

Flying Under the Radar vs. CSR Walk or Talk: CSR Engagement in the Fashion Industry

Mariachiara Colucci

University of Bologna

Annamaria Tuan

University of Pisa

Marco Visentin

University of Bologna

Cite as:

Colucci Mariachiara, Tuan Annamaria, Visentin Marco (2019), Flying Under the Radar vs. CSR Walk or Talk: CSR Engagement in the Fashion Industry. *Proceedings of the European Marketing Academy*, 48th, (8657)

Paper presented at the 48th Annual EMAC Conference, Hamburg, May 24-27, 2019.



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Abstract:

In this study we investigate the determinants leading fashion companies to engage in CSR. We propose an original framework in which we maintain that the company size alone, discussed and tested in the literature, cannot explain the different patterns of CSR engagement, and suggest that the key to account for such differences can be found in the relationship between the company's type of business – a proxy of the way the company creates value for its market through its product offer – and its served market – a proxy of the institutional pressure that may come from the customers.

We test our framework on a sample of 219 small and large fashion companies, gathered at the global-level. Results support our predictions and disregard the role of company size in explaining the patterns of CSR engagement, rather it simply explains whether companies “*fly under the radar*” or not. The original approach of this paper offers a new and more fine-grained narrative of why companies decide to adopt different practices of CSR.

Keywords: CSR engagement, company size, fashion industry

Track: Marketing Strategy and Theory

1. Introduction

Fashion companies are progressively showing their expectations and commitments on ethics and responsibility (Joy et al., 2012; Kozlowski et al., 2015) in line with the growing attention expressed by consumers of fashion products whose preferences go beyond style, price and quality being influenced by emotional factors such as attitudes towards ethics and responsibility that ultimately impact brand advocacy behaviors (e.g., Caniato et al., 2012; Kapferer & Michaut, 2015). To capture the heterogeneity of CSR behaviors, the recent concept of *CSR engagement* accounts for the different combinations of communication and implementation of ethical and responsibility principles (e.g., Wickert et al., 2016). Pure communication without implementation, or implementation without communication ideally represent the two key dimensions of CSR engagement patterns combining “(1) *the primarily externally facing documentation of corporate responsibilities and (2) the implementation of strategies, structures and procedures in core business processes within and across divisions, functions, value chains, etc., that facilitate corporate responsibility*” (Wickert et al., 2016 p. 1170). Scholars observe that decoupling between internal and external actions in the CSR context can be detrimental for market value as well as for legitimacy (Hawn & Ioannou, 2016).

In this study we investigate the drivers leading fashion companies to implement internal CSR actions (referred to as CSR walk) and/or to externally communicate ethical or responsible statements (referred to as CSR talk); we also consider the possibility that a company simply decides to “*fly under the radar*”, namely neither communicating nor acting. We propose an original framework in which we maintain that the company size alone, discussed and tested in the literature (see, e.g.: Wickert et al., 2016), cannot explain the different patterns of CSR engagement, and suggest that the key to account for such differences can be found in the relationship between the company’s type of business – a proxy of the way the company creates value for its market through its product offer – and its served market – a proxy of the institutional pressure that may come from the customers.

2. Hypothesis development

Company size: Results and theoretical speculations on CSR and company size are mixed (e.g. Wickert et al. 2016, Baumann-Pauly et al. 2013). Most of the literature has focused on CSR in large companies suggesting that they may benefit from engaging in legitimacy-seeking behaviors like CSR engagement (Campbell, 2007; Young & Makhija, 2014; Hawn & Ioannou, 2016). Small companies may lack resources and economies of scale to implement

CSR (Perry & Towers, 2009), while from an institutional point of view, they ‘fly under the radar’, resulting in less visibility and vulnerability (Young & Makhija, 2014). Even though, small companies may act responsibly under the pressure of their customers’ requirements (Perry & Towers, 2009; Öberseder 2014) as well as under the pressure of large companies if they are part of supply chain in a position of agents (Ciliberti et al. 2011). We acknowledge that company size can provide a proxy for public pressure, availability of resources and higher employees’ education level, resulting in a deeper awareness and a higher likelihood to increase their engagement in CSR, that is:

(H1a): small companies have a lower likelihood to engage in CSR talk, compared to big companies.

(H1b): small companies have a lower likelihood to engage in CSR walk, compared to big companies.

Segment: the fashion system is made up of companies operating in different industries, like textile, clothing, leather, accessories, that target different market segments. The most common way to segment markets in any industry is based on price, and in fashion there are five markets segments: couture, ready to wear, diffusion, bridge, and mass (Corbellini & Saviolo, 2009). Depending on the served market segment, the company changes the type product offer, the retail format, and the communication to reach its customers. The market segment represents indeed a proxy of the pressure that may come from a specific group of stakeholders, the consumers. Consequently, companies may change also the type of CSR engagement in order to account for institutional pressures that may raise from consumers. This is in line with the institutional perspective of CSR which maintains that companies are behaving responsibly not purely voluntary but *“because firms are embedded in a broad set of political and economic institutions that affect their behavior”* (Campbell, 2007 p. 948). In particular, more visible or vulnerable companies may be required to demonstrate to their stakeholders that their operations are environmentally or socially responsible, while less visible or less vulnerable companies can operate “flying under the radar” (Young & Makhija, 2014; Esty & Winston, 2006).

In the fashion industry, the more visible and vulnerable companies are those which target the mass market segment. These companies have created the so-called throwaway fashion or low-cost fast-fashion (Kozlowsky et al. 2015), by adopting lower costs, lower prices and higher volumes, driving a culture of consumption which lead to negative social and environmental impacts. As a consequence, companies belonging to this segment will be keen to use CSR as a way to remedy to their irresponsible practices (Zavlayova et al., 2012).

Basing on these considerations, we advance that:

(H2a): the higher the market segment the lower likelihood of companies to engage in CSR talk;

(H2b): the higher the market segment the lower likelihood of companies to engage in CSR walk.

Type of business: Fashion clothing has a long and extremely complicated life cycle, and a fragmented supply chain; in addition, production and use of clothing throughout its lifespan includes a deep impact on the environment like significant depletion of resources from consumption of water, minerals, fossil fuels and energy (e.g., Pedersen & Andersen, 2015; Kozlowski et al., 2015). A related business under scrutiny is represented by the sportswear for the poor working condition and low wages involved, as exemplified by Nike and Adidas (Miles & Munilla, 2004; Frenkel & Scott, 2002). Another major fashion pipeline is the leather-hosiery-accessories that, similarly to the clothing, causes a significant impact too due to the manufacturing processes that involve waste from skin and residual chemicals (Ciasullo et al., 2017). Many fashion companies are trying to address the negative impacts by adopting social and environmental standards (e.g. ISO14001, ISO26000) and codes of conduct and by getting better control over their supply chain (Pedersen et al. 2015). On the other hand, previous research also suggest that stigmatized firms appear to be more active disclosers of CSR, engaging more in CSR talk than in CSR walk, in an attempt to polish their images and neutralize stakeholder criticisms (e.g. Bansal & Clelland, 2004; Grougiou et al. 2016). The type of business conducted by the company is consistent with the economic approach, being a proxy of the way the company creates value for its market through its product offer. Basing on extant research and on the previous discussion, we recognize that the likelihood to engage or not in CSR changes in relation to the company's type of business. Therefore, we can advance that:

(H3a): the type of companies' core business will affect the likelihood to engage in CSR talk;

(H3b): the type of companies' core business will affect the likelihood to engage in CSR walk.

3. Empirical Analysis

3.1. The sample

Companies in our sample are fashion brands or groups, with a global reputation operating and sourcing globally, their headquarters are based in the European Union, United States or Japan

and the target market is at least one of the five common fashion segments: mass market, bridge, diffusion, ready-to-wear and haute couture (Corbellini & Saviolo, 2009). Since a systematic account of the fashion companies does not exist, basing on these criteria we selected companies from different sources¹ resulting in 287 brands (some brands appeared multiple times in the different sources). Our final sample then grouped brands belonging to the same fashion group (when it was the case), for which it was used the very same CSR approach. The final sample results in 219 companies. Descriptive statistics about the sample are provided in Table 1.

Table 1 - Sample descriptive statistics

Market segment	Size			Core business					
	Small	Big	Total	Apparel	Leather good	Shoes	Sports wear	Under wear	Total
Mass Market	14	52	66	44	0	4	15	3	66
Bridge	34	23	57	39	2	6	10	0	57
Diffusion	32	18	50	37	1	12	0	0	50
Ready to wear	22	10	33	27	3	2	0	0	32
Haute couture	5	9	14	12	0	1	0	1	14
Total	107	111	219	159	6	25	25	4	219

3.2. The variables

In order to test our hypotheses, we defined two dependent variables:

CSRTalk: since CSR talk includes various external communication channels deployed by the company, we proxy this variable by reporting if a fashion company talks about ethics in corporate self-presentation (Balmer & Greyser, 2006; Hawn & Ioannou 2016; Roberts, 2003). We measured the presence (1) versus the absence (0) of companies' disclosure about CSR on a specific section of its website, on its annual report, the publication of standalone CSR report and a specific code of conduct/code of ethics. *CSR talk* is a count variable taking values from 0 to 4 the more the company undertakes external actions to disclose CSR.

CSRwalk: since CSR walk includes all internal actions carried out by the company to implement CSR (Hawn & Ioannou 2016), we proxy this variable by measuring the presence (1) versus the absence (0) of companies' certifications and the adoption of GRI standards. In particular, we used some proxies of CSR walk: 1) GRI standards which represent the most

¹ Bof500 (The Business of Fashion, 2017) provided 133 brands; Sustainable Apparel Coalition provided 72 brands; Clean Clothes Campaign provided 71 brands; Fur Free Retailer provided 29 brands; Digital IQ index Fashion (L2, 2010) and Digital IQ index Luxury (L2, 2016) provided 118 brands; the Toxic Threats reports by Greenpeace (2012 – 2016) provided 47 brands. Other brands, not present in any specific list, were considered as well because of their popularity or because fashion magazines have used them as examples of sustainable-oriented brands.

substantive form of CSR talk (Nikolaeva & Bicho, 2011) 2) we checked whether the company is certified ISO14001, the most important environmental certification (King et al 2005), and ISO26000 as the international standard for social responsibility (Helms et al. 2013); 3) we checked whether the company is certified as a Benefit Corporation (Hiller, 2013) and 4) whether it adopts a Modern Slavery Act (Crane, 2013). *CSR walk* is a count variable taking values from 0 to 5 the more the company is implementing CSR internally.

We then defined three independent variables:

Size: our dataset is well-balanced comprising 112 *large* companies (employees > 250) and 107 *small* companies (employees < 250).

Market segment: We classify a company's segment basing on the price criterion: *mass market, bridge, ready-to-wear diffusion haute couture* segment.

Core business: Core business is defined as the dominant business of a company: *apparel, leather goods, sportswear, shoes and underwear* business.

Three assistant researchers instructed and coordinated by the authors independently classified companies in order to populate communication and implementation CSR activities, the market segment and the core business classifications. When the three assistant researchers did not reach consensus on a classification, a majority decision solved non-unanimity.

4. Results

Firstly, we test the hypothesis on size. A Chi-squared test on *CSRTalk* ($P(\chi^2 = 63.60; df = 4) = 5.07e - 13$) and *CSRwalk* ($P(\chi^2 = 31.77; df = 4) = 2.13e - 06$) result in a significant difference between large and small companies. In general, data supports an "implementation gap" in responsible behaviors of fashion companies. However, big companies do significantly more than small companies, that "fly under the radar", therefore supporting H1.

In order to test hypotheses H2 and H3 we model the different combinations of ethical and responsible behaviors using *market segment, core business* and *size* as independent variables. We present results of Models 1-2 in Table 2 using as a dependent variables *CSRTalk* and *CSRwalk*. Consistently to the degrees of freedom of the categorical variables, Models 1-2 assume *bridge, apparel, big* as base factors for *market segment, core business* and *size* respectively, so the correspondent coefficients are not estimated.

Table 2 – Models of CSR Talk and CSR Walk

	Model 1: CSR Talk	Model 2: CSR Walk
Core business		
Leathergood	0.644* (0.334)	1.051** (0.451)
Shoes	0.273 (0.209)	0.695** (0.322)
Sportswear	0.293* (0.162)	0.930*** (0.241)
Underwear	-0.190 (0.421)	-0.566 (1.019)
Market Segment		
Diffusion	-0.948*** (0.235)	-0.987*** (0.372)
Haute Couture	-0.387 (0.288)	-1.526** (0.734)
Mass Market	-0.036 (0.153)	-0.514** (0.236)
Ready to Wear	-0.788*** (0.267)	-0.668 (0.409)
Size		
Small company	-1.056*** (0.161)	-1.684*** (0.301)
Constant	0.708*** (0.138)	-0.132 (0.210)
Observations	219	219
Log Likelihood	-271.538	-164.968
Akaike Inf. Crit.	563.075	349.936

*p<0.1; **p<0.05; ***p<0.01

Model 1 and Model 2 indicate that Market segment and core business have an influence on *CSRTalk* and *CSRwalk*, supporting overall Hypothesis 2 and 3. More in detail, Model 1 indicates that the market segment “diffusion”, as well as the “ready to wear” segment, are significantly different from the market segment “bridge” and they do less communication (*CSRTalk*). Model 2 indicates that the market segment “haute couture”, “mass market” and “diffusion” are significantly different from “bridge” and they do less implementation (*CSRwalk*), whereas “ready to wear” is not different from “bridge”.

Regarding the core business, from Model 1 we find that “leathergood” and “sportswear” are significantly different from “apparel” in both *CSRTalk* and *CSRwalk*, and “shoes” only in *CSRwalk*. Results also confirm that small companies are doing less CSR implementation and communication than big companies.

5. Discussion

This study suggests that, besides the company size, different served market segments as well as different types of core business may have different impacts on fashion companies’ engagement in communication and implementation. We demonstrate that small companies

can, and they actually do, *fly under the radar*, contributing to the theoretical debate on size. Our second result confirms our hypothesis and suggests that higher market segments are less engaged in both CSR communication and implementation compared to lower segments. This result is particularly relevant as it reinforces our proposition that the drivers leading companies to engage in CSR depend on the company relationship with its customers: companies targeting higher segments receive lower institutional pressure by their customers, as more expensive products typically do not lead to ethical questions nor to issues related to sustainability. We also found a significant effect of the company's core business on CSR communication and implementation. In particular, we found that fashion companies in the "leathergood" and "sportswear" business are the most active in addressing their negative environmental impact by implementing CSR actions at operational level and by communicating their efforts as well. This alignment is beneficial for the market value as well as for legitimacy purposes (Hawn & Ioannou, 2016).

As pointed out before, the fashion supply chains, although complex and highly fragmented, has already passed through a series of scandals and has always been highly scrutinized, making it necessary for companies to achieve a certain extent of institutionalization of CSR activities. Future research can enrich our framework using the age of the company as an indicator of some extent of organizational inertia, or the company's market share as a proxy of consumers' attitudes, or data on the reputational risk exposure of a company.

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