Long-term CSR incentives at fashion chains in Sweden

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Abstract

In recent time the pressure on companies from groups like governments, regular citizens and media on taking its social responsibility has increased in rapid pace. This has led to increased interest from companies all over the world about social issues and the companies’ responsibility for these issues.

In the more competitive environment were companies act today the use of corporate social responsibility (CSR) to differentiate itself against other company’s increases in importance. Together with increasing interest from stakeholders about social issues has made it central for companies not only to be social responsible but also to be good at finding future social trends that will give them competitive advantage against other actors.

The purpose of this paper is to examine how the three largest fashion chains in Sweden, Hennes & Mauritz, Lindex and KappAhl, are managing its CSR work now and how good their organisation is prepared to manage the CSR work in the future. The examination will focus on the factors that make the management of CSR successful or not, and to get an overview of if the conditions for current and future successful CSR is present at the companies. By doing a qualitative document analysis of the selected companies the conclusion is made that there is much work to be done at the three largest Swedish fashion chains to more effectively use CSR and the positive effects that a well developed CSR plan can bring to the companies. The conclusion is based on the lack of long-term remuneration incentives for the management that rewards a short-term decisions and the extensive use of collective commitments instead of exclusive CSR work.

Keywords: Corporate social responsibility, CSR management, Collective commitment, Exclusive commitment, Remuneration
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1. Introduction
   1.1 Background
   1.2 Problem
   1.3 Purpose
   1.4 Limitations

2. Theory
   2.1 Four prevailing justifications for CSR
   2.2 Integrating business and society
   2.3 Strategic CSR
   2.4 Solve the win-win puzzle
   2.5 Management target priority
   2.6 Management target priority
   2.7 What is at stake
   2.8 Management and CSR

3. Method
   3.1 Selections
   3.2 Method critics

4. Empirical Findings and Analysis
   4.1 Current CSR work
      4.1.1 Hennes & Mauritz
      4.1.2 Lindex
      4.1.3 KappAhl
      4.1.4 Analysis of the current CSR work
   4.2 Structure of management remuneration
      4.2.1 H&M
      4.2.2 Lindex
4.2.3 Kappahl..................................................................................................................33
4.2.4 Analysis of the structure of management remuneration..........................33
5. Conclusion.......................................................................................................................35
6. Future research.............................................................................................................36
1. Introduction
Stopping children from working in dangerous environments in factories or preventing the polar ice to melt by reducing pollution would certainly give companies positive reactions from environmentalists but not always go along with the company’s economic or strategic goals. Can corporate social responsibility (CSR) be a solution that eliminates the boundaries between doing well and doing good at the same time?

In recent time the pressure on companies from groups like governments, regular citizens and media on taking its social responsibility has increased in rapid pace. (Luo & Bhattacharya, 2006) These groups have, by looking at what responsibility companies take for its actions been given greater influence on the companies. (Porter & Kramer, 2006) At the same time the globalization has given companies less constrains by society’s basic order then in the past by taking advantage of different laws and regulations in different regions and countries. This has given companies greater chance of getting away with less than ideal behaviour in the search for greater profits. (Falck & Heblich, 2007)

In today’s competitive environment this less ideal behaviour is tempting for companies to use itself of to achieve lager profits. On the contrast many companies have understood that a well developed long-term plan for how to work with social questions can give a strategic advantage that in the long run will generate even greater profits. Despite the possibilities for companies to find a good strategic advantage in a well developed CSR plan many companies today see CSR as something necessary and a way to minimize risks. (Luo & Bhattacharya, 2006)

Recent studies of CSR by Margolis and Walsh (2001) and Orlitzky, Schmidt, and Rynes (2003) has come to the conclusion that the market rewards companies with social activities. CSR can therefore be seen as a well working management strategy and can be a crucial factor for success. This factor of success can be different for different types of CSR activities. Short-term activities as sponsoring events and donating money for social
purposes are not as effective as if the activities are a long-term proposition. (Falck & Heblich, 2007)

“The practice of CSR is an investment in the company's future; as such, it must be planned specifically, supervised carefully, and evaluated regularly.” (Falck & Heblich, 2007 p.248)

1.1 Background
Since the middle of 1990s CSR has become an important part for companies to take into consideration. The criticism from the anti-globalization movement against multi-national companies who has outsourced to poorer countries in the third world and scandals as child labour, pollution and economic crime has had a big influence of the origin of CSR. This has led to that non governmental and governmental organisations have noticed the social and ethical problems that have followed the multi-national companies. (Windell)

The term CSR is hard to define and despite researchers efforts the term CSR today is spread over a wide area and have many different definitions. This lack of good definitions can also be one of the explanations to why CSR has been able to spread. As there is no firm definition companies and organisations has been able to develop and design CSR activities to fit its own needs instead of following a strict model. Thanks to or despite the lack of unity of what the definition of CSR is, its popularity has increased strongly during the recent years and lead to increased interest among scientist and organisations. (Windell) One way of trying to define the term is from Falck and Heblich (2007).

“CSR is regarded as voluntary corporate commitment to exceed the explicit and implicit obligations imposed on company by society's expectations of conventional corporate behaviour.” (Falck & Heblich, 2007 p.247)
1.2 Problem
As stated above a well developed strategic use of CSR can give companies strategic advantages against other competing actors on the market. To gain these strategic advantages companies must be good at understanding what is going to be a good strategy in the future. If companies can find future needs that will have impact on the society they have positioned themselves in the front. They can therefore make good profit from this social impact on the market if they use a long-term perspective. (Falck & Heblich, 2007)

In the constantly more competitive environment that companies act in today the use of CSR to differentiate itself against other company’s increases in importance. This together with increasing interest from stakeholders about social issues has made it important for companies not only to be social responsible but also to be good at finding future trends that will give them competitive advantage against other actors.

1.3 Purpose
The purpose of this paper is to examine how the three largest fashion chains in Sweden are managing its CSR work now and how good their organisation is prepared to manage the CSR work in the future. The examination will focus at the factors that make the management of CSR work successful or not and to get an overview of if the conditions for current and future successful CSR work is present at the companies.

1.4 Limitations
The reason of this study has not been to examine how the whole fashion chain sector is managing its CSR work. The primarily reason of this study has been to gain a understanding of how the three largest fashion chains in Sweden are managing its CSR work now and how good their organisation is prepared to manage the CSR work in the future.

Due to limited time no general statement of the whole fashion sector can be made but only a statement about the current situation at the three
largest fashion chains in Sweden. Therefore the study can not claim to present a full picture of the management of the CSR work in the fashion chain sector either as a whole or in Sweden.

2. Theory

2.1 Four prevailing justifications for CSR
From a general view proponents of CSR have used four prevailing justifications to create assumptions about the existence of CSR. These four assumptions include moral obligations, sustainability, license to operate, and reputation. (Porter & Kramer, 2006)

Moral obligations comprise that companies should be a good citizen and do the right things for the society. This includes following governmental laws and moral obligations that the society expects from them. In a greater sense you can say that the moral obligations refers to that companies are expected to act honest and balance its business with social demands of the environment where they are acting. Sustainability handles the part that companies should look upon their business from a long-term perspective, both economically and socially. As an example you can take a company that by cutting down on energy consumption or create new ways of manufacturing can achieve both positive social and economic benefits. (Porter & Kramer, 2006)

The view of license to operate is of more practical nature than the justifications above. It derives from the fact that every company needs tacit or explicit permission from governments, communities, and numerous other stakeholders to do business. The problem of using this view is that you lose control over the CSR activities to stakeholders outside the company. This can be a problem because these stakeholders often don’t have enough information about the company to know what CSR activities that are the most effective for the company. This leads to a company that focuses too much on what the stakeholders wants and lose the potential
strategic benefits from the CSR activities. *Reputation* as justification seeks to create strategic benefits by creating a good reputation for the company. This leads to problem when this measure often shows itself first when a company is in a reputation crisis with its stakeholders. At the same way as the license to operate justification the problem with big influence from stakeholders makes the company lose strategic benefits if they rely too much on the stakeholders will. (Porter & Kramer, 2006)

These four prevailing justifications for CSR have one thing in common and that is that they all focus on the tension between business and society instead of trying to see them as dependent by each other. This means that then CSR work done by the companies doesn’t achieve the positive effects that companies could achieve by working with CSR in a more strategic way. This of course leads to that companies lose big opportunities to create positive benefits when they see the CSR work as risk preventing instead of value creating tool. During the last years with help from these four prevailing justifications a growing interest for how companies can use the justifications to work more effective with CSR has progressed. (Porter & Kramer, 2006)

### 2.2 Integrating business and society

For companies to reach out with the CSR work that they are doing it`s important that there is good knowledge in the company of what can be done to integrate the business with the social work. One of the most important conditions to successful CSR work is that the company and society use the knowledge that the other part has to effectively achieve benefits from each other. To be able to carry out successful business in a certain area the importance of a well developed society is vital. This can include everything from good education level to functioning health care and infrastructure. By carrying out business in an attractive society’s companies can take advantage of qualified personal and lower social costs for example health care. In the same way companies can take use of a
well functioning society when innovating new products and conserving natural resources. (Porter & Kramer, 2006)

In the same way as described above the society needs the companies, no social programs can challenge businesses in creating work, innovations and betters standard of living for the citizens. (Porter & Kramer, 2006)

For companies and societies to benefit from this it`s important that they look at each other with the vision that they together can create the biggest value. Today it`s all to common that companies and societies look at each others in a hostile way. To overcome these tensions it is important that they from both directions take decisions that benefits both parts and not just one. A decision that only benefits one part builds up the natural tensions and creates big problems for both parties. A decision that only benefits one part in short-terms will in the end lead to long-term difficulties for both the company and the society. To overcome these tensions between each other the company must integrate a social perspective in its business decisions. (Porter & Kramer, 2006)

The mutual dependence between company and society takes two shapes. The first happens when a company intrudes on society with activities in the ordinary course of business, these are called inside-out linkages. I fact every activity in a companies value-chain affects at some time the society, negative or positive. These social effects often differ dependent on what environment the company is in. The social effects differ also over time with the social and technical development in the society. If you as a company are not aware of these differences in different environments, and the ongoing development you can put the company at very high stake. The second shape is outside-in linkages; these arise when the society affects the company. This can include the availability of labor, infrastructure or new laws from the government that affects the company. All these activities matters for how the company act, and therefore play a
big role in the future development of the company. (Porter & Kramer, 2006)

No company can solve all social problems alone; they need to look into what kind of activities that will generate the greatest value for the company. To do so companies must look at different approaches to handle its social responsibility. First is general social issues, these are important for the society but has no significant affect on the companies operations or long-term competiveness. The second one is value-chain social impacts; these are issues that handle issues that are significant dependent of the company’s activities in the ordinary course of business. The third approach is social dimensions of competitive context. This means social issues in the external environment that significantly affect the underlying drivers of a company’s competitiveness in the locations where it operates. (Porter & Kramer, 2006)

Every company needs to sort their social issues into one of these three categories for each business unit and then rank them to see where the biggest potential impact is present. The importance for companies to understand where they can make biggest impact is crucial to get the best value from the social work. As an example there would be no extra value for a food chain to sponsor an AIDS project in South Africa while it for a pharmaceutical company would have direct impact on the value-chain. Even within the same sector there may be differences how companies approach their choice of social activities depending on where they want to position themselves. A good example is the car industry where Volvo wants to be associated with car security and Toyota wants to be associated with environmental-friendly cars. These two companies are fighting in the same sector and should not create the extra value their CSR specialization gives them if they where focusing on the same social issues. If they were focusing on the same social issues the competitive advantage of the specialization would be lost. (Porter & Kramer, 2006)
The importance for the company to create a social agenda that expands beyond the expectations from society means that they need to find ways to integrate the social work with economic success. The social agenda also helps the company to reduce the risks and problems, and instead increase the company’s identity and work as a strategic tool. The social agenda needs to address the wishes from the stakeholders but can not lose focus on the strategic issues as they are the ones that generate the biggest values for the company. (Porter & Kramer, 2006)

2.3 Strategic CSR
For all companies a well developed strategy is an important part of the business. The strategy gives the company its identity and does work as a competitive tool on the market. By doing other things then the competitors, a company can generate greater profits by having a better position on the market. (Porter & Kramer, 2006)

Strategic CSR looks beyond variables that includes just being a good citizen and includes both the inside-out and outside-in perspective in an effort to integrate them with each other. This means that companies must move from being risk minimizing to see the possibilities that a well developed social agenda can offer. Many of these integration possibilities can be found in the future products or services from the company. By looking at business and innovation of future products and services with both economic and social responsible eyes you can create a value that goes beyond pure philanthropy. (Porter & Kramer, 2006)

Strategic CSR also unlocks shared value by investing in social aspects of context that strengthen a company’s competiveness. In this case the success of the company also reinforces the society. The more closely tied a social issue is to a company’s business the greater the possibilities for the company to succeed will be and will in long-term generate the greatest benefit to the society. An example of a locked value can be if there is a lack of a certain type of workers for a company, by sponsoring certain
educations the company will ensure that they will have this kind workers in the future. (Porter & Kramer, 2006)

To create innovative solutions to social issues can as described earlier be an effective tool to achieve success. The biggest values are to be found if the society and the company integrate to generate the greatest values together. But how can this be done in the most effective way and is there a specific way to solve the puzzle of getting there?
2.4 Solve the win-win puzzle
To solve the win-win puzzle the management must need to answer the question of which stakeholders that should be considered and how much is at stake at the moment. These questions can be satisfied by using a multi-stage process. (Figure 1)

![Figure 1](Falck & Heblich, 2007)

The decisions making process is initiated by a social trend and is in its inception a social claim of unknown size. The first task of the management is to evaluate if the trend is of strategic matter to the company. The company must also evaluate if the trend is a claim by a marginal or general group and therefore will either disappear or become increasingly important. If the government does not react to a trend of general public interest the company might step in and address the publics concern. The decisions to whether a company should step in or not must be based on an evaluation of the opportunities and the threats involved. (Falck & Heblich, 2007)
Once a trend has been evaluated it must be determined if any of the company’s stakeholders are interested or involved in the current trend. If this is not the case then the company should not engage in any activities. On the other hand if the stakeholders have interest or are affected then it could have either direct or indirect effects on the company. In this case the company’s should manage the trend after priority of the stakeholder interested. Priority of the stakeholder is determined after the stakeholder’s impact on the cash-flow in the company. To be able to prioritize a stakeholder’s importance for the company the influence of all stakeholders needs to be evaluated and mapped to get an overview of the stakeholder’s potential to interfere with the cash-flow in the company. When this is done the stakeholders then get divided into three different categories as shown in figure 2. (Falck & Heblich, 2007)

2.5 Management target priority

Figure 2
(Falck & Heblich, 2007)
The first category is *key stakeholders*. This group includes all actors that have a direct connection to the company and therefore significantly interfere with the company’s current and expected cash-flow. These stakeholders position is only evaluated once and their relationship with the company is then fixed until a fundamental change to the group occurs. The unpredictability of these groups expected cash flow is to be considered low. This group includes amongst others key suppliers, the market and important employees. (Falck & Heblich, 2007)

The second category is a group called *emerging stakeholders*. This group does not at the moment have any direct connection to the company cash-flow and do not influence the predictable net present value. Although this groups status can change rapidly and it’s important for the management to keep an eye on this group if they suddenly become key stakeholders. The unpredictability of these groups expected cash-flow is to be considered high; therefore this group needs to be evaluated regularly. This group includes amongst others suppliers that might gain influence in the future, non governmental organizations dealing with sensitive issues and politicians with power to change the institutional structure. (Falck & Heblich, 2007)

The third category is a group called *minor stakeholders*. This group has no power to interfere with company’s cash-flow in the medium to long-term. Even though they don’t are expected to interfere with the company, management needs to be aware of sudden changes but they don’t need to pay them too much attention. The unpredictability of these groups expected cash flow is to be considered low. (Falck & Heblich, 2007)

**2.6 Management target priority**
To identify what different categories of stakeholders that are represented in the companies I will look in the annual report to identify what stakeholders that have the biggest impact. Because the companies that are being examined in this study all come from the same sector we can
assume that the result from this examination will generate similar answers.

From the management target priority presented in the theory I will build a common map for all of the three companies and instead of looking at small differences indentify the big similarities and to look for big differences.

The first category that Falck & Heblich indentifies in the theory is key stakeholders. As stated earlier this group includes all actors that have a direct connection to the company and therefore significantly interfere with the company’s current and expected cash flow. (Falck & Heblich, 2007) Here we for the selected sector can identify firstly the market with the costumers as a key group with great impact on the cash-flow and with a position that is not likely to be re-evaluated by the companies. Other key stakeholder groups that are represented in all three companies but that are much harder to identify are key suppliers and key employees. The difficulties in identifying key suppliers and employees from outside the company make them none the less very important for the selected companies. Long-term relationships with suppliers and good employees at key positions are vital for every larger company. The influence on the cash-flow from both key suppliers and employees can therefore not be foreseen.

The second category Falck & Heblich identified is the group called emerging stakeholders. Emerging stakeholders does not have any direct connection to the company’s cash-flow and do not influence the predictable net present value at the moment. Although this groups status can rapidly change and it’s important for the management to keep an eye on this group if they suddenly move to become key stakeholders. For the selected companies this group contains non governmental organizations that control ethical perspectives on the company. This means that media also plays an important part in this group as they are the party that lights up ethical and sensitive issues that may have impact on the cash flow at the companies. This group also contains suppliers that may play an important role in the future but at the moment does not interfere with the
cash-flow at the companies. The unpredictability of these groups expected cash flow is to be considered high; therefore this group needs to be evaluated regularly. This also means that it’s important to have good internal control to prevent unexpected issues with unwanted stakeholders. If the company’s lack in control over this group the consequences may be big for the company in terms of less sales and bad reputation.

The third category Falck & Heblich identifies is a group called minor stakeholders. Minor stakeholders have no power to interfere with the company’s cash-flow in the medium-term but companies still need to be aware of their presence. Management must be aware of sudden changes in this group as they can get important in the future but don’t need to focus too much on them at the moment. For the chosen companies this group can be represented by new technology that may be used in the future or new types of trends that may arise in medium to long-term.

Figure 3 below shows an overview of the fashion chains stakeholders and there position on the map as it is today.
2.7 What is at stake
Management’s decisions on what social investments that should be done are based on what the expected net present value will be. If this value is positive then the investment should be accepted. When taking decision that regards new social trends it might be possible to transfer key stakeholders contribution to the cash flow from one context to another. This action would leave only the need to re-evaluate the emerging stakeholder, and as this is something done regularly anyways the costs and time for the new decision will be kept low. (Falck & Heblich, 2007)

Depending on what is at stake, the social investment might be either an individual or a collective commitment from the company. The strategic choice of an individual commitment should be made if the claim can be met by the company itself without any risk of opportunistic behavior from competitors; this is called an exclusive stake. This type of commitment is strategic due to the advantage of being a first mover in the new trend. A company that is a first mover in a socially desirable area can improve reputation among customers and therefore secure and expand its market share. The company’s actions may also set new social standards that can serve as an entry barrier against potential competitors. (Falck & Heblich, 2007)

To overcome collective problems a company’s individual commitment may be at risk as the investment only will be successful if it does not lead to competitive disadvantages in the future. If the company’s individual commitment in the future weakens its competitive advantage, competitors will quickly take advantage of this situation, and the company may be forced to adapt to the competitors standard of behavior or leave the market. In this case there will be no social improvements and the individual commitment needs to be replaced by a collective commitment. (Falck & Heblich, 2007)
When a collective commitment is required a structural action needs to be undertaken to gain strategic effects. In this case it would not be rational for an individual company to take action as the collective action that must be undertaken is effected by and affects all competitors equally. A collective action leads to a concentrated initiative to establish suitable institutions or a voluntary collective commitment to a common code of conduct by several companies in a specific market segment. Because all competitors follow this code of conduct there are no changes in competition. One of the most popular collective commitments is the UN Global Compact where companies commit to respect 10 rules in the field of human rights, work, environment and corruption. (Falck & Heblich, 2007)

Both structural action and strategic action as described above can be considered as ways of practicing strategic CSR. If the actions move to become mainstream in society they may become part of society’s basic order, either as legal standards or socially desired standards. When an action becomes a part of society’s basic order, it is also established in the public mind. (Falck & Heblich, 2007)

2.8 Management and CSR
The theory of stakeholders influence is quite obvious in the long run nothing but a shareholder approach if you take the above into consideration. The stakeholder theory formalizes and sorts out the challenges the company requires to meet if it wishes to pursue a successful long-term corporate strategy. In general this is the default strategy of owner-led companies. When the same person is both the owner and manager there is no principal-agent conflict. (Falck & Heblich, 2007)

In manager-led companies the situation is a little different, but even here the long-term approach to stakeholder management can be viable. The problem will be if the managers are paid on a short-term basis, they will then act in a short-run manner to maximize the compensation for their
work. This will of course conflict with the long-term goal of effective and profitable stakeholder management. (Falck & Heblich, 2007)

Social investments may also have a different expected net present value for managers and owners. If the manager is short-term oriented the net present value of a social investment is more likely to be negative and therefore the investment may never take place. This problem can however be overcome if the compensation scheme is better CSR-integrated to benefit these kinds of actions. (Falck & Heblich, 2007)

If the compensation scheme is not changeable there is a less radical solution to the problem with short-term managers. The use of equity-based long-term incentives like stock options would allow managers to purchase a certain amount of stock at a long-term point in the future at a present strike-price. Another way is restricted stocks that require a certain length of time to pass before the owner can sell them. Both these kind of ways will ensure that short-term managers will have a long-term perspective on the management of the company. However there is some issue that must be considered even with these kinds of long-term instruments. (Falck & Heblich, 2007)

Firstly it’s important that managers have a stake at the company. Stocks or options should not be granted as bonus but instead as a part of the basic compensation so that managers either purchase them with their own money or through exchange programs. This will make the managers feel the consequences for their actions, good or bad. Secondly the restrictions that are placed on stocks or options must be chosen carefully. It’s not enough to just set a long-term vesting period, there must also be constrains on the period before the stocks can be sold or options executed. If this is not the case then the problems with short-term orientation will not be shifted to the future. Lastly it’s important to closely monitor possible accounting fraud as these equity-based incentives may lead to earnings for the management. A transparent compensation scheme will make this monitoring much easier. (Falck & Heblich, 2007)
Another way of getting away from the problems associated with short-term management is to use “target long-term incentives”. This type of compensation is granted for fulfilling long-term goals. The problem with this type of incentives is that finding and agreeing on targets that will meet the goal of long-term profit maximization may be very difficult. The positive and negative aspects of these different incentives must be evaluated very carefully before implanted into the company. The challenge to calibrate incentives awards with performance outcome will be vital for the success of the company. (Falck & Heblich, 2007)
3. Method

To answer my questions I have decided to conduct a qualitative document analysis of Sweden’s three biggest fashion chains in turnover, Hennes & Mauritz, Lindex and Kappahl. On these companies I have analyzed how good they are prepared to handle their CSR management and shifting trends based on Falck and Heblich’s theory with help from Porter and Kramer’s view on strategic CSR. From that point of view I will examine if the companies have the right tools and management of their CSR work to be able to make the necessary decisions in both long and short-term. The reason for choosing a qualitative document analysis is that I want to look at the current situation of the companies CSR work and how stakeholders are being managed by the companies. To get hold of information about company’s long-term and foreseeing goals or aims in the communication with the stakeholders and shareholders about CSR would also not be possible by using a different kind of analysis. To get an impression of the companies aims and goals of the CSR work and to see if they have any aims of being leading in their strategic areas I will use mainly Annual reports and other corporate material to conclude if the right decisions can be made with the structure that are present at the different companies today. A document analysis is to gather sources and information from written material that you later use in your analysis or report in the way you think it have relevance for the given questionnaire. (Pål Repstad, 1999)

My document analysis is based on the information from the companies itself as annual reports and press releases. I choose a document analysis because I want to make a statement about the work of using CSR trends in a good or bad way in the three largest Swedish fashions chains. I have chosen to work with one type of companies because the differences between different sectors would be hard to analyze due to the different conditions. As an example, the strategic use of following pollution trends is more effective for the airline industry then for the telephone industry.
To come to conclusions based on the empirical findings I will look at some key factors that Falck and Heblich theory addresses with help from Porter and Kramer. First I will indentify how stakeholders are categorized in the different companies and to look at what role different stakeholders play in the companies. Falck and Heblich categorization of stakeholders will be the foundation from where I will examine the different categories in the companies and their impact on the cash-flow. It is also in these categories I will search for evidence that companies are foreseeing future stakeholders that will make impact on the company in the future.

Secondly I will use the Falck and Heblich multi-stage process to see if the company’s are focusing their current CSR work on structural or strategic actions or none of them. This will present an overview of the company’s CSR work and will give a good picture of the way the company is dealing with upcoming trends now and in the future.

Finally I will examine how the structure of the management remuneration is at the different companies and with help from Falck and Heblich theory get an overview if there are any hurdles for the company’s CSR work in the management structure. This will finally lead to a tool to answer the purpose of the paper.

3.1 Selections
I have chosen these three companies because they are all big actors on a market that has been under strong pressure from stakeholders in different questions during the recent years. The stakeholders in this sector also have very much power to influence the company’s cash-flow and this makes them good as a selection for the chosen theory. Another good reason for choosing this sector is that the companies have the same conditions and regulations and therefore are good to analyze to see differences that exist beyond the fact that they have different conditions. The reason I have chosen to use three fashion chains with the biggest
turnover is because they are the ones that are getting the most attention and pressure from the society. Referens

3.2 Method critics
For the selected study I found qualitative document analysis to be the most suitable. The collection of data from annual reports is probably altered to look good but collection of primary data like interviews should not help the paper because the answers would also probably be of altered type.
4. Empirical Findings and Analysis

4.1 Current CSR work

4.1.1 Hennes & Mauritz
Hennes & Mauritz means that their overall objective for their CSR work is to stimulate long-term orientation by having broad objectives to work towards. To come closer to these objectives they each year formulate a number of detailed short-term targets to be achieved in a specified time frame. The general goal consists of overall environmental objectives and overall social objectives. What is common for all objectives put up by Hennes & Mauritz is that they are all very of collective commitment type and non exclusive to the company. This is natural as the keystone in Hennes and Mauritz CSR work is the Code of Conduct, which is based on the ILO conventions and the UN Convention on the Rights of the Child, and therefore has its origin in a very collective commitment. There is no description of why a certain objective has been chosen and what the company hopes to achieve strategically with the current work. Hennes & Mauritz also cooperates with UN Global Compact that is ten principles that define corporate responsibility in the areas of human rights, labour, environment and anti-corruption. There is although no explanation to what they try to achieve with this cooperation.

Typical for Hennes & Mauritz CSR work is the lack of underlying business goals for the social work. The company focuses on general initiatives for the environment and miscellaneous activities to secure co-workers social status. One example from the annual report is that energy savings is being looked at from an environmental and not economic view. This way of looking at the business shows that the focus in many ways is short-term as well as risk-minimizing.
The lack of long-term focus gives the company a non strategic approach to its CSR work and the loss of value becomes evident. This lack of long-term strategy is based in the defense position that characterizes Hennes & Mauritz CSR work. The short-term initiatives make the company loose much of the positive effect of their CSR work in general.

4.1.2 Lindex

Lindex CSR work consists of the Lindex/BSCI Code of Conduct and a goal to become more environmental responsible. Lindex means that the goal to achieve a sustainable environment is to act responsibly and in an environmentally-friendly way in all of their work processes. They also mean that involving employees in the CSR work is the way to achieve a sustainable environment. The keystone in Lindex social CSR work is since they left their own developed plan in 2005 the Lindex/Business Social Compliance Initiative (BSCI) Code of Conduct that is based on the UN's Declaration of Human Rights and Convention on the Rights of the Child as well as ILO's fundamental conventions, and therefore is a very collective commitment type of the CSR work conducted at Lindex. BSCI members agree that over a tree-year period, two thirds of purchased volumes will come from suppliers that have undergone the BSCI control. An important part of this system is to inform and train suppliers about what demands are set and how they can make improvements. A supplier that meets BSCI’s demands is then qualified to supply all BSCI member companies. Lindex also cooperates with UN Global Compact but there is no explanation to why they are doing it.

There are indications of underlying business goals in the way Lindex presents their objectives for the social work. The company focuses on general initiatives for the environment and miscellaneous social activities but also sometimes shows some extra awareness. One of a few positive
examples from the annual report is that environmental improvements not have to be seen as a cost to the company which the quote shows. This way of looking at the business shows that there is some kind of long-term thinking in the company and that the CSR work not only is seen as philanthropy.

We believe that we can make environmental improvements without our products and product handling becoming more expensive. / Lindex Annual Report 2006

Even though there is some long-term focus at Lindex the company is not showing a strategic approach to its CSR work and the loss of potential value is large. The lack of long-term strategy is based in the defense position that characterizes Lindex CSR work in many ways. The extensive use of collective sources like BSCI and Global compact gives no exclusive advantages to the company for its social work.

4.1.3 KappAhl
KappAhl means that working towards long-term sustainable development is fundamental to the company. In 1999 KappAhl became the first environmentally-certified fashion chain in the world. The company has recently introduced an energy scheme to cut energy use and by optimizing volumes and freight and using less eco-damaging means of transport the relative emissions of carbon dioxide have been cut. Although the company has cut down on energy they are not talking about the positive effects of the cut in economic terms. KappAhl also means in their annual report that all suppliers must follow their environmental and quality control demands. By doing checks on the suppliers these demands are controlled.

To control the demands on the suppliers KappAhl is member of BSCI. The advantage KappAhl sees with the membership in BSCI is that there no longer is any need to evaluate all new suppliers as they already has been
approved by BSCI. If KappAhl gets involved with a supplier that has not been approved by BSCI before then they always will perform checks of the supplier and later let BSCI control the supplier and hopefully add them to the list of approved suppliers.

*Issues concerning the environment and the effects of climate and social responsibility are natural parts of our work.* / KappAhls annual report 2006

KappAhl’s CSR work is not very well developed at the moment and there are no clear future goals of the work with social issues. At this point in time KappAhl seems satisfied with the fact that they are using BSCI approved suppliers and that they are making some good impact on the environment by cutting down on energy consumption. The annual report shows no sign of any integration between CSR and business in the company. The fact that they are using BSCI gives a good indication that they are using collective approach to the CSR work.

### 4.1.4 Analysis of the current CSR work

As is seen in the examination of the companies communication with shareholders through annual reports the CSR work conducted at the companies is in many ways limited to collective commitment. The fact that two of three examined companies are using UN Global Compact without any explanation of why and how they use these commitments gives reason to question why the cooperation with Global Compact exists. Also two of three examined companies are using BSCI that is a cooperation between around 80 companies worldwide to secure the use of approved suppliers. This gives the companies safety to use them without risk of being challenged by NGOs or other organizations for not being responsible for the conditions at the suppliers.

Even though Falck and Heblingh stress that collective commitment can be seen as a strategic use of CSR the companies in this study shows both
signs of using these collective commitments in a strategic manner and not. Because the companies use collective commitment they lose the advantage exclusive commitment can offer of being a first mover in a socially desirable area and can therefore not improve reputation among customers and secure or expand its market share as a consequence of its CSR work. By not using exclusive commitment the companies’ possibilities to set new social standards that can serve as an entry barrier against competitors disappear.

For collective commitment to be strategic a structural action needs to be undertaken to gain strategic effects from the CSR work. For the chosen companies it would not be rational for the individual company to take action as a collective action that must be undertaken is effected by and affects all competitors equally. As a collective action leads to suitable institutions or voluntary collective commitment to a common code of conduct there will be no changes in competitive advantage between the companies in the sector. This can be seen in this case where the chosen companies all follow the same standards and collective commitment to together achieve structural change.

As there is little or none evidence that there at the moment is any use of exclusive stakes from the companies’ direction to create exclusive effects associated with CSR, I mean that the chosen path for the fashion chain sector is to achieve strategic effects by using collective commitments as UN global compact and BSCI. (Figure 4)
4.2 Structure of management remuneration

4.2.1 H&M
Hennes & Mauritz’s principles for the remuneration of senior executives are factors such as work assignments, competence, position, experience and performance. The main portion of the remuneration consists of the fixed salary but there also is a variable portion that is based on a bonus system. The bonus system consists of a certain percent of the increase in the dividend. There is no information that stocks, options or other equity-based long-term incentives should be used as remuneration to the management either as fixed salary or as a part of the bonus system. The transparency of the company’s policy for remuneration to management is very good. There is much information about requirements for the bonus and well defined summary of the current remuneration to the management.
4.2.2 Lindex
Lindex principles for the remuneration of senior executives are based on fixed salary but also consist of a variable portion that is based on a bonus system. The bonus is dependent on targets achieved during the year, both for the company and the individual. The remuneration for the management at Lindex is all paid in fixed salary. There is no information about any compensation in equity-based long-term incentives like stocks or options, either as a part of the fixed salary or the bonus system. The transparency of the company’s policy for remuneration to management is good. There is broad information about requirements for the bonus and a good summary of the current remuneration to the management.

4.2.3 Kappahl
KappAhl’s principles for the remuneration of the management are based on the factors responsibility and behavior. The salary should be set every year and does at the moment consist of a fixed part and a bonus system. The bonus system can at a maximum generate incomes that match 50 % of the fixed salary. There is no information at KappAhl that stocks, options or other equity-based long-term incentives should be used as remuneration to the management either as fixed salary or as a part of the bonus system. The transparency of the company’s policy for remuneration to management is not very good. There is no information about requirements for the bonus and no summary of the current remuneration to the management.

4.2.4 Analysis of the structure of management remuneration
As seen in the examination of the structure of management remuneration above the all the chosen companies are focusing on remuneration that is in one part is made up by fixed salary and one part that is made up of a variable portion that is based on a bonus system. There is no evidence that managers in the chosen companies are at the moment being remunerated on a long-term basis, like in equity-based long-term
incentives like stock options or restricted stocks. As all three companies use short-term remuneration to managers there is according to Falck and Heblich a risk that this may represent a conflict to the overall long-term goal of the companies business. This depends on the higher possibility for management to look at social investments in short-term and these investments are therefore more likely to result in a negative net present value. If the evaluation of an investment gets a negative net present value it will not be done and therefore a short-term based management is less likely to make these investments.

Falck and Heblich stress the importance of the management having a stake at the company they are leading. In the chosen companies the stake for the management is in most cases shares and not long-term incentives like stock options or restricted stocks. One possible reason for the lack of equity-based long-term incentives is the problem of calibrating incentives awards with the performance outcome, although this is according to Falck and Heblich vital for the success of the company.
5. Conclusion

To be able to maintain and manage a good CSR work now and in the future the importance of a well developed and long-term CSR plan for companies and organizations is important. A well developed CSR plan can give companies strategic advantages against other competing actors on the market and therefore generate extra value if used correctly. To be able to gain these strategic advantages companies need to understand what’s going to be a good CSR strategy now and what will be a good CSR strategy in the future. If future needs that will have impact on the society can be found and used correctly by the companies, they have placed themselves in a good position.

The research shows that there at the moment is little or none evidence that there is any use of exclusive stakes from the companies’ direction to create exclusive effects associated with CSR. This means that the chosen path for the Swedish fashion chain sector is to achieve strategic effects by using collective commitments as UN global compact and BSCI. If the companies had adapted to a more long-term CSR view, Falck and Heblich (2007) means that result of the CSR work would be more exclusive and therefore possibly generate more value. The reason of choosing and collective commitment is according to Falck and Heblich (2007) to overcome a collective problem that not a single company can solve itself without risk. If the company chooses to use a collective commitment the biggest loss will be that you as a company not can create a competitive advantage against other companies in the sector by using CSR. Porter and Kramer’s (2006) means that “exclusive strategic CSR” works as a competitive tool on the market and therefore strengthens the view that companies can not create a competitive advantage against other companies in the sector by using a collective commitment.

A strategic practice of CSR must as stated before involve a long-term shareholder value approach, which implies a long-term view of profit maximization. This study shows that the largest fashion chains in Sweden
do not have the best management conditions at the moment. The possible short-term view from the management in the chosen companies may give reason to believe that a more long-term view may lead to better and more foreseeing CSR work and planning. A more long-term view on the management may have impact on the companies’ creativity to create exclusive CSR plans that may lead to better and more competitive CSR work. To make managers do well by doing good in a more strategic way there is a need to shift the remuneration against more long-term based incentives to make the managers act in a more long-term manner.

As a conclusion, there is much work to be done at the three largest Swedish fashion chains to more effectively use CSR to be able to get grip of the positive exclusive effects that a well developed CSR plan can achieve. Today the three largest fashion chains in Sweden are managing its CSR work from a collective commitment view and short-term management view and there is no evidence of that the organisations are prepared to manage the CSR work different in the near future. There is no evidence of major factors that make the management of CSR work successful from a competitive angle in either of the examined companies. Although there is many things that needs to be done to improve the CSR work conducted at the companies this paper shows that the conditions at management level is not the best to achieve these effects, and that a major shift in perspective of the CSR management needs to be done at the companies to achieve a better outcome.

For the largest Swedish fashion chains to develop and prosper the best thing they can do is to adapt a long-term view of its social work on management level and recognize that treating the society good will make the society return the favor many times, and during a long time.

6. Future research
For future research in the area it may be interesting to examine smaller firms that don’t feel the same global pressure as the ones examined in this paper. There is reason to believe that smaller firms with less pressure and
often a more owner led management don’t have the same defensive and collective approach to its CSR work. It may also be interesting to make a study of another sector to see if the focus on collective commitment is as strong there as it is in the largest fashion chains in Sweden. At the same way a study of fashion chains in other countries may help to increase the understanding of the sector globally.
Reference sources


**Annual reports/CSR reports 2006/2007:**

Hennes & Mauritz

Lindex

KappAhl