



**UNIVERSITY OF GOTHENBURG**  
**SCHOOL OF BUSINESS, ECONOMICS AND LAW**

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# **The Naked Truth about Private Regulations in Europe**

The perception of northern Italian suppliers

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## ABSTRACT

Private regulation of employee rights in global production networks emerged in the early 1990s as a response by Western companies to poor working conditions in non-Western countries. This has recently changed with private regulations moving back to Western countries. Despite this return of private regulation, research has almost exclusively focused on non-Western countries and largely ignored how, for example, European suppliers and sub-suppliers perceive private regulation. This is problematic given that both the horizontal and vertical dimensions of global production networks influence private regulation. In order to fill this gap, we investigated the Swedish clothing company Nudie Jeans Co's network in Italy with focus on how nine sub-suppliers perceive private regulation. Our findings indicate that the perception of private regulations is positive thanks to Italy's strict public regulatory system and how auditors have adapted their factory audits to the Italian setting. They also show that the opinions of the sub-suppliers differ depending on the resources, value adding activities and number of clients. Lastly, although the sub-suppliers understand the necessity of having private regulations, the current system is not efficient since its benefits are not equal to the time and money spent on it.

**Key words:** Horizontal and vertical dimension, global production networks, private and public regulations, codes of conducts, audits, certifications, bargaining power, trust, relationships, differentiation, green-wash, Nudie Jeans Co, corporate social responsibility, Italian context, northern Italy, Fair Wear Foundation.

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Halla Eyjólfsdóttir

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Linda Åkerfeldt

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## ABBREVIATIONS

CCNL	Collective Labour Agreement
COC	Codes of Conduct
CSR	Corporate Social Responsibility
FWF	Fair Wear Foundation
GDP	Gross Domestic Product
GPN	Global Production Networks
GVC	Global Value Chain
ILO	International Labour Organisation
NGO	Non-Governmental Organisation
R&D	Research and Development
UN	United Nations

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# 1 INTRODUCTION

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*In this chapter we present the background of the implementation of private regulations as well as a discussion of the problems concerning it. Followed by a research purpose and question, delimitations and research outline.*

## 1.1 Background

Globalisation is widely seen as an opportunity since it has increased trade liberalisation, the deregulation on national economies as well as opening up markets for different countries (Mathews, 2006; Lund-Thomsen, 2013). In the 1990s, large companies started to outsource their low-skill manufacturing such as garments due to low production cost (Abernathy, Dunlop, Hammons and Weil, 2004; Egels-Zanden, 2009). However, the social aspects were not of the same standards as leading companies in the West were used to (Locke, Rissing and Pal, 2012; Amengual, 2010). Globalisation has therefore given increased attention towards suppliers and sub-suppliers to keep up with the standards of quality, prices, but also social factors such as working conditions and sufficient pay (Brito, Carbone, and Blanquart, 2008; Barrientos, Gerreffi and Rossi, 2011). Although the regulations concerning salary, working conditions and child labour are similar in all parts of the world, the law enforcement of for example Asian governments is not as proactive as in the Western world (Egels-Zanden, 2009). Because of these dissimilarities other stakeholders such as non-governmental organisations (NGOs) and consumers took a new interest in the social and environmental issues in these non-Western countries (Andersen and Skjoett-Larsen, 2009).

Private voluntary regulatory systems such as codes of conduct (COC), auditing programs, and certification schemes have emerged to improve working conditions because of societal pressures, globalisation and environmental change (Locke et al., 2012; Amengual, 2010; Faisal, 2010). These schemes can either be provided by a NGO, a company or by the suppliers themselves. Furthermore, companies also joined foundations to secure their sustainability work as well as engaging in auditing of their suppliers (Levy, 2008). However, the most common private regulatory tool is COC. By adopting COC, companies provide an answer to the pressure from stakeholders to assume responsibility for social aspects of the production (Locke et al., 2012). COC are defined by Schwartz (2001:248) as a "written distinct and formal document which consists of moral standards used to guide employee or corporate behaviour".



Because of the globalisation the garment industry has spread to different parts of the world, making it harder to control their global production network (GPNs). By working in different political and regulatory systems it makes the implementation of private regulations more difficult (Coe, Dicken and Hess, 2008; Faisal, 2010). In addition the stakeholders have increased pressure on global brands to maintain a responsible image, therefore brands feel a need of making sure that their whole GPN is sustainable. Resulting in the implementation of private regulations which have now returned to Europe where a big part of the garment manufacturing is still ongoing. Private regulations have in this way returned to the European markets where they were once created. In practice, this means that garment suppliers in, for example, Portugal and Italy today face similar private regulations as Chinese or Indian suppliers (FWF, 2013; Locke et al., 2012; Sajhau, 2000).

## **1.2 Problem Discussion**

So far, the academic discussion about private regulations has exclusively taken an interest in implementations in non-Western countries, such as Pakistan (Lund-Thomsen, 2013) and India (Carswell and De Neve, 2013). Implemented private regulations alone have not shown evidence of leading to significant and sustainable improvements, but it has been shown that private regulations are more effective if they are in combination with public regulations (Locke et al., 2012; Amengual, 2010). Although these actions were taken to improve the working conditions and labour rights they have often proven to be insufficient. Since the measures were forced upon factories, they did not have the desirable outcome that was hoped for (Schrage, 2004; Spar, 1998; Lund-Thomsen, 2013). In other words, many suppliers have a high level of non-compliance towards the COC (Egels-Zanden, 2007; Seidman, 2007). Not only can private regulations be used for the wrong purposes but they can also be difficult for suppliers to adapt to. In 2003, there were one thousand different COC in the world and today, this number has unquestionably grown. As a result, suppliers' can experience a dilemma, expressed as "Compliance limbo", following all the diversified COC and audit schemes simultaneously (Locke et al., 2012). Therefore, several authors highlight the importance of taking the vertical as well as horizontal dimensions of GPN into consideration to diminish the local resistance towards private regulations and to make the implementation of them more efficient (cf. Lund-Thomsen, 2013). The vertical dimension demands benefits, higher wages and stricter rules about what is considered acceptable and what is not. That approach provides the company with a "clear conscience", however it does not consider all aspects important for

an employee which is why horizontal dimensions are of importance since they refer to the local context in which the supplier is embedded (Lund-Thomsen and Coe, 2013).

According to Lund-Thomsen and Coe (2013) every country's horizontal linkages are seen as different due to various reasons: “These are the existence of local gendered economies, the spatial location of workers, livelihood strategies, and mode of recruitment (2013:5)”. Therefore, companies must realize that implementations of private regulations do not automatically produce change, and it is therefore crucial to understand both the vertical and horizontal dimensions of a GPN in all parts of the world, not only in non-Western countries (Carswell and De Neve, 2013; Lund-Thomsen, 2013). The research on vertical and horizontal dimensions is limited in the implementation of private regulations in Western countries. It is quite understandable, since private regulations were developed as a way to control working conditions in non-Western markets where the regulations of those countries were perceived as inadequate (Bartley, 2007). Also, concerning the fact that COC are originated in the Western countries, it can be considered less risky to produce in. Organisations such as Fair Wear Foundation (FWF)<sup>1</sup> do not require brands to audit in most of the Western countries, which may also give an idea of people's perception of these countries (FWF, 2014; FWF verification coordinator, Interview, 2014).

### **1.3 Research purpose and question**

The purpose of this Master's thesis is to analyse the return of private regulations to European markets. Current research is not only missing on this subject, but it also allows for a discussion on the central claims that one of the main problems with private regulations in non-Western markets is their Western biases and vertical implementations. Western countries, which can be perceived to be less risky, at least in comparison to non-Western countries (Abernathy et al., 2004; Egels-Zanden, 2009) have a 25.8 percent of the world's total export in garments, as of 2012 (WTO, 2013). This indicates that an analysis of how private regulations are implemented in these markets is also important in its own right. Given that scholars such as Carswell and De Neve, (2013) and Lund-Thomsen (2013) have shown the importance of considering the country context in the implementation of private regulations, we chose to focus solely on Italy and more specifically on the northern parts of Italy.

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<sup>1</sup> An independent organisation that works with brands to implement COC and audits to improve labour conditions for employees in the garment industry.

For this reason the following research question has been formulated:

- *What are the northern Italian suppliers' and sub-supplier' perceptions of private regulations within the garment industry? What affects their perceptions?*

## **1.4 Delimitations**

Since the time allotted for this thesis spans only one semester, we felt a delimitation of topics was necessary. The focus of our research is on social sustainability, and one Swedish clothing company was chosen as a case study. Considering that our research only focuses on the northern Italian garment industry the research is not applicable to all of Italy. However, it was felt that focusing only on the northern parts of Italy would give this study a better result since the differences between north Italy and south Italy are excessive and the two markets could not be seen as one. Since the company chosen for this case study has worked a lot with sustainability within its GPN, it is acknowledged that the outcome could be different if a company with less focus on sustainability had been chosen. However, it must be noted that this research is done in order to highlight the shift in corporate social responsibility (CSR) matters, and provide a ground for further research within this topic.

## **1.5 Research outline**

### *Theoretical framework*

This chapter of the thesis includes a discussion and reflection of definitions and concepts linked to the above research problem. The theoretical framework introduces definitions such as GPN, private and public regulations, as well as horizontal and vertical dimensions in order to get an understanding about relationships, resources and contexts within a GPN. In the end, the theoretical framework is taken together in order to make the conceptual framework.

### *Methodology*

This chapter explains the methodology of this thesis. It describes the research units, samples and data collection processes both in Sweden and Italy, interviewer protocol and processes, as well as how the data was analysed. The chapter includes a description and an argumentation for the chosen methodology in this case study, as well as a discussion of validity and reliability.

### *Empirical background*

This chapter provides an empirical background of Nudie Jeans and their production network followed by a description of the Italian context. The background is provided in order to further understand the empirical findings.

### *Empirical findings*

In this chapter the empirical findings are presented, as well as data that has been gathered through interviews and observations in Sweden, via Skype and in different cities in Italy. Findings considering the perception of private regulations and the different points of view that small and large factories have, are also to be presented.

### *Analysis*

In this part of the thesis, we present our main findings that regard the context in which private regulations in northern Italy are perceived. In addition, our empirical findings are discussed and connected to the theoretical framework. This comparison provides an essential analysis in order to answer the research question.

### *Conclusion*

A discussion of our key findings and a conclusion to the research question are presented here. Furthermore, it includes a discussion of contributions to the theory that could supplement research as well as a recommendation on future research.

## 2 THEORETICAL FRAMEWORK

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*In this chapter the theoretical framework concerning our research is presented regarding implementation of private regulations. Firstly, theory concerning GPN is discussed, followed by an explanation of private and public regulations. Finally, the implementation of these regulations within a horizontal and vertical dimension of a GPN is discussed.*

### 2.1 Global production network (GPN)

When implementing private regulations such as COC, audits and certifications in a country, it is important to consider both the vertical and horizontal dimensions within a GPN, such as structure, agency, institutions and context, to manage to receive the best outcome (Carswell and De Neve, 2013; Hess, 2009; Lund-Thomsen, 2013). GPNs have emerged from global value chains (GVC) that consist of interconnected functions, transactions and operations where something, either a product or service, is produced, distributed and consumed. However, in today's world there is more complexity to these aspects of production. A GVC is often presented as a linear structure where the focus is only on the company, suppliers and consumers. There are, however, many other actors that shape and reshape the economy. In order to conceptualize this complexity, some authors prefer the term GPN over GVC or global supply chains. The GPN approach does not only consider the linear chain of a company but it goes beyond it by also incorporating all relevant actors and relations (Coe et al., 2008; Lund-Thomsen and Coe, 2013).

A GPN can be explained by different sets of intertwined networks connected with a company but also connected to consumers, organisations and countries within the world economy. In other words, it can be said that within a GPN there are multiple actors involved such as companies, labour unions, NGOs and associations that all have different goals and concentrations. Within that, there are distributions of economic activities to multiple geographical locations, however, this requires tremendous coordination and integration (Levy, 2008). By taking all this into consideration, it demonstrates how a company is structured but also how it is embedded in different cultures and country contexts (Coe et al., 2008; Lund-Thomsen and Coe, 2013). This view gives potential to understand the global economy, and the dynamic organisational and geographical complexities within it (Andersen and Christiansen, 2005). The GPN approach also gives the opportunity to analyse the different

actors and their existing power towards each other (Hess, 2009), as well as to see how and where it is important to adapt vertical and horizontal dimensions to enhance value (Coe et al., 2008; Lund-Thomsen and Coe, 2013). GPNs have proven to be complex and are therefore much harder to fully control as well as fulfilling the sustainable requirements within them. For that reason, it demands an active commitment from all the actors within the GPN (Pedersen and Andersen, 2006).

## **2.2 Public and private regulations**

In order to understand GPNs it is necessary to address international regulating systems where not only public regulatory systems are important, but also the implementation of private regulatory systems (Locke et al., 2012). The growth of GPNs and increased offshoring activities in the garment industry has pressured governments to adjust their regulations to the needs of companies since the attractiveness of production does not only depend on price and efficiency, but also upon the stability of the country where it takes place. Therefore, to attract foreign investment from Western companies, Eastern governments need to have an attractive and functioning public regulating system (Locke et al., 2012). In some cases, governments have attractive regulations on paper, however, in practice they do not have enough power or willingness to enforce these regulations (Egels-Zanden, 2009). An example of this is India, where regulations against child labour do exist on paper, but do not actually exist in practice (Faisal, 2010). Countries lacking in functioning public regulations increase the pressure on companies to implement their own regulatory system to improve and maintain a sustainable GPN (Egels-Zanden, 2009).

Private regulation systems consist of the implementation of COC, procedures to audit their suppliers within GPNs as well as certification schemes (Locke et al, 2012; Amengual, 2010). A large part of COCs are based on international standards from the International Labour Organisation (ILO) conventions and the United Nations (UN) “Declaration on Human Rights”. This is also the case for the FWF COC which contain standards that are against child labour, as well as requiring wages that not only meet the minimum wage for that country, but also are sufficient for the employee and their families. Companies can either choose to take standards of NGOs or to adapt COCs to their own standards. Even though there are different COCs that can be customized to a company’s own needs and values, the execution and auditing of them should be implemented similarly in every country, uninfluenced by their context and public regulations (FWF, 2014).

The companies' efforts of implementing private regulations are done in order to address problems concerning environmental as well as social issues in GPNs. Companies adopt the COCs voluntarily and expect their suppliers to follow them as well. They are then used as a tool to make sure that the suppliers are in compliance with the regulations that the company want them to follow. The compliance with COCs is often monitored by the company or by an independent NGO, such as FWF, and if a noncompliance to the COC is found, actions such as termination of orders from that supplier are taken. With private regulations, companies can uphold a certain standard at their factories and therefore show that they are responsible towards their suppliers within the GPN (Egels-Zanden, 2009; Locke et al., 2012; Amengual, 2010). Another driving force for the implementation of private regulation are public media and consumers, since their thoughts about a company greatly affect it, in for example sales (Faisal, 2010). In addition to COCs and audits, Bartley (2007) also discusses the rise of certifications due to an emerging concern about social and environmental conditions within production. A company's motivation to apply these certifications is to differentiate themselves from the good and bad competitors, to create credibility and to limit the competition or gain competitive advantage (Bartley, 2007; Faisal, 2010). By creating a differentiated fit and shared values with buyers a company performs better than those who do not obtain any or only pursues one of the approaches exclusively (Nohria and Ghoshal, 1994).

Scholars indicate that private regulations are not sufficient to tackle all the problems of social and environmental issues in GPNs, and that not even public regulations in an isolated measure can tackle it, private and public regulations can complement each other (Amengual, 2010; Locke et al., 2012; O'Rourke, 2006). For example, where the private regulations can help build up a better public regulation system with constant auditing (Bartley 2011; Amengual, 2010). Regardless, even though private regulations can complement the public regulations, they can also have a negative effect on the overall regulation system in the supplier's country, where it undermines the overall credibility of the government. Thus, to get the best outcome when implementing private regulations it is crucial to have an understanding of the country's context in order to apply them effectively (Amengual, 2010; Locke et al., 2012; O'Rourke, 2006). However, when companies apply these types of regulations there are two different aspects to be considered. On the one hand, it can be applied through vertical dimensions of GPNs and on the other hand it can be applied through horizontal dimensions of GPNs (Lund-Thomsen, 2013).

### 2.3 Vertical dimensions of GPN

From a vertical perspective, the global brands in the garment industry are being socially responsible by having private regulations about different aspects such as child labour, working hours and safety issues. By doing so, they have equal standards and become responsible for their GPN and can ensure that employees in their entire GPN are being treated right (Khan, Munir and Willmott, 2007). The vertical dimensions are very common when deciding on a strategy to use, in order to keep the company's goals within sustainability. Implementing COC with a vertical focus in GPNs is perceived as beneficial by many big brands, not only does it give them a clean conscience in terms of social aspects for the employees, but it also gives them a better position when sweatshop activists rage about a particular condition in a country (Yu, 2007; Khan et al., 2007). Through the vertical perspective, companies want to have a good effect on the local production of their GPN, strengthen the standards of regulations but also improve the facilities and health of their employees. Standards of quality and social factors should be the same all over the world in order to create an equal ground for implementation. Possessing opinions from different stakeholders in GPNs, companies set standards, rules and criteria that the suppliers must follow. In return many global brands are willing to pay a higher price for products within a sustainable GPN (Lund-Thomsen, 2013). Moreover, it must become clear within an organisation that different departments need to work together. For example, if a purchasing department puts pressure on the factories to produce more items but still maintain a low price it contradicts its CSR department which wants to achieve a socially responsible organisation. Furthermore, brands must be aware of the situations at their factories since if they decrease working hours and piece rate, and increase production during high seasons it may have a worse outcome than the former since they are forced to manufacture more pieces in a shorter time period (Lund-Thomsen, 2013; Yu, 2007). The cooperation of different aspects within the company could therefore lead to more social benefits for the entire production (Lund-Thomsen and Coe, 2013; Locke, Amengual and Mangla, 2009). When applying private regulations with a vertical focus in GPNs, there are different aspects, such as relationships and resources that affect the perception of the suppliers and sub-suppliers, and influence their level of compliance and acceptance (Khan, et al., 2007).



### 2.3.1 Vertical power relations

By applying private regulations in a vertical way, global brands will ensure their investors and consumers of the responsibility taken in their particular GPN. However global brands have to consider the resources and relationships within the GPN to understand how the regulations can be implemented and perceived (Locke et al., 2009). Within a GPN, different activities create dissimilar values to the final product. Although the end product is important for the consumers, some activities have more meaning than others. It is important for the company to realize what parts of the GPN create the most value for the end consumers (Porter, 1996). The GPN is characterized by the actors within it, (Andersen and Christiansen, 2005) and the resources and capabilities of every actor make them able to perform activities that can differentiate them from competing networks (Locke et al., 2009). Many different relationships exist within GPNs, and for them to result in the best outcomes, trust is often needed. Trust is said to be hard to predict and therefore hard to define, thus it often involves the belief that the partners will act in the best interest of each other. Within a relationship trust is affected by many elements such as time, where longer collaboration leads to more liability (Wilson, 1995). For activities within a collaboration to be efficient it is important that the relationship is prosperous and that actors can commit and identify with each other (Kostova, 1999; Locke et al., 2009). Trust is an important aspect, since it might have an effect on the relationships between the brands, their suppliers and their employees. As an example, suppliers have shown to have a 100 percent participation of labour unions as well as having a complaint box present at the factory. However brands must be aware of the fact that union memberships can be forced and complaints can be ignored by managers (Yu, 2007). High levels of trust will most likely reduce uncertainty of the value created for the recipient and also increase the motives to perform well within the relationship. Higher trust can also lead to the relationship being perceived as more reliable but also reduce cost connected to communication, audits and other cost between the actors (Kostova, 1999). Trust between a company and its key suppliers is an invisible asset which is not possible to trade or duplicate which creates a competitive advantage (Skjoett-Larsen, 1999). When trust builds over time the increase of moral obligation can rise, the supplier can feel more obligated to implement the private regulations set by the global brands. If the relationships between the supplier and a brand in the GPN are very good it can ease the implementation of private regulations. Furthermore, this can also strengthen the relationship of the supplier towards the brand in terms of sending orders (Pedersen and Andersen, 2006; Locke, et al., 2009).

Moreover, the structure of each GPN evolves over time since the international environment changes as well as the actors and their performed tasks (Andersen and Christiansen, 2005; Lund-Thomsen and Coe, 2013; Skjoett-Larsen, 1999). The actors' performance depends on their resources which involve financial, physical, human and organisational assets that are used to develop, manufacture and deliver products to their consumers. These resources and capabilities can result in sustainable competitive advantage if they have characteristics such as value adding aspects, rareness, aspects that are costly to imitate and non-tradable aspects. Products are valuable if they can exploit opportunities and neutralize threats, and if a product is both valuable and rare it can result in a temporary competitive advantage. Resources are difficult to duplicate if they build on path dependency, influenced on many small decisions or social interactions (Barney, 1991; Skjoett-Larsen, 1999; Zou and Cavusgil, 1996). Sustainable competitive advantage may also evolve if a company has a positive reputation and if it is rare. This reputation often depends upon historical incidents and is therefore socially complex and imperfectly imitable (Barney, 1991). The activities a company is able to perform with their resources and capabilities can differentiate a company from competitors, by either performing different activities from rivals or performing similar activities in different ways (Porter, 1996).

The resources and capabilities obtained by each actor in a GPN creates bargaining situations and depending on the competitive advantage, it determines a company's position in the GPN (Coe et al., 2008; Zou and Cavusgil, 1996). A certain company's resources in the GPN is a mirror of another company's dependency on them and is created within an uncertain surrounding where actors are depending on others for survival (Wilson, 1995). The actors with low bargaining power are easily replaced since the network is not depending on them or their resources which is why they will not suffer when including another actor in the GPN. However, this presented situation is not always the case since companies can upgrade their resources and competences, and depending on which position they have in the GPN, affect the outcome. Since companies are often active in more than one production network the other relations can give them extensive bargaining power if they have important resources (Coe et al., 2008). In the garment industry, global brands are often only a small fraction of their suppliers' total manufacturing capacity. In this case, the supplier has bargaining power which resulted in brands trying to implement private regulations, when the supplier does not comply, the brands have no choice but to accept the situation (Locke et al., 2009). By having

bargaining power a company can improve terms and conditions, and force others to do what they normally would not. Companies are often aware of their bargaining powers and others' dependencies, especially the strongest ones. The willingness of a company to exercise its power depends on the coordination in the GPN, for example in a manufacturing network where they are interdependent on each other when a task must be completed before another can begin. This demands careful planning and scheduling and creates a situation where a powerful company may not exert its power to a large extent (Crook and Combs, 2007). There are complex power relations among the key actors in a GPN. In order to understand the differences of acceptance within the vertical part of GPNs the relationships between actors and their resources are of importance. On the other hand, the horizontal application of private regulations within GPN have other aspects that need to be considered.

## **2.4 Horizontal dimensions of GPN**

When applying private regulations it is important to consider the horizontal dimensions by looking at the different aspects in the local context. If companies want to avoid a commercial CSR policy that is not beneficial to their employees, it is crucial to consider other aspects such as local gender norms, geographical distance and the balance between work and home (Lund-Thomsen, 2013; Yu, 2007; Neilson and Pritchard, 2010). With the rise of the globalisation many countries are competing with each other by providing a good political and regulatory environment. With a horizontal perspective these issues are taken more into consideration and the individuals and their local environment have to be evaluated (Lund-Thomsen, 2013; Yu, 2007; Neilson and Pritchard, 2010).

To better understand the problems within a certain company or a country's context, companies should work together within their own organisation, where they make sure that there is consistency (Lund-Thomsen and Coe, 2013; Carswell and De Neve, 2013). Private regulation, which is often indicated as a solution for the supplier, may not result in a proper condition for the employee, if not all aspects are taken into consideration (Carswell and De Neve, 2013). As an example, when a global brand was producing in Pakistan employees were forced to work in a factory instead of from home which they were used to. The actions affected employees negatively since many women cannot work at a location far away from their home since it is not accepted in their culture for them to travel alone (Lund-Thomsen, 2013). Furthermore, this is shown in the examples of the soccer ball manufacturers in Sialkot, Pakistan, where the conditions, such as use of child labour, in their factories were published.

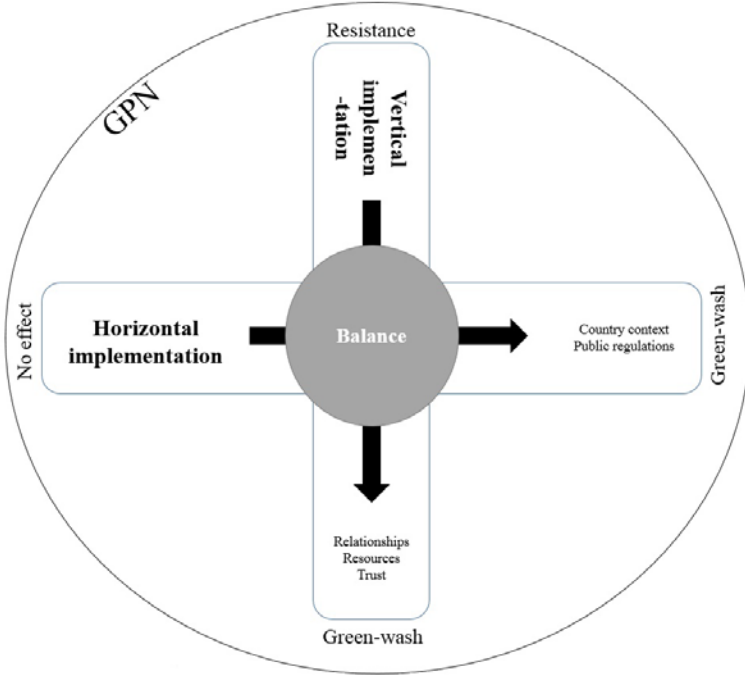
A campaign was established to eliminate this violation and to diminish the unwanted marketing. This process took a vertical approach since companies, NGOs and international bodies determined that child labour had to be diminished. Only stitching units who followed standards should be used, the decision was made without taking the local conditions, poverty or minimum wages into account. The measures taken led to diminished child labour, working women and better living standards in Sialkot. The children were expected to be grateful to be rescued, but findings by Khan et al. (2007) showed that the work provided the children with dignity and a sense of solidarity against their household by providing the cost of living. Furthermore, private regulations are implemented to protect people, thus in Sialkot the situation became worse since children are needed to work as the wages are too low (Khan et al., 2007). Another example of when a strategy is not implemented horizontally is in the tea and coffee industry of south India. Fair and ethical trade work has increased in the region since it is supposed to improve the environment and decrease the poverty for these plantations. However, it only increased the differences of the small plantations and disconnected them since they cannot afford to pay for the certifications, verification and inspections needed in order to sell their products as fair trade. The effect led to varying levels of monetary return and in worse cases, bankruptcies (Neilson and Pritchard, 2009). By taking both the vertical and horizontal dimensions into consideration companies make their GPN truly sustainable. In addition, the possibility of less resistance of employees and more acceptance of the private regulations implemented becomes higher (Lund-Thomsen and Coe, 2013).

## **2.5 Our conceptual framework**

By compiling the reviewed literature, there are certain aspects that can be identified as important in order to realize the perceptions of private regulations. Private regulations are perceived differently based upon how they are adapted to vertical and horizontal dimensions (Lund-Thomsen, 2013; Khan et al., 2007). From a vertical perspective the private regulations, such as COC and audits, are supposed to have the same standards all over the world (FWF verification coordinator, Interview, 2014), although that has proven to not be the best solution in every case (Lund-Thomsen, 2013; Yu, 2007; Neilson and Pritchard, 2010). According to, Yu (2007) a global brand implemented a private regulation that reduced working hours, but later when increasing their orders it had a conflicting approach because employees were then forced to do more work within less time. Brands applying private regulations have to consider the effects it can have and by having the same standards and applying it to all actors of the

GPN it can create a resistance towards it. Not only can it be seen as a forceful act against the suppliers but it can also fail to reach the most needed aspects of the network, such as the employees.

Therefore according to Lund-Thomsen (2013), Yu (2007) and Neilson and Pritchard (2010) it is important to apply private regulations in a horizontal perspective where it is important to consider preferences and aspects of the local environment when applying COC and audits. However, in the case of Sialkot where child labour was diminished by the implementation of private regulations, Khan et al. (2007) described that this did not have a positive outcome for the children. By working, the children received a sense of solidarity and dignity by providing for their families. However, the horizontal perspective can be taken to an extreme measure, such as to adjust to child labour where it is socially accepted in a culture. By looking at the different approaches, private regulations can either be implemented in an extreme vertical or horizontal way, which can be seen in figure 1, it may lead to green-washing<sup>2</sup>, resistance or have no effect.



**Figure 1: The private regulations implementation process. Source: Own conceptualisation.**

<sup>2</sup> Green-washing refers to a promotion of environmental initiatives taken by companies, whose actions are the opposite. In this thesis it refers to CSR initiatives and actions that are not environmental.

As argued by Locke et al. (2009) private regulations are not said to have never generated positive outcomes but their improvements have often been limited in their scope and not always sustained. However, the purpose is not only to get the best outcome but also engage in a sustainable collaboration. Therefore the ideal situation is to have a balance where private regulations are implemented in a vertical approach, by having the same standard overall and in a horizontal approach, by adapting it to the context, public regulations and culture without defeating the purpose. If private regulations are only adapted in a vertical approach it may create resistance towards them since they are built upon the relationships between the actors who are affected by resources and trust. However, if they are only adapted to the horizontal approach it may lead to having no effect. When balancing vertical and horizontal dimensions, it is important to consider the complementation of private and public regulations as presented by Amengual (2010), furthermore it is important to consider the complexity of the GPN. It may be difficult to implement private regulations in a balanced way but it can result in receiving the best out of both worlds.

### 3 METHODOLOGY

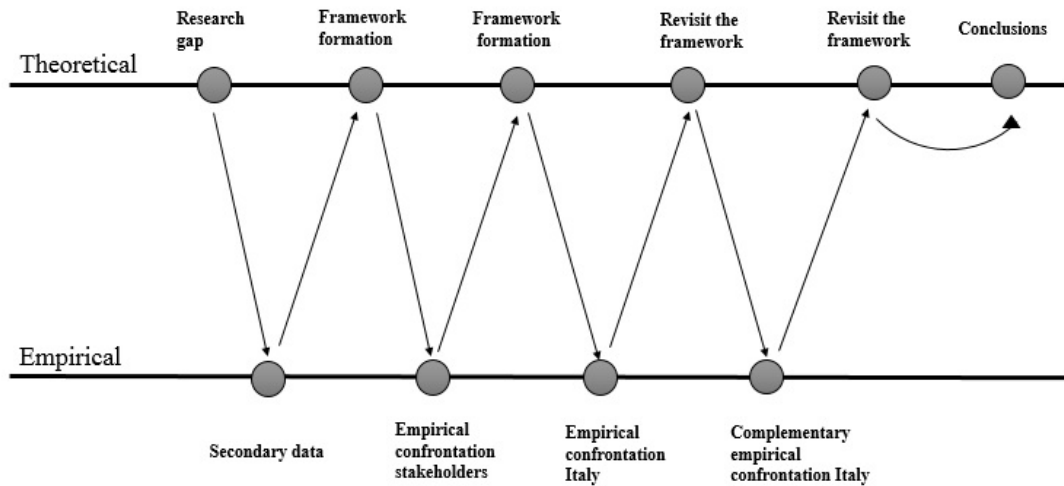
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*In the following part of this thesis the research process and chosen methodology will be explained. Furthermore an argumentation about the methodological choice will be provided concluding with a discussion of the validity and reliability of the work.*

#### 3.1 Research approach

This study's main aim is to discuss the implementation of the private regulations as well as identify why garment factories perceive the regulations the way they do. Although previous research has focused on these matters, never before have they been investigated in Western countries such as Europe. The gap emerged since Western countries are perceived to be less risky to produce in but also since a part of the garment industry has moved to lower cost countries in the East (Abernathy et al., 2004; Egels-Zanden, 2009). This study will therefore give attention to the implementation of private regulations in Europe, more specifically the northern Italian garment industry. To receive deeper understanding about the chosen topic a qualitative single case study (Bryman and Bell, 2011) was conducted at a Swedish clothing company's supplier, Supplier A, and its sub-suppliers. A qualitative study captures the perspective of people and their context which provides detailed descriptions of events and provide the researcher with a better understanding (Eriksson and Kovalainen, 2008). Furthermore, case studies are often conducted to understand the complex social phenomena that apply to the case (cf. Eisenhardt, 1989; Yin, 2009).

This thesis took an inductive approach at first, because of limited research within the subject. The conceptual framework is based upon secondary empirical information in form of audit reports received from Nudie Jeans Co' (Nudie Jeans), which were later compared to theory and primary data gathering, to provide a pre-understanding about the research question. Subsequently, during the research process the focus shifted between an empirical and theoretical framework. Therefore, during the preparation of the empirical gathering and processing of information, both an inductive and deductive research approach was conducted, together making it an abductive approach (Collis and Hussey, 2009). Our abductive approach, figure 2, can be viewed below.



**Figure 2: The abductive model. Source: Created with own reasoning using research method seminar 4 of November 2013 and thesis seminar 25 of February 2014.**

It is difficult to both have a deductive as well as an inductive approach since it is hard to not be influenced by previous knowledge about theory or empirical findings (Collis and Hussey, 2009). When performing an abductive approach the empirical data is seen as a base for the theory but questions arising from the data are even then continuously and simultaneously compared to the theoretical ideas (Andersen and Kragh, 2011). As shown in the model (figure 2), the work has continually been regarded from this perspective.

### 3.2 Research design

After accurate consideration of different authors' expertise the best suitable method was chosen. The research design for this specific study was developed to best answer the research purpose and question. Therefore a proper design was chosen to find relevant data, to collect and to analyse it (cf. Yin, 2009). Since the focus is on the social part of sustainability in a Swedish clothing company, we examined the Italian part of the GPN. The research design of this study will be further elaborated on below.

#### 3.2.1 Research unit and sample

To receive in-depth knowledge, a single case study was chosen to bring out new factors and perspectives (Lervik, 2011). The research was limited to one of the company's suppliers and its sub-suppliers to get as deep answers as possible in the time period given. By performing a case study the accessibility to suitable respondents and receiving valuable data is easier,



because you then have authority through the company to access this type of information. The information needed for this study is especially dependent on good relations since the topic can be seen as sensitive. The interviewees are central to the study's validity and it is therefore important to be able to conduct the appropriate interviews (Merriam, 1998; Lervik, 2011).

We conducted an exploratory study of the implementation of COC in a European setting. The study is conducted on a portion of the sub-suppliers who are located in the north of Italy in a region known as the 'Jeans Valley' (Factory 2 manager, Interview, 2014a). The case was chosen based on the following aspects. Firstly, the garment industry has been a target of sweatshop activists resulting in them becoming leading in the area of COC. Secondly, Nudie Jeans is selected for this case since they are very progressive within sustainability work and have worked actively with it within their whole GPN. Thirdly, Italy is a big part of Nudie Jeans' production but it also has a big part in the production of clothes in Europe. They are not only known for their production of garments but also their quality which may present an interesting view against low-quality producing countries such as India and Pakistan.

### **3.2.2 Data collection**

When performing a single case study there are multiple ways to contribute to the development and testing of a theory (Lervik, 2011). The different designs help the researcher to understand complex phenomena, by either performing interviews, observations, collection or analysing (Merriam, 1998; Eisenhardt, 1989). The empirical data collection has been performed by approximately 60 minute long face-to-face interviews and observations. They were conducted at nine of Supplier A's sub-suppliers. Supplier A was chosen in association with Nudie Jeans as they were believed to be the most cooperative and able to give the in-depth knowledge needed for this study. Of the nine visits to the sub-suppliers, three of those were performed at pressing houses, one stitching unit, and three laundry units as well as interviews at two of the laundries Chinese sub-suppliers in Italy. Since the empirical background indicated differences of Italian and Chinese sub-suppliers it seemed crucial to also research them. Not all sub-suppliers of Supplier A were visited since two of them are located in south Italy. This part of Italy has dissimilarities from the region that was researched, which would therefore not give a valid picture of south Italy and the two regions would be hard to compare because of the size of the samples. Interviews were also conducted during an audit at Nudie Jeans' fabric manufacturer in Italy with an external consultant and a secretary of the CEO. The amount of sub-suppliers interviewed was chosen to reach validity as well as to reach in-depth

information and the factories were chosen from secondary information in form of previous audits conducted by Nudie Jeans. To receive a variety of responses, both managers and employees were interviewed and these were chosen based on a snowball perspective (Merriam, 1998). The employees were not supposed to have any private relation with the manager and were chosen by gender, age and nationality to receive as widespread results as possible. It was felt necessary to interview both managers and employees to get a deeper understanding and see if there were issues at the production. However, since there were only minor issues the interviews from the employees are not used in the empirical findings. To limit the misunderstandings and to be able to conduct further questioning at the sub-supplier, complementary interviews were performed with the managers. Interviews have also been conducted with Nudie Jeans' CSR managers, FWF verification coordinator, Nudie Jeans external auditor, Supplier A CSR manager and a quality consultant. These interviews took approximately one hour and were conducted to get an understanding about the Italian context and the factories, for more detailed information see appendix 1. The Italian context has also been developed from secondary data collected from Internet sources and journal articles. Moreover, secondary information in forms of former audits has been used to get an understanding about findings during audits and about the context in the country as well as in the factories.

During most of the interviews performed in Italy, interpreters were used. The employees of Nudie Jeans' quality consultancy company assisted us with this task because of problems of finding a suitable interpreter. It did not affect the interviews in a negative way because of their close contact with the employees and managers at the sub-suppliers, also since they perceive them as external in relation to Supplier A and Nudie Jeans. Moreover, this situation provided us with honest answers rather than the opposite. However, the interviews with the laundries of the Chinese sub-suppliers did not result in the same deep and informative answers since the interpreters did not have as close contact with them, as well as there being language barriers. Therefore only two of three Chinese sub-suppliers were interviewed. To receive the best outcome and to get the most correct answers, the external auditor claims that it is of importance to speak the same language (external auditor, Interview, 2014a). Thus due to the researchers' limited knowledge of the Italian language, trust was instead created by having informal monologue about non-related issues of this thesis, by explaining that the research is a Master's thesis and that the researchers are not working for either Supplier A, the quality

consultancy or Nudie Jeans as well as clarifying that all interviews would be anonymous (cf. Eriksson and Kovalainen, 2008).

### **3.2.3 Interview protocol and process**

Semi-structured interviews were conducted in order to receive deeper knowledge about the topic in question as well as to answer the research question. Possible findings in our research were not certain before the interviews were conducted and therefore it was important to have open questions to receive the most information and to have very relaxed interview sessions. These types of interviews are harder to conduct since there are a lot of questions and answers to keep track of but also when processing the material because of broad answers (Collis and Hussey, 2008; Bryman and Bell, 2011). To overcome these limitations one researcher kept track of the written questions and the other focused on elaborating on information gained during the interviews. Since the answers were not known beforehand it is important to gather as much information as needed during the interviews and that is why a spread of answers is seen as an advantage.

All the interviews were recorded and later transcribed to minimize the misunderstanding and to receive validity. According to Eriksson and Kovalainen (2008), it is important to use the right interview study to answer the questions in the best way possible. During the interviews, a standardized interview protocol was used (See appendix 2, 3 and 4) in order to not overlook essential areas and to use it as a template if the interviewee did not develop his answers as much as was required to be sufficient. Both answers and reactions were noted during the interview to get a deeper apprehension about their answers. The questions in the protocol emerged from previous knowledge and from interviews with the CSR manager at Nudie Jeans, verification coordinator at FWF, CSR manager at Supplier A and the external auditor for Nudie Jeans. These interviews were conducted before those in Italy, and semi-structured processes and protocols were used. The interviews, except for those at the Nudie Jeans office, were conducted through Skype, which led to some minor technical problems. By performing these interviews before departure, knowledge was gained regarding the Italian context and suppliers but also to practice interview techniques.

### **3.3 The analytical process**

The empirical data is important to continually reflect upon and analyse to diminish future problems such as unfocused, repetitious and overwhelming data (Merriam, 1998). Therefore,

the interview protocol was changed every day as an outcome of our daily discussions and analysis of the information. After finishing and transcribing the interviews we started to analyse each sub-supplier and then comparing them to find similarities and differences. Therefore, we could divide the factories into two different sections of sub-suppliers (small and large) and find relevant themes. The themes were defined after processing the material several times and discussing the meaning of everything said. In our case, we had to be especially careful when interpreting the information received since we conducted our interviews through interpreters which at times were not faultless in English.

According to Eriksson and Kovalainen (2008) it is vital to build an analysis upon sufficient and substantial information, which we succeeded in doing in this study by performing complementary interviews after processing the material. When analysing the material our effects on the outcomes were as neutral as possible and we always made sure to discuss every theme found. The research was performed by two researchers which can be seen as an advantage since it often increases the creativeness of members having different insights adding confidence to the findings (cf. Eisenhardt, 1989).

### **3.3.1 Validity and reliability**

The aim to secure the validity of our study was by controlling findings. By accomplishing this both management and employees were interviewed at the factories. In addition, Supplier A, the quality consultancy company, Nudie Jeans, FWF, external auditor and an external consultant were interviewed to verify the factories' answers. To secure our findings and create validity complementary interviews were also conducted where clarifications and new information was given. The visits at the factories consisted of interviews but also observations to better interpret the whole situation as well as being able to compare the secondary information in form of former audits to observations at the factory.

When performing interviews in foreign countries, liability of foreignness may occur. When that happens, challenges may arise when collecting primary data in the form of accessibility and quality. The interviewers have to make personal adjustment since language, institutions and culture are different and also to understand the sensibility of the country's context (Lervik, 2011). To minimise these difficulties an empirical background about the Italian context and secondary empirical findings were processed and written before departure. We

also spent a good period of time in the country before conducting the interviews and made sure we had time between the interviews to adjust to the surroundings.

When performing qualitative research, reliability is often perceived as low since it is difficult to replicate. In our study the respondents at the factories were anonymous, which was required in order to receive developed answers. Also, interpreters had a close connection with the respondents that provided answers, but genuine answers like that can be hard to receive by using other interpreters that do not have a connection with the interviewees. In addition, the study can be difficult to replicate since the interviews were conducted in a semi-structured way.

## 4 EMPIRICAL BACKGROUND

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*In this section an empirical background is presented in order to understand the empirical findings better. A short introduction about the vertical dimension of the GPN involving Nudie Jeans and its production network will be presented as well as the horizontal dimension including the garment industry and the Italian context.*

### 4.1 Vertical dimension - Nudie Jeans

Nudie Jeans is a global clothing company established in Sweden, their main profits are derived from jeans that are sold in various parts of the world. Nudie Jeans' vision is to be a sustainable company in order to reach that they are a member of FWF. Their sustainability work is extensive and in May 2014 they were rewarded from the Swedish Trade Federation and Dagens Handel for their Repair Shop concept as the Sustainable Store of the year (Nudie Jeans, 2014). On Nudie Jeans' webpage they state that: "We do not envisage a trade-off between profit and peoples or between manufacturer and environmental responsibility. These issues are major factors in our choice of suppliers." (Nudie Jeans, 9 March 2014). Most of Nudie Jeans' production is located in Europe although they also have some production in India and Tunisia. Their choice of suppliers is determined by what quality they can deliver and their standard of sustainability, but also their price. In 2012, Nudie Jeans started to audit their suppliers, by assistance from an external consultant whose audits were approved by FWF. When performing these audits, FWFs COC are used as guidance but the sub-suppliers have Nudie Jeans' own COC, which are a mix of FWFs and their own values concerning the environment (appendix 5). Nudie Jeans' production is controlled by a consultancy company to secure quality and to diminish problems. Since Nudie Jeans follow the principles of FWF they work with few suppliers on a long-term perspective and their expansion in Italy has led to increased supplier stock rather than replacements (Nudie Jeans' CSR manager, Interview, 2014b).

#### 4.1.1 Nudie Jeans' production network

In Italy, Nudie Jeans have two main suppliers of jeans, which work with an additional number of factories (sub-suppliers) such as stitching units, laundry facilities and pressing houses. The production network also includes a fabric manufacturer, which works directly with Nudie Jeans and has therefore no extensive contact with the factories other than to provide them with the fabric (Factory 1, consultant, Interview, 2014). One of Nudie Jeans' suppliers, which they

have worked together with since 2001, is the focus of this study and is in charge of the production of the jeans from the making of the fabric to the final touches and can choose which pressing house and stitching unit to use, thus Nudie Jeans choose the laundries themselves since it is an important step of the production. Concerning the factories' sustainability work, both Nudie Jeans and Supplier A are responsible (Nudie Jeans' CSR manager, Interview, 2014a). In addition, there is a consultancy company working with Nudie Jeans that controls the production every day (Nudie Jeans' CSR manager, Interview, 2013; 2014a). In figure 3, Nudie Jeans' production network is presented. Supplier A has a stitching unit, laundries and pressing houses as their sub-suppliers. In addition the laundries have their own sub-suppliers. Furthermore, shown in figure 3 is the independent fabric manufacturer and quality control.

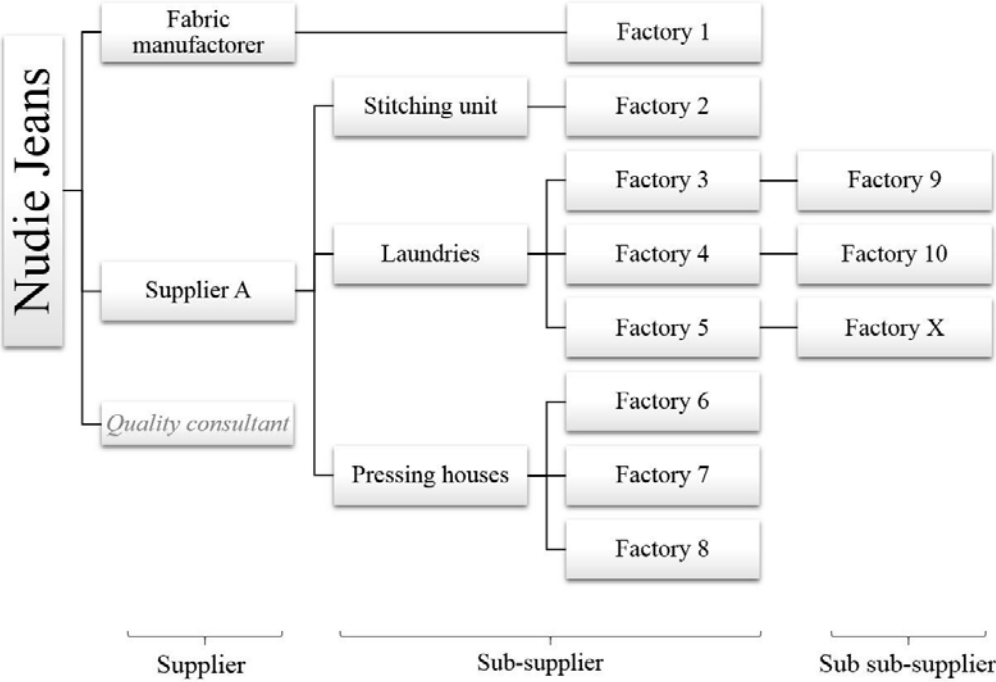


Figure 3: Nudie Jeans' production network.

Below a descriptive section is presented to provide a better understanding of the tasks and roles of the different actors within the production network.

### *Fabric manufacturer*

Fabric manufacturers (Factory 1) have different sub-suppliers that provide them with the cotton from all over the world. From the cotton they then make the different jeans fabrics needed for production (see figure 4) and the factory in cooperation with Nudie Jeans, chooses the fabric they will use (Nudie Jeans CSR manager, Interview, 2013). The manufacturer is a large factory that is working with many different brands from all over the world. Nudie Jeans is considered a small client (Factory 1 secretary CEO, Interview, 2014).

### *Stitching unit*

The fabric is sent from the fabric manufacturers to the stitching units (Factory 2) where the jeans are sown together. This phase is an important part of the making of jeans since it's here where the fabric becomes the actual jeans. This stitching unit is manufacturing one hundred percent of products for Supplier A but is sewing for different brands (Factory 2 manager, Interview, 2014a).

### *Laundry*

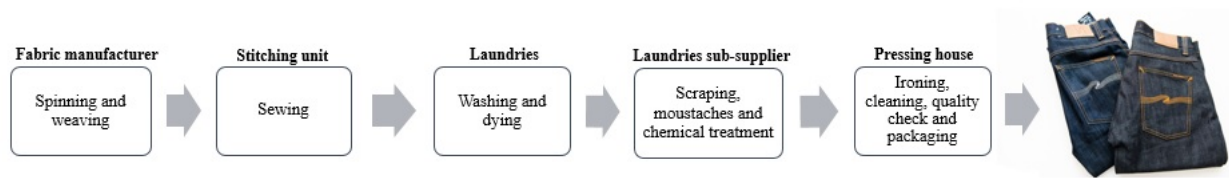
The jeans are then sent to the laundries (Factory 3, 4, 5) where they are washed and dyed into the preferred condition, these treatments are considered a crucial stage in the making of jeans. The laundries all use Chinese (although Nudie Jeans' only uses two) owned sub-suppliers located in Italy, which do the special effects of the jeans such as moustaches (marks from the crotch area), scraping and applying chemicals treatments. The laundries are also a developing unit for different trends. The laundries used are among the largest in Italy and all of them have additional brands and suppliers that they work with apart from Supplier A. They have to follow stricter regulations than the other factories since they are dealing with chemicals and more risky processes (Factory 3 manager, Interview, 2014a; Factory 4 manager, Interview, 2014a; Factory 5 marketing manager, Interview, 2014a).

### *Pressing house*

The final step of the process for the jeans is the pressing houses (Factory 6, 7, 8), where the jeans are ironed, cleaned from all extra threads, quality checked and packed for shipping. The pressing houses are small family run units with between three and fourteen employees. The work of pressing houses is mostly done manually and it does not require extensive training or



resources. The tasks performed by the pressing houses are standardised and therefore have not as much communication with Supplier A or Nudie Jeans. Two of the pressing houses are producing solely for Nudie Jeans and the third has additional brands (Nudie Jeans' CSR manager, Interview, 2013).



**Figure 4: Nudie Jeans' production process. Source: Own conceptualisation; Nudie Jeans, 2014.**

Since these factories in Nudie Jeans' GPN are operating in Italy it is important to explore the particular context in that country to better understand what effects the factories' perception of the private regulations.

## 4.2 Horizontal dimension - Italian context

Italy's garment industry is very known all over the world, not only are they proud of their garments but they are also dependent on its industry. The revenue from this industry has contributed to compensating for the negative balance in other sectors over time (Greta and Lewandowski, 2010). However, since the 1970s the garment industry in Italy has been threatened by countries with low labour cost and more effective production methods due to a high investment level. In Italy the garment industry is organized around SMEs, which are often specialized or within luxury markets as well as their business model being built on innovation, fashion and creative style, which is all enhanced with production technologies. The garment industry is diversified regionally and through different processes from spinning to finishing. In 2011 there were 51,873 garment manufacturers in Italy which had a total of 447,000 employees and exported 51 percent of its production, mostly to Europe (FWF, 2013). Many industrial districts are found in the northern and central parts of Italy. Sectors such as manufacturing, garment and engineer industries account for two thirds of the national export and they are leaders within the global market in these industries (Perrini, 2007).

The global economic crisis in 2009 had a major impact on Italy's production and especially the garment industry. Their GDP dropped by five percent due to this, which is the largest decrease in nearly forty years. The recession in Italy has had the largest effect on small

companies both in terms of turnover, investment and employment. In 2010, approximately 95 percent of all companies in Italy were small companies and they employed fifty percent of the population (Eurofound, 2010). Moreover, most of the factories surviving the crisis and increased competition are luxury brands or special markets (External auditor, 2014). The regions that were the most affected are in the north of Italy, where the largest amount of bankruptcies have been recorded (Eurofound, 2010). The Italian garment industry has been highly affected by the crisis and has not yet recovered. Both turnover and trade balance have not met their former levels but are today closer to it than in 2009. From 2011 until 2012 the export fell by 3.6 percent and import by 12.7 percent as well as a decrease in turnover by 4.6 percent (SMI, 2013). Intesa SanPaolo (2013), claims that the main garment manufacturers are currently at risk since figures are near the pre-crisis level.

The consequences of the economic crisis is that the number of garment factories in Italy has decreased by 2.3 percent from 2010 to 2011 and different regions have been affected differently; for example Molise, located in the south of Italy had the highest decrease of 10.9 percent and Marche located in the north had the lowest, or 0.1 percent (FWF, 2013). In addition, the garment factories in Italy have also decreased due to a growing movement of production to other countries with cheaper production alternatives.

#### **4.2.1 Corporate social responsibility (CSR)**

In Italy, CSR was already a known phenomenon in 1950. After World War 2, the Italian garment industry was changing and they found themselves in a bad position for some years. In the northern parts of Italy, the development was faster than in the southern parts, which lead to a higher income gap. These circumstances led to a large amount of immigration from the southern parts to the northern. Due to closeness to other countries, the north of Italy has become more trade managerial oriented and is the core site for economic activity in the country. These differences have led to a more developed CSR focus in the north but less in the south because of tight company profits. The Italian companies are paying attention to recycling and environmental issues and realise that it is a huge benefit to pay attention to social and environmental issues. In a long-term perspective they see development within CSR strategies as important in order to increase their economic and competitive advantage (Habisch, Jonker, Wegner and Schmidpeter, 2005). Companies in Italy have shaped the government approach towards CSR and Italy is leading in Europe due to dissemination of environmental and social management systems, as different certifications and labels. Medium

and large sized companies have been highly interested in improving CSR policies, regardless, the commitment appears to be limited among very small sized companies. Therefore there is a strong relationship between a company's scale and its commitment to CSR. Moreover there is a difference between companies' attitudes towards CSR and between the regions depending on socio-cultural and the legal-institutional context. For that reason there are more acceptances towards CSR where the most advanced industries are and those who are open towards foreign markets (Perrini, 2007).

#### **4.2.2 Public regulatory environment**

Furthermore, globalisation has not only affected the Italian garment industry, but it has also affected the public regulatory environment of the country. The Italian garment industry is regulated by different systems, which are in line with European regulatory systems. The labour force is regulated by the Italian constitution, the civil code, the workers' bill of rights and by other relevant laws. For each professional category there is also a Collective Labour Agreement (CCNL) which states the employees' terms and conditions. In 2012, the labour law was redesigned and now emphasizes a social system to make active labour policies more efficient, coherent and equal. The National Collective Agreement for Textile Manufacturers is applicable to garment industries and is divided to fit the type of production. These contracts are negotiated by unions and trade unions (FWF, 2013). In 2008, Italy's consolidation act of occupational health and safety (Testo Unico Sicurezza Lavoro) was updated in order to safeguard employees and people (ADAPT, 2013). Employees have to meet some contractual criteria to be allowed to work and have to be trained in health and safety issues adapted to their specific job. Regardless of that, suppliers and sub-suppliers agree with the increased health and safety benefits, but it has also had a negative effect on the smaller sub-suppliers since it is very costly.

*“The factories are not really happy about the increasing public regulatory systems since it means higher cost for them by providing training every three to four years in first aid and emergency as well as verifying noise and working conditions. Having to use external companies, which checks them, is often not that cheap. We have to find ways to reduce the cost, there is no difference between them. The small ones have spent the same time and money to follow these rules, which is approximately three to five thousand Euros a year.”* (Supplier A CSR manager, Interview, 31 January 2014).

The legal environment in Italy is not only strict but the auditing is also sufficient. Companies not in compliance with public regulation, for example in terms of health and safety, are in danger of receiving a fine, be arrested or risk the suspension of the business license (Benyboatti, 2012; Supplier A CSR manager, Interview, 2014a). However there is a big dissimilarity between the different regions within Italy, for example there is a difference between per capita income and livings standards between north and south Italy (Lynn, 2009). As explained by Nudie Jeans' external auditor, the difference between these regions is very obvious: "The south of Italy is much poorer and has a very weak audits, high numbers of illegal workers, irregular workers, underpaid workers, corruption. They are like two different countries." (External auditor, Interview, 27 January 2014). The difference of the regions is expressed by different actors which also express that not only is the situation and auditing different but the documentation there as well. Moreover, since the auditing is not as strong in the south, there are no repercussions for breaking the law (FWF verification coordinator, Interview, 2014).

#### **4.2.3 Issues effecting the Italian garment industry**

The reality of the differences between the south and north of Italy have made companies and foundations like FWF worried (FWF, 2013; Nudie Jeans' CSR manager, Interview, 2014a). In 2006, the FWF made a risk assessment on central and Eastern European countries and there Italy was classified as a low-risk country, today however, after brands expressing their worries, they have looked into their classification and increased it to middle risk (FWF, 2013; FWF verification coordinator, Interview, 2014).

*"The risk assessment is based on what our stakeholders say. The reason for doing that is because the stakeholders in the last year or two have indicated several issues that made us look into this classification again and then we hired an external auditor to conduct the risk assessment."* (FWF verification coordinator, Interview, 12 February 2014).

The suspicion against Italian working conditions also arose when Chinese companies entered the Italian garment industry (FWF, 2013; Rupp, 2013). The main issues have been regarding health and safety where employers and employees do not dedicate sufficient attention to the risks connected to the working environment, such as training and preventive/corrective actions. Moreover, there has also been attention towards employees who are working

irregularly or illegally and child labour but it has mostly been regarding foreign workers<sup>3</sup> (FWF, 2013; External auditor, Interview, 2014a). Authorities claim that a completely deregulated paradise has been created in Italy, which has brought the so-called sweatshops into the heart of Europe (Rupp, 2013).

### *Chinese factories in Italy*

Bankrupt garment factories are a consequence of the recent crisis, however the empty factories in Italy became an opportunity for immigrants from China. The Chinese have created their business on tax evasion and new ways of using the complex bureaucracy in Italy (Donadio, 2010). Currently there are 10,130 Chinese factories in Italy (FWF, 2013). From 2003, the amount has grown by 232 percent and in 2013 there were more than 200,000 Chinese living in Italy although only 41.000 were legally registered (Nadeau, 2013). The location of the Chinese factories is connected to the level of administrative control in their region, consequently the regions with the less effective auditing systems attract the most Chinese factories. A need for cheaper clothes has increased the demand for Chinese suppliers, which can offer fast delivery and lower prices. Thereby jeopardizing the Chinese employees' health and safety conditions. These types of suppliers are not always specified for the buyer and since it's hard to tell without being present at a company, this could have a negative effect on a country both environmentally and socially. Other violations common in Chinese factories are their employees' lack of visa or passport, unhygienic conditions, no operating permit, dangerous or unsecured machinery and lack of basic health and safety tools (FWF, 2013). Although the Chinese garment factories are perceived to have caused problems for Italian factories the government has announced that the Chinese employees have brought money into the region, which has decreased the impact of the recession (Aloisi, 2013).

However, the working conditions in Chinese factories are worrisome, but the increased participation of Chinese factories who do not follow the regulating system in Italy is also a concern for Italian factories (Factory 8 manager, Interview, 2014a). In addition, the problematic Chinese factories are seen as a problem which will only increase.

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<sup>3</sup> However it must be noted that the factories visited in this research did not have these issues. They were all controlled by Nudie Jeans and only had minor issues within the health and safety sector which today has mostly been solved.

*“I think it will be growing actually, even more. Because they [Chinese factories] see a business opportunity and I think they will increase for the coming years even if Italy would succeed in auditing and implementing stronger laws and legislation”* (FWF verification coordinator, Interview, 12 February 2014).

### *Quality*

Italy has long been known for their fine quality and high prices all over the world. The meaning has been blurred out due to a fine line between “made in Italy” and “made in China” (Donadio, 2010). As a result of a growing need for lower prices, producers have been forced to import fabric from other countries that are cheaper, such as China and Bulgaria. Clothes are then labelled “made in Italy” even though only a small portion of the production cycle is in Italy (Segal, 2010). The current country norms approve companies to use “made in Italy” when only performing the packaging and shipping operations in Italy. This opens up for abuse of the Italian quality mark and brands are often not aware that their products are leaving Italy during the production process as the final label carries the mark “made in Italy” (FWF, 2013). For long, the use of the Italian stamp for quality has not been regulated by any law but in October 2010 a law was conducted and there is now a demand to perform at least two of the four processes in Italy to call it “made in Italy” (Segal, 2010). The Chinese workers in Italy have long been accused of spoiling the Italian garment industry by producing clothes with less quality and lower prices compared to Italian manufactures. The imminent problem of the decreasing value of the “made in Italy” symbol is a concern for Italian suppliers who have not only had a strong quality check but also have invested in maintaining the value of the symbol.

*“I think that made in Italy is still a quality symbol [...] Our research and development (R&D) department still thinks that “made in Italy” could be an important symbol for us and we are investing a lot of money into this and even ask our customers to clearly display the “made in Italy” on their clothes.”* (Supplier A CSR manager, Interview, 31 January 2014a).

## 5 EMPIRICAL FINDINGS

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*In this section the empirical findings are presented which were collected from observation and interviews conducted in Italy and Sweden as well as the interviews conducted via Skype. The findings will be divided into sections by how the private regulations are perceived and the perception is also divided into small and large factories.*

### 5.1 Regulating system

Nudie Jeans applies COC to its sub-suppliers in order to be able to have responsibility towards their whole GPN but also in order to have an ethical working environment for the sub-suppliers. It is important for Nudie Jeans that the sub-suppliers are familiar with the COC and that employees are aware of their rights (Nudie Jeans' CSR manager, Interview, 2013a). In general, the private and public regulations are seen as one to the factory employees and it has been problematic to separate them during the interviews. The COC and Italian law do not differ dramatically and some claim that the only thing that distinguishes them are that the COC are not applied in all cases. "There are common parts between the Italian regulation and the COC, the only difference is that the application is different because the COC are applied in some case but in others they are not" (Factory 7 manager, Interview, 14 March 2014). The regulating system within the garment industry has become stricter in the past year which makes it very hard and complicated to follow and it has created a lot of pressure that has resulted in many bankruptcies in Italy (Factory 4 manager, Interview, 2014a). One example of the changes that have been implemented is the obligation for all sub-suppliers to have an external consultant that provides them with information regarding changes in the governmental regulations. The consultant, who is paid by the factory, only informs them but does not ask or force them to make any changes, such as Nudie Jeans do (Supplier A CSR manager, Interview, 2014b). Thus after some years factories have become more comfortable regarding these new standards and have learned to adapt to the procedures (Factory 6 manager, Interview, 2014). Some factories even claim that the consultancies are appreciated since they help them to be prepared for external audits from companies but also from the government (Factory 3 manager, Interview, 2014a). By being in compliance with the public regulation, having the right documents and paying for expenses, they minimise their risk of receiving fees or being forced to close production (Factory 6 manager, Interview, 2014). When Nudie Jeans started working with the factories in Italy they had already improved a lot

since they had previous experience from private regulations applied by other companies. However, the factories claim that the different brands often have similar COC and also that the auditors provided by their brand often make the same findings and provide them with the same recommendations about minor issues that have been found during audits. It seems as the adaption to CSR changed the most at the beginning and afterwards these improvements have increased slowly. Thus they understand the importance of having private regulations from the brand's point of view, and have to apply them in order to be responsible (Factory 1 Secretary CEO, Interview, 2014; Factory 2 manager, Interview, 2014a; Factory 3 manager, Interview, 2014a; Factory 4 manager, Interview, 2014a; Factory 5 marketing manager, Interview, 2014a; Factory 6 manager, Interview, 2014a; Factory 8 manager, Interview, 2014a).

## 5.2 Auditor

In order to make sure that the COC are being followed the auditing of them is very important. Since FWF has limited funding they only do audits in countries that have high risk. That is why Nudie Jeans have to perform their own audits in Italy by using an external auditor that is approved by FWF. In addition, quality consultant and Supplier A both perform announced as well as unannounced visits during their regular quality control at the factories (Nudie Jeans' CSR manager, Interview, 2013b). The audits are announced in advance so the factories are able to prepare the documents needed for the audit. The purpose of the audits is not to frame the factories, they are performed in order to have all of them working together to reach a better result. During an audit managers and employees are interviewed, their answers are then compared to the documents provided from the factory in order to see if, for example, working hours match the salary paid. In addition, the facilities are investigated in terms of health and safety issues. Nudie Jeans perform audits at every new factory they are working with, and depending on whether a company has improved since the last time they were audited, or if their audits produced good results from the beginning, they visit them every year but have another detailed audit after two or three years. It also depends on the risk associated with the factory, for example the laundries are audited more often than the stitching units since they perform more risky activities. Audits are a very important control process, however the limited time forces the auditor to steer his focus in the direction of what seems to be the most important matters. The focus of the audit can be formed from former audits or concerns that come up during the interviews (Nudie Jeans' CSR manager, Interview, 2013; 2014a; 2014b; External auditor Interview, 2014a; 2014b). Nudie Jeans believe that it is important to have a qualified and good auditor and that it is very important that the auditor is good and



reasonable. If an auditor is experienced they know how to prioritise and can understand the amount of time spent on different parts (Nudie Jeans' CSR manager, Interview, 11 April 2014c). Nudie Jeans' external auditor explained that when an auditor performs audits it is important to be able to know how to approach the employees and the managers as well as understand the factory that is going to be visited. There are several examples of auditors not considering and understanding the factory that is visited. As for example, when Factory 2 was part of a research study done by an Italian consumer agency, they followed a list and the company was provided with points for every part they fulfilled. In that case the factory had no canteen and therefore they received a lower score even though every employee ate at their own home so there was no need for it (Nudie Jeans' CSR manager, Interview, 2014b). This example did not create a good relationship between the factory and auditor and did not result in trustworthy information. These examples support the arguments of adaption. Nudie Jeans' external auditor states that there are different approaches of doing audits depending on whether the countries are low or high risk countries as well as adjusting the audit to the need of the brand (External auditor, Interview, 2014b). The adaptation of the audits to the country's context is not only in order to get the right information from the employees and managers but also to build up a good relationship with them. In Nudie Jeans' case the external auditor follows the FWF COC that are the same all over the world. But since every country is different there is a need for adaptation. However, the auditor states that even though it is important to adapt to the context and to the factories that she is visiting, it is also important to follow the public regulations of the country (External auditor, Interview, 2014).

*“The approach I have is that when I find a violation I first of all try to understand the gravity of it and then based on that, and I try to understand what kind of impact it has on the employees. Is it just a small mistake, is it something that hinders the factory from going forward [...] Is it a common concern in the area or is it a violation in the country?”* (External auditor, Interview, 14 April 2014).

By asking these questions the seriousness of the violation can be assessed. The adaption lies in realizing what aspects are the most important at the time of that audit and what aspects are not as important. However it is the auditors' experience and expertise that makes them understand the context of a country better but also to know what is important and what not (External auditor, Interview, 2014b). Furthermore, in the case of Nudie Jeans where the

external auditor is auditing in Italy, it helps that she is Italian and understands the context even better.

*“The COC that FWF uses are customized to fit the high-risk countries such as China and Bangladesh and not really the Italian or Portuguese context. So our auditor surely adapts the COC so it will fit the Italian context but I do not see this as a problem, it rather creates a good relationship between her and the factories and gives them confidence to be honest”* (Nudie Jeans’ CSR manager, Interview, 11 April 2014).

These are the aspects of the private regulating system performed at Nudie Jeans’ sub-suppliers. As mentioned, their main goal is to be responsible in their GPN and not to try to find faults at the factories. Both the COC and the audits are used as a tool in order to make that happen.

### **5.3 Perception of private regulation**

Almost all of the factories where interviews were conducted have worked with COC for a long period of time. However, at the beginning they were not used to the idea and did not see the point of having such strong audits on factories like them, in Italy, while there are other factories in the world which condone for example child labour (External auditor, 2014). The different reactions between managers in Italy and China is said to have been based upon how they perceive their performance within CSR:

*“When auditing for example in China, managers are aware of the need for doing audits [...]. They know that they are doing something wrong and that is why they accept that the brands want to visit. I find them more accepting. It is very difficult. Because Italy has been suffering a lot from competition from China for instance. So anytime a brand is going to an Italian factory and is asking that we need to audit you and visit you [...] it's common to see managers becoming aggressive. Because first of all they say you are auditing me but then you work in China. So where are your ethics standards?”* (External auditor, Interview, 27 January 2014).

However, the factories became less resistant to the sustainability standards after understanding that they are not that different from the public regulatory systems and therefore do not require a lot of work (Supplier A CSR manager, Interview, 2014a). So by informing the factories and letting them digest the information, they adapted and changed their view. For example when Nudie Jeans first started to work with Supplier A they did not receive any information about the factories their products were made at, which was problematic since with a big network as in Nudie Jeans' case it is very difficult to control the partners at the bottom of the network. But during the years of collaboration and increased orders their supplier has learnt to adapt to their working processes and has become more transparent and open (Nudie Jeans' CSR manager, Interview, 2014b). However, as of today, the pressing houses, laundries, stitching units and fabric manufacturers, in this research, see the COC, audits as well as the recommendations as necessary tools since it is important for their brands. Thus they have different opinions regarding COC and audits depending on how much of a factory's production is occupied by the brand:

*“It really depends, not really on the size but on the manager approach and what is also very important is the number of orders that a brands has. If you go to a factory that is working 90 percent for Nudie Jeans then the factory are more willing to make a change, but if I got to a factory where only 0.5 percent of there production is for Nudie Jeans and I ask them to do major changes, they tell me no. Because they have a small production for Nudie Jeans and do not need these major changes“* (External auditor, Interview, 27 January 2014).

The perception of private regulations has changed from being negative towards being positive since they have proven to be similar to public regulations. Currently the different factories' perception of private regulations differ because of various reasons such as number of brand but also the size of the companies which has led to the form of small and large factories in the findings below.

### **5.3.1 Small factories**

The pressing houses are considered small factories in comparison to the laundry, stitching units and fabric manufacturers since they have less resources and are working with fewer brands. The small factories perceive the CSR policies and the appliance of COC as good since it helps them to stay on the right track and to get confirmation that the company is “okay” (Factory 6 manager, Interview, 2014; Factory 7 manager, Interview, 2014b; Factory 8 manager, Interview, 2014b). The recommendations from the audits are especially needed

since they have forced them to adjust to things commented on by the auditor which they state would take longer time if they would not be required to fix them within a certain time period (Factory 6 manager, Interview 2014b). One manager claims that he feels pleased since they are better informed than others within sustainability work. “Compared to the other factories, I know that we are more updated in this kind of information [regulations] than others who do not know them at all, so I feel good when I am working and it is also very satisfying to know that everything is as it should be” (Factory 7 manager, Interview, 14 March 2014). There is much positivity towards the COC, however there is a certain worry about sub-suppliers that say they are following the COC without doing so. Therefore more extensive COC concerning both safety and health issues are wanted (Factory 7 manager, Interview, 2014b). The largest competitors for the small factories are the Chinese pressing houses in Italy since they present the largest threat due to their high working capacity and low price. Moreover, these factories are also known for their ignorance and noncompliance with the COC (Factory 6 manager, Interview, 2014; Factory 7 manager, Interview, 2014a; Factory 8 manager, Interview, 2014a).

*“The Chinese affect our work a lot, because of their low price and working-time [...]. As an example the public regulation asks us to work five days a week, so you should have two days free, usually Saturday and Sunday. But Chinese people also work on Saturday and Sunday. So if for example a supplier sends an order to the Chinese on Friday evening they are able to ship it on Monday [...] and in this way we are really suffering a lot because nobody audits them, so they can continue to do it like this and take our orders”* (Factory 8 manager, Interview, 14 March 2014).

The trend of sustainability within Italy between these smaller factories is both seen as an opportunity but also as a long-term problem for the factories. On one hand the factories feel safe regarding this situation since they assume the brands would not collaborate with the Chinese competitors, due to their values and strategies (Factory 6 manager, Interview, 13 March 2014). But on the other hand it is hard to compete with the Chinese factories since price often has a large impact and since these factories also seem to have good working conditions on paper (Factory 6 manager, Interview, 2014; Factory 7 manager, Interview, 2014a; 2014b; Factory 8 manager, Interview, 2014a; 2014b). The small factories are concerned about these issues since every brand thinks differently and not everyone prioritises sustainability. The brand’s needs in the future are also unknown for the factories and whether

or not the trend of sustainability works will still be a priority (Factory 8 manager, Interview, 2014a). Even though some factories are producing nearly fully for Nudie Jeans and know their demands, the factories are still scared about the future (Quality consultant, Interview, 2014). They would therefore rather see that every factory followed the COC so they could compete on the same conditions, like price and working capacity. In addition, if all factories follow COC they will be more useful, for example regarding safety (Factory 8 manager, Interview, 2014b).

### **5.3.2 Large factories**

The laundries, stitching units and fabric manufacturers are considered large factories since they have more resources as well as are working with more brands compared to the pressing houses. The large factories see the private regulations as necessary and helpful since it satisfies their brands' needs, but is not as crucial for them as a company. The factories see the brands' focus on CSR as a marketing act to attract consumers rather than to improve the working conditions (Factory 2 manager, Interview, 2014a; Factory 4 manager, Interview, 2014a; Factory 5 marketing manager, Interview, 2014a) as well as they assume that the brands audit them to be able to trust them (Factory 5 marketing manager, Interview, 2014a). They claim that they are not dependent on these private regulations since they already perceive themselves as performing well and since they have all been audited before. In addition, they have worked with the private regulations for a long time and the Italian public regulations are very strict (Factory 2 manager, Interview, 2014a; Factory 3 manager, Interview, 2014a; Factory 4 manager, Interview, 2014a; Factory 5 marketing manager, Interview, 2014a). The COC are more seen as a suggestion compared to the governmental regulation that they are more careful to follow (Factory 3 manager, Interview, 2014a).

The competing environment in Italy does not have the same pressure on the large factories as in the case of the smaller ones. Instead laundries are outsourcing some of their work to Chinese sub-suppliers in Italy which are doing more manual work, such as moustaches, scraping and chemical treatment of the jeans (Factory 3 manager, Interview, 2014b; Factory 4 manager, Interview, 2014b; Factory 5 marketing manager, Interview, 2014b). They have various reasons for using Chinese sub-suppliers in Italy, one manager claims that they employ them since they are cheaper than others: "Consumers want low prices, so we have to work with Chinese companies" (Factory 5 marketing manager, Interview, 18 March 2014). Other reasons for this choice are that the Italian people do not appreciate these kinds of work tasks,

the Chinese have better skills in for example copying patterns (Factory 3 manager, Interview, 2014b) as well as the fact that they are more flexible during different high and low seasons (Factory 4 manager, Interview, 2014b). Despite the different reasons, Nudie Jeans' external auditor (2014a), quality consultant (2014) and Nudie Jeans' CSR manager (2014b) state that it is mainly connected to economic aspects, otherwise they would use Italian sub-suppliers. According to Nudie Jeans' external auditor (2014b), an employee in Italy costs about 11 euros per hour and a Chinese employee in Italy costs only about five euros per hour. The laundries state that there are problems with Chinese factories in Italy but they do not include the ones they work with since they are audited by them (Factory 4 manager, Interview, 2014b; Factory 5 marketing manager, Interview, 2014b; Factory 6 manager, Interview, 2014b).

The different effects of competition create a complex situation when the larger factories are hiring these companies and therefore contribute to their presence in Italy while the small factories within the same GPN are struggling to compete with them. These Chinese factories are not seen as the best solution because they are harder to audit and to communicate with.

*“When we started to do audits we understood that we had Chinese sub-suppliers at the laundries [...] if we would be informed about this at the start we would not think it was the best solution but since the industry is organized like that we can either choose to work with them and adapt or move our production [...] and that is not something we want to compromise”* (Nudie Jeans' CSR manager, Lang, Interview, 11 April 2014).

This usage of Chinese factories has been necessary for the large factories to survive the competition from other more low-cost countries which provide similar products but at lower prices. This competition is not considered to be fair since Italian factories cannot compete in price. Brands often want to pay as little as possible for the jeans nowadays and that it is why so many companies in Italy have become bankrupt. The medium and low quality jeans are impossible to produce for factories since the brands do not want to pay the real cost for these, so high quality is the only thing which is profitable to produce for the suppliers (Factory 4 manager, Interview, 2014b).

## 5.4 Appliance of private regulations

The pressure from non-Western countries has affected the garment industry in Italy and made it evolve from a low-risk country to a middle risk country (FWF, 2014). The COC used by FWF are the same all over the world, however countries classified in different risk categories indicate the thoroughness of the audits you must perform at your factories in the respective countries, and how often. In Italy, this can increase the attention of audits which is against the idea of large factories to decrease them. The factories have expressed that these COC and audits are wasting time and money and would rather diminish them than increase. The factories stating this are those with a number of brands that visit them approximately every year. These multiple COC and audits are claimed to be similar to each other and that they often do not give any recommendations at all or give recommendations on the same matters as other auditors. For that reason, that many COC and audits are not necessary to have and they are also time-consuming since one audit takes a whole day (Factory 4 manager, Interview, 2014b; Factory 4 manager, Interview, 2014b). Different solutions to these multiplied COC and audits have therefore been expressed during the interviews. They understand that the brands want to do their own audits but indicate that it would be more effective to use one audit from a third partner for all the different brands. That will both save time for the brands and the supplier (Factory 2 manager, Interview, 2014a; Factory 4 manager, Interview, 2014a). The factories agree with the existence of COC in Italy and absolutely believe that the COC should be the same all over the world. However, when asking more about these issues, the factories express that even though they think that the COC should be the same in every country it is definitely not the case today. Many of them believe that there is more pressure on them to deliver, and that they have to follow more and stricter rules than others.

*“Of course it has to be the same in every country. These rules have to be the same all over the world. Firstly, it is for ethical reasons and also it could be for the competition between the countries (...) It is not right [not following COC], a brand that works both in Italy and India ask us to follow the Italian regulation in Italy and the Indian suppliers to follow the Indian regulation in India. For us, that is OK since we already follow them [COC and laws] but it has to be the same for both. The same things should be banned in Italy and India, not only to follow the national regulatory system”* (Factory 4 manager, Interview, 25 March 2014).

Their situation is complicated since they believe more pressure is put on them that create an unfair competitive ground since it creates large cost effects. Therefore if clothing brands decide to produce their garments in Asia they will contribute to the undermining of the competition situation in Italy. They believe that they do not have a chance against competitors that do not have to follow the same COC and audits (Factory 2 manager, Interview, 2014b; Factory 3 manager, Interview, 2014b; Factory 4 manager, Interview, 2014a; Factory 7 manager, Interview, 2014a). Moreover, the competition is not on fair ground since the governments are not as strict in one country as they are in another. Not all countries have equally strong environmental policies, which affects the companies in stricter countries by having to pay more air emissions for example (Factory 1 external consultant, Interview, 2014). Another solution the factories have expressed is to use certifications as a control mechanism. Since they are implemented all over the world they see them as a useful measure to understand a company's CSR standards and work. However, all these suggestions for solutions of how to make the COC and audits more efficient are hard to implement since companies are not willing to share former audits with their competitors and also because although factories have certifications, they are not reliable (Nudie Jeans CSR manager, 2014). There has been the case for Nudie Jeans, where a factory has had a certification, however with further investigation it did not fulfill the standard of this certification:

*“Yes, in a perfect world we would not have to do audits there [in Italy]. But unfortunately it has proven itself that although you have a certificate in Italy it does not mean it's good and that's the reason why we have chosen to do audits there anyways [...]. Also if we ask companies about former audits then they most often say no, because the companies do not want to share that information” (Nudie Jeans' CSR manager, Lang, Interview, 11 April, 2014).*

*“But it can be different, for example for American companies it is a legal issue that they cannot cooperate due to competition. But the European [companies] tend to be open about sharing information” (Nudie Jeans' CSR manager, Lindholm, Interview, 11 April 2014).*

*“However, the Europeans do not express this opinion to the factory so they do not feel secure sharing information. I mean, Levis and Replay are bigger than us so*



*they are not ready to be enemies with them just to please our small requirements”*

(Nudie Jeans’ CSR manager, Lang, Interview, 11 April 2014).

The external auditor used by Nudie Jeans also agrees with the previously mentioned opinions since the standard of the factories can differ even though they have the same certifications. Different brands also want their own audits since they maybe do not like the other company or do not trust them (External auditor, Interview, 2014b).

## 6 ANALYSIS

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*In this chapter the conceptual framework is revisited in order to explain and discuss the empirical findings. By dividing the topics into sections we are able to analyse the perception of private regulations in Italy. The perception of private regulations is analysed between the small and large factories but also how different aspects such as public regulations and auditors affect them.*

### 6.1 Vertical dimension

This research offers empirical evidence when considering the perception of private regulation in Italy. According to the theoretical framework, private regulations can either be implemented in a horizontal or vertical way (Lund-Thomsen, 2013; Khan et al., 2007). This will be elaborated on below.

The vertical dimension of a GPN includes different aspects, such as relationships and resources that affect suppliers' and sub-suppliers' perception of private regulation (Khan et al., 2007). The findings in this research shows that the perceptions of private regulation differ between the various sub-suppliers. The small factories have stated that they perceive the private regulations as helpful and that it provides them with peace of mind while the large factories conceive private regulations as a tool, making their brands satisfied although their personal view is that the regulations are inefficient. Factories' perception of private regulations are dependent on different aspects that affect their relationships to different actors in the network such as Nudie Jeans and Supplier A. Firstly, the task performed by the small factories in comparison to the large is different and according to Porter (1996) these can bring different value to the end product. A pair of jeans receive the most value during the washing process in the laundries where they are scraped and chemically treated to receive their unique design. In comparison, in the pressing houses, jeans are ironed and packed. These dissimilar tasks create different value for the end consumers and therefore also for the brand (cf. Porter, 1996). Secondly, the factories obtain different resources that according to Crook and Combs (2007) determine actors' positions against each other in the GPN. Resources can be in the form of financial, physical, human or organisational resources (Coe et al., 2008). The large factories are in the forefront regarding machines, knowledge and have large capacity as well as financial resources while the small ones do not obtain any distinctive resources. Resources

provided by the large factories make other actors dependent on them and therefore providing them with bargaining power against others (cf. Coe et al., 2008). Since the small factories are not providing any distinctive resources to the GPN they are replaceable (cf. Coe et al., 2008). The resources obtained by the large factories are not imitable and due to entry barriers in form of high investments of machines they have received a sustainable competitive advantage in relation to the small ones (cf. Barney, 1991; Skjoett-Larsen, 1999; Zou and Cavusgil, (1996). Therefore a larger number of pressing houses exist in comparison to laundries, stitching units and textile manufacturers, which also indicates that those are more easily replaced. Lastly, it depends on how many other brands they are involved with. The large factories are working with an additional amount of international brands in comparison to the small factories. Small factories have been largely affected by the crisis in 2009 where turnover, investment and employees decreased and are therefore very dependent on Nudie Jeans (cf. Eurofound, 2010). The small factories are thus relying on Nudie Jeans orders to survive, which can be seen as a kind of dependency (cf. Wilson, 1995). Since these factories provide Nudie Jeans' and Supplier A with different resources, perform dissimilar tasks and are working with a different number of brands, the relationships between them differ. The large factories are more involved within the discussion concerning the outcome of the product and have a more open relationship compared to the small ones that only receive work instructions and have a more formal relationship. According to Locke et al. (2009) resources and relationships within a GPN have an effect on how private regulations are applied and perceived within it. Therefore the small factories have a more positive attitude towards the private regulations than the large factories since they have less bargaining power within the GPN and are more dependent upon Nudie Jeans and Supplier A.

In addition, the small factories see private regulations as important in order to differentiate themselves from the Chinese factories in Italy and become more attractive to companies that value sustainability. This is in accordance with Bartley (2007) who states that companies adapt to new strategies to differentiate against their competitors but also try to create shared value between them and their buyer in order to receive a better outcome (cf. Nohria and Ghoshal, 1994). The small factories do not only differentiate from their competitors, they also increase their resources by raising their standard of working conditions. According to Coe et al. (2008) actors in the GPN can update their resources and competences but their position in the network affects the outcome. Since these factories have a weaker position towards the

others in the network these improvements may not provide them with higher bargaining power against others. But on the other hand, brands that are highly interested to have good working conditions and to have sustainable GPNs minimize their risk and therefore also create obligations towards continuing working with them. According to Pedersen and Andersen (2006) and Locke et al. (2009) when the relationships between suppliers and brands have trust, it creates obligations both towards the suppliers implementing strategies of the brands, but also that the brands feel obligated to continue placing orders to their suppliers.

Due to the complexity of a GPN as explained by Coe et al. (2008) a company does not only need to take into account different actors such as the brand's global suppliers and sub-suppliers. When brands, such as Nudie Jeans, want to implement sustainability throughout their whole GPN there are many aspects that affect the auditing process (External auditor, interview, 2014a). According to the interview conducted with Nudie Jeans' CSR manager (2014b) the further away the factory is in the network the harder it is to audit them. For example Nudie Jeans' contact with their Chinese sub sub-suppliers goes through their sub-supplier. Therefore, it is hard to build trust between each other that would improve the actors' relationship and their control of them since it is created over time and when interacting with each other (cf. Skjoett-Larsen, 1999; Pedersen and Andersen, 2006). When applying sustainability standards it is also important to apply them internally within the company. Nudie Jeans' strategy for succeeding with their implementation of private regulations is to interact with both the purchasing and CSR department to consider the price but also the quality of the products as well as working conditions (cf. Lund-Thomsen, 2013; Yu, 2007; Nudie Jeans CSR manager, Interview, 2014b). If the factories perceive the company as following the private regulations, their perception becomes more positive towards the COC and audits. Furthermore, the perception also becomes more positive if the brand implementing also considers the horizontal approach in its strategy (cf. Lund-Thomsen and Coe, 2013; Locke et al., 2009).

## **6.2 Horizontal dimension**

A horizontal dimension to take into account when implementing private regulations in a country is its own public regulation system. In Italy the public regulatory system is developed concerning working conditions and is well audited by the government (Benyboatti, 2012; Supplier A CSR manager, Interview, 2014a). This is not the case in some countries according to how Faisal (2010) describes the regulation system in India where their regulations against

child labour are only on paper but not practiced in reality. However there seems to be a loophole within the public regulation in Italy since Chinese factories are actively producing garments without being in compliance with the regulations. Thus this does not mean that the system is inefficient, rather that the Chinese factories have found new ways of using the system (Donadio, 2010). Apart from the Chinese factories the findings show that the Italian public regulatory system is well developed (Benyboatti, 2012; Supplier A CSR manager, Interview, 2014a), and factories do not differ between the private and public regulations. As an example, during the interviews most of Nudie Jeans' factory interviewees could not even separate the private regulations from public ones.

Moreover, the findings indicate differences between the small and large companies' usage of private regulations. The small factories' limited knowledge about the public regulating systems made them perceive private regulations as more helpful and as a motivation to adjust to new regulations while the large factories have resources to keep them informed as well as to develop innovative solutions to further become sustainable. This is in line with Perrini (2007) who states that the medium and large sized companies are more interested in improving innovative solutions regarding CSR. The large factories work with multiple brands and therefore receive additional COC and audits which lead to higher cost in terms of time and money. In other words, private regulations are more adapted to the small factories since it improves their working conditions and less costly compared to the larger factories. The factories' usage of private regulations can be seen as an additional influence on their different views, however the unsuitable usage of private regulations does not affect the positive perception towards them. Taking together these aspects, the regulations are not that different from each other besides the way they are adopted. Even so, according to Amengual (2010) the best results are received when private and public regulatory systems are complementary to each other, which contradicts the empirical findings since the private regulation is more a repetition of the strict public regulations but still leads to good results. Although, both Amengual (2010) and Bartley (2011) discuss the ideal system of complementary regulations, this may be because their studies were made in non-Western countries where the public regulatory system is more vague and is therefore more in need of a private system.

Another factor, other than public regulations, that affects the factories' perception is the Italian context since it identifies the underlying reasons for why factories behave in a certain

way (cf. Lund-Thomsen and Coe, 2013; Carswell and De Neve, 2013). As explained above even though the factories' usage of private regulations does not seem to be highly effective they are still overall positive towards them. These reactions are most likely an outcome of the current environment in Italy where a big part of the garment production has moved to low-cost countries and many companies have become bankrupt (Greta and Lewandowski, 2010). This situation has made the factories more vulnerable and therefore more dependent on every brand they are working with even though they are not dependent on their orders for survival. However since Nudie Jeans is a member of FWF they try to have long-term relationships with their suppliers to best support them and to minimize negative effects on the business environment (FWF, 2014). Therefore Nudie Jeans tries to use the same factories as much as possible and does not replace them because of minor issues.

Not only is the perception of private regulation affected by the movement of production but also by other changing conditions in the GPN such as the country's context and business environment (cf. Levy, 2008). At first when private regulations were implemented, the factories in Italy reacted negatively against them since they did not see the meaning of companies auditing them when factories in other countries had worse conditions. In addition, these private regulations could be seen as humiliating for them since the factories in Italy have been working with CSR for a long time (cf. Habisch et al., 2005) and have always produced high quality products (cf. Donadio, 2010). Italy has long been perceived as a low-risk country but due to emerged problems such as child labour and extensive overtime it is nowadays seen as a medium-risk country (FWF, 2013; External auditor, Interview, 2014b). These problems have emerged due to pressure from low-cost countries and as a result of the crisis in 2009 that increased Chinese factories and employees into the garment industry (Rupp, 2013). It is therefore important that brands continuously perform audits of their production to be aware of the changing conditions. These changes of the Italian context have also affected the factories' perception of private regulation, which has become more positive, since the "made in Italy" stamp has been impacted negatively by the immigration of Chinese factories and of other companies who only performed a small part of the production cycle in Italy (Segal, 2010). It has made the Italian factories want to perform even better to maintain Italy's reputation since it is a large reason for companies to place their production in Italy. However the regulation concerning the stamp "made in Italy" has now been changed to minimise abuse of the label (Segal, 2010). The Chinese factories have not only affected the perception of the Italian

garment industry but have also become a competitor especially for the smaller factories (Greta and Lewandowski, 2010). The competition from low-cost countries has also affected the perception of Italy's factories since they want to attract brands by performing better according to private regulations than low-cost countries. The low prices in these countries have also led to some contextual changes since, for example the laundries have been compelled to work with Chinese sub-suppliers in Italy since they are cheaper. This example shows that the context and environment in Italy has worsened due to pressure from other low-cost countries but also from the cost pressure of global brands.

### **6.3 The balance of implementation**

Although the public and private regulations do not differ from each other and do not show large evidence of being useful, in Nudie Jeans' case, there is still a need for private regulations in Italy. The issues found at Nudie Jeans' suppliers have only been minor, however as presented in the empirical background there are larger issues found in Italy such as illegal workers and child labour (FWF, 2013; External auditor, Interview, 2014). Also there is a large difference between north and south Italy where the southern parts are less developed in regard to CSR (Habisch et al., 2005). So in spite of the strict public regulatory system the private regulations with COC and audits are seen as a necessary tool to check responsibility. These findings contradict those presented by Bartley (2011) that claim that if a country has a strict public regulatory system there is no need for audits. According to Nudie Jeans' external auditor (2014b) it is crucial to audit factories even though they appear to be in compliance and have no problems. In addition, according to Yu (2007) situations at a factory can seem liberal since the factory has a complaint box but on the other hand these complaints may be ignored by managers. Therefore there is always a need for audits since one does not know how the working conditions are at a company before it is witnessed. Nudie Jeans performs audits at every single factory they work with to get an understanding about their situation, context and to decide how they have to be audited in the future. In addition, they are also actively present at the factories by having quality checks done on their products but also to build up relationships with their sub-suppliers. Within a relationship, trust is built over time which can provide the actors with an opportunity to share more information and feel more obligated towards each other (cf. Pedersen and Andersen, 2006; Locke, et al., 2009). Therefore, it is more important to audit the factories in the beginning and there is less need afterwards since the actors in the relationship then can trust each other's performance of working conditions. The empirical findings also show that the first audit is the most important one and that the

following audits are more of a check-up. In Nudie Jeans' case the factories were already comfortable with the private regulations when they first started working with the brands, since they were used to strict public regulations and had been audited before by other brands. All the factories, except one that had never been audited before, claimed to have not made a lot of improvements concerning working conditions when starting to work for Nudie Jeans. However, the factory that had never been audited before expressed great improvements concerning that issue. Findings also indicated that they improved more at the beginning of a collaboration with a company that implemented private regulations but afterwards these improvements stagnated.

According to Bartley (2011) and Amengual (2010) the private regulations can help build up a better public regulation system with constant auditing but since Italy already has a functioning regulatory system there is no need for multiple audits every year. Also there is no need for additional private regulations from different brands since the findings in this study show that these often find the same problems and have similar recommendations for improvements. Therefore to make these standards more efficient and balanced for the large factories, they themselves suggest that all brands should start collaborating with each other instead of having different COC, audits and certifications. The findings show that companies are often unwilling to collaborate with each other since they see each other as competitors, want to audit their suppliers themselves as well as the fact that collaborations of private regulations are in some places not in line with country regulations as in for example the United States. This situation is created from limited trust in their relationships since according to Kostova (1999) if trust is not created the actors are uncertain about each other's performance and do not see the activities made by the company as reliable. In addition, if trust is created between a supplier and buyer, competitive advantage may arise (Skjoett-Larsen, 1999) which can improve the situation for the companies since they can both save money by sharing the cost of audits and also for the factories to reduce cost in terms of time and money since they are only audited once a year. These trust issues may emerge from extensive pressure from stakeholders, activists and customers to perform highly within CSR which forces them to only trust their own company (cf. Faisal, 2010). The solution of applying a certification system is also seen as inefficient since in this case the smaller factories do not have resources to acquire certification. This corresponds to the article by Neilson and Pritchard (2009) which discussed the south Indian tea and coffee industries where small plantations became negatively affected



by the implementation of fair and ethical certifications since they did not have enough financial resources to invest in them and were therefore excluded from that development.

There is a need of creating balance between the horizontal and vertical implementation of private regulations. The initial thought about these private regulations is that they are supposed to be used as a standard all over the world and can therefore be seen as taking a vertical dimension. However the findings in this study prove that Nudie Jeans' private regulations were both implemented in a horizontal and vertical way. Nudie Jeans follows the concept of FWF where the same COC should be applied all over the world in order to have the same standards and audits of all factories. By this it is possible to say that Nudie Jeans has a vertical approach of implementing COC since they are developed through NGOs while not necessarily taking the Italian context into consideration. According to Lund-Thomsen (2013) the horizontal dimensions is crucial for an international company to consider when applying private regulations. Furthermore, Neilson and Pritchard (2007) agree and describe that private regulations rarely reach their goals of supporting the ones that need it if the horizontal dimensions are not considered. The findings in this study proves that Nudie Jeans' external auditor adapts to the context and that is according to Lund-Thomsen (2013) affecting the perception of the private regulations. Moreover, the view by Locke et al. (2009) states that the importance of the auditor and factories is to have sustainable relationships in order to create a positive attitude towards the private regulations. In the study of Nudie Jeans, their auditor adapts these two aspects by both building a relationship with the factories as well as adapting to the country being audited. Nudie Jeans' external auditor states that when doing audits it is important to adapt to the local context. However, it is very important not to adapt or adjust to matters concerning the public regulation. As an example, in Italy it is common to have long lunch breaks where all the employees go home to eat, therefore in this case it is not necessary to have a canteen. Thus, in bigger factories, with over one hundred employees, the canteen becomes the requirement of the public regulation. By understanding the behaviour and thinking of the employees and managers and adapting to the local context it creates trust between them. Pedersen and Andersen (2006) and Locke et al. (2009) promote the importance of trust in clients', suppliers' and auditors' relationships in order to improve the perception of private regulations.

Furthermore, when a balance is found between horizontal and vertical dimensions the perception becomes more positive. However, there is a need to understand that positivity also

arises from Western bias of private regulations (cf. Khan et al., 2007). Private regulations were once created in the Western countries and are therefore more adapted to their context and culture than non-Western countries which leads to a Western bias (Khan et al., 2007). The findings in this study confirm this theory since the factories were positive against private regulation but also because the private regulations were equivalent to the public ones. Moreover, the private regulations did not undermine the public regulations, the only problems were the excessive amounts of COC and audits. In comparison to findings by Lund-Thomsen (2013) where in the non-Western countries, the private regulations were supposed to help, they rather worsened the employees' conditions and therefore created negative perceptions of them. This also adds to the Western bias argumentation of Khan et al. (2007).

## 7 CONCLUSION

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*Finally in this section a discussion of the key findings and a conclusion to the research question will be presented. Contributions to theory concerning auditors, private and public regulations as well as the efficiency of implementation of private regulations will be discussed, followed by a suggestion for future research.*

### 7.1 Research question revisited

The implementation of private regulations has mainly been researched in non-Western countries such as India and Pakistan, however there is a research gap in the investigation of these matters in Europe. With this Master's thesis, the main purpose is to answer the research question: *What are the northern Italian suppliers' and sub-suppliers' perception of private regulations within the garment industry? What affects their perception?*

According to the empirical data and analysis, the perception of private regulations is overall positive in the Italian context, which results from the similarities of the public regulating system in Italy and the private regulations which are applied to the context. However, when looking into more detail on how different factories perceive the regulations differently, one can see that their perception is quite mixed. The differences lie in the resources, value adding activities and number of brands that the factories are associated with. These aspects indicate their dependency and bargaining power within the GPN which results in dissimilar positive perceptions. Smaller factories, which are more dependent, see the private regulations as a tool for further development while the large factories see it as a marketing tool for the brands, although both groups see the importance of being responsible within their network to maintain their quality stamp of the "made in Italy" products. Nudie Jeans finds it important to implement a CSR strategy, therefore all the departments have the same sustainable goal. In addition, Nudie Jeans' external auditor makes sure that the implementation of private regulations is in a horizontal dimension where the audits are adapted to the country context. These aspects as well as the factories being already accustomed to the public regulations and former audits made by other brands, contribute to a more positive perception of private regulations implemented by Nudie Jeans.

In addition to the findings concerning the research questions, three aspects of contributions to theory will be further developed below. First, the horizontal implementation of private regulations as discussed by Lund-Thomsen (2013) and Neilson and Pritchard (2010) stresses the fact of considering the local context in order for the perception to be positive. The context such as the culture, preferences and behaviour of the employees needs to be considered in order to implement the regulations in a good way. However, there can be a thin line between adjusting to a context of a country and going further in the direction of in fact adjusting it so much that the private regulations do not set any standards. Because if the context is considered too much, for example child labour could be allowed since it is in the regulating system of the country. In order to prevent this, this study draws attention to finding a balance between the horizontal and vertical dimensions, by implementing regulations in a vertical matter but also the importance of the auditor in this process in order to adapt the regulations to a horizontal dimension. As previous research by Lund-Thomsen (2013) states, companies should not take a vertical approach but should consider the horizontal as well to diminish resistance, although they do not mention the importance of the auditors adjusting the auditing of the COC. According to our findings, it is important for the brand and the auditor to work together to understand the context being controlled as well as to adjust to preferences and cultural aspects. In addition, it is important that an auditor understands the importance of the regulating standards the brand wants to have in order to have a balance between not adjusting to the issues that undermine public regulations, but rather to give recommendations of improvements to enhance them.

Second, the public regulatory system in Italy is similar to the private one because of the equivalent standards but also since the public regulations are highly audited. In this research study the public and private regulating systems have proven to be functioning together since the factories have shown satisfactory results and that the regulations are perceived positively. These findings contribute to the results concluded by Amengual (2010) who argues that private and public regulatory systems prove the best results when they are complementing each other. However his results are constructed in a non-Western country, which in comparison to Italy, may have a less developed regulatory system and therefore is in need of a private regulatory system to improve the public one. Countries with a well-functioning public regulatory system are therefore not affected by a similar private one. However it is perceived as positive since its standards are already well known and adapted to. Moreover, the public

regulatory system in northern Italy has proven to be highly important in this research study since it has made the factories more positive against the COC and audits as well as towards the implementation. Therefore the results of this research study can be generalized to the garment industries in countries in Europe that have similar regulatory systems and strict controls as north Italy. The findings are also in agreement with Khan et al. (2007) who claim that the COC are not well functioning in other non-Western countries because of their Western bias. In other words, the implementation of private regulations in Europe will not cause the same problems since they are built upon Western regulatory systems. Because of this, a solution for companies who want to implement private regulations in a horizontal dimension could be to situate their production in countries with regulatory systems similar to their private regulations in order to not have to adjust to a context which does not have the same standards as themselves. Therefore if companies want their factories in the GPN to have good working conditions and to be sustainable they should have their production in a country with the same regulatory system as themselves, which can be a reason for companies in Europe to move their production from low-cost countries back to Europe, for example Italy.

Third, by taking an overall perspective the private regulations mostly confirm the factories' compliance and therefore provide the brands with confidence to continue to work with the factories. The multiple COC and audits are created and maintained because of trust issues between companies, brands and factories as well as between brands and certification auditors. In other words, the application of private regulations is not only done for the sake of the supplier and sub-suppliers, it is also applied as a marketing tool for the brands that want to be able to prove their responsibility. Moreover, since our findings did not indicate that the adaptation of private regulations causes either tremendous issues or great improvements, it suggests that the regulations were not made for the factory employees' well-being. However, it has to be noted that serious issues have been found in Italy, even though they were not found in this study. Since trust and alliances are not common among different brands, an answer to the inefficiency of applying private regulations could be to do audits in the beginning of a collaboration with a new factory, which would be continued by a follow-up. Based on the issues encountered in the first audit and the willingness to adjust to recommendations, brands can decide from there on when to perform the next audit. If the supplier or sub-supplier has minor issues and shows great willingness to change, the audits can be performed less frequently. However if the supplier or sub-supplier has larger issues

there is a need of more frequent audits. Furthermore, if a brand has a limited budget concerning private regulations, the solution of audits could be to focus first on the companies that have never been audited before. Then it is important to understand that bigger factories do have more resources to keep themselves informed and implement changes according to the public regulations while small factories may need more guidance when changes occur.

Lastly, as it has been stressed in this study it is important to balance the vertical and horizontal dimensions of a brand's GPN when applying private regulations. It can be difficult to have balance between the dimensions since it can create a trade-off between going too far towards the horizontal dimensions, in other words green-washing, where the private regulations will be highly appreciated since they are well adapted, but that will however not have good results since it does not set the same standards as the vertical approach. On the other hand, in going too far towards the vertical dimensions the standard will be maintained, but that could create tremendous resistance within the factories against the regulations.

## **7.2 Contributions and suggestions for future research**

Previous research has showed a gap in implementing private regulations in a European context. With this Master's thesis, we have contributed to filling this gap by conducting a research study in northern Italy. Our research provides an insight into the perception of COC, audits and certifications in a northern Italian setting and how the balance between vertical and horizontal perspectives becomes necessary when implementing these. Furthermore, it has also added some insights to factors such as the Western bias of private regulations and recommendations for companies to increase their efficiency and cost saving when applying private regulations. However, during this process further questions and thoughts developed which created new areas of research.

First, since there is a large difference within sustainability work between the northern and southern parts of Italy, it would be suitable to also study the southern part of Italy to investigate whether they show the same results as presented above. In other words, whether the Western bias problem is applicable to the southern part of Italy as well, which in comparison to the north has the same regulating system but not the same control. It could therefore be interesting to investigate whether the factories' perception is the same or if it would be more like in non-Western countries. Furthermore, it is important to research the

whole GPN of Italian manufacturers to understand the stakeholders, labour unions and global brands to see how they affect the perception.

Second, our study provided an insight into Nudie Jeans' sub-suppliers, and since Nudie Jeans is very active within sustainability work it could be interesting to further investigate a company that is not as active. By researching their sub-suppliers we understood that the private regulations did not have a tremendous effect on them, however when the private regulations were first presented it mattered more. Looking at companies with less focus on sustainability work would give even deeper insight into an environment that is not as developed as the sub-suppliers of Nudie Jeans and would therefore have a different opinion of the implementation of private regulations.

Lastly, this research study has investigated the social aspects of sustainable work and has found a positive perception of the private regulating system. However it can be important to further look at the environmental aspects as well, since suppliers may have other perceptions about these. Social aspects can be seen to have more direct connections to the employees and managers since it affects their well-being and working conditions while environmental issues might not get as strong reactions as they do not affect them personally.

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## APPENDIX

### 1. Overview of respondents and interviews

Company	Respondent	Date	Nationality	Interview method	Duration
Supplier A	CSR manager	31 January 2014 and 21 March 2014	Italian	Skype, Face-to-face	130 min
Factory 1	External consultant	5 March 2014	Italian	Face-to-face	30 min
Factory 1	Secretary of CEO	5 March 2014	Italian	Face-to-face	30 min
Factory 2	Manager	17 and 25 March 2014	Italian	Face-to-face	85 min
Factory 2	Worker	17 March 2014	Moroccan	Face-to-face	30 min
Factory 3	Manager	17 March 2014 and 1 April 2014	Italian	Face-to-face, Skype	60 min
Factory 4	Manager	18 and 25 March 2014	Italian	Face-to-face, Skype	80 min
Factory 4	Worker	18 March 2014	Polish	Face-to-face	40 min
Factory 5	Marketing manager	18 and 26 March 2014	Italian	Face-to-face, Skype	65 min
Factory 5	Worker	18 March 2014	Italian	Face-to-face	30 min
Factory 6	Manager	13 March 2014	Italian	Face-to-face	60 min
Factory 6	Worker	13 March 2014	Italian	Face-to-face	60 min
Factory 7	Manager	14 and 24 March 2014	Italian	Face-to-face	80 min
Factory 7	Worker	14 March 2014	Italian	Face-to-face	60 min
Factory 8	Manager	14 and 24 March 2014	Italian	Face-to-face	90 min
Factory 8	Worker	14 March 2014	Italian	Face-to-face	60 min



<b>Company</b>	<b>Respondent</b>	<b>Date</b>	<b>Nationality</b>	<b>Interview method</b>	<b>Duration</b>
Factory 9	Worker	17 March 2014	Chinese	Face-to-face	20 min
Factory 9	Manager	17 March 2014	Chinese	Face-to-face	40 min
Factory 10	Manager	18 March 2014	Chinese	Face-to-face	45 min
FWF	Annabel Meurs, Verification coordinator	12 February 2014	Dutch	Skype	60 min
Nudie Jeans	Sandya Lang, CSR manager	5 November 2013 and 11 April 2014	Swedish	Face-to-face	150 min
Nudie Jeans	Henrik Lindholm, CSR manager	11 April 2014	Swedish	Face-to-face	60 min
-	Quality consultant	24 March 2014	Italian	Face-to-face	20 min
Nudie Jeans	Melisa Cerizza, Independent auditor	27 January 2014 and 9 April 2014	Italian	Skype	90 min

## 2. Interview guide - Manager

### Background information

- Name
- Age
- Nationality

### Company information/ Relation to Nudie Jeans

- How many years have you been the manager of this factory?
- How many workers do you employ?
- Do you have a high turnover of employees and is it difficult to find new employees to join the production?
- How do you manage down seasons of orders?
- How do you perceive Nudie as a brand?
- What percentage of your production is occupied by Nudie Jeans?
- How is your contact with Nudie Jeans/ Blueline? Do you have direct contact with them?

### Sustainability work, labour unions

- Are your employees members of any labour unions?
- Do your employees have their own worker unions?
- What action do you take to get them involved and make them feel comfortable to express their opinion?

### Sustainability work, COC and audits

- What is sustainability work for you?
- Is social work important in a factory such as yours and does it have any impact? (Affects your daily routine, brought any good to the company)
- Compared to other Italian factories, do you consider this factory to be leading within social work?
- What do you think the workers think of the COC and how have they been informed about them?
- How do you perceive audits?

### Sustainability work Nudie Jeans

- What do you think about the Nudie Jeans COC?

- How has the presence of Nudie Jeans/ Supplier A improved the working conditions at your factory?
- Have you personally been affected by the COC of Nudie Jeans?
- How does Nudie Jeans communicate the importance of social work?
- The sustainability work that you have here at the factory, is it something that you work actively with, beyond what Nudie Jeans requires?
- Who do you believe should be responsible for the social improvements of the factory?
- What do you think about the audits that Nudie Jeans makes?
- The recommendations you receive from the Nudie Jeans auditor, is it a priority to fulfill them and how long do you have to correct the non-compliances?

#### **Sustainability work, other brands**

- Are you working with other brands and do they also provide you with COC?
- Have other brands performed an audit here?
- What were the differences between Nudie Jeans and other brands' audits and COC?

#### **Public regulation**

- What are your thoughts about the public regulations concerning social conditions?
- Do you think about Nudie Jeans COC and audits in relation to the public regulation in Italy?
- What do you think about the fact that small and large factories have to follow the same public regulations even though it creates a problem for the small ones?

#### **Other questions**

- What are your thoughts about the fact that Italy is going to be raised from a low to a middle risk country by FWF?
- Any thoughts about the Chinese factories in Italy?

### 3. Interview guide – Employee

#### Background information

- Name:
- Age:
- Nationality:

#### Relation company/ Nudie Jeans

- How many years have you worked at this company?
- What task do you perform?
- What are your thoughts about your working conditions? (Wages, contracts, holidays, high and low seasons).
- How do you think others perceive your job? Do you think it is an attractive job?
- How do you perceive Nudie Jeans as a brand?

#### Sustainability work, labour unions

- Are you a member of any labour union?
- Do you have your own union at the production?
- What action does your manager take to make you feel comfortable to express your opinion?
- How is your contact with Nudie Jeans/ Supplier A?

#### Sustainability work, COC and audits

- What is sustainability for you?
- Is sustainability important in a factory like yours and does it have any impact? (Affects your daily routine, brought any good to the company)
- Do you work actively to improve social work more than the brands require?
- Who do you believe should be responsible for the social improvements at the factory?
- What do you think an audit is and how do you perceive it?
- How do you think the COC are used and followed in other countries where conditions are worse?

#### Sustainability work, Nudie Jeans

- Do you know the COC of Nudie Jeans?
- Has the presence of Nudie Jeans improved the working standards at your work place?

- Have you personally been affected by the COC of Nudie Jeans?
- How does Nudie Jeans communicate the importance of social work?
- What do you think about audits that Nudie Jeans makes and do you feel that they are necessary?

#### **Sustainability work, other brands**

- Are you working with other brands and do they also provide you with COC?
- Have other brands performed an audit here?
- What were the differences between Nudie Jeans and other brands' audits as well as COC?

#### **Public regulation**

- Is your company highly affected by the strict public regulations, if so, in which way?
- How do you perceive the public regulations?

#### **Other questions**

- What are your thoughts about the fact that Italy is going to be raised from a low to a middle risk country by FWF?
- Any thoughts about the Chinese factories in Italy?

## 4. Interview guide – stakeholders

### Background information

- Please describe yourself and your job

### Reactions towards COC and audits

- How do the Italian employees react towards audits and COC?
- Has their behaviour changed over time?
- Do you feel that employees/managers are willing to go the extra mile within social work?

### Difference between the social conditions

- Why do you think that Chinese factories have increased in number in Italy?
- Do you feel that there is a difference between Chinese factories and Italian ones concerning social conditions?
- Is there any difference between south and north Italy concerning working conditions?

### Italian context

- Have you seen a change in the Italian garment industry over the past years?
- Do you think that the meaning of “made in Italy” has changed over time?
- Italy has been experiencing more competition from other countries especially in Asia. How do you think it has affected Italy and do you think their quality and the Italian quality differ?
- Do you feel that there has been a shift in CSR in Italy over, for example, a ten year period and do you feel that companies have become more active in these matters?
- Do you think that there is a large difference between the private regulations and public regulations in Italy?
- Do you think that the factories follow the public or private regulations?
- Do you feel that Italy has sufficient public regulations in order not to have as strict private regulations?
- Do you feel that the sustainability work from companies such as Nudie Jeans has a positive effect on the industry and the Italian context?

## 5. Nudie Jeans code of conduct

### CODE OF CONDUCT

Nudie Jeans want our suppliers to guarantee good working conditions and a good working environment in manufacturing.

We think it is very important to take responsibility for our actions, and we want to make this perfectly clear to all of our suppliers and sub-suppliers, our staff, agents, distributors and other parties. To ensure that the Nudie Jeans products we sell are produced responsibly, we have a code of conduct, which applies to all parts of the production chain.

The Code of Conduct is based on international regulations set by the International Labour Organization (ILO)<sup>1</sup> and the UN Universal Declaration of Human Rights<sup>2</sup> and includes the Code of Labour Practice used by our partner Fair Wear Foundation<sup>3</sup>.

The Code of Conduct applies to Nudie Jeans and to our suppliers and their subcontractors. Nudie Jeans is aware that there are cultural and legislative differences between countries. The code of conduct contains the basic requirements we demand of all of our suppliers and subcontractors. If the Code of Conduct is not followed, the conditions must be improved. The improvements will be handled first by discussions between Nudie Jeans and the suppliers and we strive to solve all issues but non-improvement of conditions can be grounds for termination of our collaboration and any contracts with the supplier.

#### ENVIRONMENTAL REQUIREMENTS

Nudie Jeans wants to contribute and influence society towards sustainable development and minimizing the environmental impact of production. We demand that our suppliers and sub-suppliers follow applicable legislation and regulations regarding the environment. We strive to work with 100% ecological cotton in our products and we would like our suppliers to provide the related certificates. We require our suppliers to comply with the REACH regulations for chemical content in the production process.

Use of material origin from endangered animals or fur products are not allowed in the range of Nudie Jeans products.

#### LEGAL REQUIREMENTS

All of our suppliers and sub-suppliers must at least follow the national legislation and regulations in the countries where they work. If any of Nudie Jeans' requirements contradicts national legislation, the law applies. If this occurs, the supplier must inform Nudie Jeans. The requirements Nudie Jeans makes in its Code of Conduct can be more far-reaching than the national legislation. We have expectations that our suppliers are willing to work for improvement beyond the law.

#### TRANSPARENCY

Our social report and Brand Performance Check made annually by Fair Wear Foundation are available at Nudie Jeans, where the result of our CSR performance is shown, including the areas which need improvements.

All our suppliers will be shown in our production guide as soon as production starts. Information and details of the supplier is visible on our website. This is a step towards full transparency in our production chain.

1 ILO regulations, <http://www.ilo.org/global/standards/lang-en/index.htm>  
2 UN universal Declaration of Human Rights, <http://www.un.org/en/documents/udhr/>  
3 Fair Wear Foundation [www.fairwear.org](http://www.fairwear.org)

Nudie JEANS co

[www.nudiejeans.com](http://www.nudiejeans.com)

## FAIR WEAR FOUNDATION'S CODE OF LABOUR PRACTICE <sup>4</sup>

### EMPLOYEE RIGHTS

There must be no use of forced labour at any of our suppliers.

There should be no discrimination in employment. The employer should treat all employees equally, regardless of their race, colour, sex, religion, political affiliation, trade union membership, nationality, social origin, or disabilities. In addition the employees should have the right to education, trainings and possibilities to develop their skills. Female workers should not be discriminated due to pregnancy or maternity leave and should be given equal access to employment.

### CHILD LABOUR

There must be no use of child labour. Nudie Jeans does not accept the economic exploitation of children. According to the UN Convention on the Rights of the Child, people are considered children until the day they turn 18 years. In some countries we produce the legal age is less. If a supplier have employees aged 15–18, they must be treated with special consideration, with working hours and tasks adapted to their low age. For example, they must not do excessive overtime or night work.

### FREEDOM OF ASSOCIATION

There should be freedom of association and the right to collective bargaining.

Workers have the right to negotiate as a group with their employer ('collective bargaining'). The employer must not punish workers who express their opinions and wishes. All workers have the right to form and join trade unions of their own choice ('freedom of association'). When the right to freedom of association and collective bargaining is restricted under law, the employer must not hinder other forms of collective bargaining and workers' organisations. Workers' representatives must not be discriminated against and must have access to all workplaces necessary to carry out their role.

### LIVING WAGE

We should strive to pay a living wage but wages must at least meet the legal minimum wage if there is one. Wages for a standard working week should always be sufficient to meet the basic needs of workers and their families and to allow for some savings. Deductions from wages, which are not provided for by national law, are not permitted. Workers should be informed about how their wages are made up, including wage rates, pay periods and deductions from pay. Workers should receive a pay slip, which gives this information.

Wages shall be paid out regularly and be reasonable in relation to the amount of work. The workers should also be entitled of all legal social benefits, like pension and health benefits, these benefits must be clearly marked on the payment slip.

### WORKING HOURS

There should not be excessive working hours; the working hours must follow the law. In any event, workers must not be required to work more than 48 hours per week on a regular basis and must have at least one day off for every seven-day period. Overtime should be voluntary, and working hours including overtime should not exceed 60 hours per week. Overtime should not be demanded on a regular basis and must always be paid at a premium rate, in accordance with the law.

All employees shall be entitled to contractual holidays and sick leave with no negative repercussions. All employees shall be entitled to parental leave without negative repercussions. Pregnancy may not under any circumstances be considered grounds for termination.

### CONTRACT

There should be a legally binding employment relationship.

Every worker should get a written contract and all legal social security charges should be paid stated in the contract. The contract should also be valid for short term or part time employed workers.

<sup>4</sup> A combination of FWF standards <http://fairwear.org/labour-standards> and Nudie Jeans standards.



### SAFETY AND WORKING ENVIRONMENT

There should be safe and healthy working conditions.

Nudie Jeans requires that employee safety is always top priority. The employer must provide a safe and hygienic working environment. The employer should provide protective equipment where necessary and train workers to use it. The employer should also take steps to prevent accidents and minimize health risks. No hazardous equipment or facilities are permitted. Production facilities must have clearly marked exits and emergency exits. A fire alarm and fire extinguishers must be easily accessible on every floor. First aid equipment must be easily accessible and at least one person in each division should be trained in giving first aid. If an injury occurs at work, the employer shall fund all medical costs that are not covered by the insurance. Lighting, heating and ventilation systems shall be designed to ensure a good working environment. The employees shall have access to a sufficient number of clean toilets. Physical abuse, threats of physical abuse, unusual punishments, sexual and other harassment, and intimidation by the employer is strictly prohibited. We prohibit the use of sandblasting on our garments. It is the supplier's responsibility to ensure that the working environment is safe and healthy.

Nudie Jeans co  
[www.nudiejeans.com](http://www.nudiejeans.com)