third analyzing and reflecting upon the assembled material (Hartman, 2004). There are different ways of collecting information. The selection of which method/ methods one should and could use depends on what is to be accomplished with ones research.

### **Scientific approach**

Often speaking of methods, two scientific approaches are introduced and the distinctions between them are often discussed; quantitative and qualitative approach. The preference of either having a quantitative or qualitative depends on what the goal with ones research is. If it is to explain and understand a phenomenon, qualitative approach should be considered since “*Qualitative research involves an interpretative, naturalistic approach to the world. This means that qualitative researchers study things in their natural settings, attempting to make sense of, or to interpret phenomena in terms of the meanings people bring to them*” (Denzin & Lincoln, 2003 cited in Flick, 2006). “*Qualitative research is about producing and analyzing texts, such as transcripts of interviews or field notes*” (Flick, 2006). It is equal to words originated from interviews, observations and existing documents (Miles & Huberman, 1994 cited in Flick, 2006). Qualitative research contains a great deal of connotation, but the main goal is to find meanings and interpretations (Widerberg, 2002).

If the aim is on the other hand to get an overall picture of the investigated phenomenon, then quantitative methods are recommended. This approach characterizes data that can be presented by numbers, graphs, tables and other measuring terms (Hartman, 2004). A quantitative research is more objective: it is done on large population while qualitative research is more subjective and

done on a few number of objects (Denscombe, 2000). The quantitative studies phenomenon that is observable, measurable and possible to manipulate (Hartman, 2004).

The two methods are being described separately, but this does not imply that one can not use both when doing research. “*Quantitative and qualitative approaches should not be separated, even if they are being explained separately*” (Flick, 2006). It is common for researchers to combine both methods (Johannessen & Tufte, 2002).

Our goal with this thesis is to “*study things in their natural settings, attempting to make sense of or to interpret phenomena in terms of the meanings people bring to them*” (Flick, 2006). We are therefore only going to use a qualitative method approach. The information on the CSR subject has been collected through three interviews and through written documents (books, articles and previous thesis). Our purpose is not to draw generalized conclusions through statistic analysis (which is the case for the quantitative approach), but rather comprehend how private and public companies perceive the notion of CSR and how they work with it.

### **Qualitative research design**

Case study originates from the Latin word “Casus” (Johannessen & Tufte, 2002) and refers to a natural existing phenomenon since the case itself exists before and after the study has come to an end (Yin 1994 cited in Flick, 2006). Doing a case study implies studying things as they naturally appear without any artificial changes (Denscombe, 2000). Focusing more on researching relations rather than results qualitative research investigates fewer units, but more intensely. The aim with a case study is to get access to “*the precise description or reconstruction of a case*” (Flick, 2006).

Our qualitative research design method is based on studies done on two private companies and one public owned. All three operate internationally. By using this method we seek to get a better and deeper understanding of how Corporate Social Responsibility (CSR) is perceived, implemented and monitored by H&M, The body Shop and Green Cargo. Furthermore what the motives are of having a CSR engagement and what benefits it can bring. Our findings and conclusions do not apply on every private, public or international company since every company is unique and has a structure, culture and implementation strategy that separates it from another. Our aim is not to generalize on the entire subject of CSR, valid for all companies, but instead on the three examined.

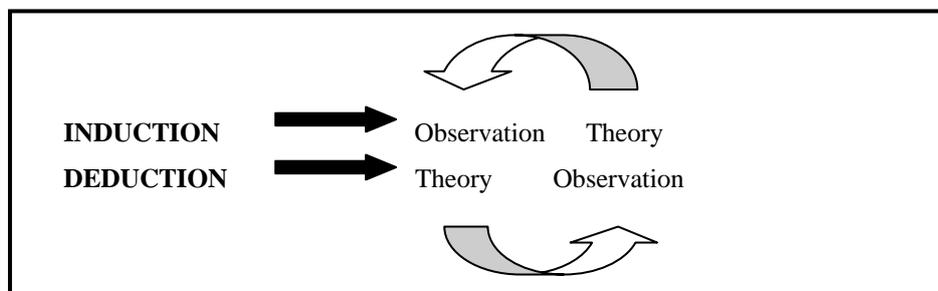
## Investigation approach

The relation between theory and practice is important when choosing an examination approach method. Theory, originate from the Greek word “theoria” is defined as “*a formal statement of the rules on which a subject of study is based on or of ideas which are suggested to explain a fact or event*”<sup>11</sup>.

When looking at an examination approach method one could either have an inductive or deductive method. The inductive method has a long history and goes back to Aristotle’s time and is about the process of discovering a general principle from a set of facts” (Hartman, 2004). It is based on the idea that one starts with observations and from those observations draw up a theory. Induction therefore implies to draw general conclusion and then summarize them into theories. The conclusion is based on facts/data from the real life (Wallén, 1996).

Deduction is on the other hand the opposite of the inductive method. You basically draw conclusion from general principles (theories) to apply on the actuality (the concrete). It states that you can not observe anything without a theory. One must have a theory before inspecting a phenomenon, a theory that that will be tested through the observations. Is the theory sustainable or not? One therefore formulates hypotheses, tests it and sees if it corresponds to reality. If the observations do, the theory is accepted, if not, rejected. Deductive methods involve therefore the principle that from existing theories one can draw general conclusions about defined phenomena (Patel & Davidsson, 1994). Figure 1 illustrates the distinction between the two investigation approaches.

**Figure 1: Distinction between deductive and inductive approaches** according to Korkchi and Rombaut, 2006 based on Patel and Davidsson, 1994



Source: Patel and Davidsson, 1994

<sup>11</sup> Cambridge Advanced Learner’s Dictionary, 2003

We have in advanced chosen the theories that we want to apply on our selected companies. Therefore a deductive examination approach method has been used. The theories used are theories about Corporate Social Responsibility, its definition, motives and benefits.

### **Data collective**

There are two ways of getting access to the data needed for ones studies- primary and secondary data. Secondary data is data that already exist and is printed in books and articles while primary data is collected through telephone interviews, personal visits or survey examination (Patel & Davidsson, 1994). In most studies both primary and secondary data are used. This has also been the case for this thesis.

### **Interviews**

Interviews are often used when looking for deeper and more detailed information. The positive sides with doing an interview is that it provides information that is deep as well as it brings a high answer frequency and flexibility in question priorities (Denscombe, 2000). The negative sides of interviews are though often related to the fact that they are time consuming and difficult to interpret and analyze (see interview effects below for further information).

When formulating the interview questions we chose to form them in a way that gave our respondents the possibility to answer them without any limitations of length or content. It gave them the freedom to develop their own ideas and expresses them in their own words. The interviewees had no prior knowledge of the questions so they could not prepare or correct answers. In other words, they were unstructured. In addition they did not follow a specific order and had therefore a semi-structured order (Denscombe, 2000). Having such a structure gave us the possibility to repeat unclear questions and answers. It simply allowed us to access information that we felt was lacking or unclear.

When doing the interviews we started with asking less complicated questions like that of the respondent (background, position, relationship to the company etc) before going into more complex ones. The same interview questions were asked to all three respondents.

## **The Body Shop**



Booking an interview with The Body Shop went effortlessly; we simply called them and asked if we could do an interview with a person in charge of The Body Shops CSR activities. They connected us to Sandhya Forselius, PR and Value manager for The Body Shops in Sweden since 1998 (graduate from the University of Stockholm with a degree of Media and Communication) who booked us in the following week for an interview. A big part of Forselius job is to communicate The Body Shop's five core values, externally as well as internally. The interview took place the 19<sup>th</sup> of October at The Body Shop's head office, located in Stockholm, Sweden. We received a warm welcoming; the secretary offering us a cup of tea/coffee. At 16.00 Sandhya arrived and after 1 hour the interview was over and time for us to leave. Before leaving we informed Sandhya that we would email her the draft from the interview and send it to her for approval. She furthermore gave us her card and told us to contact her if we had any additional questions or if the answers given to us were unclear.

## **Hennes & Mauritz**



Booking an interview with H&M was difficult. We were told at first that the company did not have time to do interviews on our level (bachelor), but after many calls and emails sent back and forth we finally got an interview with Karolina Dubowicz, responsible for H&M's CSR reporting, graduated from the University of Uppsala with a degree in business. The interview took place the 27<sup>th</sup> of October 08.00 in the morning. Unfortunately it was held at a coffee shop at the central station of Stockholm which is a noisy place. At times it was difficult to comprehend what Karolina was saying, but luckily we had a tape recorder with us which made our job much easier. The interview ended after 1.20h. Dubowicz asked us to send a draft of the interview to her, just to make sure that we did not misinterpret her answers which we came to do a couple of days later.

## **Green Cargo**



Since Green Cargo did not have time to do a face to face interview with us, they were kind enough to let us interview them over the phone. Calling and booking a time with Green Cargo went effortless. We got to talk to Ingela Melkersson at Green cargo in Stockholm. Melkersson is working closely with the environmental director of the

company. The telephone interview took place the 7<sup>th</sup> of December. We had a tape recorder with us, to ensure that we did not miss any vital information given to us by our respondent. The telephone interview ended after approximately 45 min.

### **Criticism of sources**

Sources are never flawless. Therefore it is of importance to control its content and credibility. One has to estimate its legitimacy. There are four criticism source principles that are important to address (Thurén, 2005), namely:

1. **Authenticity:** The source has to be genuine.

It is difficult to be sure that the sources being used are genuine. We have tried to enhance our credibility by searching for information on different sites, in different books and then comparing them to each other and see if the information taken from different places clash or correspond. In addition we have compared our respondents' answers with information taken from books, articles and the companies' websites.

2. **Time Aspect.** The more time passing between an occurrence happening and the source being told, the less credible the source is.

In addition to the tape recorder we also made detailed notes. Directly after each interview we summarized the information given to us on a computer. By doing so we could discuss unclear things once again as the information was fresh in our mind. The interview drafts were compiled a few days later and sent to the concerning parties for approval and feedback.

3. **Independence:** The source has to be independent; it shall not refer to another source.

Information taken from a secondary source is difficult to control which we are aware of. Primary sources are though more independent since the information is coming directly from the source. This does nevertheless imply that one should not be critical to a primarily source.

4. **Freedom of Intervention:** The source should not give a falsify view of reality on account of anyone's personal/economical/political intension to distort reality

We believe that freedom of intervention might be a criticism source that is difficult to address. Since both of us look at CSR in a positive way we believe that our attitudes and the way our questions were asked influenced the outcome of our results. However we have always tried to be analytical and subjective to all information given to us.

### **Primary sources- Interview effects**

The interviews with the concerning parties have their inevitable flaws. There will and have been factors involved affecting the outcome of our results which we are conscious about. People have a tendency to answer differently depending on how they apprehend the interviewer or how the questions are being asked. Furthermore, the interviewer's identity (age, ethical background, position, gender) will have an impact on the answers given to us.

When doing an interview there is also the risk of the respondent given us the answers that he or she believes the interviewer wants to hear. Interview effects can be separated into three groups (Denscombe (2000));

1. Respondent chose to not answer or if she/he does she/he will give an incorrect answer (respondent effect).
2. Respondent's pre-comprehension is being expressed by the way the questions are being asked (pre-comprehension effect)
3. Respondents do not act reliably on account of misdirected attention (attention effect)

We have tried to compensate these effects by having a sharp ear, being punctual and polite: everything to make our respondents feel as relaxed and comfortable as possible.

## **Secondary sources**

It is not only time consuming to sort out and collect useful data (data coming mainly from three interviews, books and articles), but it is also difficult to get access to information that is useful and true. Information taken from a company's website is also to be questioned. As we are aware of companies often seek to make themselves look good for the public and the information provided by them might therefore be glorified and sometimes untrue, but throughout the whole process of collecting data we have tried to be critical to the material given and used by us, whether it is primary or secondary. We have in addition tried to compare sources with each other to conclude whether the information given to us is valid or not. Our critical antennas were not once put down.

## **Validity and reliability in qualitative research**

Validity refers to that the methods being used to obtain information is reliable and correct (Patel & Davidsson, 1994). In other words whether the information reflects the truth and whether it measures what is to be measured (Denscombe, 2000).

Reliability is on the other hand about *“the attempt to specify how far a particular method can continuously lead to the same measurements or result”* (Flick, 2006). It is about doing the same observation time after time and getting the same result irrespective of the source of information (Patel & Davidsson, 1994). What methods have been used and how have they been carried out are factors that could be asked when looking at a data's reliability.

In this thesis we have tried to get access to information that is consistent and relevant to our research. The material used has been taken from websites, articles and books discussing ethics and corporate social responsibility. Articles have been taken from various scientific journals, like the *Journal of Business Ethics* and Harvard Business School. Authors of these articles are often well known professors and researchers that have taken an active interest in the CSR subject. We therefore believe that the information given to us has been reliable, suitable and valid. This information that we collected through interviews, has therefore been thoroughly analyzed and compared to that of written sources.

### 3. Theory

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Chapter 3 will provide the reader a detailed description of relevant theories used. Arguments against Corporate Social Responsibility, definition of CSR, CSR pyramid, motives and benefits are parts that will be highlighted and explained in this chapter.

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#### Against CSR

*“If you find an executive who wants to take on social responsibility fire him. Fast”<sup>12</sup>*

Peter Drucker

Focus on CSR engagement has during the last decade increased but there are those who criticize it, claiming that CSR is not a company issue. Putting focus on CSR will only take the eye from the real goal; to increase their shareholders wealth, CSR is to confuse the essence of what corporations should do (Henderson, 2001).

Rather than being the corporations’ priority to address, CSR is something that governments and politicians have to work with, not businesses. *“There is one and only one social responsibility of business-to use its resources and engage in activities designed to increase its profits”* (Friedman, 1962). Corporation’s sole responsibility is to increase profits by legal means, donating to charities, is detrimental to firms since it may decrease profitability or increase product prices or both (Pinkston & Carroll 1996 cited in Snider, Hill & Martin, 2003). CSR reduce the focus on profit and should therefore be cost outside the scope of legitimate corporate concern. Corporations and managers might not in addition be competent to engage in social issues (Friedman, 1970).

Some go further with their arguments against CSR and states that being CSR and investing in CSR activities such as charitable contribution, promoting community development plans, establishing environmental protection procedures put those companies at an economic disadvantage compared to less corporate responsible companies (Aupperle, Carroll & Hatfield, 1985). CSR is a dilution of business primary purpose, it is seen as a social involvement that is

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<sup>12</sup> Quoted in the movie The Corporation by Joel Bakan, 2003

costly and that is hindering from profit maximization. The content of CSR is what corporation says they are doing, but this may differ from what they are actually doing (Davies, 2001).

CSR rests upon a false view of the world that CSR is oversimplified, taking for granted “*the idea that the problems and solutions of today have known and agreed solutions*” (Henderson, 2001). Business should focus on what they are best at, increase shareholders wealth and create job opportunities. Corporations are not responsible for the world. Private interest, must be separated from the public, they should have nothing to do with CSR. It is politicians that should speak for society, not business people (Henderson, 2001).

CSR is simply a way for corporations to hide behind the mask of their obligations and responsibility (Christian Aid, *Behind the Mask- The Real Face of CSR, 2004*): a window dressing tactic. CSR sounds and looks good: corporations just appear to be socially responsible for the purpose to not damage their image and brand as well as for the reason to keep the critics quit. CSR is only seen as a “branch of PR” and a mask that companies hide behind. It has become a “*vital tool in promoting and improving the public image of some of the world’s largest corporation*” (Christian Aid, *Behind the Mask- The Real Face of CSR, 2004*). And since CSR is a PR tool it can mean a variety of things to different people. (Frankental, 2001).

But whether it is corporations’ or government’s responsibility, or whether one is against or for CSR, it is important to stress out today’s corporate power. With globalization, business itself is more pervasive and more powerful. “The business of business is business” (Friedman, 1962, cited in Koskinen, 1999). The size and scope of international business has during the last decade grown: the 100 largest companies in the world have turnovers that are greater than the GDP of half of the world’s countries (McIntosh et al., 1998). Corporations are powerful entities, in some countries more than the government due to the fact that they are financially stronger and operating internationally.

Corporations are today seen as the more officially accepted player in the arena of political rights. They are taking an increasingly active role in today’s political arena (Schneidewind, 1998 cited in Matten, et al 2003) and the more governmental power and sovereignty have become under threat, the more that relevant politician functions have gradually shifted towards the corporate sphere (Matten et al. 2003). Today’s corporations play a crucial role in both encouraging or discouraging governments to live up to their responsibilities (Matten et al., 2003).

But the question whether CSR is a mask to hide behind or not is not of high importance. What is important is to make sure that corporations take ownership and responsibility for their actions. Today, the debate about CSR has shifted: it is no longer about “whether to make sustainable commitments to CSR, but rather how” (Smith, 2003).

### **Definition of CSR**

There is no single, commonly accepted definition of the notion of corporate social responsibility; there is no consensus on the actual meaning, however CSR is often used interchangeable with terms like corporate governance<sup>13</sup>, corporate citizenship<sup>14</sup>, corporate accountability<sup>15</sup> and business ethics<sup>16</sup>. CSR refers to “*the continuing commitment by business to behave ethically and to contribute to economic development while improving the quality of the life of the workforce and the families as well as the local community and society at large*” (Worthington, Ram & Jones, 2003)

It is “*a commitment to improve community well-being through discretionary business practice and contribution of corporate resources*” (Kotler & Lee, 2005). Communities’ well being refers to human conditions and environmental issues. The basic idea of CSR is that business and society are interwoven rather than distinct entities (Wood 1999 cited in Moir, 2001).

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<sup>13</sup> Corporate governance concerns the relationship between business and society, or specifically between a company and its owners. The governance of corporations must involve a balance between economical & social goals and individual & communal goals. The governance aim is to follow the interests of the individuals, the society, and the corporation (McIntosh et al., 1998)

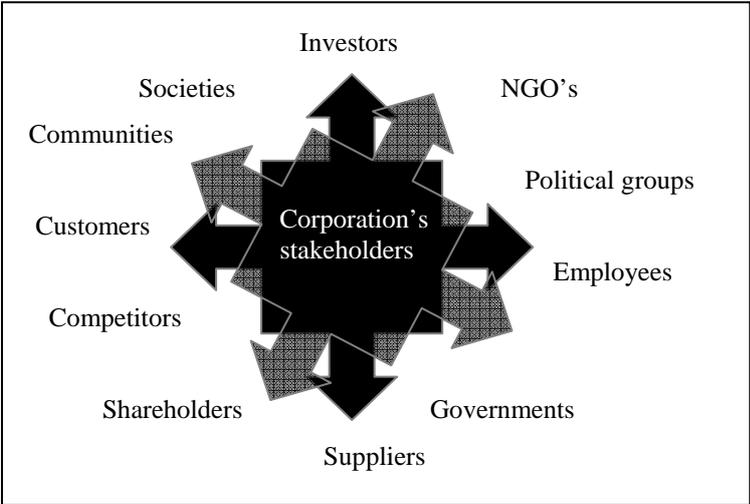
<sup>14</sup> Corporate citizenship is concerned with the relationship between companies and societies- both the local community which surrounds a business, and those members interact with its employees, and the wider and increasingly worldwide community which touches every business through its products, its supply chain, its dealers network and its advertising. Corporate citizenship is the company’s recognition of it’s responsibilities towards the society, the environments and the shareholders. Corporate Citizenship is the idea both practical and ethical dimensions and includes doing the right thing (McIntosh et al., 1998)

<sup>15</sup> Corporate accountability is a moral and legal obligation for companies to be accountable in a moral and financial way, to the society as a whole and to the shareholders. Accountability is a word reflecting personal choice and willingness, meaning also liability and responsibility. Accountability may be dictated or implied by law, regulation, or agreement (McIntosh et al., 1998)

<sup>16</sup> Business ethics is the application of ethical values to business behavior. It applies to any and all aspects of business conduct, from boardroom strategies and how companies treat their suppliers to sales techniques and accounting practices. Ethics goes beyond the legal requirements for a company and is, therefore, discretionary. Business ethics applies to the conduct of individuals and to the conduct of the organization as a whole. It is about how a company does its business.

CSR refers to a company’s obligation to be sensitive to the need of all its stakeholders, all those parties involved that have something at stake or that will be influenced by the company’s action (Smith, 2003). It is overall as illustrated in figure 2, the relationship between the corporation and its stakeholders which includes customers, employees, communities, owners, investors, governments, supplier’s competitors and NGO’s<sup>17</sup>.

**Figure 2: Corporation’s stakeholders** according to Korkchi and Rombaut, 2006, based on Donaldson and Preston, 1995



**Source:** Donaldson and Preston, 1995

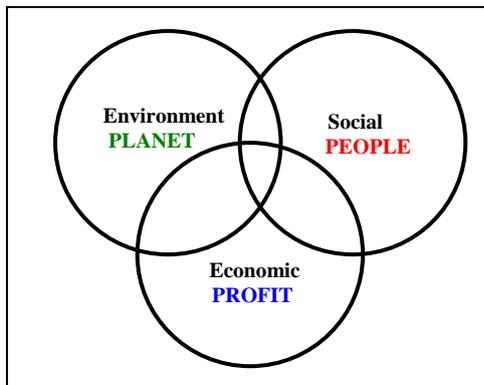
CSR goes far beyond the old philanthropy of the past, where its primary purpose was to donate money at the end of the financial year, for good causes. Today it’s an all year task, all year responsibility that “companies accept for the environment around them, for the best working practices, for their engagement in their local communities and for their recognition that brand names depend not only on quality, price and uniqueness but on how, cumulatively, they interact with companies workforce, community and environment” ( Brown 2006 cited in Amaeshi et al, 2006). CSR is as “an entirely voluntary corporate-led initiative to promote self-regulation as a substitute for regulation at either national or international level” (Christian Aid<sup>18</sup>, The real face of CSR, 2004). CSR defines as “the idea relates to business decision-making linked to ethical

<sup>17</sup> A non governmental organization is an organization which is neither a business nor represents a government. Often NGO’s are single issue pressure groups working for issues such as human rights, the environment or fair trade, but an NGO can also represent mainstream activities such as business. This is the case for Greenpeace.  
<sup>18</sup> Christian aid is a non profit organization working in over 50 countries, helping people regardless of religion or race to improve their lives and root out poverty in practical ways. More information is available at <http://www.christian-aid.org.uk/>

values, compliance with legal requirements and respect for people, communities and the environment, in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business”<sup>19</sup>.

CSR is a situation where “companies integrate social and environmental concern in their daily business operations and in their interaction with stakeholders on a voluntary basis (The European Commissions Green Paper “Promoting a European Framework for Corporate Social Responsibility”, 2001). It is about “...what organizations do how they do it and the impact of their behavior on the wider society” (Worthington, Ram, Jones, 2003). CSR is not merely about making money for its shareholders, but also acting as a good corporate citizen by obeying the law and taking good care of its people, community and environment. Decisions should not be made only on financial reasons but on questions such as community investment, environmental impact, business ethics and human right, in other words the triple bottom line; People, Planet and Profit (John Elkington,1998) illustrated in figure 3. Being CSR furthermore involves being economic, legal, ethical and philanthropic.

**Figure 3: Corporations various responsibilities** according to Korkchi and Rombaut, 2006, based on Elkington, 1998



Source: Elkington, 1998

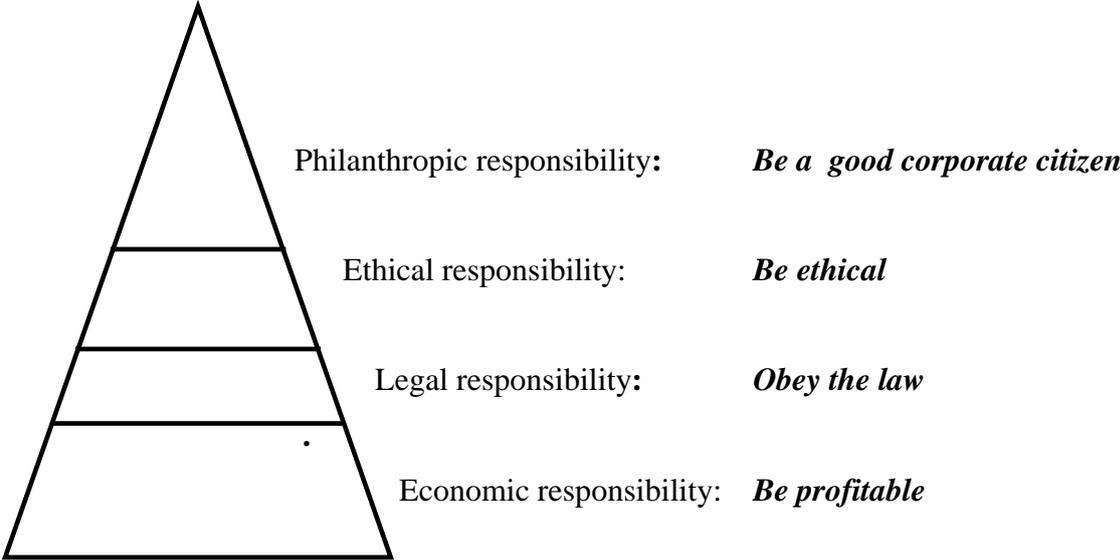
### CSR Pyramid

The CSR pyramid is based on a four-part perspective, namely economic, legal, ethical and philanthropic standpoint as figure 4 illustrates. A four-part conceptualization of CSR includes the “idea that the corporation has not only economic and legal obligations, but ethical and discretionary responsibility as well” (Carroll, 1991). It is during the recent years that ethical and philanthropic functions have taken a more important role.

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<sup>19</sup> www.bsr.org (2006-11-26)

**Figure 4: The pyramid of Corporate Social Responsibility** according to Korkchi and Rombaut, 2006, based on Carroll, 1991



Source: Carroll, 1991

**Economic Responsibility**

Looking back in history, businesses were created as economic entities “*designed to provide good and services to societal members*” (Carroll, 1991). Economic responsibility explained in figure 5 is the most fundamental one since “*all other business responsibilities are predicated upon the economic responsibility of the firm, because without it the others become moot considerations*” (Carroll, 1991).

**Figure 5: Economic Components of Corporate Social Responsibility** according to Korkchi and Rombaut, 2006 based on Carroll, 1991

- It is important to perform in a manner consistent with maximizing earnings per share
- It is important to be committed to being as profitable as possible
- It is important to maintain a strong competitive position
- It is important to maintain a high level of operating efficiency

Source: Carroll, 1991

### **Legal Responsibility**

Businesses are expected to pursue its economic responsibility within the framework of the legal one, illustrated in figure 6. Businesses are looked upon as corporate citizen that complies with the law and regulations broadcasted by federal state and local governments. These laws and regulations are the ground on which businesses must operate. Legal responsibilities embody basic notions of “*fair operations as established by our lawmakers*”. Even though they are depicted as the next level of the pyramid it is seen coexisting with the economic one. In other words maximizing ones profit while obeying the rules and regulations that is set by the government.

**Figure 6: Legal Components of Corporate Social Responsibility** according to Korkchi and Rombaut, 2006 based on Carroll, 1991

- It is important to comply with various federal, state and local regulations
- It is important to provide goods and services that at least meet minimal legal requirements
- It is important that a successful firm be defined as one that fulfils its legal obligations is consistently profitable

**Source:** Carroll, 1991

### **Ethical Responsibility**

Ethical responsibility illustrated in figure 7, refers to those activities and practices that are expected or prohibited by societal members even if they are not codified into law. Those responsibilities are about accepted norms, standards and expectations that reflect a concern for what consumers, employees, shareholders, and the community regards as fair. It is simply about respecting and protecting stockholder’s moral rights. In some cases, ethical norms and standards precedes the establishment of law. Ethical responsibility can also been seen as embracing new values and norms which businesses are expected to meet, even if those values and norms may reflect on a standard performance that is higher and that is not currently required by law. Even though ethical responsibility is the next layer in Carroll’s CSR pyramid, it must according to Carroll be “*consistently recognized that it is in dynamic interplay with the legal responsibility*”

category". It is in other words pushing the legal responsibilities to broaden at the same time as expecting businesses to operate at a level above that is required by law.

**Figure 7: Ethical Components of Corporate Social Responsibility** according to Korkchi and Rombaut, 2006 based on Carroll, 1991

- It is important to perform in a manner consistent with expectations of societal mores and ethical norms
- It is important to prevent ethical norms from being compromised in order to achieve corporate goals
- It is important that good corporate citizenship be defined as doing what is expected morally or ethically
- It is important to recognize that corporate integrity and ethical behavior go beyond mere compliance with laws and regulations

**Source:** Carroll, 1991

### **Philanthropic Responsibility**

Philanthropic responsibility illustrated in figure 8 refers to corporations acting as a good corporate citizen, by contributing resources to the community and improves quality of life. The distinction between ethical and philanthropic is that the philanthropic one is not expected in an ethical or moral sense. It is good if businesses give away charities, but they are not seen as unethical corporations if they aren't engaged in those kind of activities. Philanthropic responsibility is therefore more discretionary on the part of businesses.

**Figure 8: Philanthropic Components of Corporate Social Responsibility** according to Korkchi and Rombaut, 2006 based on Carroll, 1991

- It is important to perform in a manner consistent with the philanthropic and charitable expectations of society
- It is important that managers and employees participate in voluntary and charitable activities within their local communities
- It is important to voluntarily assist those projects that enhance a community's "quality of life"

**Source:** Carroll, 1991

The pyramid declares the distinct components that together constitute the whole. Even though the responsibilities have been explained and treated separately, they are not mutually exclusive (Carroll, 1991).

### **Image/ reputation**

Today corporate reputation and brand image has become more important as markets have become more competitive and corporate image/reputation more vulnerable. Corporations may simply be penalized by consumers and others for actions that are not seen in their eyes as being socially responsible (Smith, 2003). *“Corporate image is a result of everything a company does or does not do”* (Smith & Taylor, 2002).

Reputation has become one of the most valuable intangible assets and CSR is an important key component of corporate reputation and brand recognition. Corporations with a strong CSR image/reputation last longer than a corporation without such an engagement (Kotler & Lee, 2005). Companies that last long are those that focus on their reputation (Kay, 1993 cited in McIntosh, et al, 1998).

*“The brand that will be big in the future will be those that tap into the social changes that are taking place.”<sup>20</sup>*

**- Sir Michael Perry, Chairman of Centrica PLC**

Being CSR is furthermore not only the right thing to do; it can also distinguish a corporation from its industry peers (Smith, 2003). Having a good CSR image by acting ethical and responsible can create competitive benefits such as improve sales, strengthen financial relations, harmonize employee relations & boost recruitment and managing crisis described below.

### **Improve sales**

Today’s customers are not only concerned about the quality or the price of products/ services, but also about the way they have been produced and if the process has harmed the society, its resources or its people. *“Consumers have become increasingly sensitive to the CSR performance*

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<sup>20</sup> Quote taken from <http://www.interpraxis.com/quotes.htm> (2006-11-26)

*of the companies from which they buy their goods and services. These trends have contributed to the pressure on companies to operate in an economically, socially and environmentally sustainable way”* (Smith, 2002). It is not solely what companies say, but mainly what they do. *“Actions are more important than words”* (Kotler & Lee, 2005). A strong image originated from a corporation’s actions improves a company’s sales. It also increases its market share and market penetration (Moir, 2001).

### **Strengthen financial relations**

Being corporate social responsible helps to *“raise the corporate profile and to make the organization’s presence known to influential players within financial circles”* (Smith & Taylor, 2002). In other words increasing investors appeal. Investors do not want to invest in an irresponsible and unethical business since those companies are less valued on the market. Therefore investors are more inclined to invest in businesses with outstanding reputation than one without (Smith, 2003). Having a good image/reputation could in addition strengthen the financial relation with governments and NGO’s. And companies could through that gain and maintain legitimacy (Suchman 1995 cited in Moir, 2001). Legitimacy might be seen as a key reason for why corporations undertake social behaviour and using that activity as a form of publicity or influence (Lindblom, 1994 cited in Moir, 2001).

### **Harmonize employee relations and boost recruitment**

Having a good image and reputation can attract and retain a motivated workforce. It is a way of keeping the best people within the company and improve their working performance. CSR brings more productive workers and greater employee loyalty. Good working condition and relations cannot only help companies to keep their human capital but also attract new people. Employees typically prefer to work for social responsible firms (Smith, 2003). A study with a national cross section of 1,040 adults conducted by Cone Inc. showed that eighty percent of the respondents would likely refuse to work for a company if they were to find out about negative corporate practice (Kotler & Lee, 2005)<sup>21</sup>. Employees are simply choosing to work for a company that has strong values than for companies lacking those. *“An image for being socially responsible adds to an image of being honest and trustworthy. Such a reputation is a major driver of customer and employee satisfaction. It is often correlated with sales growth”* (Davies, 2004)<sup>22</sup>.

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<sup>21</sup> Executive summary available at [http://www.coneinc.com/Pages/pr\\_13.html](http://www.coneinc.com/Pages/pr_13.html) (2006-11-26)

<sup>22</sup> <http://www.kalder.org/genel/garydavies-kalite-sunum.ppt> (2006-11-26)

## **Manage crises**

A good image and reputation does not only boost recruitment, but can also be a real asset for a company in times of crisis. *“In times of crises, a company with good corporate image enjoys a presumption of innocence”* (Smith & Taylor, 2002). The desire for companies to improve their risk management is a powerful factor behind CSR. In the 1992 riots in Los Angeles McDonalds<sup>23</sup> stores were protected to be vandalized because of their good reputation (Kotler & Lee, 2005). *“Dishonest companies will be unable to borrow, to obtain working capital, or to form stable business relationships with suppliers and customers. Decency in this sense is not just good for business, it is essential. When it comes to maximizing long-term owner value, honesty is not just the best policy; it is the only feasible policy”* (Bakan, 2005). It is not only accepted to act in a social and responsible way it is today expected (Kotler & Lee, 2005).

Consumers boycotting of company products and services are today increasing for one simple reason; they work. Nikes exposure of sweatshop labour conditions and Shell misreporting of its oil reserves in 2004 and its failure to use its influence to prevent the executions of activist (McIntosh, Leipziger, Jones & Coleman, 1998) are two good examples of how vital it is to have and obtain a good image and reputation in today’s competitive market.

## **Motives**

The awareness of responsibility in companies has during the last decades increased. Corporations and suppliers have taken a step towards a more ethical business approach with the aim to achieve a sustainable development.

There is a current debate about the role that ethics have in corporations and the economic performance that it can bring. *“Ethics does not always pay in a short term, but it always counts”* (Paine, 2003). Corporate social responsibility is a powerful tool for achieving superior performance and generating greater profits, but to survive and thrive, the modern corporation must be more than a profit machine They should be more and more regarded as *“humanistic entities rather than purely economic”* (Paine, 2003). Today’s companies are being held to a higher standard. In addition to good financial results, leading companies must and are expected to accomplish those results by performing in an ethically acceptable manner.

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<sup>23</sup> McDonald’s was in 2000-2002 and 2004 among Fortune’s “Most Admirable Companies” for social responsibility. In 2001 they were also ranked in the Wall Street Journals ranked as number 5 in reputation for corporate social responsibility ([http://www.mcdonalds.com/corp/invest/pub/annual\\_rpt\\_archives/2001\\_annual.html](http://www.mcdonalds.com/corp/invest/pub/annual_rpt_archives/2001_annual.html), 2006-11-26)

There are four major CSR motives (later completed with a fifth one) of having a CSR engagement, namely: risk management, organizational functioning, market positioning, civic positioning and a better way motive (Paine, 2003).

### **Risk-management<sup>24</sup>**

A motive for being corporate responsible is to avoid the potential risk of putting the corporation in a crisis. A crisis doesn't have to be an accident where the employees or the environment are in danger; it could also involve wrong information being spread outside the company. By having a good CSR engagement communicated through for example "code of conducts" stating what is accepted and what is not accepted companies can decrease or eliminate the risk of ending up in a crisis, since those unaccepted rules and behaviours has been communicated externally and internally. Building a genuine culture of 'doing the right thing' within a corporation can also offset the risk of ending up in a crisis. By merely focusing on the values that guide peoples behaviour companies can minimize the occurrence of malfeasance and the damaging consequences that it brings.

The CSR strategy can also help in the decision making process when choosing how to manage a risk when an accident has already occurred. A company convicted of wrongdoing that had programs in place to prevent and detect misconduct might get a lower fine than a company convicted of the same offense that did not have a preventive program. Ethical values and not solely economic ones can manage and eliminate risks associated with corporate and individual misconduct. Those values are simply tools for preventing misconduct with its legal, financial, and reputation risks. CSR gets corporations attention due to the fact that they want to avoid the high-profile missteps and billion-dollar losses, like the case with Enron.

### **Organizational functioning<sup>25</sup>**

Motives behind CSR engagement is less about preventing missteps and more about organization building. A positive effort to build a well-functioning corporation. Values are essential for *"encouraging cooperation, inspiring commitment, nurturing creativity and innovation, and energizing the organization's members around a positive self-image"* (Paine, 2003). These

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<sup>24</sup> Risk management refers to the process of identifying, assessing and controlling risks (King, 2000).

<sup>25</sup> Organizational functioning refers to the corporation's identity, intern reliability, creativity, product development and efficiency. It is common knowledge that the "culture" or "climate" of an organization is an important factor in achieving excellent performance (Blyth, 2002).

companies see ideals like respect, honesty and fair dealing as building blocks of a high-performance culture.

### **Market-positioning<sup>26</sup>**

The third motive behind a CSR engagement is market positioning, focusing on *the “importance of values for shaping their company’s identity and reputation, building its brands, or earning the trust of customers, suppliers, or other business partners”* (Paine, 1991). One important concern for corporations is what *“customers and other market-actors expect of the products and services they buy and the companies with which they deal with”* (Paine, 1991).

### **Civic-positioning**

It has become more and more important for a company to have an active role in society where they can engage in community projects. Civic positioning is about company’s standing and reputation in the community, not just in the marketplace. Corporation’s want to, through their values and CSR engagement establish their company as a progressive force for social betterment. Others want by its civic position to build good relationships with non-market or civic constituencies such as governments, NGOs and local communities. In other words to affect the relationship with others organizations and gain legitimacy through the process.

Civic positioning is inspiring the standing of the company as a citizen of the community whereas their primary objective is to win the support of *“civic constituencies such as governments, NGOs, and local community groups”* (Paine, 2003).

### **A better way motive**

”A better way” motive discusses the ethical values which are fundamental principles of responsibility, humanity and citizenship, and need no corporate justification because it is simply about human rights. Even if adhering to principles that turns out to be commercially advantageous, their justification has much broader and deeper roots. For them, values are fundamental principles whose rationale lies not in their commercial advantages. A better way motive is about corporations basically being honest, fair and acting as a responsible citizen.

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<sup>26</sup> Positioning is a powerful tool that allows you to create an image which is the corporation’s outward representation (Smith, 2001)

These motives and values that lie behind a CSR engagement can maintain a long –term profitability for the corporations. Financial results are a must, but in addition, leading companies are expected to achieve those results by acting in an ethically acceptable manner (Paine, 1991). Value-positive corporate culture can increase profits through better risk management, improved organizational functioning, increased shareholder confidence, and an enhanced public image as illustrated in figure 9.

**Figure 9: Summary of CSR motives** according to Korkchi and Rombaut, 2006 based on Paine, 2003

<b>Risk management</b>	Values can manage and eliminate risks associated with corporate and individual misconduct
<b>Organizational functioning</b>	Values build a well-functioning company that encourages cooperation, inspires commitment, nurtures innovation and energizes the organization's members around a positive self-image.
<b>Marketing positioning</b>	Values shape a company's identity and reputation, build its brands, and earn the trust of customers, suppliers and other partners
<b>Civic positioning</b>	Values establish a company's standing and reputation in the community as a progressive force for social betterment, or as a solid citizen that obeys laws and pays taxes.
<b>A better way</b>	Values are fundamental principles of responsibility, humanity and citizenship, and need no corporate justification because it is simply about human rights

Source: Paine, 2003

## 4. Empirical studies

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Chapter 4 gives the reader an account of the author's empirical studies. Material on The Body shop is taken from the interview with Sandhya Forselius, The Body Shops Annual report and Accounts (2005), Code of business conduct (2006), Code of conduct (2005) and Individual stakeholder Account (2004). Material on H&M is mainly coming from the interview with Karolina Dubowicz and from H&M's 2005 CSR report and website. Information on Green Cargo is coming from the interview with Ingela Melkersson and from their website and Annual and Sustainable report for 2005.

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### The Body Shop



#### History and company profile

It all started in Brighton in 1976, by a woman known as Dame Anita Roddick. The founder of The Body shop "*decided to open a small shop in England selling the kind of simple, natural skin and hair care preparations she had seen being used by women of other cultures on her travels around the world.*" (The Body Shop brochure: "The Business of The Body Shop", 1996).<sup>27</sup> The original shop sold about 25 different products made from natural ingredients, but it didn't take a long time before Roddick came to sell the idea to others who wanted to set up their own Body Shop franchises throughout the world. The first Body Shop overseas franchise commenced trading from a kiosk in Brussels. By 1982 new franchises were opening at the rate of two per month. Their franchised stores now represent about 60% of their total retail sales.

Today it is over 30 years since the company opened its first store in Brighton on the south coast of England. "*Now 30 years on The Body Shop is a multi local business with over 2.045 stores serving over 77 million customers in 52 different markets in 25 different languages and across 12 time zones*"<sup>28</sup>. The Body Shop employs approximately 6788 people with approximately 14,000 additional employees working within their franchise network. Figure 10 details some important dates for The Body Shop.

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<sup>27</sup> [www.jonetine.com/reviews/Body\\_Shop\\_Roddick\\_audit.doc](http://www.jonetine.com/reviews/Body_Shop_Roddick_audit.doc) (2006-11-26)

<sup>28</sup> [http://by134w.bay134.mail.live.com/mail/ApplicationMain\\_11.08.0100.0011.aspx?culture=sv-SE&hash=-1667215966](http://by134w.bay134.mail.live.com/mail/ApplicationMain_11.08.0100.0011.aspx?culture=sv-SE&hash=-1667215966) (2006-11-26)

**Figure 10: Important dates for The body Shop**

1976	The first Body Shop opened in Brighton, England
1986	The first Community trade <sup>29</sup> product was produced by a supplier in India
1990	The Body Shop foundation was established <sup>30</sup>
1997	The Body Shop became the first international cosmetics company to sign up to the Humane Cosmetics Standard supported by leading international animal protection groups
2004	The Body Shop became the first global retailer to join the Board of the Roundtable for Sustainable Palm Oil, working with NGOs and plantations to protect tropical rainforests and improve the human rights of workers and indigenous people
2005	The Body Shop joins The Campaign for Safe Cosmetics and is commended by Greenpeace and the Breastcancer Fund for their chemicals policy
2006	The Body Shop becomes a part of the L'Oréal Group

**Source:** <http://www.thebodyshopinternational.com/About+Us/Our+History/2006> (2006-11-26)

In addition to their stores, The Body shop also offers its customers an alternative way to shop: either on-line or through The Body Shop At Home which is a direct sales channel where independent consultants sell their products in the homes of their customers. The Body shop At home is a personalized service for those customers who want to try the products before buying them.

### **The Body Shop's Business Philosophy**

The Body Shops business philosophy is to *“offering customers a shopping experience that combines excellent service with a comprehensive range of naturally-inspired personal care products that offer performance, indulgence and great value for money”* (The Body Shop's Annual Report and Accounts 2005). Their business philosophy is greatly connected to the company's five core values: Support Community Trade, Defend Human Rights, Against Animal Testing, Activate Self-Esteem and Protect Our Planet. The Body shop wants to *“operate in a strong commitment to the wellbeing of our fellow humans and the preservation of our planet”* (

<sup>29</sup> Community trade refers to the principles of rewarding small scale producers for their efforts as well as strengthening their position through direct trade and fair price. Buyers are directly dealing with the producers. The Body Shop is at the moment trading with 31 Community Trade suppliers in 24 countries.

<sup>30</sup> The Body Shop Foundation is a charity which funds human rights and environmental protection groups

The Body Shop's Annual Report and Accounts 2005). *"Everything we do, we do with our values in mind. After all, when you believe in what you do, you do it better"*<sup>31</sup> as Roddick declares.

### **The Body Shop and CSR**

...There is no more powerful institution in society than business...The business of business should not be about money, it should be about responsibility. It should be about public good, not private greed."<sup>32</sup>

-Anita Roddick, Business as Usual

The Body Shop stands for clear defined values: *"The pursuit of social and environmental changes ...to ensure that our business is ecological sustainable..."* (The Body Shop 1995, "Our agenda" cited in McIntosh et al., 1998). CSR is closely linked to the company's five core values.

Corporate Social Responsibility is according to The Body shop in Sweden *"The way of doing business...it is to be a good citizen in the society, a member of the society...CSR is not just a corporation making money, it is bigger than that"* as Forselius states (2006).

In 1997 The Body Shop became the first International cosmetic company to receive an award from the Humane Cosmetics Standard for their "Against Animal Testing" policy. In addition to this, Anita Roddick was awarded in 1994 the Botwinick Prize in Business ethics and in 2001 International peace prayers day organization's women of peace<sup>33</sup>.

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<sup>31</sup> [http://by134w.bay134.mail.live.com/mail/ApplicationMain\\_11.08.0100.0011.aspx?culture=sv-SE&hash=-1667215966](http://by134w.bay134.mail.live.com/mail/ApplicationMain_11.08.0100.0011.aspx?culture=sv-SE&hash=-1667215966) (2006-11-26)

<sup>32</sup> Quote taken from <http://www.interpraxis.com/quotes.htm> (2006-11-26)

<sup>33</sup> <http://www.anitaroddick.com/aboutanita.php> (2006-11-26)

## **The Body Shops responsibilities according to The CSR pyramid**

### **Economic responsibility**

Corporations have a responsibility to generate profit for shareholders, but not at the expense of the environment or people. *“Profits with principles must be achieved in order to sustain the long term future”* (The Body Shop’s Annual Report and Accounts, 2005). With economic responsibility comes as Forselius states ethical responsibility. It is The Body Shops responsibility to *“take care of business, but with that comes our responsibility that is bigger than our business”*. Businesses have a responsibility to not just make money, but to also have a positive influence on the environment they operate in and the people they affect. Forselius also argues that profits could be seen in different ways: *“in figures or in a larger perspective”*. A challenging and competitive marketplace The Body Shop must maintain a dynamic balance between the short and the long-term needs of their business and their stakeholders, if they are to achieve a sustainable future (The Body Shop’s Individual Stakeholder Accounts: Environmental Report, 2004).

*“The Body Shop’s goals and values are as important as our products and profits. The Body Shop has soul. Don’t lose it.”* (Roddick quoted in: *“The Business of The Body Shop”*, 1996).<sup>34</sup>

### **Legal responsibility**

It is a fundamental policy of The Body Shop that all employees observe and comply with the laws and regulations applicable to the Group's business in each country where they operate, and that each employee acts with high standards of business integrity. The Body Shop International's commitments are to conduct business in accordance with their values and with all relevant laws and regulations. When collaborating with new suppliers the company signs different types of contracts to make sure that what is required and expected from them are followed. The Body Shop’s code of conduct (see appendix 2 for more detailed information of their code of conduct) is one of many documents that have to be signed, both by suppliers and employees. In that code minimum standard has to be in compliance with all relevant legislation which includes for example packaging waste.

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<sup>34</sup> [www.jonetine.com/reviews/Body\\_Shop\\_Roddick\\_audit.doc](http://www.jonetine.com/reviews/Body_Shop_Roddick_audit.doc) (2006-11-26)

The legal responsibility also means that The Body Shop by law and stock exchange rules publishes complete and accurate financial statements and descriptions of their business, neither miss-stating material facts nor falling to disclose facts which might be material to potential investors. The company's financial record, including time sheets, sales record and expenses reports, must be accurate, timely and in accordance with the law. These records are the basis for managing the company's business and for fulfilling its obligation to shareholders, employees, customers, suppliers and regulatory authorities (The Body Shops Code of conduct, 2005).

### **Ethical responsibility**

Ethical responsibility is something that The Body Shop strongly promotes and according to Forselius it means to *“leave this world a better place, and there are different focus and different ways to achieve that. It is about our heritage, our values”*. It is about how corporations do business and there is as Forselius states always a company choice of what you put in that. Being ethical is to do business in the right way, do business with integrity and transparency. It could refer to a range of issues from choosing the right ingredient/package, how suppliers are being paid, how they test their products and building programs for fair trade, but also to financially support NGOs and human rights organizations like the Red Cross. The Body Shop is simply using ethical principles to inform the way they do business. For The Body Shop ethical responsibility is as mentioned previously closely connected to the company's five core values. Forselius states that *“when you can have this combination, you can make profit, and be responsible for all your activities at the same time... our main goal is to make a better place to live in, but to make that concrete, to make that happen we need to communicate that in different ways and that's why we have our five values, it is simply of how we do business on a regular basis, how we do business every day”*.

In their 2004 Environmental report The Body Shop provided their stakeholders with a detailed list on the use of chemicals in their products. They continue review their use of chemicals to reflect stakeholder concerns.

The Body Shop engages in a number of initiatives with their suppliers to not solely enhance performance, but to also ensure ethical compliance in their supply chain. They simply set themselves and their business partners clear standards of practice to ensure ethical behaviour (The Body Shop's Code of Business Conduct, 2006). According to Roddick, it is the reason why the company is different from its competition. She states in her own words that: *“Why are we*

*different: we respect the environment. We are against animal testing for cosmetics. We are committed to establishing non - exploitative trading relationships with indigenous people. We campaign for human rights. Our business is something that people - employees, customers, suppliers, franchisees - can feel great about, but only on one condition: The Body Shop must never let itself become anything other than a human enterprise” (Cited by Roddick in The Body Shop brochure: “The Business of The Body Shop”, 1996).<sup>35</sup>*

The Body Shop is an active member of the Ethical Trade Initiative<sup>36</sup> (ETI) and has adopted the ETI Base code purchasing products only from suppliers that meet ethical trade standards where employment is freely chosen, working conditions are safe and hygienic, child labour is not used, working hours are not excessive, living wages are paid, freedom of association and the right to collective bargaining are respected, no harsh or inhumane treatment is allowed and no discrimination is practiced (The Body Shops Code of conduct, 2005). In order to make sure that all suppliers meet the ETI standards, they are obliged to sign a contract agreeing to hold on to the standards and to undertake regular ethical assessment. They have furthermore established an Ethical Trade and Community Trade program *“to help create livelihood, and to explore trade-based approaches to supporting sustainable development by sourcing ingredients and accessories direct from socially and environmentally marginalized producer communities”* (McIntosh, et al, 1998). Community trade refers to trade that is based on a long term relationship with communities by helping them to sell their product and be independent. The ethical trade program conforms with high levels of labour standards, including the avoidance of child labour, forced labour, sweatshops, adverse health and safety conditions, and violations of labour rights, or human rights. The Body Shop promotes best practice through networks such as the Business leaders initiative on human rights and multi stakeholder partnerships with the aim to promote sustainable raw material, including wood and palm oil (Individual Stakeholder Account: Environmental Report, 2004). They believe in sustainability and sustainable activities which will balance environmental, social and economic needs to secure the long term well being of all their stakeholders. The company believes that by being a good corporate citizen through social and environmental actions, the company will gain trust from their employees, customers, stake and shareholders.

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<sup>35</sup> [www.jonetine.com/reviews/Body\\_Shop\\_Roddick\\_audit.doc](http://www.jonetine.com/reviews/Body_Shop_Roddick_audit.doc) (2006-11-26)

<sup>36</sup> ETI is a forum composed of several developments and campaigning organizations, with the aim of improving working conditions in developing countries by developing a forum for discussion, analysis, and training. The ETI is a processes rather than a product, providing a common framework for addressing codes of conduct and monitoring. The initiative hopes to provide a road map for companies seeking to develop best practice in the area (McIntosh, et al, 1998).

## **Philanthropic responsibility**

The Body Shop informs its employees about opportunities to engage and support voluntary and campaign activities (The Body Shop's Annual Report and Accounts, 2005). Donation and charitable activities is according to Forselius a good thing for corporations to do, but not the most important thing. Forselius declare it is *“very good to support financially in a catastrophe, but that is a short term action, choosing the right ingredients for example or the right packaging, that's a long term action...because a donation ends...donation and charity helps, but only in short terms, it is a really good thing if you have a catastrophe to give money to the victims, but after a few months the problem is still there and you need to put in more money. Charity is a small part of the Body Shop's business; values are more important and effective”*.

The Body Shop does however donate money to charitable organizations. Only last year the Group donated £ 1.3 million to charity. In response to the horror of the Asian tsunami they donated £ 100 000 which was the same amount that they gave to “The Children on the edge” to help rebuild children's lives in Acen, worst hit by the tsunami. The Body Shop do also support the vital work in Aids/HIV carried out by the organization “Until there is a cure” (The Body Shop's Annual Report and Accounts, 2005).

The Body Shop is furthermore funding campaigns to stop the abuse of human rights, animal experimentation and to help environmental causes. The “Stop violence at home” campaign which is the main focus of the company's volunteering activities promote human rights and raised through its customers £ 500 000. In addition to this campaign, The Body Shop also runs operations together with Amnesty International<sup>37</sup> and additional NGO's towards fighting for social, cultural and political rights. In 2005 it also joined the campaign for Safe Cosmetic which is commended by Greenpeace and the Breast Cancer Fund.

The Body Shop is working towards achieving sustainable progress in human and civil rights, environmental and animal protection has, in total donated over £ 7 million to over 2000 projects across the world. However, all donations made in the name of The Body Shop (either by

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<sup>37</sup> Amnesty International, founded in 1961 is a worldwide movement of people who campaign for internationally recognized human rights. Its vision is of a world in which every person enjoys all of the human rights enshrined in the Universal Declaration of Human Rights and other international human rights standards. AI has today over 1.8 million members, supporters and subscribers in over 150 countries.

company-owned markets or by franchising) must be made in accordance to The Body Shop's ethical policies and principles, which is available in The Body Shop International global donation report. Franchisees are obliged to live up to the Values of The Body Shop as well to those principles that are directly relevant to retailers, e.g. the Environmental Policy and the Human Rights Principles.

### **Implementation and monitoring of CSR**

For The Body Shop, CSR is implemented through code of conducts, principle and policies. There will be no collaboration with suppliers if they haven't signed these principle and rules. CSR is also implemented through educational ventures which are according to Forselius something which they are placing increased focus on. She states that *"for our employees we do have a lot of education and a lot of policies to be followed... we need to spent time in educating the values and the campaigns we are doing"*.

The Body Shops code of conducts includes like many other companies code of conducts sensible obligations including the absent of child labour and environmental damage materials etc. By having a code of conduct The Body Shop can monitor and follow up and as Forselius states: *"pressure your suppliers to make a change and work in a long term perspective"*. This does though not imply as Forselius states that *"just having a code of conduct does not make you more ethical just legal...it is simply a piece of paper stating the minimal rules you have to work with and that is a good thing..."*. Monitoring and making sure that the company's suppliers follow the code and the principles set by The Body Shop is more difficult to ensure.

The Body Shop monitors the ethical performance of all of their suppliers on a regular basis so they can ensure their buying team only source from suppliers that meet their ethical trade standards. Various monitoring systems are being used by The Body Shop, like the SA 8000 which is a *"third-party social accountability code which can be applied internationally across all commercial sectors to evaluate whether companies and other organizations are complying with basic standards of labour and human rights practices and, eventually, with a wide range of issues. SA 8000 covers areas such as child labour, forced labour, workplace safety and health, the right to organize, discrimination, workplace discipline, working hours, wages and management systems for human resources"* (McIntosh, et al, 1998).

Forselius declares that *“we use all kind of systems: production systems, environmental systems and there are standards like SA 8000 that we work with on a regular basis”*. They also have environmental management system which has been developed inline with the ISO 14001 standard<sup>38</sup>. However, the problem is not to evaluate whether companies are complying with basic standards like use of child labour or environmental concern (since the law system in most countries are good and prohibits child labour), but rather to make sure that the suppliers follow these rules and standards. It is always difficult to ensure that rules and principles are being followed and *“mistakes will of course be made somewhere since there are a lot of people involved, maybe an ingredients was not fulfilling your expectations, but this is what you can change when you have this monitoring system”* as Forselius states.

### **CSR motives**

Motives for acting social responsible vary from company to company. For The Body Shop it is mainly to contribute to a sustainable and positive change in society. The Body Shop has to make profits, just like any other company, in order to open shops and sell products to customers, without whom there would be no Body Shop. Therefore the company needs to, as Forselius states, *“earn money every day, every hour and for that we need to be a competitive brand, being a good corporate citizen helps a lot”*.

Being CSR is also a way to manage risks. Being seen and acting as a good corporate citizen does not only create a good image and reputation for the company, but also may eliminate the risk or the possibility of ending up in a one. Forselius states: *“we believe that it is better be proactive than reactive”*

CSR is not a separate part of the Body Shop’s business philosophy. Rather, it is integrated and communicated through out the whole company. To be taken seriously and to be seen as a good corporate citizen, CSR is something that The Body Shop needs to work with on a daily basis. Their values are as Forselius states in the products they sell. *“When customers walk out from the stores they walk out with all our values and that is their part of making this world a better place and changing in a positive way...”* CSR is a conscious choice for companies, but it is also a

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<sup>38</sup> ISO 14001 is a recognized environmental system. The series is based on the principles of a register of environmental effects, including input, processes and outputs, and measurable continuous improvement based around an audit, monitoring and management system. However it does not require a third party verified public statement (McIntosh et al., 1998).

conscious choice for the customers and in the long term it makes a difference. *“They know what they get when they buy our product...in the long run it should make a difference for the environment”* as Forselius states.

### **Image & reputation**

The Body Shop has an established reputation as a socially and environmentally responsible company. The most valuable asset for the company is its brand (The Body Shop’s Code of Business Conduct, 2006). *“When customers walk out from the stores they walk out with all our values...this is our way to strengthen the brand and be a good corporate citizen”* Forselius argues.

Among the important things represented by the Body Shop brand is its reputation for honesty and integrity. This reputation endures because of the values and commitment to conduct responsible business in the right way. Their image and reputation is critical to its commercial success and long term sustainability. They ask consumers to believe in their brand and in the organization behind the brand. It is the job of all employees to safeguard the Company Assets.

Image and reputation are important corporate assets, especially in a market like the Swedish one with a very highly educated population. There is increased competition, and a positive image and reputation can therefore help a company to create customer loyalty and encourage customers to buy the products. After all, *“if you don’t like anything at The Body Shop you can just walk next door...this might be more different in younger market, like south Africa or Asia,”* Forselius states. A good image and reputation can strengthen a company’s market position and therefore empower the company. Forselius states that *“the goodwill value is unestimated.”*

Having a good image and reputation can be seen as a competitive tool and that can bring many corporate benefits. For the Body Shop it is not merely financial ones. It can in addition boost recruitment and get the best people working for you: *“we have a lot of applications coming in and I think it is thanks to our good reputation”* Forselius states. CSR could also help to build up a good atmosphere amongst existing employees and assist in the handling of crisis as a part of risk management. But as image and reputation strengthen, the steeper the fall becomes. This is, in accordance with Forselius, a reason why many companies don’t reveal what they are doing, why they aren’t transparent, *“because if you say something, you have to live up to it, they are afraid that they cant live up to these expectations, anytime you present a report on a stock*

*market, you always have a gap between expectations and what you can actually can fulfill in everything you do*". Customers will look for actions that reinforce the words and promises made by the company.

### **Challenges with CSR**

As a cosmetics retailer, The Body Shop focuses on meeting its customer's expectations by providing innovative product that meets their needs. Their challenge as an ethical company is to do this in a way that also meets the customer's expectations in terms of environmental and social impacts of the development, sourcing and packaging of their products. And since The Body Shop largely consists of franchises, this can also lead to difficulties, for example, the demand for greater autonomy and the provision of marketing support. There are also difficulties in controlling the company's reputation: franchisees can, by one mistake, shatter the whole company's ethical image.

However the main challenges for The Body Shop with CSR is to achieve sustainable development: *"working with values is hard work everyday, not just getting all the glory and attention...it is easy to run one campaign, but it is hard to run 25 campaigns or work to with values over time"*.

In the 1970s when The Body Shop started, there was a huge focus on environmental issues. It was an important issue put on the agenda, and today everyone is not only expected but also required to be environmentally friendly and to continue fulfilling these expectations. It follows that values and behaviour change in line with society's expectations.

Another challenge with CSR is to make sure that the company puts its focus and time on monitoring right things, or things that are of great importance. The monitoring aspects are likely to be challenging, but, according to Forselius *"hard work everyday is necessary to make it happen."*

## Hennes & Mauritz



### History and company profile

It was upon Persson's return from the USA that he came to open the first H&M store. The store was named Hennes and opened up 1947 in Västerås, Sweden. At the beginning Hennes only sold women's clothes (the name Hennes means "hers" in Swedish). During the 1950s and 60s the company came to steadily expand in Stockholm and in 1968 Persson bought a hunting and gun store called Mauritz Wildforss. When Persson bought the store a stock of men's clothes came with it and so at that time the company changed to Hennes & Mauritz. Figure 12 details some important dates of H&M's history profile:

**Figure 11: Important dates for H&M**

<b>1947</b>	Hennes opens in Västerås
<b>1965</b>	First overseas expansion- store is opened in Norway
<b>1968-70</b>	Introduction of men's and children's clothes
<b>1974</b>	H&M is listed on the stock exchange
<b>1975</b>	Introduction of cosmetic sales
<b>1978</b>	Introduction of baby clothes
<b>1980</b>	Rowells mail order company bought
<b>1993</b>	BIB (Big is beautiful) is launched
<b>1998</b>	H&M starts selling goods in Sweden via the Internet

**Source:** [http://www.hed.msu.edu/internationalretailing/company/H\\_M/index.html](http://www.hed.msu.edu/internationalretailing/company/H_M/index.html) (2006-11-26)

Today H&M's is the largest fashion chain in Sweden by sales<sup>39</sup> and has made its brand well known worldwide. Nowadays they sell clothes, accessories and cosmetics in over 1,300 stores in 24 countries and have approximately 100 designers who work with a team to create H&M's clothing collections for women, men, children and teenagers. Even though the company is a publicly quoted company the control is decisively in the hands of the Persson family which owns the majority of the voting rights.

<sup>39</sup> [http://www.hed.msu.edu/internationalretailing/company/H\\_M/group\\_review.html](http://www.hed.msu.edu/internationalretailing/company/H_M/group_review.html) (2006-11-26)

H&M's corporate management is based in Sweden where the company's headquarters are located. Stockholm is also where main departments for "*design and buying, finance, accounts, expansion, interior design and display, advertising, communications, IR, HR, logistics, security, IT and CSR and environment*"<sup>40</sup> are located. Since the purchasing is centrally organized by the headquarters in Sweden, Swedish laws and regulations are determinant: "*other countries do not have much influence on the buying policy*"<sup>41</sup>.

The company does not manufacture any clothing itself, but instead works with over 700 independent suppliers across the world. H&M have at the moment 22 production offices, nine in Europe, eleven in Asia, one in Central America and one in Africa. They have approximately 50 000 employees<sup>42</sup>.

In addition to their stores, H&M also offers its customers an alternative and convenient way to shop: via catalogues named H&M Rowell's and through the Internet. Each year two big catalogues come out – a spring catalogue and an autumn catalogue, but so far H&M Rowell's only operates in Sweden, Norway, Finland and Denmark.

### **H&M's Business Philosophy**

H&M's business philosophy involves giving the customers unbeatable value achieved by offering them "*fashion and quality at the best price*". Best price is ensured by H&M having as few middlemen as possible and buying large volumes.

H&M's business philosophy involves ensuring and improving the quality of their goods. Quality is a top priority for the company and the company has about 140 quality controllers who on a regular basis visit the factories, to ensure that demands are met. Offering fashion and quality at best price does not only refer to how the clothing looks and fits but also on how the products have been manufactured. Have they been manufactured "*without the use of environmentally hazardous chemicals or harmful substances and to be produced under good working conditions*"<sup>43</sup>?

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<sup>40</sup> [http://www.hm.com/us/abouthm/factsaboutm/organization\\_\\_organisation.nhtml](http://www.hm.com/us/abouthm/factsaboutm/organization__organisation.nhtml) (2006-11-26)

<sup>41</sup> <http://www.cleanclothes.org/companies/henm.htm> (2006-11-26)

<sup>42</sup> [http://www.hm.com/us/abouthm/factsaboutm/hminbrief\\_\\_hminbreif.nhtml](http://www.hm.com/us/abouthm/factsaboutm/hminbrief__hminbreif.nhtml) (2006-11-26)

<sup>43</sup> [http://www.hm.com/us/abouthm\\_\\_aboutm.nhtml](http://www.hm.com/us/abouthm__aboutm.nhtml) (2006-11-26)

## H&M and CSR

After having worked for several years in Asia, Ingrid Schullström, CSR manager and a member of H&M's group management came back to Sweden and established a quality department. At this time H&M went from offering fashion at the lowest price to fashion and quality at the best price. Eventually, H&M came to set up a separate CSR department (which currently employs seven people) in line with growing complex issues.

According to H&M, Corporate Social Responsibility refers to *“integrating social and environmental concern into business operations”* (CSR report, 2005). It is not about what you as a company does, but mainly how you do it and by clearly defining the corporation's responsibility. H&M are like any other company, obliged to follow the laws and rules in its operating countries, whether it involves the people or the environment. That is the minimum requirements. CSR is more related to a responsibility that is based on free will, whereas Dubowicz states: *“once action has to be well thought [out] and you have to be able to stand for it”*. Companies have a responsibility to act rightly, to act in a way that influences the company's shareholders and stakeholders as positively as possible. H&M has, as an international retail corporation, influence on the local markets where its products are manufactured, and this requires it to: *“act responsibly and focus on the long term... Corporate Social Responsibility is an increasingly important strategic matter and accords completely with H&M's fundamental values”* (CSR report, 2005)

It is not solely the CSR department working and being held responsible for the company's ethical or environmental issues and problems, but rather the company as whole. *“CSR must be integrated in everything H&M does”* as Dubowicz states.

For H&M, CSR is mostly connected to the company's supply chain and its focus on quality improvements which is characteristic of all H&M activities. Fashion and quality at the best price does not only refer to how *“the clothing fits but also e.g. how it has been manufactured”*. H&M states that: *“a fundamental principle is that our clothes must be manufactured under good working conditions. H&M therefore sets high standards in this respect and works towards long-term improvement of working conditions for the people producing our goods...”*<sup>44</sup>. These standards are in detail stated in the company's code of conduct which lights up issues like child

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<sup>44</sup> [http://www.hm.com/us/abouthm/factsaboutm/corporateresponsibilities\\_\\_ourresponsibilities.nhtml](http://www.hm.com/us/abouthm/factsaboutm/corporateresponsibilities__ourresponsibilities.nhtml) (2006-11-26)

labour, legal requirements, safety, workers' rights, factory and housing conditions, environment and inspection and compliance (see appendix 3 for detailed information of H&M's code of conduct). H&M's focus on quality and quality improvements have led to H&M undergoing a number of quality and security tests of their garments such as chemical test<sup>45</sup>, button test<sup>46</sup>, nickel test<sup>47</sup>, Ph-test and PVC-test<sup>48</sup> etc. They do though put extra high demands on children's clothes where no sharp objects or flammable materials may occur (CSR report 2005).

H&M's recognition of CSR work has led to H&M being included in a number of share indexes that take into account companies CSR work, such as the Dow Jones World Sustainability Index and the FTSE4Good<sup>49</sup>.

In 2006 H&M received the SvD<sup>50</sup> prize for the improver of the year (årets förbättrare). The award is given to a company that during the year has improved its social and environmental activities. Focus is put on human rights, working conditions, environment and business routines. H&M's keen demand on their suppliers have according to the jury, led to noticeable improved production conditions.

### **H&M's responsibilities according to the CSR pyramid**

In H&M's 2005 Corporate Social Responsibility report the company discusses and highlights its responsibilities as a corporation and as a corporate citizen.

### **Economic responsibility**

Corporations exist to make profit for its shareholder, but this should be accomplished in consideration of environmental and ethical aspects. H&M's customers are of great importance and it is critical that H&M meets their expectations and deliver good products and acting fairly. By doing so H&M will be able to, as Dubowicz argues satisfy its shareholders. Creating

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<sup>45</sup> A number of tests are performed with special care taken to substances that can provoke skin irritation, allergies or cancer

<sup>46</sup> With a special machine H&M can control that the buttons on all baby and children's clothes are attached safely

<sup>47</sup> To make sure that the PH-value is neither too high nor too low. This is done to avoid skin irritation.

<sup>48</sup> From January 1 2002 none of H&M's garments contain the plastic material polyvinyl chloride (PVC). Tests are performed to make sure this is followed

<sup>49</sup> If a company wants to get into the FTSE4Good index they need to go through a load of internationally accepted selection criteria such as working towards environmental sustainability, developing positive relationship with their stakeholders and upholding & supporting universal human rights. If the FTSE4Good decides that the company is being ethical in these three areas they will let them in.

<sup>50</sup> SvD was established in 1884 and is today Sweden's third largest morning newspaper and the fifth largest daily newspaper. 420 000 examples are distributed all over Sweden whereas the majority is located in Stockholm (55%). At the moment SvD has 350 employees.

shareholder wealth will simply be accomplished by providing customers with the products they want, by treating employees in an ethical and responsible way, and by taking care of the environment in which they operate: *“Taking responsibility for how our operations affect people and the environment is an essential prerequisite for H&M's continued profitability and growth”* (CSR report, 2005)

### **Legal responsibility**

Since H&M does not own any factories but instead buy their products from independent suppliers and their subcontractors, they require that *“wages and working conditions must meet or exceed existing laws in the country in question and that children may not work in factories that supply H&M”* (CSR report, 2005).

CSR is for H&M closely connected to the company's supply chain whereas they are on a regular basis working toward making sure that their suppliers pursue the rules and principles, for example, the legal requirements that are stated in their code of conduct. H&M will not work with any suppliers not signing their code of conduct as well as H&M's chemical restriction compliance commitment and restriction for cosmetic and hygiene products compliance commitment. No collaboration or exchange of goods and money will take place before those contracts have been signed. In addition, they will not place an order if their suppliers haven't been controlled by the company's inspectors, and approved by the CSR department. H&M's ambition is to *“work with suppliers who meet our stringent requirements for price, capacity, quality and working conditions”* (CSR report, 2005).

### **Ethical responsibility**

By being a participant in UN's Global Compact<sup>51</sup> and supporting its ten principles, H&M want to demonstrate that it is working towards human rights and is working and contributing to sustainable development<sup>52</sup> within areas that they are able to influence (CSR report, 2005). They are however aware of *“the risk of human rights violations and non-compliance with local labour*

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<sup>51</sup> In 1999, United Nations Secretary-General Kofi Annan challenged business leaders to join an international initiative – the Global Compact – that would bring companies together with UN agencies, labour and civil society to support universal environmental and social principles. The Global Compact's operational phase was launched at UN Headquarters in New York on 26 July 2000. Today, many hundreds of companies from all regions of the world, international labour and civil society organizations are engaged in the Global Compact, working to advance ten universal principles in the areas of human rights, labour, the environment and anti-corruption .

<sup>52</sup> Sustainable development is development that meets the need of the present without comprising the ability of future generations to meet their needs (Brundtland, 1987)

*law and internationally agreed labour standards*” (CSR-report, 2005). The company does in addition support the OECD’s<sup>53</sup> guidelines for multinational companies and is a member of Amnesty International group (AI) and the Fair Labour Association (FLA). Additionally, it is a member of Business for Social Responsibility<sup>54</sup> (BSR).

Out of concern for the health of H&M’s customers and employees, it has conducted restriction for textile, leather, plastic and metal products. The restrictions do not only include chemicals that are restricted by law, but also chemicals that H&M have chosen to list on its restriction list for precautionary reasons. H&M is devoted to act in a responsible and ethical way by not solely obeying the laws but also by doing more the law requires. The company aims to “*cooperate with their suppliers on improving social and environmental standards*” (CSR report, 2005).

H&M policy against animal testing<sup>55</sup> was established in the mid 1990s. It does not allow animal testing on its cosmetic or hygiene products, either during the production of these products or after completion.

### **Philanthropic responsibility**

Even though H&M does not have any employee volunteer programs, it does participate and collaborate with various numbers of organizations. One is called ‘Mentor Sweden’, which is an organization that works towards preventing drug abuse amongst youth by strengthening the relationships between young people and adults. H&M also participates in the MFA Forum Bangladesh<sup>56</sup> which brings together international and local stakeholders as well as ETI, Social Accountability international (SAI), FLA and representative from the Bangladeshi government to help address the issues that the garment industry in Bangladesh is facing. In 2004 H&M entered a three year agreement with UNICEF, working towards raising the awareness of Aids and HIV. The company wishes to help to contribute to the development of those countries where AIDS and HIV are major problems (CSR report, 2005) Participating in this programme aims to increase

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<sup>53</sup>The Guidelines constitute a set of voluntary recommendations to multinational enterprises in all the major areas of business ethics, including employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation. Adhering governments have committed to promote them among multinational enterprises operating in or from their territories.

<sup>54</sup>BSR provides information, tools, training and advisory services to make corporate social responsibility an integral part of business operations and strategies. BSR promotes cross sector collaboration and contributes to global efforts to advance the field of corporate social responsibility.

<sup>55</sup> For more information see sheet Animal rights issue on [www.hm.com/csr](http://www.hm.com/csr)

<sup>56</sup> For more information go to [www.mfa-forum.net](http://www.mfa-forum.net)

*“female factory worker’s knowledge about HIV/AIDS and reproductive health”* (CSR report, 2005)

Four the past years H&M has supported the work of the organization WaterAid with the aim to improve access to water for people living in Asia and Africa. H&M is supporting the organization by donating ten per cent of the proceeds of selected swimwear (CSR report, 2005).

As a corporate citizen, H&M also believes it important to provide aid to these areas affected by natural disasters as the case with the tsunami in Asia to which it donated EUR 150,000), Hurricane Katrina in the USA to which USD 20,000 was donated, and the earthquake in Pakistan to which it gave SEK 500,000 (CSR report, 2005).

As important as donation and charity activity are for H&M, Dubowicz states that *“it is not the most important thing looking at Corporate Social Responsibility”*.

### **Implementation and monitoring of CSR**

For H&M’s CSR is mainly implemented through educational commitment. The company invests in educating employees who make decisions with potential greater impact on the environment (employees buying store equipment). For others, H&M mainly focus on raising awareness (CSR report, 2005).

H&M’s monitoring efforts became a priority when the company was put in the limelight for using child labor in its Asian factories. In 2004 H&M developed a new monitoring system called the Full Audit Programme (FAP). FAP in brief is a monitoring program that:

- Is searching to find the cause rather than just the violations
- Is going from many audits to fewer but more comprehensive ones
- Integrates workers interviews as a part of each audit
- Is working with continuous follow-up of supplier’s action plans (CSR report, 2005)

FAP (based on the ILO's Declaration on Fundamental Principles and on the convention on the Rights of the Child) is a *"long-term commitment where having a constructive dialogue with factory managers is key... In 2005... all auditors were trained in the improved work processes, and factory audits according to the new model started to be conducted. We expect all audits to be carried out in accordance with FAP..."* (CSR report, 2005).

The FAP which at present has 40 full time auditors primarily working in Asia helps H&M to have a *"constructive dialogue with the suppliers about how to solve problems in the long-run"*. An important task for H&M is to supervise the factories in order to implement changes and make them permanent, which is a step towards allowing their suppliers to work more independently.

In addition to H&M's internal monitoring system (the FAP program), independent monitoring is also conducted by the Fair Labor Association<sup>57</sup>, which H&M was accepted as a participating member in 2005. Being a participating company also means that the FLA will conduct unannounced independent monitoring visits at some of H&M's suppliers' factories and publish their results on their website. However, H&M states in its CSR report that this will be supplementary to its own report, rather than a replacement. The results of the independent audits will later be available on FLA's website. Working with the FLA and other partners is a way to *"improve labour standards in our supply chain"*<sup>58</sup>, according to H&M.

Monitoring is, according to H&M: *"the major component of our efforts as it makes it possible to identify and follow up issues, and helps us to direct our work"* (CSR report, 2005). It is a way for the company to improve working conditions and respect human rights, as well as to contribute to sustainable development. Audit procedures typically contain basic data collection, factory inspection (inspection to evaluate, for example, working environment and fire safety), document review (several documents checked and contrasted), worker interviews (conversation with individual employees of the factory), management interviews (managers of the factory being interviewed for concerning issues such as policies and routines), and inspection of dormitories (safety and cleanliness). After each audit is complete, the results will be discussed with suppliers

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<sup>57</sup> The Fair Labour Association is a non-profit organization combining the efforts of industry, non-governmental organizations, colleges and universities to promote adherence to international labour standards and improve working conditions worldwide. The FLA was established as an independent monitoring system that holds its participating companies accountable for the conditions under which their products are produced. To advance fair, decent and human working conditions, the FLA enforces an industry-wide Workplace Code of Conduct, which is based on the core labour standards of the international labour organization.

<sup>58</sup> [http://www.hm.com/us/abouthm\\_\\_aboutm.nhtml](http://www.hm.com/us/abouthm__aboutm.nhtml) (2006-11-26)

where they will be asked to establish a corrective action plan, specifying how the issues observed will be addressed and when the improvements will be implemented. H&M has divided the countries in which its suppliers are located into risk categories, based on human rights track records. Those factories with perceived high risk will be subject to more inclusive audits than markets with low risk. The risk classification is based on “Business & human rights”, issued by IBLF<sup>59</sup> and AI.

H&M recommends its suppliers seek assistance and expertise from NGO’s or consultants especially to “*handle serious violations such as abuse or sexual harassment*”(CSR report, 2005). Dubowicz states that “*H&M are not experts in every issue. Networking with these organizations can help us to improve our supply chain practices by asking our suppliers to contact this and that organization when facing problems or seeking advice*”.

However, inspection and monitoring is not enough according to Dubowicz, who states that “*maybe it helps dealing with less difficult problems, but not complex ones...say you inspect a factory for 5-6 days, you walk around, go through documents and compare them to each other, production records, payment lists, employment contracts, you talk with both management and staff members, you discuss the outcome with your suppliers and your suppliers come up with a short term and long term plan on how to deal with certain issues, that is not enough... inspection does not help dealing with complex problems like for example women who don’t take maternity leave...is it because they risk to get fired or that they will be replaced...It is not enough for the suppliers to write down on a piece of paper that they will look over this problem, these complex issues requires focus on education*”. Since monitoring is not enough to bring a long lasting improvement, H&M therefore arranges workshops where they operate. In 2005 they arranged a workshop run by ILO<sup>60</sup> for their suppliers in Bangladesh on the topic of women’s rights with respect to maternity leave. Less than 50 per cent of the women exercise their legal right to maternity leave and by setting up workshops H&M wants to increase this percentage by educating both suppliers and workers.

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<sup>59</sup> The International Business Leaders Forum is an international not-for-profit organization set up in 1990 by The Prince of Wales and a group of chief executives of international companies, in response to the emerging challenges of economic growth and change in the global economy. Its mission is to promote responsible business leadership and partnerships for social, economic and environmentally sustainable international development, particularly in new and emerging market economies

<sup>60</sup> The ILO predates the United Nations having being formed in 1919. Through international conventions it has established criteria for global governance on issues such as exploitative child labor, working conditions, collective bargaining and health and safety

## **CSR Motives**

H&M used to buy its products through agents which meant two things. Firstly, this meant that H&M did not have control over the way its products were manufactured and, secondly that it did not have to be present at the factories. This has changed. Today, H&M is working a reduced number of middlemen, and collaborate directly with their manufacturers. By doing so H&M now has better control over suppliers, which is a way to manage risks.

CSR is about improving working conditions and environmental practices in H&M's supply chain, by acting as an honest and responsible citizen, and contributing to sustainable development. In other words, CSR means to take an active role in society and establish social improvements.

Creating a better image and reputation is not, according to Dubowicz, a good motive for being CSR. She argues that *"if it is creating a better image then you are on the wrong track, a good image may be a positive side-effect"*. CSR is neither about creating legitimacy by collaborating with NGO's or governments for the sake of it, but instead a way of working towards sustainable development. Collaborating with NGO's and government representative is however a way for H&M to offer its suppliers aid when facing problems of which the company has limited knowledge and expertise.

## **Image & reputation**

Having a good image and reputation is important in a competitive market. It is, as Dubowicz states, *"like having a friend, a person that you trust, a person that you want to be with, turn to and appreciate. It is the same with a company. If you associate a company positively it will hopefully lead to more customers buying from us and our turnover will increase"*. But a good image and reputation also, as Dubowicz states, *"helps us attract and hire talented people, create a good relationship with investors"*. This is of great importance since H&M's staff, with their extensive retail skills and experience, is the heart and soul of the company (CSR report, 2005). Building its image and reputation is vital, and is a way for H&M to gain the trust of their customers, suppliers and other partners.

## Challenges with CSR

The big challenge for H&M, stated in their 2005 CSR report is, to *“convince our suppliers that the Code of Conduct, and working with us on these issues, is an investment in the future. We want the suppliers to realize that they will benefit from the improvements made, for example, through lower staff turnover, higher productivity and better quality – in other words, increased profitability, and in the longer term, new business opportunities. Educating factory managers is one way to increase awareness of the positive effects of having better working conditions”*.

According to Dubowicz it is difficult to assure that the laws and rules in operating countries are being followed and implemented by H&M’s suppliers. It is also difficult to discover falsified documentation (of, for example, working hours and payment). What H&M is working with on a daily basis, is to influence and affect individual attitudes and actions. In relations, it is often said, as Dubowicz states, *“difficult to change other people, but this is something we are working with and that’s hard work”*. H&M’s philosophy is fashion and quality at best price, but it is a challenge, as Dubowicz states, to find *“a good balance between fashion and quality at the best price: what level of quality for what price”*.

Long term improvement are crucial for H&M and achieving change requires cooperation, not only with H&M and its suppliers, but also with members of their industry, voluntary organizations and trade unions. Dubowicz states that *“many of the issues that we face in the different countries of manufacture are complex, and their causes can be found on many different levels. It is more than any single actor can handle; these challenges require a collaborative approach”*.

## Green Cargo

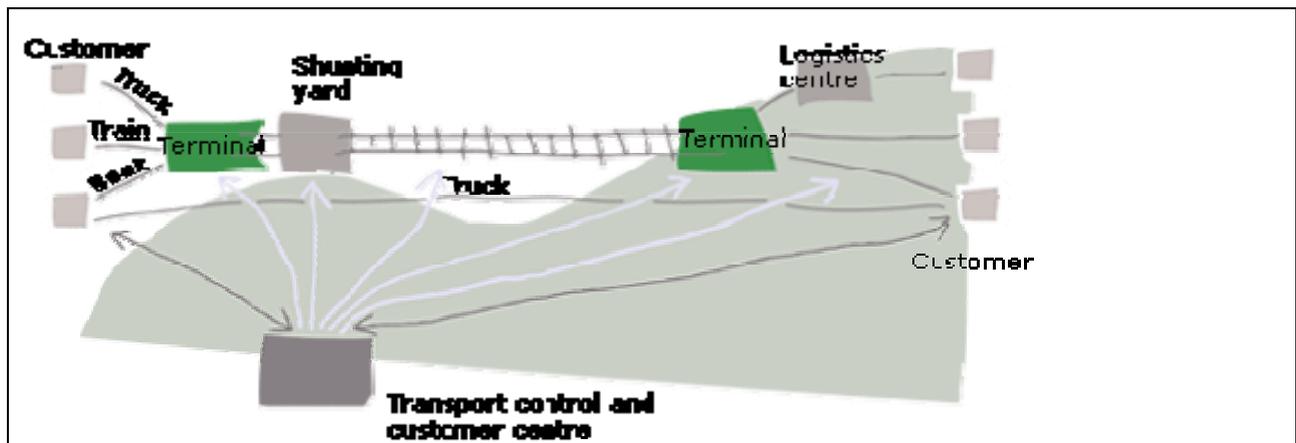


### History and Company profile

Green Cargo was created in 2001 from the logistics division of Statens Järnvägar (SJ). It is today a national and international logistic company owned by the Swedish government. Goods are mainly transported by train (94%) throughout the Nordic region and Europe. At the moment Green Cargo has 100 locations spread over the Nordic region and Europe and 30 terminal and logistic centers. Its services include, warehousing and advanced logistic solutions (customer to customer). Green Cargo *“provide for all your transport- and logistics*

requirements with our environmentally certified rail- and road-based freight transportation and third party logistics service. We have a long experience in, as well as a unique know-how of principally railway logistics system”<sup>61</sup>. The company has today about 3000 employees and 1500 customers. At the moment 10 railroad operators are registered on the transport market in Sweden, where Green Cargo is the largest one of all. It has about 75 per cent market share<sup>62</sup>. Figure 12 illustrates Green Cargos transportation solutions.

**Figure 12: Green Cargos transportation solutions**



Source: <http://www.greencargo.com/> (2006-11-26)

### **Green Cargo’s Business Philosophy**

Green Cargo’s business philosophy is “to offer sustainable logistic solutions that comply with stringent safety, quality and environmental requirements”<sup>63</sup>. Its vision is to be a leading company in the logistic sector whose operations are based on, and contribute to, sustainable development, both nationally and internationally.

### **Green Cargo and CSR**

CSR plays an important role in Green Cargo’s vision. It is not a separate division (even although they have a person in charge of it), but instead integrated throughout the whole organization. It is part of their strategy and vision, contributing to sustainable development. Ingela Melkersson at Green Cargo defines CSR as acting correctly, “as a good citizen...not only to the customers or the government but also to the suppliers, other companies, unions and employees...” Besides

<sup>61</sup> <http://www.greencargo.com/> (2006-11-26)

<sup>62</sup> [http://www.greencargo.com/upload/pdf/GC\\_05\\_eng.pdf](http://www.greencargo.com/upload/pdf/GC_05_eng.pdf) (2006-11-26)

<sup>63</sup> <http://www.greencargo.com/> (2006-11-26)

their primary stakeholders, i.e., customers, employees, its owners and partners, Green Cargo has an extensive, active group of second-tier stakeholders that include authorities, organizations, trade unions, municipalities, neighbors and media (Annual and Sustainable development report 2005)

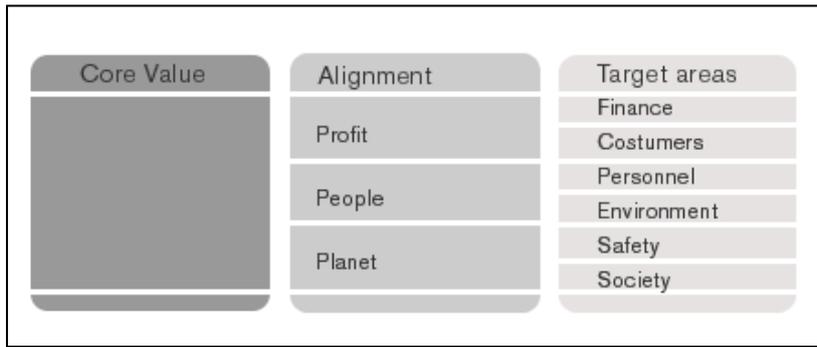
Being corporate socially responsible means “*satisfying customers and thereby creating a robust economic position that makes us a reliable supplier, employer, customer and social player who can also invest in the long term*”<sup>64</sup>. For Green Cargo, CSR is closely connected to sustainable development covered by three dimensions: social accountability, ecology and economics (Annual and Sustainable development report 2005) or as Melkersson states “*three legs: financial, ecological, and social*”. Social accountability means to always act with consideration to the surrounding world - operations should never have a negative impact in any context. The environmental consideration means to constantly seek new ways to minimize environmental impact from their operations and to achieve healthy financial profits to facilitate the development of long term sustainable logistics solutions. (Annual and Sustainable development report, 2005)

The concept of sustainable development includes “*sustainable finances, sustainable quality and delivery, sustainable safety, a stimulating, attractive workplace and obviously systematic working methods that minimise environmental impact from our operations*” (Annual and Sustainable development report 2005). CSR and Sustainable development is about demonstrating commitment and nurturing honest, open dialogue with every party involved. It is about protecting people, the environment and financial resources. If you are not active in all these three areas and working with them on a long term perspective, you will not, according to Melkersson, survive as a company. For Green Cargo it is vital to be sustainable and work with target areas such as finance, costumers, personnel, environment, safety and society. They believe that their success is based on the company’s effort of offering and creating values for its customers and owners (Annual and Sustainable development report 2005). Figure 13 highlights the company’s core values and target areas.

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<sup>64</sup> <http://www.greencargo.com/> (2006-11-26)

**Figure 13- Green Cargo's Overall targets**



**Source:** <http://www.greencargo.com/> (2006-11-26)

Green Cargo is at the moment the only nationwide freight carrier that has, qualified as fulfilling the Swedish Society for Nature Conservation's Good Environmental Choice standard<sup>65</sup>, which is an environmental certification for freight transport. In order to be sustainable in accordance to the Swedish Society for Nature Conservation (SSNC) a transport system must fulfill following criteria:

- **Ethics and justice**

Decisions concerning the use of the planet's resources should be taken in a long-term perspective and with respect for coming generations.

- **Beauty and diversity**

Biological and cultural diversity shall be preserved.

- **Renewable flows**

Energy use shall be non-depletive, and material bio- cycles shall be kept intact.

- **Health, safety and the environment**

Humans shall neither disturb nor damage our surroundings.

**Source:** <http://www.snf.se/english.cfm> (2006-11-26)

<sup>65</sup> Swedish Society for Nature Conservation is Sweden's biggest nature conservation and environmental organization in Sweden with 170 000 members and nearly 300 local branches across the whole country (<http://www.snf.se/english.cfm>, 2006-11-26).

According to SSNC, these goals can be reached by reducing the need for transportation, use means of transportation more efficiently, choose energy-efficient and compact means of transportation and improve anti-pollution technology and convert to renewable.

## **Green Cargo's responsibility according to The CSR pyramid**

### **Economic responsibility**

Green Cargo states in its Annual and Sustainable development report for 2005 that profitability is a necessity for long-term sustainability. According to Melkersson, Green Cargo would not exist if it did not make profits. Green Cargo measures the company's profitability and productivity in its finance target area which has a significant impact on the entire company, as it controls and indicates the performance of the other target areas (Annual and Sustainable development report, 2005). Therefore profitability is together with quality and safety, a high priority for the company. Green cargo wants to be a "profitable role model in Europe's railroad industry" (Annual and Sustainable development report 2005). In 2005, the company reported the highest profit since launch, of nearly SEK 140 million. It believes that all parties will benefit through higher profitability, because healthy financial profits enable it to keep developing long term sustainable logistics solutions. With profitability and quality in place they are preparing for growth (Annual and Sustainable development report 2005).

### **Legal responsibility**

Sustainable transportation is largely about the environment and safety. The safety issue is of great importance for Green Cargo, both on rail and road. Safety policies are carried out in Sweden according to laws, regulations and directions. In addition, *"all trucks were fitted with alcohol locks, and new routines were established to ensure comprehensive regulatory and legal compliance"* (Annual and Sustainable development report 2005). Alcohol locks were installed to demonstrate Green Cargos continuous safety priority. *"We considered the big picture, with total control over all flows - in terms of punctuality and safety. You can't just regulate isolated factors. Environment and safety thinking must permeate every part of the operation"* (Green Cargo's Road Division Manager Lars Reinholdsson cited in the company's Annual and Sustainable report, 2005). To be able to achieve constant improvement and sustainable development, Green Cargo believes that it is a necessity to comply with applicable laws, internal guidelines, standards and recommendations affecting their operations.

The industry's freight traffic is furthermore distinguished by extremely strict requirements regarding safety, flexibility and frequency. Operators must *"be able to provide specially trained personnel, transport supervision, customised wagons load carriers and more"*<sup>66</sup> .

### **Ethical responsibility**

Obeying the law is though not enough for Green Cargo: *"In our normal working routines we comply not only with official standards and requirements, but also our own routines"*<sup>67</sup>. Green Cargo states in its ethics policy for 2005 that it believes the company is acting in an *"ethical and morally acceptable manner inside and outside the company"*. Its ethics policy includes:

- Making well-founded, sustainable choices on large and small issues
- Maintain an open, honest dialogue with stakeholders
- Pursuing wise use of resources on which operations depend, i.e., financial, natural and human
- Deliver on internal and external commitments
- Inspire and motivate employees through skill development and clearly defined work duties
- Interact approximately with business contacts and authorities, and refrain from participating in any type of price collusion, cartel formation or abuse of market domination
- Assume social responsibility by supporting initiative without a direct connection to their business interest

**Source:** Green Cargo's Annual and Sustainable development report, 2005

Its ethical policy described in the Annual and Sustainable development report 2005 is divided into security processes, environment, quality policy, and customer processes. Security processes includes building stable systems for safety control, accident and near-accident reporting and vehicle safety. Environment is about conducting concrete, continuous efforts to reduce the

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<sup>66</sup> <http://www.greencargo.com/templates/SimplePage.aspx?id=767> (2006-11-26)

<sup>67</sup> <http://www.greencargo.com/upload/777/dangerousgoods.pdf> (2006-11-26)

environmental impact that can be ascribed to operation. For example, environmental initiatives demonstrate that Green Cargo is trying to use electric locomotives running on renewable energy sources rather than diesel locomotives. Quality policy means always implementing its assignments so customers are helped to deliver products to the right recipient, at the right time with the right product characteristics. Finally, customer processes include identifying customer needs, then developing products and solutions that meet these needs and can be delivered using their resources and systems to market solutions; then submitting tenders and signing contracts, planning production, receiving orders, assuring capacity and delivery, implementing assignments, sending invoices and receiving payments and evaluating results internally and with customers.

CSR and ethics play important roles in the company and the way in which it operates. It's all about creating "*green logistics that can have an impact in the larger-scale environmental equation*" (Annual and Sustainable development report 2005). Being ethical involves many things as stated in their policy. Ethical responsibility toward Green Cargo's employees and the society as whole is very important for the company according to Melkersson. Things need to be done rightly if sustainability is to be achieved. Worldwide climate related changes have helped to increase awareness of the harm caused to the environment in the long run and therefore "*effective, green logistics benefit people and save the environment and money...we know that green logistics pays off – for everyone*" (Annual and Sustainable development report 2005). That is the reason why Green Cargo is investing approximately SEK 3.7 billion until 2011 in developing its operations. Money will be used to renew and refurbish its vehicle and wagon fleets, IT and systems development and product improvements.

Since Green Cargo is a transport company, environmental and safety aspects are of great importance. Safety refers mainly to traffic safety where Green Cargo's goal is to "*ensure that not a single person fall victim or is injured by our operations. Green Cargo works systematically to prevent all possible large and small accidents*" (Annual and Sustainable development report 2005). To ensure safety not only on road but in the entire chain, inventory control, wagon control and wagon rental are important components for Green Cargo to work with<sup>68</sup>. Its computerized technical traffic system makes it possible for the company to track wagons and supply emergency services, if required.

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<sup>68</sup> <http://www.greencargo.com/templates/SimplePage.aspx?id=767> (2006-11-26)

Transportation has an impact on the environment and Green Cargo therefore offers its customers the possibility to inspect the environmental effects of its operations. Jan Sundling, CEO for Green Cargo AB states that “... *this environmental competence, as well as the information technology competence, will greatly enhance the competitiveness of the Swedish transport industry in the future*”<sup>69</sup>.

Transport and logistics companies often refer to motor traffic, which is hazardous, fuel-guzzling, dirty and noisy. Green Cargo is spinning around the issues of alternative fuels. New technology can reduce the pollution and fuel consumption of vehicles and the environmental quality of tyres, fuels and lubricants can also be improved. Environmental initiatives are therefore reflected in every process made in the company and integrated into everything it does - everywhere in the organization (Annual and Sustainable development report 2005). Acting ethically and making sure that it operates in a way which does not harm people or the planet is something with which Green Cargo works on a daily basis. It wants, as a state-owned company, to set a good example in areas such as the environment, safety, corporate social responsibility and occupational health. “*We will make promises and keep them*” (Annual and Sustainable development report 2005).

### **Philanthropic responsibility**

Green Cargo gives, in accordance to Melkersson donations to various organizations such as to the Children’s Rights in Society, the Red Cross tsunami appeal and to aid in Pakistan. Green Cargo philanthropic activities relates to them “making donations to causes it wants to support rather than buying Christmas gifts for customers and employees” (Annual and Sustainable development report 2005). Volunteer work is also offered to their employees. Green Cargo’s new activity called Green Cargo Volunteer gives the company’s employees the possibility to take one day a year to work in an NGO.

In addition to charitable and volunteer activities, the company is working and collaborating with organizations such as the Swedish International Freight Association<sup>70</sup>, the Association of

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<sup>69</sup> <http://www.swedfreight.se/sidor/forbundet/english.html> (2006-11-26)

<sup>70</sup> The Swedish International Freight Association, SIFA, was created in 1996 by the decision of the members of the Swedish Freight Forwarders’ Association to broaden the scope of their organization from dealing exclusively with freight forwarding matters to the complete field of goods transport, logistics and freight forwarding. Today SIFA has some 130 member companies, representing all modes of transport and most types of goods transport related activities. Including branches, the members are represented at around 400 localities all over Sweden. SIFA represents, in matters of common interest, its members in official and professional, national and international bodies.

Swedish Train Operators<sup>71</sup> and Network for Transport and Environment<sup>72</sup> (Annual and Sustainable development report 2005).

Green Cargo conducts continuous dialogue with authorities and organizations within the framework of its direct activities. Good dialogue with these parties on the special requirements of freight traffic is vital for their business (Annual and Sustainable development report, 2005).

### **Implementation and monitoring of CSR**

For Green Cargo, CSR is implemented through what they call 'The Scorecard' which is a strategic tool used in daily operations for constant improvements in areas based on social, environmental and financial factors. The Scorecard has been used in day-to-day operations since 2002 with the aim of achieving constant improvement. The Scorecard which is linked to six targets areas such as safety, employees, society, environment, customers and finance creates transparency in the company and reinforces the feeling of participation, where staff at all sites can see how reality is developing in relation to targets (Annual and Sustainable development report 2005). CSR is, in addition to the Scorecard, also implemented through projects and programs. It has, for example, a program for their managers and leaders where they discuss the company's ethical guidelines, according to Melkersson. Green Cargo furthermore have manuals and clarified procedures to prevent any unnecessary mistakes. The company furthermore sets standards for its customers, suppliers and infrastructure providers through contracts on various safety factors. When it comes to the company's suppliers, they hold progress meetings to review its collaboration with them. In these meetings various issues are to be discussed such as technology, efficiency and environmental impact. Relations with Green Cargo's suppliers are

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SIFA keeps in close contact with relevant Swedish ministries and governmental bodies as well as with Brussels and appropriate national and international organizations (<http://www.swedfreight.se/sidor/forbundet/english.html>, 2006-11-26)

<sup>71</sup> The Association of Swedish Train Operators (Branschföreningen Tågoperatörerna) acts on behalf of the country's train operators. Since the beginning of 2001 they have become a natural part of Swedish business life, aiming for rail traffic services that provide optimal benefit to customers and society. For the customer this means safe, fast and comfortable transport providing value for money with the least possible impact on the environment. The Association currently consists of 20 member companies which together are shaping the rail traffic of the future (<http://www.tagoperatorerna.se/eng/index.html>, 2006-11-26 )

<sup>72</sup> The Network for Transport and Environment, NTM is a non profit organisation, initiated in 1993 and aiming at establishing a common base of values on how to calculate the environmental performance for various modes of transport. In order to promote and develop the environmental work in the transport sector, the Network for Transport and Environment (NTM) acts for a common and accepted method for calculation of emissions, use of natural resources and other external effects from goods and passenger transport. The method is primarily developed for buyers and sellers of transport services, hence enabling evaluation of the environmental impact from their own transports. As an increasing number of transportation is carried out on an international basis there is a need to establish calculation methods for these flows. NTM has therefore established a report that includes international transports. The work is carried out in collaboration with other actors in this field in Europe and the USA (<http://www.ntm.a.se/english/eng-index.asp>, 2006-11-26).

formalized through purchasing agreements which include e.g. quality and environmental standards.

CSR is monitored through audits and various management systems such as ISO 9000: 2000, 14001: 2004 and AFS 2001:1 certification. ISO 9000:2000 is a technical standard created to ensure quality and increased security. It specifies requirements for a quality management system where an organization:

1. needs to demonstrate its ability to consistently provide product that meets customer and applicable regulatory requirements, and
2. aims to enhance customer satisfaction through the effective application of the system, including processes for continual improvement of the system and the assurance of conformity to customer and applicable regulatory requirements

Where any requirement(s) of this International Standard cannot be applied due to the nature of an organization and its products, this can be considered for exclusion<sup>73</sup>.

ISO 14001:2004 is on the other hand a standard that “assists companies and organizations to carry out an efficient and structured environmental work through a documented and certified environmental management system”<sup>74</sup>. ISO 14001:2004 specifies requirements for an environmental management system to enable an organization to develop and implement a policy and objectives which take into account legal requirements and other requirements to which the organization subscribes, and information about significant environmental aspects. ISO 14001:2004 is applicable to any organization that wishes to establish, implement, maintain and improve an environmental management system, to assure itself of conformity with its stated environmental policy<sup>75</sup>. AFS 2001:1 is a certificate that analyzes and follows up the activities in such a way that illness and accidents are prevented and a satisfying work environment is achieved<sup>76</sup>.

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<sup>73</sup><http://www.iso.org/iso/en/CatalogueDetailPage.CatalogueDetail?CSNUMBER=21823&ICS1=3&ICS2=120&ICS3=10> (2006-11-26)

<sup>74</sup> <http://www.spf.se/eng/iso14001.htm> (2006-11-26)

<sup>75</sup><http://www.iso.org/iso/en/CatalogueDetailPage.CatalogueDetail?CSNUMBER=31807&ICS1=13&ICS2=20&ICS3=10> (2006-11-26)

<sup>76</sup><http://www.iso.org/iso/en/CatalogueDetailPage.CatalogueDetail?CSNUMBER=31807&ICS1=13&ICS2=20&ICS3=10> (2006-11-26)

Melkersson states that CSR is implemented “*within the company and the management system*”. “*Service suppliers that are crucial for traffic safety are regularly monitored via safety audits to verify that they satisfy our safety standards*” (Annual and Sustainable development report 2005). For example, Green Cargo’s central safety function controls and monitors the divisions as per instructions from the managing director, and they continually implement training sessions in environmental driving methods. Building stable systems for safety control, accident and near-accident reporting and vehicle safety is therefore vital work for the company (Annual and Sustainable development report, 2005)

Green Cargo conducts monthly follow-ups to create opportunities for the company to quickly respond to problems before they have major consequences. Figure 14 highlights the company’s target areas monitored through 6 key figures.

**Figure 14: Green Cargo’s target areas**



Source: [http://www.greencargo.com/upload/pdf/GC\\_05\\_eng.pdf](http://www.greencargo.com/upload/pdf/GC_05_eng.pdf) (2006-11-26)

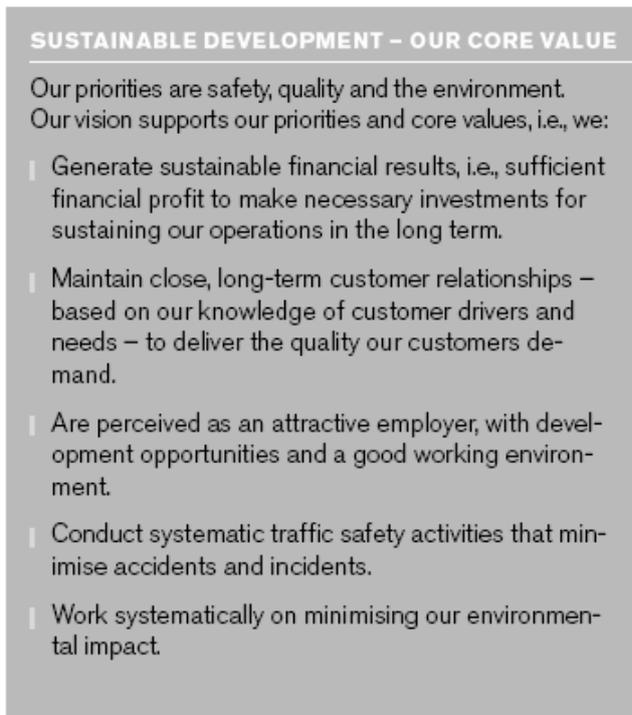
**CSR Motives**

According to Melkersson, the motives behind having a CSR approach include increased sales, risk management, enhanced image/reputation and sustainable development. Green Cargo is as Melkersson argues “*an environmental friendly company and the sustainable development plays a major part in their policy, but so do the other factors*”. Its ambition is to contribute to a better environment, and a better society. The better Green Cargo and other transport companies can

deal with issues like greenhouse gas, the better it will be for the environment. *“This insight is a real motivator for us”* (Annual and Sustainable development report 2005).

Besides managing crises and increasing sales, motives like harmonizing employee relations and boosting recruitment are also important. Green Cargo states in the sustainability report of 2005 that *“We hope that our corporate responsibility efforts will encourage people with the right skills and values to approach the company and that existing employees can feel pride and commitment. We also believe that rigorous, transparent sustainability efforts encourage customers, partners, subcontractors and other parties to initiate co-operation with us while Green Cargo’s employees want to be able to feel proud of their workplace, because we work for a better environment. It is important to be responsive to our stakeholders’ opinions and that we do everything we can to meet all requirements”*. The company’s ability to encourage and motivate its employees is crucial for long-term improvements and sustainability. It can solely become a sustainable logistic company by leading as well as motivating and developing its staff (Annual and Sustainable development report 2005). Green Cargo believes that it can not only by inspire and motivating its employees to become sustainable, but also attract the right skills by *“being a profitable, attractive partner with clear objectives and effective tools. We will offer attractive work that develops employees and creates commitment – work that our employees can be proud of”* (Annual and Sustainable development report 2005). Safety is therefore a top priority. Figure 15 highlights the company’s core values in achieving sustainable development.

**Figure 15: Green Cargo's 5 core values**



**Source:** [http://www.greencargo.com/upload/pdf/GC\\_05\\_eng.pdf](http://www.greencargo.com/upload/pdf/GC_05_eng.pdf) (2006-11-26)

### **Image & Reputation**

Having a good image and reputation is very important. The company believes that its green image contributes to making Green Cargo a very attractive employer (Annual and Sustainable development report 2005). It is crucial for its reputation to maintain good relations and dialogue with all parties involved. And to be called “*Green Cargo includes the obligation to protect our brand*” (Annual and Sustainable development report 2005). Green Cargo’s environmental profile has made it stand out from the competition. Melkersson furthermore argues that “*it is always a benefit for Green Cargo to be able to show that they are a responsible corporate citizen thinking long term perspective...this is the company we want to be and what we want to do, and we will do it, and we are confident that in the long term it will somehow pay off and positively affect our reputation... CSR is not a trend that will pass, but instead the beginning of something bigger*”.

### **Challenges with CSR**

Green Cargo states in its Annual and Sustainable development report of 2005 that they company faces many challenges, e.g. safe, frequent and flexible solutions for all types of chemical cargo. Melkersson furthermore states that “*as a company Green Cargo can set ethical guidelines, it can have ethical policies, that it can communicate, but obviously as for any other statements that the*

*company makes, it is always a challenge to make sure that everybody in the whole company follows it through... That is a constant communication issue and constant work to make sure that everybody gets the information and understands it and that everybody abides to these guidelines".* What is also challenging in CSR is, in accordance with Melkersson, that it is difficult to *"convert it into money"*. How can the company measure the benefits that it gives to their brand? What and how much profit is generated from engaging in the ethical guidelines? How have charitable and volunteering activities increased the company's profit, and by how much? However, Green Cargo does not think in these terms. *"You can not think this way because then you would not do anything if you have to make sure that it will pay off within three years or something"* Melkersson concludes.

## **Summary of empirical studies**

### ***Business philosophy***

The Body Shop's business philosophy is based on offering their customers a shopping experience that combines exceptional service with a broad range of naturally inspired personal care products that offer performance, indulgence and great value for customer's money. H&M's philosophy focuses on offering customers fashion and quality at the best price. They focus not only on how the clothing fits, but also how well the clothes are manufactured. Green Cargo states on their website that their business philosophy is to offer sustainable logistic solutions that comply with stringent safety, quality and environmental requirements. This is achieved by working towards sustainable development and betterment.

### ***The Body Shop, H&M, Green Cargo and CSR***

The Body shop perceives CSR as the pursuit of social and environmental changes to ensure that their business is ecologically sustainable. It is the way of doing business and being a good member of society. Business should be about responsibility, not money. H&M refers to CSR as the integration of social and environmental concerns into their business operations and it is closely linked to their supply chain while Green Cargo defines it as acting rightly: satisfying customers and creating a robust economic position that makes the company reliable and sustainable. Sustainable development includes sustainable finance, quality and safety as well as working with methods that minimize negative environmental impact.

### ***CSR according to the pyramid***

All three companies address the importance of their economic responsibility, even though Green Cargo emphasizes it the most. For them profitability is a necessity for long-term sustainability. The Body Shop, H&M and Green Cargo also address the importance to obey the law and act as a good corporate citizen. Ethic policies and guidelines help the companies to do more than their minimum requirements. It helps them to do business with integrity and transparency which include everything from choosing the right package to pursue wise use of resources (financial, natural and human). Companies have to act in an ethical and morally acceptable manner both inside and outside the company. Green Cargo furthermore argues that effective green logistics benefits the people and helps to save the environment. Everyone benefits from this. Also, The Body Shop, H&M and Green Cargo all donate money to various organizations and NGO's to help fight for social, cultural and political rights.

### ***Implementation and monitoring of CSR***

The Body Shop and H&M implements CSR through their code of conduct, educational ventures and training. These codes touch issues such as freedom of association, working conditions and child labour etc. All parties involved have to sign the companies' code, which is a non-negotiable requirement if collaboration is to be carried out. For Green Cargo CSR is mainly implemented through their scorecard. This is a strategic tool used in their daily operations for monitoring and improving their target levels in safety, environmental, customer and financial concerns. In addition to the scorecard CSR is also implemented through various projects, programs, meetings and contracts.

The Body Shop's monitoring system includes the SA 8000, which is a third-party accountability code. This system is applied internationally across all commercial sectors to evaluate whether companies and organizations are complying with basic standards on a wide array of issues such as workplace safety and wages etc. In addition to the SA 8000 they also use the environmental management system ISO 14001 which enables companies and organizations to develop and implement policies and objectives that take into account requirements to which companies and organizations subscribes, and information about important environmental aspects. H&M's monitoring system consists of their new system called the Full Audit Programme (FAP) which is a system that conducts fewer but more comprehensive audits and integrates workers interviews

as a part of each audit. The new monitoring system will help H&M to find causes rather than violations. In addition to the FAP, independent monitoring is conducted by the FLA who makes unannounced visits to H&M's suppliers' factories. In the case of Green Cargo CSR is mainly monitored through various environmental management systems such as the ISO 9000, ISO 14001 and AFS. ISO 9000 provides a globally recognized quality management system based on principles such as continuous improvement, auditing and monitoring. The AFS is a certificate that analyzes and follows up activities in such a way that illness and accidents are prevented as well as achieving a satisfying working environment.

### ***CSR motives***

All three companies use CSR as a means to achieving a sustainable and positive change. They all believe that they have an active role in society to establish their company as a progressive force for social betterment. In the end it is all about acting as a good corporate citizen and acting honest and fair in addition to financial results. Green Cargo states clearly that increased sales are an important motive for engaging in CSR activities. This is because it is through financial success that they can improve the way they work. For The Body Shop, H&M and Green Cargo CSR is also a way to manage risks or/and the possibility to eliminate ending up in one. It is better to be proactive than reactive. However it is not solely about preventing missteps, but also building up a well-functioned company where ethical values play an important role. Additional motives include enhancing image and reputation and sustainable development. Green Cargos ambition is furthermore to contribute to a better environment because the better they deal with issues like greenhouse effect, the better it will be for the environment. By doing so they inspire a commitment that energizes the organization's member around a positive self image.

### ***Benefits and challenges of having good CSR***

Being seen as an ethical company brings many benefits such as enhanced brand recognition and increased sales. Having CSR activities implemented is also a way for companies like The Body Shop, H&M and Green Cargo to manage risks and boost employment relations. A good reputation can furthermore strengthen the company's market position and therefore empower the company. Good CSR policies also help to attract and hire talented people. The human capital together with their brand are the companies' most valuable assets. It is the heart and soul of the company. Acting ethical pays off and therefore reflects positively on their brand.

The Body Shop states that challenges with CSR include meeting and satisfying customer's expectations in terms of environmental and social impact. However, the main challenge with CSR is to make a sustainable change, which includes monitoring issues. CSR is closely linked to H&M's supply chain and so are the challenges. The company states in their 2005 CSR report that the biggest challenge for them as a company is to convince their suppliers that working with issues stated in their code of conduct is an investment in the future. They want their suppliers to be able understand that they will benefit from the improvements made, for example through better quality and lower staff turnover. The monitoring issues are also challenging for H&M to work with e.g. discovering falsified documents etc. Overall, it is difficult to work with changing individuals' attitudes and actions. Long term improvements and sustainable development are crucial work for H&M. To achieve this they have to work with suppliers, industry members, trade unions and NGO's to address them. It is more than any single actor can handle: these challenges require a collaborative approach. Green Cargo states in their Annual and Sustainable development report for 2005 that the company faces many challenges in areas such as safety and solutions for chemicals. It is not only challenging to set ethical guidelines and principles, but also to make sure that everyone abides by them. It is also difficult for Green Cargo to measure the dollar value that CSR has added into the company's profit. It becomes difficult to determine direct and indirect profits generated from following ethical guidelines and principles.

## 5. Analysis

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Chapter 5 will demonstrate how applicable the theories have been in reality on The Body Shop, H&M and Green Cargo. The implementation and monitoring process will be analyzed as well as the challenges that the three companies faces.

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### **Corporate social responsibility**

The interest of CSR has during the last decade increased and despite the lack of definitional clarity CSR points at the pursuit of sustainable development and the triple bottom line. In accordance to Worthington, Ram and Jones (2003) H&M perceives CSR as “*what organizations do, how they do it and the impact of their behavior on the wider society*”. CSR refers to “*integrate social and environmental concern into business operations*”. It is about ensuring that they as an international company can grow on a sustainable basis while at the same time ensuring fairness to their share- and stakeholders. Companies are responsible for providing more benefits than just profit for its shareholders. Decisions must be taken in consideration to human rights, environmental concern and legal requirements, rather not solely on financial ones. The focus on the people, planet and profit (Elkington, 1998) plays together an important and essential role rather than separately.

CSR is an entirely voluntary corporate-led initiative (Christian Aid, The real face of CSR, 2004), rather than forced upon corporations. It is based on responsibility that is first and foremost based on free will. But either way, CSR must in accordance to H&M be integrated in everything the company does since it is for H&M a big part of their strategy and culture. For H&M it is of great importance to operate in an ethical manner and to adhere ethical principles in every area of their business. However, CSR is mainly for H&M linked to the company’s supply chain activities and practices.

Reputation takes years to build up, but can be lost in an instant which H&M experienced when they were put in the limelight for the use of child labour in its factories. They are aware that bad business practice can quickly be spread via the Internet and contribute negative effects on sales and profits. However H&M’s philosophy refers to continuous improvement and for the company

learning is the key to achieve this. As the scandal became reality, so did the change of their business philosophy when they went from offering fashion AT the LOWEST price to fashion and quality AT the BEST price . These change and improvement have led to H&M pressuring their suppliers and through that seek to enhance their credentials.

H&M's states in their CSR report (2005) that "*Corporate Social Responsibility is an increasingly important strategic matter and accords completely with H&M's fundamental values*". Values are related to operating in a rightful way and for H&M that is to "*act responsibly and focus on the long term...*" (CSR report, 2005). It is vital for the company to respect human rights as well as to sustain the environment for future generations. And it is through responsible and sustainable behaviour that business can succeed and create value for their customers.

The Body Shop defines CSR as "*the pursuit of social and environmental changes ...to ensure that our business is ecological sustainable...*" It is about "*the continuing commitment by business to behave ethically and to contribute to economic development while improving the quality of the life of the workforce and the families as well as the local community and society at large*" (Worthington, Ram & Jones, 2003). There is more to life than making money (Forselius, 2006). The Body Shop is working towards "*operating in a strong commitment to the wellbeing of our fellow humans and the preservation of our planet*" (The Body Shops Annual Report and Accounts, 2005).

CSR is a part of how they do everyday business and closely linked to values which are a great part of The Body Shop identity. Everything they do, they do it with their values in mind (Forselius, 2006). Their five core values are long term commitments which the company is working with on a daily basis. Working in a long term perspective is the way for The Body Shop to operate ethically and with integrity (The Body Shops Annual Report and Accounts, 2005). Their philosophy is strongly rooted in ethical behaviour. Therefore they offer products which are making a positive impact the environment and on people's wellbeing & quality of life. CSR is about the way of thinking about and doing business.

For Green Cargo CSR is a situation where companies integrate social and environmental concern in their daily business operations with stakeholders on a voluntary basis (The European Commissions Green Paper "Promoting a European Framework for Corporate social

responsibility, 2001). It is about “*acting as a good citizen not only to the customers or the government but also to the suppliers, other companies, unions and employees...*” It is integrated throughout the whole organization, on every level. For Green Cargo CSR is closely connected to the notion of sustainable development covered by three dimensions: social accountability, ecology and economics (Sustainable development report 2005). This refers to protecting people, the environment and financial resources. Since it is a transport and logistic company the environmental and safety aspects are important areas to work with. In the end it comes to the notion of sustainable development which includes “*sustainable finances, sustainable quality and delivery, sustainable safety, a stimulating, attractive workplace and obviously systematic working methods that minimize environmental impact from our operations*” (Annual and Sustainable development report 2005). CSR is about profit, people and planet (Elkington, 1998): improve the business performance meanwhile caring for the environment and the people living in it. And if you are not recognizing the importance in each area and working actively within them you will not survive as a company (Melkersson, 2006). This is not a trend, but instead the beginning of something bigger than this.

## **Corporation’s responsibility according to Carroll’s pyramid**

### **Economic responsibility**

H&M as well as The Body Shop states that it is fundamental principle is to perform in a manner that involves creating shareholder wealth. Corporations are economic entities (Carroll, 1991) which involve economic responsibility towards its shareholders, whom without there would be no company. It is corporation’s fundamental responsibility for H&M and The Body Shop to make a profit and grow, but “*profits with principles must be achieved in order to sustain the long term future*” (The Body Shop’s Annual Report and Accounts, 2005). The Body Shop goals and values are as important as their products and profits (The Body Shop brochure: “The Business of The Body Shop”, 1996).<sup>77</sup>

The Body Shop take their economic responsibility by maintaining a high level of operating efficiency and a strong competitive position. This is achieved by integrating their values into their day to day operations. Their business is much bigger than making money; it is about having a positive influence on the environment and its people (Forselius, 2006). It is furthermore an

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<sup>77</sup> [www.jonetine.com/reviews/Body\\_Shop\\_Roddick\\_audit.doc](http://www.jonetine.com/reviews/Body_Shop_Roddick_audit.doc) (2006-11-26)

issue of definition. How does one define profit? Is it in terms of monetary terms or social and environmental ones?

For H&M economic responsibility is more clearly since maximizing the present value of shareholder wealth is still the goal and CSR is a means for achieving that goal. They do take their economic responsibility where profitability and growth is essential for the company (CSR report, 2005), but this accomplished in consideration to environmental and ethical aspects. Shareholder wealth is very important to achieve, and will be accomplished by giving the customers the products that they want, take care of employees and of the environment operating in (Dubowicz, 2006). They want to through their business attain economic, social and environmental benefits.

The economic responsibility is even more clearly for Green Cargo than for H&M. Long term financial sustainability is vital for the company. All other business responsibilities are predicated on it, because without economic responsibility the other responsibilities become moot considerations (Carroll, 1991). Because it is through their economic responsibility and their commitment to be as profitable as possible that they can enhance and improve their performance, locally as well as internationally. More profits mean that they can invest in renewal and refurbish its vehicle and wagon fleets as well as improve their IT system and product improvement. Being profitable is according to Green Cargo beneficial for every party involved and therefore they want to be “*profitable role model in Europe’s railroad industry*” (Annual and Sustainable development report 2005). With profitability and quality in place they are preparing for growth. With healthy financial profit in place sustainable development and developing logistic solutions will be achieved.

### **Legal responsibility**

It is not solely expected from business to pursue its economic responsibility, but also to do this within the framework of the legal requirements. Both The Body Shop and H&M stress out the importance for them as international companies to perform in a manner consistent with laws and regulations. Laws and regulations are the ground on which their business must operate in (Carroll, 1991). The Body Shop and H&M do stress out the importance of being a law-abiding corporate citizen that provides goods and services that at least meet minimal legal requirements. Profitability must be achieved based on legal obligations.

The Body Shop have a fundamental principle which adhere that all their employees and supplier have to comply with the laws and regulations. Business must consist high standard of integrity which involves conducting business in harmony to The Body Shop values and to all relevant laws and regulations (The Body Shop's Code of Business Conduct, 2006). To make sure that suppliers are following the rules and the laws in their operating countries The Body Shop requires its suppliers to adhere to its CSR standards in order for them to do business with them. Several documents and contracts are being signed to ensure this whereas their code of conduct is one of them where the company is stating their values and principles that their employees and suppliers have to adhere to. To take legal responsibility also includes for The Body Shop to publish complete and accurate financial statements and descriptions of their business. Statements have to be correct and not miss-state since those records are the basis for managing the company's business and for fulfilling its obligation to shareholders, employees, customers and suppliers.

H&M also requires that minimum legal requirements are being implemented into their business operations Wages and working conditions must for example *“meet or exceed existing laws in the country in question and that children may not work in factories that supply H&M”* (CSR report, 2005). However they might require more from their suppliers than the law entail since H&M believes that a company of their size can contribute to a positive change.

H&M is strict with making sure and follow up that their suppliers are pursuing the legal requirements that is expected and forced upon them. H&M is being this strict and putting a lot of effort on making sure that the company integrates good business practices in its supply chain due to the bad publicity that they were exposed to. And this has lead to them expecting more from their suppliers than they did before. They do not want to once again end up on the scrap map of bad publicity. Therefore H&M will not work with any suppliers not signing their contracts and documents which force them to accomplish their legal responsibility. If they do find out that laws and regulations aren't being implemented and followed, they will immediately end their partnership with the concerning supplier. Their ambition is to *“work with suppliers who meet our stringent requirements for price, capacity, quality and working conditions”* (CSR report).

Environmental and safety issues are high priorities for the company, both on rail and road. Being a transport and logistic state owned company, Green Cargo wants to set a good example for others. Therefore operations are strictly carried out according to Swedish laws, regulations and

directions. New routines and standards were to be established to ensure comprehensive regulatory and legal compliance. (Annual and Sustainable development report 2005). The strict codes and laws and ordinances must be followed by everyone. However Green Cargo believes that they have to do more than the laws and regulation acquirer (Melkersson, 2006). Complying with laws and regulations is not an acceptable goal *“In our normal working routines we comply not only with official standards and requirements, but also our own routines”*<sup>78</sup>.

### **Ethical responsibility**

For the Body Shop it is not enough to be economic or legal without being ethical. They believe that every company is obliged to follow the law and in some way pursue economic responsibility, but in the end it all falls back on a corporation's ethical responsibility which may reflect on performance that is higher than required by law. It is when you take ethics into consideration when making decisions that the corporation can make profit (Forselius, 2006). Ethical norms may not be compromised in order to achieve corporate goals. Instead corporate goals should be accomplished through ethical norms and standards. Being ethical is a way of being a good corporate citizenship and doing what is expected morally or ethically. For The Body Shop ethical responsibility is what their business is all about and why it from the first place was to be established. For The Body Shop ethical responsibility refers to be responsible for all their activities and by that leave this world a better place to live on. According to Forselius ethical responsibility is simply the way of doing business today where integrity and transparency are two important elements. Taking ethical responsibility could be everything from choosing right ingredients to how the company's products are being tested. The Body Shop ethical responsibility is closely connected to their five core values which reflect on how The Body Shop do business on a regular basis. They are though most famous for their “Against animal” testing and even though H&M also introduced the “Against animal” principle (in the mid 1990's), it is The Body Shop that has the title of the principle since they were the first to adopt it into their business. Taking ethical responsibility also refers to according to The Body Shop the use of right chemicals in their products. Even though there are chemicals that are allowed, they will not use it since they believe it is not good and that there are more proper ones to use.

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<sup>78</sup> <http://www.greencargo.com/upload/777/dangerousgoods.pdf> (2006-11-26)

The company furthermore engages their suppliers to enhance their performance by ensuring ethical compliance in their supply chain. Clear ethical standards and practices are set to ensure their ethical responsibility (The Body Shop's Code of Business Conduct, 2006). They adopt the ETI's base code which states that The Body Shop solely buy products from those suppliers that meet their ethical standards such as safe and hygienic working conditions, the absence of child labour and no excessive working hours etc. Their ethical trade and community program is another way for The Body Shop to take their ethical responsibility. What they want to accomplish with such a program is to create livelihood and support sustainable development. This is achieved by them sourcing ingredients and accessories direct from socially and environmentally marginalized producer communities (McIntosh, et al, 1998). It is a long term relationship rather than a short one where the main goal for The Body Shop is to help producers to sell their product and act independent. The program verifies with high levels of labour standards, including the avoidance of child labour, forced labour, sweatshops, adverse health and safety conditions, and violations of labour rights, or human rights. The company sees it self as nothing other than a human enterprise (Roddick, 2006).

H&M also put focus on their ethical responsibility, even though The Body Shop is better known for doing so. In their code of conduct, H&M describes their ethical responsibility which involves human rights and working conditions. Being sustainable and acting in a long term perspective is a way for H&M to take their ethical responsibility. They are working towards sustainable development within areas that they believe they are able to influence (CSR report, 2005). The company has today restriction for material or chemical used in their products. These restrictions do not only include chemicals that are restricted by law but also chemicals that H&M have chosen to list on their restriction list for precautionary reasons. They believe that corporation's have to conduct in an ethical manner which can mean to do more than the law requires. What they want to achieve with this is to improving social and environmental standards. (CSR report, 2005).

H&M is working on improving their ethical behaviour by supporting various NGO's and organizations such as the UN's global Compact, OECD's guidelines for multinational companies, BSR, AI and the FLA.

Transportation has an impact on the environment and it often refer to traffic that is fuel-guzzling, dirty and noisy. For Green Cargo ethics and ethical responsibility involves environmental concern and safety issues. Environmental and safety initiatives are integrated into everything Green Cargo does. *“We will make promise and keep them”* (Annual and Sustainable development report 2005). Being and acting as a good corporate citizen includes acting ethical by taking care of the environment and the people (Melkersson, 2006). It is important that good corporate citizenship is defined as doing what is expected morally and ethically (Carroll, 1991). Green Cargo wants to demonstrate to communities around the world that these can trust Green Cargo as a good corporate citizen and an environmentally responsible operator, a company that strives to improve its social and environmental impact on communities around the world.

Like The Body Shop and H&M, Green Cargo also has ethical policies where ethical and morally acceptable manner are stated from the company. These include e.g. making well-founded, sustainable choices, maintain an open, honest dialogue with stakeholders, inspirer and motivate employees and pursuing wise use of resources on which our operations depend, i.e., financial, natural and human. Safety issues refers mainly to traffic safety, ensuring that Green Cargos employees does not fall victim or injure them self by their operations. They try to systematically *“...prevent all possible large and small accidents”* (Annual and Sustainable development report 2005). To ensure safety in the entire chain, inventory control, wagon control and wagon rental are important components for green cargo to work with<sup>79</sup>. Their computerized technical traffic system makes it possible for the company to track their wagons and supply emergency services, if required.

Acting ethical and working towards being seen as a European role model in the industry, Green Cargo believes that CSR plays an important role in their company. They want to create *“green logistics that can have an impact in the larger-scale environmental equation”*. *“Effective, green logistics benefit people and save the environment and money...we know that green logistics pays off – for everyone”* (Annual and Sustainable development report 2005).

### **Philanthropic responsibility**

Philanthropic responsibility refers to businesses acting as a good corporate citizen, by contributing corporate resources to e.g. charitable activities. It is a discretionary part of

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<sup>79</sup> <http://www.greencargo.com/templates/SimplePage.aspx?id=767> (2006-11-26)

businesses. The Body Shop participate in philanthropic activities and support various numbers of organizations. For 2005 and 2006 the “*Stop violence at home*” campaign was their main volunteering activities promote human rights and it generated over £ 500 000 (The Body Shop’s Annual Report and Accounts, 2005). But even though donation and charitable activities are good it is solely a short term solution. Donating money to areas that has been affected by a catastrophe is good, but choosing the right ingredients is even better since it is a long term action (Forselius, 2006). Philanthropic responsibility is therefore a small part of The Body Shop business.

However, the main aim with taking their philanthropic responsibility is to stop the abuse of human rights, animal experimentation and to help environmental causes. The Body Shop work towards achieving sustainable progress in human and civil rights, environmental and animal protection has totally donated over £ 7 million to over 2000 projects across the world (The Body Shop’s Annual Report and Accounts, 2005).

H&M also make voluntary contribution to society, even though they do not have any volunteer programs. H&M do however participated and collaborated with various organizations, one called Mentor Sweden which works toward preventing drug abuse among youth. They are also working with organizations who engage in female projects and prevention programs for Aids and HIV. Participating in such programs is a way for H&M to “*increasing worker’s knowledge about HIV/AIDS and reproductive health*” (CSR report, 2005). The company does also collaborate and work with ETI, FLA, MFA Forum Bangladesh, UNICEF and WaterAid (CSR report, 2005). As an corporate citizen H&M feel that they have as an international corporation a responsibility to provide help in the areas that was affected by natural disasters like the tsunami. They came to donate SEK 2,000 000 to those affected. Donation and charity is a good thing to do according to H&M, but it is not the most important thing looking at CSR, rather a complement to everything else the company do (Dubowicz, 2006).

Melkersson states that it is important for corporations to take their philanthropic responsibility, contributing resources to the community and improve quality of live (Carroll, 1991). For Green Cargo philanthropic responsibility refers to “*making donations to causes it wants to support rather than buying Christmas gifts for customers and employees*” (Annual and Sustainable development report 2005). Green Cargo conduct charity project and gives contributions to organisations such as the Children’s Rights in Society, the Red Cross tsunami appeal and to aid to Pakistan. Since it is important for Green Cargo to offer employees the opportunity to

participate in voluntary and charitable activities (Carroll, 1991) they have established a new activity named the Green Cargo Volunteer which offer Green Cargo's employees the possibility to take a day off to work in an NGO.

Green Cargo is additionally to their charitable and volunteering activities also working together with organizations in their industry such as the Swedish International Freight Association, the Association of Swedish Train Operators and Network for Transport and Environment (Annual and Sustainable development report 2005).

### **Corporate benefits of having a good CSR**

The Body Shop benefits of being CSR is enhanced brand image and reputation which is fundamental in e.g. maintaining and attracting new customers and employees. Their brand is their most valuable assets (The Body Shop's Code of Business Conduct, 2006). Corporate reputation and brand image has in today's competitive world become more vulnerable (Smith, 2003). The Body Shop is aware of that and the way for them to stay competitive is to work with values over long term. (Forselius, 2006). Their image and reputation is critical to their commercial success and long term sustainability (The Body Shop's Annual Report and Accounts, 2005). And having a good image and reputation is much more important in a country with very high level of educated people, which is the case with Sweden. A good image and reputation and therefore help The Body Shop to create loyalty amongst their customers, business partners and NGO's which can stronger their market position and empower the company. Having a good image and reputation will bring financial corporate benefits through improved sales (Moir, 2001). Increased sales will not be achieved by selling products for a cheap price, but rather products that are produced in a way where harm has not been done on society, its resources or its people Today's consumers have become increasingly sensitive to the CSR performance of the companies from which they buy their goods and services (Smith, 2002). And that is the reason why The Body Shop has become so well known and loved around the world.

Another corporate benefit of having good CSR for The Body Shop is that it can boost recruitment and harmonize employee relations. Having a good CSR helps companies to attract, keep and develop human capital as well as improve their working performance. That is why more and more people are sending their applications to the company (Forselius, 2006). Employees want to find meaning in their work and contribute to positive change and might based on this choose to work for a company that has strong values than for companies lacking those.

Today's employees prefer to work for social responsible firms (Smith, 2003). *"An image for being socially responsible adds to an image of being honest and trustworthy. Such a reputation is a major driver of customer and employee satisfaction..."* (Davies, 2004). According to The Body Shop CSR will bring more productive workers and greater employee loyalty.

A final corporate benefit of having good CSR is according to The Body Shop handle crisis. In times of crises, a company with good corporate image enjoys a presumption of innocence (Smith & Taylor, 2002). Being seen as ethical and responsible can therefore be a real asset for a company in times of crisis. The desirer for companies to improve their risk management is a powerful factor behind CSR. But as important it is to act ethical and responsible, the more dangerous it can be for companies. Because the stronger your image and reputation gets the steeper the fall becomes which can explain the reason why many companies aren't as transparent as they can or want to be (Forselius, 2006).

Corporate benefits of having good CSR include according to H&M increase in sales. Being associate positively leads to more customers buying from the company which increases their turnover (Dubowicz, 2006). Today's customers are not merely concerned about the quality or the price of products/ services, but also about the way they have been produced and if the process has harmed the society, its resources or its people.

Having a good CSR can in addition to increase sales also boost recruitment and create a good relationship with investors (Dubowicz, 2006). People want to work for companies that *"operate in an economically, socially and environmentally sustainable way"* (Smith, 2002). For H&M it is the way that they want to do business where actions are more important than words (Kotler & Lee, 2005). Good working condition and relations cannot only help companies to keep their human capital but also attract new people. *"An image for being socially responsible adds to an image of being honest and trustworthy. Such a reputation is a major driver of customer and employee satisfaction"* (Davies, 2004).

Having a good CSR also benefits the company in enhanced image and reputation which is the way for H&M to gain the trust of their customers, suppliers and other partners. Reputation has become one of the most valuable intangible assets and CSR is an important key component of corporate reputation and brand recognition. H&M do acknowledge the importance of having a good image and reputation, especially in a market with great competition. H&M did get

penalized by consumers for their use of child labour which was negatively broadcast in the media which they have worked to get rid of. Therefore “*corporate image is a result of everything that the company does or does not do*” (Smith & Taylor, 2002).

Another corporate benefit of having good CSR is to manage crisis for the company. By having a close and direct relationship with their suppliers H&M eliminates the possibilities for them to end up in a crisis. It is a way for H&M to improving their supply chain by acting honest and responsible and by that simply managing risk (Dubowicz, 2006). The desire for the company to improve their risk management is a powerful factor behind CSR.

Creating a good image and reputation is vital for Green Cargo. Corporate image is a result of everything a company does and does not do (Smith & Taylor, 2002). They believe that having a good image and reputation make them competitive and sustainable (Kotler & Lee, 2005). Since consumers have been more sensitive to corporations performance, corporations are now pressured to operate in an economically, socially and environmental sustainable way (Smith, 2002). For Green Cargo, good reputation is a way for them to strengthening profits and enhances customer loyalty which is ‘the’ way for them to be sustainable. An image of being socially responsible adds to an image of being trustworthy and honest. Such reputation is a major drive of customer and employee satisfaction and often correlated with sales growth (Davies, 2004). Green Cargo believes that their Green Image has made them an attractive employee (Annual and Sustainable development report 2005). It harmonizes employee relations and boost recruitment. A good image and reputation can also be a real asset for a company on times of crisis, but also a way to avoid negative publicity and protect against negative consumer actions. Therefore it is crucial for Green Cargo’s image and reputation to maintain a good relation and dialogue with all parties involved and protect their brand (Annual and Sustainable development report 2005).

### **Implementation and monitoring of CSR**

CSR is implemented through educational ventures whereas they put a lot focus on educating their employees of policies and values (Forselius, 2006): It is through education and training those employees is being informed on what their responsibilities are and what is required by them to obtain. CSR is in addition implemented through code of conducts. These codes of conduct are a way for The Body Shop to put pressure on their suppliers and in the long run improve their supply chain. And by having principles and values written in The Body Shop code of conduct

The Body Shop will have issues to monitor and follow. However, code of conduct does not make The Body Shop ethical, just legal (Forselius, 2006) since it is based on minimum legal requirements. Yet it is a good thing to work with (Forselius, 2006). The Body Shop monitors closely the ethical performance of all of their suppliers, trying to make sure that the buying team only source from suppliers that meet their ethical trade standards. To do so, they use various monitoring systems like the SA8000 which evaluates whether companies are complying with basic standards of labour and human rights practices or not (McIntosh et al., 1998). In addition to SA8000, The Body Shop have other monitoring systems involving production and the environment.

CSR is in the case of H&M also implemented through educational commitment where the company invests in educating their employees and especially for those working for the company having a greater impact on e.g. the environment such as employees in charge of buying store equipment etc. For others focus is put on raising the awareness of H&M's responsibilities and impact. Teaching and training are important CSR aspects for the company and plays a crucial role in fostering sustainable development.

H&M's monitoring efforts are since the scandal in 1997 a priority to the company. They are continuously working on improving their different systems. This effort has led to the development of their new monitoring program called the FAP. Instead of doing many factory audits, they are now doing fewer but more comprehensive ones. Interviews with workers and managers are now integrated as a part of the audit program. With this program they are striving to find the causes rather than just the violations and by doing so changing and improving their supply chain practices. H&M does in addition to H&M's regular audits, independent monitoring is also conducted by FLA who conducts unannounced independent monitoring visits at H&M's supplier's factories.

Monitoring is for H&M the major *"component of our efforts as it makes it possible to identify and follow up issues, and helps us to direct our work"* (CSR report, 2005). It is of great importance since monitoring for them is the way of improving working conditions and respecting human rights and therefore working towards sustainable development. However, monitoring is not enough; it can't solve complex issues like women's maternity leave (Dubowicz, 2006). Long lasting changes requires educating the workers about their rights as human beings.

For Green Cargo CSR is mainly implemented through what they call The Scorecard which is a tool used in their daily operations for constant improvements in social, environmental and financial areas. In addition to the scorecard, programs and projects are run where employees discuss various issues and guiding principle. Green Cargo has also manuals and clarified procedures stated the company's guidelines and principles for employees to follow and implement. The company furthermore set standards for their customers, suppliers and infrastructure providers through contracts on various safety factors. Green Cargo monitors CSR through regularly audits and through management systems such as the ISO 9001: 2000, 14001: 2004 and AFS 2001:1.

These systems are systems works toward improving the environment. Some tries to demonstrate the companies' ability to consistently provide product that meets customer and applicable regulatory requirements others to assists companies and organizations to carry out an efficient and structured environmental work. ISO 14001:2004 enable an organization to develop and implement policies and objectives which take into account legal requirements and other requirements to which the organization subscribes, and information about significant environmental aspects while AFS 2001 analyzes and follows up the activities in such a way that illness and accidents are prevented and a satisfying work environment is achieved. Green Cargo monthly follow-ups audits create opportunities for the company to quickly responding to problems before they have major consequences. Another way to respond to problems before they will have major consequences or to simply avoid them from happening is to set up meetings and continuous dialogue which they believe is very important.

### **Motives behind a CSR engagement**

Motives for acting corporate social responsible vary from company to company. For The Body Shop it is mainly to spread their values and by doing so contributing to a sustainable development and a better place to leave behind. The Body Shop values do not lie in commercial advantages, but rather in the active role towards social betterment. Collaboration with NGO's and local community (e.g. The Body Shop's fair trade program) is a way of going towards that direction. For them it is all about being honest, fair and responsible. *"When customers walk out from their stores they walk out with all their values and that is their part of making this world a better place...They know what they get when they buy our product...in the long run it also makes*

*a difference for the environment*” as Forselius states (2006). It is simply a better way of doing business for The Body Shop.

Economic performance is vital for every company. Money is needed in order to open up stores and provide customers products and services. Therefore earning profits will still remain a central purpose of business and strong motive although it might not be the most important one. Being as an ethical and responsible corporation helps The Body Shop to become competitive brand (Forselius, 2006). For The Body Shop it is of great importance to stay competitive by earning the trust of their customers, suppliers, or other business partners. Corporation’s concern is what *“customers and other market-actors expect of the products and services they buy and the companies with which they deal with”* (Paine, 1991). Strong brand image can drive the business and give the company the upper hand over rivals.

Another motive behind a CSR engagement is in The Body Shop case to avoid ending up in a crisis (Paine, 2003). By having these codes of conduct stating the company’s core values and principles that are to be respected and put into action risks a company can eliminate or decrease the risk of them ending up in a crisis, To be viewed from the outside as a good corporate citizen taking care of its people and the environment creates in addition to good image and reputation the possibility for the company to handle their risks (Forselius, 2006). Having strong and clear values is a way for The Body Shop to managing risk and avoid moral disaster. But The Body Shop motives does not solely engage trying to prevent missteps but also to *“build a well functioned corporation with strong values which is essential for energizing the organization’s members around a positive self-image”* (Paine, 2003). The Body Shop sees respect, honesty and fair dealing as building blocks of a high-performance culture.

H&M’s main motive for having a CSR engagement involves the improvement of the company’s working conditions and environmental practices in their supply chain. By engaging and putting time and money on CSR activities the company wants to take an active role in society and by that work towards betterments in society. Ethical values such as responsibility, humanity and citizenship need no corporate justification because it is simply about human rights. It is for that reason why H&M does not longer work with agents, but instead with as few middle men’s hands as possible. By doing so they have more control over their supply chain and can contribute and work toward sustainable changes. By having a close and direct relationship with their suppliers H&M eliminates the possibilities for them to end up in a crisis. It is a way for them to improving

their supply chain acting honest and responsible and by that managing risk (Dubowicz, 2006). But for H&M it is not merely about preventing missteps, but also to build a company where ideals like respect, honesty and fair dealing are cherished.

Motive behind CSR engagement does not first and foremost for H&M involve creating a better image or reputation or creating legitimacy by collaborating with NGO's and governments (Dubowicz, 2006). Creating a good image and reputation is a side effect of working towards sustainable development and accomplishing positive social and environmental changes. And by doing so H&M believes that they can earn the trust of their stakeholders. It is good to work with NGO's and governments with important issues, but not just to gain legitimacy as a corporation, but rather establish their company as a progressive force for social betterment (Paine, 2003). Collaborating with NGO's and governments is a way of going towards that direction, by H&M refer their suppliers to turn to and contact them when facing issues that H&M themselves do not have much knowledge and experience in.

Green Cargo's motives for engaging in CSR activities include risk management. CSR can help in the decisions making process when choosing how to manage a risk when an accident has already occurred (Paine, 2003). If Green Cargo gets convicted of wrongdoings they might get a lower fine since they had programs in place to prevent and detect misconduct (Paine, 2003). Risk management may also include reducing the risk of fines and lawsuits. Another motive behind a CSR engagement in addition to strengthening profitability is about the effort of building a well functioned company. They also hope that their corporate responsibility efforts will encourage people with the right skills and values to approach the company and that existing employees can feel pride of working there. The company's ability to encourage and motivate its employees is crucial for long term improvements and sustainability. People are the heart of their organization.

Values such as economic, ethical and environmental improvements are essential which are building blocks of a high-performance culture (Paine, 2003). It is also a way of building their brand and earn the trust of their customers. In the end their ambition is to contributing for a better environment, a better society (Annual and Sustainable development report 2005). The better Green Cargo and other transport companies can deal with issues like greenhouse gas, the better it will be for the environment.

## **Challenges with CSR**

The Body Shop Sweden is a franchising and in total franchised stores represents about 60% of The Body Shop total retail sales. Franchising brings both positive and negative aspects. There are opportunities and challenges to face such as one franchisees mistake damaging the whole company's reputation. However the main challenge with CSR is closely connected to as an ethical company, meet customer's expectations in terms of environmental and social impacts of their product. Challenges for The Body Shop involve working with values on a long term. Working with values over time requires more from The Body Shop than simply running one or two campaigns (Forselius, 2006). Today's challenge is not to solely do what is required by law but also what is required ethically from employees, suppliers and society as whole. As an ethical international company you are not just expected but also required to act environmental friendly and to keep fulfilling environmental and societal expectations. In addition to these challenges, making sure that The Body Shop suppliers comply with the basic standard rules and principles like providing their workers a safe and good working environment is another one. It is challenging for the company to ensure that CSR is effectively implemented, monitored and verified. However there will always be new challenges since the company is build on human capital and therefore mistakes will also be made (Forselius, 2006).

The monitoring aspects are as well as the balance between fashion and quality at the best price seen as challenges for H&M which is something that they are working on improving on a regular basis. Long term improvements are essential for the company, but can be difficult to obtain.

The biggest challenge for H&M is though to convince their suppliers that working with issues stated in their code of conduct is a future investment (CSR report, 2005). It is challenging for them to make sure that their suppliers follow and implement the rules and regulations that they have signed to do. False documentations are commonplace and difficult to reveal and that is something that H&M is not acknowledging. They are aware that there is "*the risk of human rights violations and non-compliance with local labour law and internationally agreed labour standards*" (CSR-report, 2005).

Being a transport transportation company Green Cargo states in their Annual and Sustainable development report for 2005 that they faces many challenges but according to Melkersson the company's main challenge with CSR is to "*make sure that everybody in the whole company follows it through... That is a constant communication issue and constant work to make sure that*

*everybody gets the information and understands it and that everybody abides to these guidelines*". It may also be difficult to convert CSR activities into money. What and how much is the amount of profits generated from engaging in the ethical guidelines? Working with values on the long run may also be challenging, but sustainability is always a top priority. CSR must be seen in a long-term perspective that contributes to sustainability.

## 6. Findings and Conclusions

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Chapter 6 reports the findings and conclusions of the author's investigation. A comparison between the three selected companies will be highlighted and described. This chapter enables the author's to answer their research questions and aims, namely how corporations perceive CSR, what the motives are of engaging in CSR activities, how CSR is implemented and monitored, what the benefits are for having good CSR and finally the challenges and responsibilities that corporations faces.

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### **Comparison of how CSR is perceived by The Body Shop, H&M and Green Cargo**

The Body Shop, H&M and Green Cargo perceive the notion of CSR in a similar way even though TBS and H&M have a special target for CSR. H&M perceives CSR as what organizations do, how they do it and the impact of their behavior on the wider society. The Body Shop identify it as the pursuit of social and environmental changes to ensure that their business is ecological sustainable while Green Cargo perceives it as acting as a good citizen pursuing sustainable development. Even though they explain the notion of CSR in different ways it refers to the triple bottom line; Profit, People and Planet. This means raising performance that goes beyond minimum legal standards. Multinational corporations use their influence to help raise the quality of life and standards of living by doing business in a responsible and sustainable way. Sustainable development and values are essential components of the companies CSR work. Ethical values are a big part of how they do business. It is built into their strategy and the culture of the organization. The Body Shop have always been very successful in communicating their values, H&M is working towards that direction. Everything the companies do, they do it with their values in mind. There is more to life than making money. Even though H&M implicit states that companies are responsible for providing more benefits than just profit for its shareholders it is still the economic performance that matters. For Green Cargo that is the most important responsibility, together with quality, because it is trough strengthening profitability that changes and improvements can be accomplished. The Body Shop does also imply the importance of making profit but not as strong as Green Cargo and H&M. All three companies' states that business success is achieved through responsible and sustainable behaviour which it self create value for their customers. CSR is about the way of thinking about and doing business.

## **Comparison of corporation's responsibility according to Carroll's pyramid**

### **Economic responsibility**

The Body Shop and H&M believes that it is companies' fundamental principle to act in a manner that involves creating shareholder wealth as economic entities. However profits must be made in consideration to ethical values and sustainable development. Profits are made through integrating the companies' values into their day to day operations; it must be made in consideration to environmental and social aspects. And it is by doing so that they provide their stakeholders values and not solely financial means. Green Cargo looks at it in another way. It is through financial success that they believe social and environmental improvements will be achieved. More money gives the company the opportunity to get better in social and environmental areas. By being a profitable role model they want to show that transport and logistic companies can be both profitable and "green". And that is 'the' way of being ethical and sustainable.

### **Legal responsibility**

Private or public, fashion sector, logistic/transportation sector or cosmetic sector, it does not matter. All three companies fulfill the legal requirements that are forced upon them, doing business that exceeds the minimum legal requirements, but that is not enough according to The Body Shop, H&M and Green Cargo. Businesses must of course pursue not merely its economic responsibility, but to do so within framework of the legal responsibilities. Laws and regulations are the ground on which their business must operate in. However it is not enough for them to make sure that their suppliers, partners and employees adhere to the minimum legal requirements, but also to their ethical standards and principles. For H&M and The Body Shop no collaboration will take place before the companies' suppliers have sign their contracts and codes. For Green Cargo this is achieved through contracts, guidelines and regularly meetings.

### **Ethical responsibility**

It is not enough for either company to be economic and legal, but also ethical. The Body Shop believes that every company is obliged to follow the law and in some way pursue economic responsibility, but in consideration and based upon ethical values and principles. The Body Shop ethical responsibility refers to responsible to leave this world a better place to live on for the next coming generations and it is when companies take ethics into consideration that they can make profit. H&M argues the same. Being sustainable and acting in a long term is the way for them to take their ethical responsibility. Ethical responsibility involves issues like human rights and

working conditions, environmental concern and use of chemicals etc. Use of chemicals also refers to exclude chemicals that are not restricted by law forbidden, but that the companies chosen to list on their restriction list for precautionary reasons. For Green Cargo ethical responsibility often refers to safety and environmental aspects where working routines not only comply with official standards and requirements, but also to their own routines. Taking their ethical responsibility submits to making sustainable choices, maintain an open, honest dialogue with stakeholders, inspire and motivated their employees and pursuing wise use of resources. Being a green transport and logistic company oblige them having a positive impact on the environment and enhance safety among employees trying to prevent all possible large and small accidents. Green Cargo strongly believes that green logistics pays off for everyone. Environmental initiatives are therefore reflected in every process made in the company and integrated into everything they do and in everywhere in the organization

All three companies believe though that acting ethically means doing more than the law requires. And it is by doing so that social, environmental and economic performance will thrive. Collaborating with various authorities and organizations helps the companies in their work towards sustainable development. For H&M and The Body Shop changes and improvements are carried out through collaboration with several NGO's and organizations such as BSR, AI, FLA and the OECD's guidelines for multinational companies. The Body Shop have in addition to these collaborations established their own ethical and community trade programme as a way for them to illustrate and communicate their values world wide since the company sees it self as nothing but a human enterprise. Green cargo's collaborations include the Swedish International Freight Association, the Association of Swedish Train Operators and the NTM. The company believes that continuous dialogue and collaboration with authorities and organizations within the framework of their direct activities will help them improve their operations. That is beneficial for all parties involved.

### **Philanthropic responsibility**

Even though The Body Shop and H&M contribute corporate resources for charitable and voluntary activities to stop the abuse of human rights, animal experimentation or help environmental causes they believe that donation and contribution is not the main purpose with CSR. Corporations do have a responsibility to act as a good corporate citizen and give back to their community and society, but their philanthropic responsibility is only based on a short term improvements. Money and monetary contribution can and will help victims, but only for a short

term. And for that reason The Body Shop states that their philanthropic responsibility is a small part of their business activities. Instead they focus on actions that contribute to sustainable changes. H&M also believes that donating is a good thing to do, but not the most important one when looking at CSR. It is a complement to everything else they do. Green Cargo follows the same path, it is not the most important thing to do when working towards sustainable development, it is not a major part in their CSR activities, but however an important thing to do as citizen. Green Cargo believes that it is important to make donations for various causes rather than giving away Christmas card and gifts for customers and employees. All three companies give away for causes that they believe are important to shed light on such as the tsunami in Asia and abuse against children. H&M and The Body Shop do not have volunteering programs in contrast to Green Cargo which gives their employees the opportunity to work in a NGO (The Green Cargo Volunteer Program).

### **Comparison of corporate benefits of having a good CSR**

Having a good CSR contribute to enhanced brand image and reputation. Therefore it is vital for all three companies to protect their most valuable asset- their brand. For The Body Shop enhance brand image and reputation is based on them working with values over a long term period and can create loyalty and trust amongst their customers, business partners and NGO's. Reputation has become one of the most valuable intangible assets and CSR is an important key component of corporate reputation and brand recognition. All three companies acknowledge the importance of having a good image and reputation when operating in a competitive market. This together with transparency and accountability.

Having a good CSR will also benefit the companies financially, in terms of increased sales. Green Cargo states that having a good image of being responsible and ethical is the way for them to be profitable and therefore competitive and sustainable. H&M and The Body Shop though state that today's customers are demanding more when buying products, not solely about the quality or the price of it, but also how the product has been made and under which conditions. Green Cargo also highlights this issue and in addition states that it is also a question to be or not to be CSR, but rather how much you as a company should be social responsible.

Another benefit for having good CSR is according to The Body Shop as well as H&M and Green Cargo that it boosts recruitment and harmonizes employee relations. Having a good CSR helps companies to attract, keep and develop human capital as well as improve their working

performance. The Body Shop states that good CSR will bring more productive workers and greater employee loyalty. For Green Cargo a good reputation is a major driver for customer and employee satisfaction and associates with sales growth.

A final corporate benefit of having good CSR is according to The Body Shop a way of handling crisis. Being seen as ethical and responsible can be a real asset for a company in times of crisis. The desirer for companies to improve their risk management is a powerful factor behind CSR. H&M as well as Green Cargo acknowledge this corporate benefit of having good CSR. For H&M it is closely connected to their supply chain and them having a close and direct relationship with their suppliers. H&M's desire to improve their risk management is a powerful factor behind CSR. For Green Cargo it is mainly about preventing and detecting accidents on road or rail. Risk management is also a way for all three companies to avoid negative publicity and protect against negative consumer actions.

### **Comparison of implementation and monitoring of CSR**

It is through education and training activities that CSR is implemented at The Body Shop and H&M. Their code of conducts is an additional way of implementing CSR into their day to day business. Codes are there to put pressure on suppliers and in the long run improve the companies supply chain. And by having principles and values written in their code of conduct both The Body Shop and H&M will have issues to monitor and follow up. While The Body Shop uses standard monitoring systems like SA8000 and ISO 14001, H&M uses their own monitoring programme called the FAP. They are now doing less but more comprehensive audits and include workers interview in them. In addition to their well developed monitoring system program independent monitoring is also conducted by FLA who conducts unannounced independent monitoring visits at H&M's supplier's factories. Monitoring is a major component for H&M which makes it possible for them to identify and follow up issues. However, monitoring is not enough; since it can solve all issues. Therefore education is required to ensure that workers are aware of their rights and obligations. Green Cargo does not have any codes of conducts but they do put pressure on their suppliers through signing contracts and guidelines. CSR is for them implemented through a scorecards which is used in their daily operations for constant improvements in areas such as social (safety, employees, customer, society), environmental and financial. It creates a transparency since all staff members can see how reality is developing in relation to targets. For Green cargo CSR is in addition implemented through manuals, projects,

training and meetings to make sure that, for example guidelines are being followed and implemented by their employees. Monitoring systems that is being used by Green Cargo includes environmental management systems such as the ISO 9001: 2000, 14001: 2004. These systems aim to ensure quality and increased security as well as assist companies to carry out an efficient and structured environmental work. Monitoring for Green Cargo as well as for H&M and The Body Shop carried out through audits, not though unannounced like in the case with H&M. The company does also do monthly follow ups with the aim to quickly responding to problems before they have major consequences. Monitoring is for all three companies' vital work that never ends.

### **Comparison of motives behind a CSR engagement**

Motives of having engaging in CSR activities is for The Body Shop mainly to spread their ethical values and by that contributing to sustainable and long-lasting positive change. To simply leave this world a better place generation after generation and by that work actively towards social betterment. This is also a motive for H&M and Green Cargo to engage in CSR activities. Their business is about improving working conditions and environmental practices in their supply chain and through that take an active role towards betterments. For all three companies it is about being honest, fair and responsible and Collaboration with authorities and organizations to achieve sustainable development.

Another motive behind a CSR engagement is in The Body Shop case to avoid ending up in a crisis: having strong and clear values is a way for The Body Shop to managing risk and avoid moral disaster. Risk management is for H&M also a motive to engage in CSR. For them it is related to a close and direct relationship with their suppliers which will eliminates the possibilities for them to end up in a crisis. Improving their supply chain is the way of handling and offsetting risks. Green Cargo also states this as one of their many motives behind engaging in CSR activities. This motive is a way for them to prevent misconduct and therefore offset the risk of getting suit. Instead it could help them how to manage a risks when an accident have already occurred. However it is no merely about preventing missteps for the three companies, but also to build up a company where ideals like honesty and fair dealing are respected. It is about building a well functioned corporation with strong values which is essential for bracing the organization's members around a positive self-image.

Even though economic performance can be seen as a motive The Body Shop states in contrast to Green Cargo that their business is more essential than making money. For The Body Shop as

well as for H&M it is about being ethical and responsible and through that be profitable which will make them a competitive brand. Green Cargo perceives it the other way around. It is through financial improvements that e.g. improvements can be done on the environment (new technology and solutions). All three companies recognize the importance of taking care of its people. This in addition to environmental concern and financial (especially in the case with Green Cargo) creates a good image and reputation for the companies mentioned. Strong brand image can drive the business and give the company the upper hand over rivals. For H&M it is also good to work with NGO's and governments with important issues, but not just to gain legitimacy as a corporation, but rather establish their company as a progressive force for betterments in society. Green Cargo and The Body Shop also recognize this as a motive behind engaging in CSR activities, the aim to work towards a better society and effectively deal with issues like greenhouse effect. For Green Cargo it is also about encouraging and motivating its people and by doing so create value for them. Even H&M and The Body Shop put a finger on the notion of creating value for customers and employees as well as for others. In the end it is all about earning the trust and respect of stakeholders and shareholders.

### **Comparison of challenges with CSR**

The Body Shop main challenge is to as an ethical company meet customer's expectations in terms of environmental and social impacts of their product. Working with values over a long term perspective is challenging for the company. Their challenges is not to solely do what is required by law but also what is required ethically from employees, suppliers and society as whole. It is also difficult for The Body Shop to make sure that their suppliers comply with the basic standard rules and principles concerning human rights, use of chemicals, working conditions and ages, safety etc. H&M's biggest challenge is though to change attitudes amongst its suppliers: trying to convince them that working with issues stated in their code of conduct is a future investment for them. For them it is also challenging to ensure that their suppliers follow and implement the rules and regulations that they have signed. Monitoring is never flawless or easy, but rather time consuming and complex. Green Cargo also states the difficulty in making sure that everybody inside and outside the company is adhering to CSR policies and guidelines. Communication is vital work, working towards getting the information spread and understood by every party involved and ensure that they follow policies and guidelines. Working with CSR and communicating it is difficult, making sure that it is followed and implemented is even harder, but a must if sustainable development is to be achieved. Both Green Cargo, The Body Shop and

H&M recognize the importance of working with CSR in a long term perspective. It is the only way of achieving change and improvements that is long lasting.

## **Summary of findings and conclusions**

### ***How do The Body Shop, H&M and Green Cargo perceive Corporate Social Responsibility?***

The Body Shop, H&M and Green Cargo defines the notion of CSR similar, namely what organizations do, how they do it and the impact of their behavior on society at large. They all infer that CSR reflects acting as a good corporate citizen, being ethical, obeying the law and being profitable. Green Cargo emphasizes though stronger the profitable aspects in comparison to The Body Shop and H&M. Overall all three companies perceive CSR as “the” way of thinking and doing business.

### ***How is Corporate Social Responsibility implemented and monitored?***

In the case of The Body Shop and H&M, CSR is implemented through codes of conducts which are a non-negotiable requirement that all parties involve, e.g. suppliers and their subcontractors are expected and required to follow. By having this code the two companies can put pressure on suppliers etc. CSR is also implemented through educational ventures and training. Green Cargo does not have a code of conduct, but instead a scorecard which is a strategic tool used in their daily operations for constant improvements in target areas such as safety, environment, customer and finance. In addition to their scorecard CSR is also implemented through projects, education and meetings.

CSR is monitored in the case of H&M through their new program that was developed in 2004, namely the Full- Audit Programme (FAP) which is a monitoring system that focuses on fewer but more comprehensive audits. Workers interviews are in also integrated as a part of each audit. CSR is furthermore monitored independently by the Fair Labor Association. This outside group conducts unannounced visits at H&M’s supplier’s factories. Monitoring is H&M’s major component since it makes it possible to identify and follow up issues. Monitoring on its own is not enough, but instead a complement to everything else H&M does. The Body Shop’s monitoring tools include the SA 8000 and the environmental system ISO 140001. But similar to the case of H&M monitoring, as stated by The Body Shop, is not enough since it is always difficult to assure that suppliers follow The Body Shop rules and principles. For Green Cargo CSR is mainly monitored through

environmental management systems such as the ISO 9000, ISO 14001 and AFS. Green Cargo states the importance to have these monitoring systems and integrate them within the company as a vital component of their work. Their monthly follow-ups create opportunities for the company to quickly respond to problems before they bring about major consequences.

***What are the motives for having a Corporate Social Responsibility policy implemented?***

Motives for having CSR implemented are numerous for The Body Shop, H&M and Green Cargo and include risk management, enhanced image and reputation, social betterments and the benefits of building up a well-functioned corporation with strong values. For The Body Shop CSR engagement mainly refers to the spreading of ethical values and the movement towards sustainable positive change. Sustainable change and acting honest, fair and responsible are also motives for H&M and Green Cargos for implementing CSR into their business operations. Risk management is another motive behind the implementation of CSR. For H&M it is a way of establishing a close relationship with their suppliers and subcontractors, which is their way towards eliminating the possibility negative relations ending in a crisis. The Body shop states in addition that by having ethical values they are able to be proactive in nature and can avoid moral disasters. For Green Cargo risk management is the way of managing risks when an accident has already occurred. However it is not solely about preventing missteps, but also a way of bracing the companies around a positive self-image. Making money is another motive for implementing CSR policies into ones business, especially in the case of Green Cargo. They believe that it is through strengthening profits that one can make improvements and a positive change. For H&M and especially The Body Shop money is instead a side effect of the work that they do. A final motive for implanting CSR is that it encourages and motivates its people as well as earns the trust and respect of the company's shareholders. All three companies recognize the importance of taking care of its people and environment

***What are the corporate benefits and challenges of having good Corporate Social Responsibility?***

The benefits for all three companies include enhanced brand image and reputation. They all find their brand as their most important asset. Having a good image and reputation increases sales as well as boosts employment relations. For The Body Shop, H&M and Green Cargo it is vital to harmonize employee relations. They all state that by having good CSR policies they can attract sustain and develop human capital, and therefore improve their own performance. A final benefit of having good CSR embraces the management of crisis. They all improve their management and control over risks

and helps exploits and prevents crisis before they occur. Risk management is overall a way for all three companies to avoid negative publicity and negative consumer actions.

Even though the three companies differ in size, owner structure, sector etc they do face similar challenges including implementation and monitoring issues. It is difficult to work with, as The Body Shop and H&M states, values over a long period of time and to change preset attitudes. It is also challenging to ensure that suppliers are complying with rules and principles and not to mention to convince suppliers that working with ethical issues are a future investment for them. Communication is therefore vital, in every level of the organization, by several actors. The body Shop, H&M and Green Cargo address the importance of working with CSR. It is a long term commitment that never ends.

## 7. Discussion

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Chapter 7 discusses the authors' practical issues and challenges that they have met during the writing process. Those challenges involve for example writing in a language that is not their native tongue.

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It has been anything but easy to write our bachelor thesis. Starting the whole process of writing is demanding and requires that you as a writer know what you want to write about and how you will do that. Choosing a subject was not difficult at all. However what proved to be one of the biggest challenges was finding information, such as previous theses on CSR, in English. We did manage to find a few theses on CSR, but not a single one in English. With the information we found we felt that many of them did not touch on issues and problems that we found interesting. However they did help us to find relevant literature and material for our work.

The most challenging thing for us was not to find material about the subject, but to actually write out a structured outline. We could not find one single bachelor thesis in English at our school's library (with some exceptions). Therefore we had to rewrite all the headlines since Swedish words cannot always be translated word for word into English. To be able to accomplish a clear and comprehensive outline we had to read a lot of books and articles. As one could imagine this whole process took us a lot of time and focus. Furthermore, it has also been challenging for us to write our thesis in English (which is our third language). The way we write and express ourselves in English differs from the way we would in Swedish, French or Persian. We are aware of this and have therefore asked friends and family members to read over our thesis and give us feedback on the content and structure. Having people from the outside look at our thesis and make suggestions has helped to shape our paper in a way that would otherwise not be possible.

We hope that our thesis will help others in their process of writing. Benchmarking is a way of taking something good and making it even better. We look forward to seeing and reading other theses that has also touched on the topic of CSR. It is important for us all to remember that creativity has no boundaries but the ones we set for ourselves.

## 8. Reflections and Final thoughts

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In chapter 8 the author's reflections and thoughts are being described and discussed e.g. companies' code of conducts, governments versus companies' responsibilities and finally whether CSR should be a voluntary action or not.

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Throughout the whole process of reading and writing this there has been some thoughts of ours that we feel are important to address and discuss. The first thought that has crossed our mind involve corporation's ethical codes and standards. An important question to be asked is how effective these codes of conduct are. How effective are they when people cannot respond to them or when people do not know or understand them. What use is it to have a code of conduct when its not comprehended or understood by the workers? What purpose does it have when employees can't read or when they do not possess the power to make a change, to insist on the code of conducts implementation? And furthermore is it really effective to have the same standard in different countries? Should companies not customize codes based on which country they operate in and by that putting focus on the concerning issues for that country. Is it really useful and helpful to have a standard code of conduct?

Time after time we hear companies working with implementing their values and principles, but time after time we see them breaching their commitments. Companies have to focus on the impact of these codes rather than on their efforts of creating them. It feels like customers, employees and suppliers are being steamrolled with standards, code of conducts and guidelines for CSR. However what is said and written has to though be implemented and communicated throughout the whole organization and on every level be several actors. Otherwise CRS has no meaning and can solely be seen as a PR tool which many organizations and single actors today are claiming it to be. It is a natural reaction to doubt corporation's effort to act in an honest and truthful way when they are not doing what they are saying that they are or will do. CSR can therefore be seen as only a window dressing tactic, a way for corporations to improve their image as well as a reason for keeping the critics quit. And in the end make as much profit as possible. There is nothing wrong of making money, as long as you earn it in a way that does not involve paying workers less than 1 dollar for an article of cloths that they manufacture. It is not right to earn money by dumping oil in the Atlantic Ocean and extinct species. Therefore accountability is

everything; companies need to be held accountable for their actions, with or without settled codes and principles.

Our second thought brings us to corporations and governments responsibilities. The power of corporations and especially MNC's and TNC's has increased whereas in some countries corporations have more power than the government it self and where the company is controlling and changing the society when governments lack that power. Corporations might also work toward protecting citizen when governments fail to do so. They might protect human rights when governments are unwilling or unable to achieve this. And in some situations corporations might compensate or correct government's failure. This is admirable; however where should one draw the line or the limit of their responsibilities. How much responsibility should corporations like The Body Shop, H&M and Green Cargo take? Is it fair, just or decent to ask corporations to deal with social and environmental issues in countries where the governments lack such approach? When is it too much and too dangerous for corporation's to take over and control such complex issues? The line is thin and unclear, but we can not leave corporations to regulate them selves and we can not let governments to wait for corporations to solve their problems. These challenges that globalization bring requires a collaborative approach, it is not a single actors responsibility. Focus should not be put on who should do what, but rather when and how changes will be made.

Our third and final thought focuses on the issue whether CSR should be compulsory and not voluntary. It is said that change can not be brought if the person do not want to change himself. But whether this is true or not, we do believe that some things need to be forced upon people and companies. We consider CSR as such thing, because when it is voluntary corporations can just chose to walk away from it whenever it suits them. Binding standards rules are in our judgment needed to force corporate accountability beyond voluntarism. Especially when there is a lack of international procedures and international law in which multinational corporations can be brought under. It has to cost corporations to not act ethical. This is not the case today when it can be beneficial for companies to break the law rather than obey to it. What is \$1 million in fines when you are earning \$20 billion? It is very admirable for society to fill the absence of the legal accountability with guidelines such as the OECD's guidelines for multinational enterprises, but this is not binding and some organizations will only integrate social responsibility into their business, if they are forced to. Corporations must therefore be held accountable by compulsory standards and principles for them to be more social responsible than they are today.

Accountability is once again essential: corporations have a legal obligation to uphold international standards. We believe that we can only make this a better place by taking responsibility for our own actions. It is never easy to change, but it is also never too late to do so.

## **9. Suggestions for further research**

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Chapter 9 commences the reader to suggestion for areas for further research such as CSR activities in Small Medium Enterprises. Further research questions might be possible to attack for a coming up master thesis.

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An area for further research that we have reflected over and found interesting is the relation between CSR and profitability. It would be appealing to investigate whether such relation exists or not in reality. This might though be difficult when many firms do not disclose their expenses related to CSR activities. Therefore it might also be difficult to directly measure the return on CSR investment.

Since the CSR concept was mainly developed by and for large multinational enterprises it would have been very interesting for us to examine how CSR is run by small medium enterprises (SME) and see if there are similarities and differences to how international corporations run their CSR activities and practices. Does size matter? Can everybody act?

In addition to this it would have interesting to compare how CSR is run and viewed in different countries, e.g. how Swedish firm see and work with CSR and how such an approach varies for an American, Canadian or Asian company. This might though be possible to have a closer look at when writing a master thesis.

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# 11. Appendix

## Appendix 1- Interview questions

### Introduction

- Could you tell us about yourself and your responsibility/position in your company (background, experience, work etc)?

### Definition of CSR

- How do you define corporate social responsibility(CSR)? What does it mean to you? What does it mean to your company?
- Is CSR a separate division in your business or is it integrated throughout the whole organization? Why?
- How do you define economic, legal, ethical and philanthropic responsibility?
- What are your economical, legal, ethical and philanthropic responsibilities?
- Is your company being CSR? If yes, in what ways?
- What role does CSR play in your company strategies and activities?

### Implementing & Monitoring

- How is CSR implemented in your company?
- How is CSR being communicated? Do you have any specific manuals and codes for your employees and suppliers to follow?
- How is CSR monitored, how do you make sure that principles and rules are followed?
- Do you have any specific monitoring systems?

### Motives

- What are the motives for having a CSR approach? (e.g. enhanced reputation/image, sustainable development?)
- What are the effects on your company's image and reputation lacking a CSR approach?
- Is risk management a good motive behind having an CSR engagement? In what ways? Can you explain?
- How important is it to be CSR? Is it a conscious choice?

### Benefits

- What are the main benefits with having a good CSR approach?
- What benefits are more and less important? Why?

## Challenges

- What are the challenges for your company when it comes to CSR?
- How does your company cope with these challenges?

## Final questions

- How does the future look for your company and your CSR engagements?
- Which direction are you taking concerning CSR? What are your upcoming objectives and goals?

## **Appendix 2- The Body Shop's Code of conduct**

### **Employment is freely chosen**

1. There is no forced, bonded or involuntary prison labour.
2. Workers are not required to lodge 'deposits' or their identity papers with their employer and are free to leave their employer after reasonable notice.

### **Freedom of association and the right to collective bargaining are respected**

1. Workers, without distinction, have the right to join or form trade unions of their own choosing and to bargain collectively.
2. The employer adopts an open attitude towards the activities of trade unions and their organizational activities.
3. Workers representatives are not discriminated against and have access to carry out their representative functions in the workplace.
4. Where the right to freedom of association and collective bargaining is restricted under law, the employer facilitates, and does not hinder, the development of parallel means for independent and free association and bargaining.

### **Working conditions are safe and hygienic**

1. A safe and hygienic working environment shall be provided, bearing in mind the prevailing knowledge of the industry and of any specific hazards. Adequate steps shall be taken to prevent accidents and injury to health arising out of, associated with, or occurring in the course of work, by minimizing, so far as is reasonably practicable, the causes of hazards inherent in the working environment.
2. Workers shall receive regular and recorded health and safety training, and such training shall be repeated for new or reassigned workers.
3. Access to clean toilet facilities and to potable water, and, if appropriate, sanitary facilities for food storage shall be provided.
4. Accommodation, where provided, shall be clean, safe, and meet the basic needs of the workers.
5. The company observing the code shall assign responsibility for health and safety to a senior management representative.

### **Child labour shall not be used**

1. There shall be no new recruitment of child labour.
2. Companies shall develop or participate in and contribute to policies and programmes which provide for the transition of any child found to be performing child labour to enable her or him to attend and remain in quality education until no longer a child; 'child' and 'child labour' being defined in the appendices of "*Purposes, Principles, Programme: ETI membership information*".
3. Children and young persons under 18 shall not be employed at night or in hazardous conditions.
4. These policies and procedures shall conform to the provisions of the relevant ILO standards.

### **Living wages are paid**

1. Wages and benefits paid for a standard working week meet, at a minimum, national legal standards or industry benchmark standards, whichever is higher. In any event wages should always be enough to meet basic needs and to provide some discretionary income.
2. All workers shall be provided with written and understandable information about their employment conditions in respect to wages before they enter employment and about the particulars of their wages for the pay period concerned each time that they are paid.
3. Deductions from wages as a disciplinary measure shall not be permitted nor shall any deductions from wages not provided for by national law be permitted without the expressed permission of the worker concerned. All disciplinary measures should be recorded.

### **Working hours are not excessive**

1. Working hours comply with national laws and benchmark industry standards, whichever affords greater protection.
2. In any event, workers shall not on a regular basis be required to work in excess of 48 hours per week and shall be provided with at least one day off for every 7-day period on average. Overtime shall be voluntary, shall not exceed 12 hours per week, shall not be demanded on a regular basis and shall always be compensated at a premium rate.

### **No discrimination is practiced**

1. There is no discrimination in hiring, compensation, access to training, promotion, termination or retirement based on race, caste, national origin, religion, age, disability, gender, marital status, sexual orientation, union membership or political affiliation.

### **Regular employment is provided**

2. To every extent possible work performed must be on the basis of a recognized employment relationship established through national law and practice.
3. Obligations to employees under labour or social security laws and regulations arising from the regular employment relationship shall not be avoided through the use of labour-only contracting, subcontracting, or home-working arrangements, or through apprenticeship schemes where there is no real intent to impart skills or provide regular employment, nor shall any such obligations be avoided through the excessive use of fixed-term contracts of employment.

### **No harsh or inhumane treatment is allowed**

1. Physical abuse or discipline, the threat of physical abuse, sexual or other harassment and verbal abuse or other forms of intimidation shall be prohibited.

## Appendix 3- H&M's Code of conduct

H&M, as a strongly expanding multinational company, feels that it is increasingly important for us to take responsibility for all our actions, in Europe as well as in the rest of the world. Most importantly we have a responsibility towards all the thousands of people taking part in the production of our garments. We have to make sure that nobody whose work is contributing to our success is deprived of his or her human rights, or suffers mental or bodily harm.

In order to make our position clear to our suppliers, our own staff, as well as any other parties, we have set up a Code of Conduct. It is a non-negotiable requirement from our side that all our suppliers and their subcontractors, without exception, should follow this code.

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### 1. LEGAL REQUIREMENTS

Our general rule is that all our suppliers must, in all their activities, follow the national laws in the countries where they are operating. Should any of the following requirements by H&M, be in violation of the national law in any country or territory, the law should always be followed. In such a case, the supplier must always inform H&M immediately upon receiving this Code. It is however important to understand that H&M's requirements may not be limited to the requirements of the national law.

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### 2. CHILD LABOUR

**2.1 Policy** We base our policy on child labour on the UN Convention on The Rights of the Child, article 32.1 . We recognize the rights of every child to be protected from economic exploitation and from performing any work that is likely to be hazardous or to interfere with the child's education, or to be harmful to the child's health or physical, mental, spiritual, moral or social development.

**2.2 Definition** We define, in this context, the word "child" as a person younger than 15 years of age or, as an exception, 14 years in countries covered by article 2.4 in the ILO convention No.138.

**2.3 Implementation of H&M's policy on Child labour** H&M does not accept child labour. We are concerned about the situation of children in many parts of the world. We acknowledge the fact that child labour does exist and can't be eradicated with rules or inspections, as long as the children's social situation is not improved. We want to actively work with factories and with NGO's (Non Government Organizations) in third world countries, to try to improve the situation for the children affected by our ban on child labour. If a child (see definition under 2.2) is found working in any of the factories producing our garments, we will request the factory to make sure that the measures taken are in the child's best interest. We will, in co-operation with the factory, seek to find a satisfactory solution, taking into consideration the child's age, social situation, education, etc. We will not ask a factory to dismiss a child without a discussion about the child's future. Any measures taken should always aim to

improve, not worsen, each individual child's situation. Any costs for education, etc. have to be paid by the factory. We will firmly demand that the factory employs no further children. We recommend factories with predominantly female workers to arrange day care for children below school age.

**2.4 Enforcement** If a supplier does not accept our policy on child labour, we will not continue our co-operation with this supplier.

**2.5 Apprenticeship programmes** In countries where the law permits apprenticeship programmes for children between 12 and 15 years of age, we will accept that children of this age work a few hours per day. The total numbers of hours daily spent on school and light work should never exceed 7 (seven) hours (ILO convention No. 33). The factory must be able to prove that this work is not interfering with the child's education, that the work is limited to a few hours per day, that the work is light and clearly aimed at training, and that the child is properly compensated. If we have any reason to doubt that these conditions are met, such apprenticeship programmes will not be accepted in factories producing garments for H&M.

**2.6 Special recommendations** We acknowledge, that according to the UN Convention on the Rights of the Child, a person is a child until the age of 18. We therefore recommend our suppliers to make sure, that employees in the age group 15-18 years, are treated accordingly. Limits for working hours and overtime for this age group should be set with special consideration to the workers' low age.

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### 3. SAFETY

**3.1 Building and Fire Safety** We require from our suppliers that the workers' safety should be a priority at all times. No hazardous equipment or unsafe buildings are accepted. The factory should have clearly marked exits, and preferably emergency exits on all floors. All exit doors should open outwards. Exits should not be blocked by cartons, fabric rolls or debris, and should be well lit. If emergency exits are locked, the keys should be placed behind breakable glass next to the doors, and thus be available to all staff at all times. All workers should be aware of the safety arrangements in the factory, such as emergency exits, fire extinguishers, first aid equipment, etc. An evacuation plan should be displayed in the factory, the fire alarm should be tested regularly and regular evacuation drills are desirable.

**3.2 First Aid** First aid equipment must be available in each factory, and at least one person in each department should have training in basic first aid. It is recommended that a doctor or nurse should be available at short notice, in case of an accident in the factory. The employer should pay any costs (not covered by the social security) which a worker may incur for medical care, following an injury during work in the factory.

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### 4. WORKERS' RIGHTS

**4.1 Basic Rights** All workers producing garments for H&M should be entitled to his or her basic rights:

**4.1.1** We do not accept that bonded workers, prisoners or illegal workers are used in the production of goods for H&M.

**4.1.2** If foreign workers are employed on contract basis, they should never be required to remain employed for any period of time against their own will. All commissions and other fees to the recruitment agency in connection with their employment should be covered by the employer.

**4.1.3** Under no circumstances do we accept that our suppliers or their subcontractors use corporal punishment or other forms of mental or physical disciplinary actions, or engage in sexual harassment.

**4.1.4** All workers should be free to join associations of their own choosing, and they should have the right to bargain collectively. We don't accept any disciplinary actions from the factory against workers who choose to peacefully and lawfully organise or join an association.

**4.1.5** No worker should be discriminated against because of race, gender, religion or ethnic background. All workers with the same experience and qualifications should receive equal pay for equal work.

**4.1.6** All workers should be entitled to an employment contract.

## **4.2 Wages and Working Hours**

**4.2.1** Wages should be paid regularly, on time and be fair in respect of work performance. The legal minimum wages should be a minimum, but not a recommended, level.

**4.2.2** Weekly working time must not exceed the legal limit, and overtime work should always be voluntary and properly compensated.

**4.2.3** The workers should be granted their stipulated annual leave and sick leave without any form of repercussions.

**4.2.4** Female workers should be given their stipulated maternity leave in case of pregnancy.

**4.2.5** Dismissal of pregnant female workers is not acceptable. In developing countries, we recommend our suppliers to provide the workers with at least one free meal daily.

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## **5. FACTORY CONDITIONS**

**5.1** It is important for the workers' well-being, and for the quality of the garments, that the factory environment is clean and free from pollution of different kinds.

**5.2** The temperature in the factory should be tolerable as a working environment, and the ventilation should be adequate. Heaters or fans should be provided when needed.

**5.3** The lighting in each workplace should be sufficient for the work performed, at all times of day.

**5.4** Sanitary facilities should be clean, and the workers should have access without unreasonable restrictions. The number of facilities should be adequate for the number of

workers in the factory. Sanitary facilities should be available on each floor, and preferably separated for men and women.

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## 6. HOUSING CONDITIONS

If a factory provides housing facilities for its staff, the requirements regarding safety and factory conditions, under point 3 and 5 above, should also cover the housing area. All workers must be provided with their own individual bed, and the living space per worker must meet the minimum legal requirement. Separate dormitories, toilets and showers should be provided for men and women. There should be no restriction on the workers' right to leave the dormitory during off hours. We want to particularly stress the importance of fire alarms, fire extinguishers, unobstructed emergency exits and evacuation drills in dormitory areas.

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## 7. ENVIRONMENT

The environment is of increasing concern globally and H&M expects its suppliers to act responsibly in this respect. Our suppliers must comply with all applicable environmental laws and regulations in the country of operation. According to the H&M Chemical Restrictions, we do not allow use of solvents or other hazardous chemicals in the production of our garments. All suppliers must sign the H&M Chemical Restriction Commitment, confirming that no prohibited chemical substances will be used in the production.

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## 8. MONITORING AND ENFORCEMENT

**8.1** The principle of trust and co-operation H&M expects all its suppliers to respect the above Code of Conduct and to actively do their utmost to achieve our standards. We trust our own staff to take a lot of responsibility in their work, and we expect from our suppliers that they do the same. We believe in co-operation and we are willing to work with our suppliers to achieve workable solutions in each individual case. We are willing to take into consideration cultural differences and other factors which may vary from country to country, but we will not compromise on our basic requirements regarding safety and human rights.

**8.2** Monitoring All suppliers are obliged to always keep H&M informed about where each order is being produced. H&M reserves the right to make unannounced visits to all factories producing our goods, at any time. We also reserve the right to let an independent third party (e.g. a NGO ) of our choice make inspections, to ensure compliance with our Code of Conduct.

**8.3** Non-compliance Should we find that a supplier does not comply with our Code of Conduct, we will terminate our business relationship with this supplier, if corrective measures are not taken within an agreed time limit. If we find repeated violations, we will immediately terminate the co-operation with the supplier and cancel our existing orders.