Sustainability in Argentina
- Is there a business case for sustainable SMEs within the textile industry in Argentina?

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Abstract
The purpose of this paper is to examine if there is a business case for SMEs (Small Medium Enterprises) within the textile industry in Argentina. In order to investigate this and address the research question, both a theoretical and an empirical review have been conducted. The theoretical review focuses on CSR (Corporate Social Responsibility) in Argentina, the textile industry on a global level and in Argentina, defines what an SME in Argentina is and identifies what a business case for CSR implies. The empirical part has been conducted interviewing small, sustainable brands operating in the textile and garment industry in Argentina and through an interview with a large global actor in the textile industry. Based on the analysis of the theoretical and empirical parts, a conclusion can be drawn that there is a business case based on the interviewed companies. However, the market for sustainable garments is rather limited in Argentina, as there are only a few actors in the market that are selling products based on its sustainable characteristics to a limited market of customers. There is great potential for development as the business case is still on quite a small scale. In order to analyze the business case in Argentina, where the market has proven to be small, a comparison has also been made to the textile industry on a global level. Based on this, it can be concluded that there is a global movement towards more sustainable production of textile and garments, both with regards to social and environmental issues. Thus, this movement also applies to Argentina even though on a smaller scale right now than in countries on the forefront of this development, such as the Scandinavian countries.
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1 Introduction

This section provides a background to the textile industry globally and in Argentina, CSR and sustainability in Argentina, as well as the background to the identified problem. Subsequently, the research question, limitations and the methodology for the project follow.

1.1 Background and Problem Definition

In the early 1990’s, The New York Times and other large media channels reported about abusive labor conditions in Indonesian factories manufacturing shoes and clothing for Nike (Porter and Kramer, 2007). Furthermore, The Telegraph reported in April 2013 about slave like conditions in factories in Argentina, where the giant clothing-chain Zara produces its clothes (The Telegraph, 2013). The high degree of competitiveness on the business market today has led to a trend of outsourcing to countries with lower manufacturing costs, since there is a constant desire for producing a cheaper final product (Vaaland et al, 2012). Globalization and outsourcing are key factors in the textile and garment industry and it is a major industry both in developed and lesser-developed economies, contributing to wealth generation and employment while also resulting in social and environmental issues (Bruce and Daly, 2004). Although the industry supports millions of workers, there is an unequal distribution of value along the supply chain, all the way from manufacturer to the final retailer. Lieutier (2010) points out that for every piece of clothing sold for 100 USD, the commercialized sector obtains 64 %, while the worker receives an estimated 1.8 USD of the finished product.

As argued by WWF (2012), we are currently consuming resources as if we have an extra planet at our disposal, and are hence living beyond our means. There is an urgent need for change both in consumption and production patterns, or by 2030 even the resources of two planets will not be enough. The textile and garment industry is a major contributor as it results in an extensive usage of resources, while also resulting in waste products and heavy pollution. A major issue is the dyeing of textile, which has been argued to one of the largest sources of pollution in the world (Islam Montasir et al, 2011). The clothing firm Patagonia is one of few large global brands leading the way towards more sustainable production of textile products and garments, by producing in sustainable manners with regards to economical, social and environmental aspects. The founder of Patagonia argues that change is necessary and that “only those businesses
dancing on the fringe are going to be here 100 years from now” (Chouinard, 2012).
Large players leading the way towards a more sustainable textile industry is crucial, however it is equally important with small sustainable visionaries creating a new way to start businesses and sell clothes while contributing to social and environmental issues.

The scope of this thesis is the textile and garment industry in Argentina, with the focus on small medium sized enterprises that have started their business with the aim to produce and sell clothing and textile products produced in a sustainable manner. However, when considering the consumer market in Argentina, there is a low level of awareness for sustainability and CSR-matters (CSR Monitor, 2012). Due to this, a firm dedicated to produce sustainable products may encounter issues when trying to enter and expand its business in the Argentine market. It is hence highly interesting to investigate the market maturity in Argentina, and evaluate whether it is possible to be profitable and sell sustainable garment and textile products in Argentina. This leads to the identified research question:

- Is there a business case for sustainable SMEs within the textile industry in Argentina?

1.2 Limitations and Methodology

In order to answer the research question, it is important to acknowledge and define the limitations that may affect the conclusions drawn in this report. A specific methodology with certain focus areas and approaches is also needed to answer the research question. These limitations and the methodology used in this report are listed below.

First and foremost, a definition of what is referred to as an SME is needed. In this report, the Argentinean definition of SMEs is used due to the focus of the Argentinean market. In Argentina, an SME operating within the commerce sector is defined by the range of annual turnover between 0 – 112 million ARS (14 million USD) or by a number of employees between 0 and 150 (Häner, 2011). The scope of this thesis is SMEs with sustainable business structures from the startup stage. Secondly, in order to understand and define sustainability, the definition in the Brundtland report is used in this report (Brundtland, 1987). The Brundtland report defines sustainability into three aspects: economic, social and environmental. The economic aspect is described as *econonize with human and material resources in a long-term perspective*. In this aspect, the market drivers and demands are also taken into account. The social part
refers to building a sustainable and dynamic society where basic human rights are met, and the environmental part is defined as economic growth without generating inequalities in the society nor ruining the environment. This definition of sustainability is framing this report, in the theoretical framework, the empirical study, in the analysis, and finally in the conclusion answering the research question. Also, when referring to a sustainable SME in Argentina, a combination of the above-defined definitions of SMEs in Argentina and sustainability will be used. Hence, a sustainable SME in Argentina is a firm with a maximum turnover of 112 million ARS operating sustainably with regards to economical aspects, social aspects and environmental aspects.

In order to understand and determine what "a business case for sustainability" is, the definition and tools developed by Business in the Community are used (BITC, 2011). These tools are presented in the theoretical framework. This definition has however a somewhat western perspective and is based on western standards. Although, due to lack of academic definitions of "a business case for sustainability" with Latin American perspective, the framework by BITC (2011) will be used, which may affect the conclusions in this report. This definition of a business case for sustainability is used as a perspective in both the theoretical and the empirical framework, but particularly in the analysis in order to understand the business case for sustainability for Argentinean SMEs in the textile industry. In this report, stakeholders are specified as primary stakeholders, the different groups that might be affected by or might affect a corporation's decisions.

In the theoretical framework, in order to raise an understanding of global trends and market drivers, a global perspective of the textile industry is defined, and then narrowed down to the Argentinean market. The Argentinean driver and focus are towards sustainability is the social aspect, due to the big social issues in the country. Therefore, this report is mainly focused on social aspects rather than environmental issues. The focus of this report is the business case for sustainability, and therefore the focus areas are the drivers triggered from the market itself; consumer demands, demands triggered by global trends, competitiveness, etcetera; rather than legal aspects and the political agenda that might affect Argentinean SMEs in the textile industry. The Argentinean government and the legal framework is rather poor and are not considered a driver for
change at this point. Considering the instability of the Argentinean Peso and high degree of inflation, USD is utilized for all numbers in this report.

In the empirical part, research is conducted by interviewing different sustainable SMEs in the textile industry in Argentina. All actors are certified B Corporations, and they are all small SMEs (micro SMEs). Micro SMEs in Argentina are defined by a range of 0 - 2 400,000 ARS or a maximum of 5 employees (Häner, 2011). There are only a few actors in the market for sustainable SMEs in textile industry in Argentina, and the interviewees are chosen because of the geographic situation (they are all based in Buenos Aires) and their presence in the network of B Corporations. The interviews are done by oral interviews and in some cases questionnaire via email, the framework for the interviews performed can be found in Appendix 1. The interviewees are the founders of the firms. The conclusions drawn concerning the financial performance of the interviewees is rather limited as the conclusions are based on oral interviews and not on annual reports, due the lack of public financial information of corporations in Argentina. In addition, a shorter and less formal interview has been made with the CSR manager of Patagonia in Argentina, in order to create a deeper understanding and see the link between the Argentinean and the global market. Patagonia is chosen for this purpose, as it is a leader in producing sustainable clothing.

In the summary of the analysis, in order to establish the thesis, Atle Midttuns version of the Product life cycle model is applied, see Figure 1 (Artensen et al, 2010). The Product Life Cycle model is a standard reference of technical development, indicating improvement of technological performance over time as a function of technological learning. The Product Life Cycle is also well used in marketing analysis as a tool for market development. The model is divided in three phases. The first phase is distinguished by an emphasis on learning, growth and experimentation. The second phase is distinguished by maturation and with an emphasis on optimization and efficiency. The third phase is characterized by transformation and a phase of decline. The Product Life Cycle model can also be used as a tool to describe the market for sustainability. In some parts of the world, the discussion of CSR has already moved into the second phase, while in other parts of the world, mostly in developing countries, the development of CSR is still in the first phase¹.

¹ Atle Midttun (Professor Department of Innovation and Economic Organisation, Norweigan Business School)
Last, it is important to have in mind the limitation of the length of this report. The research question in this report is very broad, and therefore a focused perspective on the most important approaches is necessary. All aspects of influences affecting the business case for sustainable Argentinean SMEs in the textile industry cannot be, and is not, covered in this report.

2 Theoretical Framework

This chapter provides a theoretical background to CSR and sustainability, the textile and garment industry, and SMEs all within the context of Argentina, which is the focus of the report. Furthermore, the chapter provides the theoretical background for the analysis about the business case for sustainable SMEs within the textile industry in Argentina.

2.1 Corporate Social Responsibility and Sustainability in Argentina

The term sustainable development more or less took its starting point in 1987 with the report “Our Common Future”, also known as the Brundtland Report. Brundtland (1987, p.p. 54) defined sustainable development in the following way: “Sustainable development is a development that meets the need of the present without compromising the ability of future generations to meet their own needs”. CSR can be defined in several different ways, but the general idea is in line with the definition of sustainable development, hence to develop sustainable business solutions in such a way that requirements of the current world population are met without doing harm to the needs of future generations. Most of the CSR theories discussed in academia, such as for
example the often referred; “pyramid of CSR” developed by Carroll (1991), in which the author argues that the responsibilities of a firm could be divided into four levels: economic, legal, ethical, and philanthropic. This theory has been developed in the United States and Western Europe and is hence the starting point of developed countries with industrialized societies (Milberg et al, 2003). However, as the scope of this thesis is Argentina, the concept of CSR needs to be discussed within the scope of an emerging country; where the economical, social, environmental aspects are very different from developed countries. In Argentina the main focus is on the social aspect, taking into account that the main issue in the textile industry is the exploitation of workers.

From a historical perspective, the development of the concept CSR has to a large extent been dependent upon the political situation in Argentina. In 1816, when Argentina became an independent state and the government attended to the poor in philanthropic manners (Milberg et al, 2003). During Peron’s first presidential period, between 1946-1952, the new welfare state included the poor as part of its policies and hence the philanthropic acts of the state got replaced with social justice. Terms such as solidarity and human rights began to be addressed in the 1980’s by civil organizations and it was not until the 1990’s that the concept CSR started to get discussed in the media, congress and corporations. It is argued by several authors that there currently is a lack of adequate governmental governance in Argentina as well as inefficiencies in regulatory enforcements (Prieto-Carrón et al, 2006; Yakovleva and Vazquez-Brust, 2011), which to a large extent affects the context of CSR activities in the country. On the other hand, the Argentine context is also characterized with a strong civil society movement and free trade union organizations. In the following sections, the aspects affecting CSR in Argentina will be explained from an economic, social and environmental perspective.

2.1.1 Economic Characteristics
The economical context in Argentina is among other things characterized by a lack of private investment and access to credit, lack of transparency and independence of governmental institutions, multiple exchange rate system and manipulation of statistical data and lack of independence of the National Institute of Statistics and Census\(^2\). Moreover, Argentina rates 106 out of 175 in the Corruption Perception Index (2013),

\(^2\) María Irigoyen (Project Director, ReporteSocial) Lecture: "CSR in Argentina" 2014-03-17
furthermore, the constant inflation, which has been well over 20 % per year during the last years, has also affected the import and local market negatively.

2.1.2 Social Characteristics

The social context in Argentina when looking at sustainability issues is characterized with poor health conditions and high poverty rates. There is a high level of informal work, which is connected to no access to safety nets or credits for the workers, as well as lack of legal protection, low wages and unstable employments. As stated earlier, the social needs have historically been handled by the government to a large extent in Argentina and according to Milberg et al (2003) 81 % of Argentines still claim that the government is responsible for making sure that the main social goals are met. On a global level, the social expectations on corporations have increased enormously during recent years due to the transfer of economical power to corporations. However, it is argued by Milberg et al (2003) that this is not the case in Argentina, as the demands on the private sector do not seem to have increased.

2.1.3 Environmental Characteristics

The environmental context in Argentina is characterized with a high level of utilization of the natural resources as 80 % of the Argentine landscape is used for forestry, livestock and agriculture. Despite high levels of pollution, no formal regulations of industrial activities were introduced in the country until the 1980’s (Vazquez-Brust et al, 2010). When the financial crisis hit Argentina in 2001-2002 economical, political instability was spread throughout the country, which resulted in CSR activities being re-focused on social needs and poverty, and environmental issues were once again left behind (Vazquez-Brust et al, 2010).

2.1.4 The Consumer Market and Future Trends

When considering the consumer market in Argentina, there is a rather low level of awareness for sustainability and CSR-matters. In a public opinion study, performed in 28 countries around the world in 2012 by TNS Gallup, it is shown that the Argentinean population is the third least interested in CSR issues and the ways companies are trying to be more responsible. On the other hand, in a survey conducted by PWC in 2013 60% of the surveyed firms believe that it is imperative to have a sustainability strategy in

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3 María Irigoyen (Project Director, ReporteSocial) Lecture: "CSR in Argentina” 2014-03-17
4 María Irigoyen (Project Director, ReporteSocial) Lecture: "CSR in Argentina” 2014-03-17
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order to be competitive in Argentina (PWC, 2013). According to Greendex (2012) Argentineans are among the least frequent recyclers of material and the top concern for Argentinean consumers are centered on economic and political problems rather than the environment. However, the same index also shows that on a global level Argentinean consumers are the second most likely to believe that we need to change our consumption patterns and consume a lot less to be sustainable and improve the environment for future generations. With regards to trends within CSR in Argentina, 86% of the companies surveyed by PWC (2013) states that their commitment to CSR increased during the last year and 96% made it evident that their commitment will increase during the following three years.

2.2 The Textile and Garment Industry

In this section, the characteristics for the textile and garment industry will be presented both on a global level and the specific characteristics for Argentina. As the scope of this report is sustainable textile and garment production, the chapter is structured into economic, social, and environmental aspects of the textile and garment industry.

2.2.1 Market Characteristics

The textile and garment industry is a complex industry due to the large variations in customer demand and market trends (Dash and Gupta Nalam, 2012; Bruce and Daly, 2004). Globalization and outsourcing are key factors in the industry and textile and garment is a major industry both in developed and lesser-developed economies, contributing to wealth generation and employment while also contributing to social and environmental issues (Bruce and Daly, 2004). The industry has gone through some major changes during the last decades, with regards to increased level of global sourcing and increased price competition. In general, the textile and garment industry is characterized with short product life cycles, high volatility, low predictability, and a high level of impulse purchase. The supply chains are often global and complex, with several different parties involved (Bruce and Daly, 2004). Simply put however, a garment supply chain consists of a retailer, a manufacturer and a fabric producer (Dash and Gupta Nalam, 2012).

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6 María Irigoyen (Project Director, ReporteSocial) Lecture: ”CSR in Argentina” 2014-03-17
2.2.2 Economic Characteristics

Within the global market, the textile and garment industry represent a large proportion of the total world exports, presented in a report published by The World Bank (TWB), who estimates the global textile export to a value of 195 billion USD in 2004, representing 2.4% of the total world merchandise trade. An even larger proportion is upheld by the global garment industry with 258 billion USD and 2.9% of the total world merchandise trade (TWB, 2008). Although the industry supports millions of workers, there is an unequal distribution of value along the supply chain, all the way from manufacturer to the final retailer.

Due to the extensive demand for low priced merchandise from both contractor and consumers, the situation has led to what Lieutier (2010) points out that for every clothing item sold for 100 USD, the commercialized sector obtains 64 %, while the worker receives an estimated 1.8 USD for the finished product. As argued above, the last couple of decades with increased globalization have made the industry highly competitive, which leads countries with a textile industry to a constant competition against each other for foreign investments and contracts from large global owners, thus leading to low manufacturing pricing and little leverage for many suppliers in the supply chain (Gereffi and Frederick, 2010). The result, as the authors continue to argue is an unequal level of value along the presented industry supply chain, in favor of leading global firms.

Within the scope of Argentina, an analysis developed by Oxford Economics (2014) shows that the Argentinian textile industry represented 5.3 % of the total national manufacturing in 2013, generating 3.17 billion USD. The report also predict an annual growth of 5.2 % on average in the textile industry within the next nine years, the garment industry in the same period of time is predicted to an annual growth of 5.8% on average (Oxford Economics, 2014). According to this analysis, the textile and garment industry is a big contributor to Argentina’s GDP, and will continue to be so. Although the industry is a major contributor to the overall national production, it has experienced cases of degrading conditions for workers in the manufacturing segment of the industry. A possible explanation for this could be linked to president Fernando de la Rua’s government which collapsed late of December 2001, a massive demonstration and protest movement took place in Argentina’s main cities (Yanzon, 2008). The protests
were a response to the consequences that occurred after the government adopted a neoliberal economic policy. Yanzon (2008) describes the process of the policy as the State transferred most of the Argentinian wealth to multinational corporations, privatized provisional funds, freezing bank deposits and restricted education, health and living services (WB, 2003; Yanzon, 2008).

2.2.3 Social Characteristics

On a global level, during the 1990s and onwards, the organizing of industrial movements and protests groups were initiated to improve working conditions globally (Brooks, 2007). Consumers, labor activists and organizers mainly from the US and Europe started protesting against labor violations done by multinational retailers. The general characteristics of the industry, for example low predictability, as argued above, has led the industry to be the cause of some of the most wretched social issues and worker conditions globally. However, globalization of industries worldwide has also led to a greater level of sharing ideas and information across borders. An example of this kind of global cohesion is the NGO Clean Clothes Campaign (CCC). The CCC relies on a network of partners in more than 200 different organizations and unions, especially focusing on countries with a garment production (CCC, 2014). Organizations like this help to improve the everyday living of workers in an unfortunate state of existence. There are also movements with companies that bring up the problem with sweatshops. A recent example of this uprising of united protesting is the factory accident in Bangladesh, among others, *Labor Behind the Label* an NGO who is constantly urging and encouraging workers to stand up and spread information regarding ill-treated workers in the garment industry.

The peculiar case for Argentina is that the Argentinean labor law prohibits forced labor and that business owners are responsible for the working conditions in their establishments (Goldberg, 2012). The common understanding and as Goldberg (2012) argues is that clandestine and illegal workshops are often a product of “counterfeiting of brands and with the production of lower quality clothing” (Goldberg, 2012, p.p 172). This is not always the case in Argentina, in several cases it has been discovered that slavery-like conditions and manufacturing was in fact oriented and produced to large national and multinational brands. The companies tend to focus their main activities on branding, image, design, marketing and merchandising; leaving the confection to third
party workshops or intermediary workshops, resulting in lack of control over the working conditions (Adúriz, 2009).

According to Yanzon (2008), the first criminal complaints regarding the working conditions in textile workshops in Buenos Aires were submitted to court in October 2005. Charges were brought up against both the workshop owners and the brand owners; the interesting aspect of this case is that charges were also brought against members of the federal police of Argentina, since their inaction and omission allowed the workshops to continue the manufacturing operation (Yanzon, 2008). Due to the informality in this industry, the crisis in 2001 and the consequences of increased globalization, there are estimations that establish that there are approximately 10,000 workshops with slavery-like conditions in the whole of Argentina, half of them in the Buenos Aires Province (Adúriz, 2009).

2.2.4 Environmental Characteristics

The manufacturing in the textile and clothing industry is diverse in the raw materials it uses and also in the techniques it employs. The negative impacts on the environment are as numerous as they are varied. For example the industrial manufacturing undermines air quality, also dyeing and printing consume vast amounts of water and chemicals, and releases numerous volatile agents into the atmosphere that are particularly harmful to the environment (Challa, 2008). Regarding water usage and cotton production for example, Mekonnen and Hoekstra (2011) presents data that for just 1 kilogram of cotton fabric, 10,000 liter of water is needed, to put things in perspective a 250 gram regular t-shirt requires about 2500 liter of water. Thus making a significant impact on water supply and the environment. A number of different studies have been carried out by Greenpeace International, one of which studies the Yangtze and Pearl River deltas, which is a provider of water and food for millions of local inhabitants (Greenpeace, 2011). As mentioned above, multinational brands have a big impact on local communities when outsourcing, one of the chemicals found in the report is a hormone-disrupting chemical called alkylphenols and perflourinated chemicals were found where locals fish and use the water for consumption (Greenpeace, 2011). The same chemicals were also found in samples of wastewater in factories in Mexico, in addition to the hormone-disruptive chemicals mentioned above, other substances found included
tributyl, benzotriazoles and phosphate, which is proven toxic to aquatic life (Greenpeace, 2012).

But within the global view, positive trends are emerging and sustainability has become an emerging trend in the textile industry. Globalization is forcing suppliers to adjust to international structural changes and customers are increasingly demanding a clean production chain, both in social and environmental matters (Reddy et al, 2013). There has been an increased market for products with different labeling, ensuring the customer that the products is produced in a sustainable way, such as for example Fair Trade (FAO, 2009, Agriculture and Agri-Food Canada, 2012). Fair Trade is: "a social movement representing alternatives to conventional trade models that operate within a framework of international development, social justice, environmental sustainability and equitable economic returns" (Agriculture and Agri-Food Canada, 2012 p.p. 2) and the market for Fair Trade products is constantly increasing (FAO, 2009). The demand for, and supply of, organic cotton has also increased in the last years. Many big players in the market, such as H&M, Nike, American Apparel and Patagonia have either a part of the cotton in the clothes they manufactured using organic cotton, or clothing lines with 100 % organic cotton (FAO, 2009; Reddy, 2013). With an increasing numbers of customers willing to pay more for products with organic cotton, particularly in North America and Europe, more big brands are jumping on the band wagon to produce clothes with organic cotton (FAO, 2009).

2.3 SMEs in Argentina
As mentioned in the methodology and limitations, an SME in Argentina, operating within the commerce sector, is defined by the range of an annual turnover between 0 - 112 million ARS (14 million USD) or by a number of employees between 0 and 150 (Häner, 2011). Even though SMEs are small companies, they play a key role in the development of the economy according to Häner (2011). Subsequently the characteristics of SMEs and the market for SMEs will be described.

2.3.1 Characteristics
SMEs in general all have certain characteristics in common. SMEs are small in assets and capital, meaning limited knowledge and access to new technology. SMEs often focus on one single product or service and tend to be local in nature. It is common that SMEs have a single owner, not unusually also the sole employee. (Häner, 2011)
When looking at SMEs in Argentina, Häner (2011) argues that they "tend to have a rather imitative character, their business is managed in an unorganized way and they trust their gut feeling and are intuitive" (Häner, 2011, p. 4). Häner (2011) also describes the environment for innovative capacity of SMEs in Argentina as very low. This is explained as due to a number of reasons; low spending on R&D, the lack of engineers and scientists and that the government is not using procurement to encourage innovation.

2.3.2 The Market for SMEs
For SMEs in Argentina, as for corporations all over the world, globalization has had a huge impact. The competition has increased and low cost products that are being imported from Asia or Brazil have an affect on their internal market. The Argentinean SMEs have to constantly offer improved but cheaper products and they are struggling to stay in the market. (Häner, 2011; OECD, 2011) The economic crisis in 2008/2009 hit Argentinean SMEs hard, with difficulties to obtain credits, shortage of working capital and lower number of exporting goods, causing a stall in the growth of numbers of employment for SMEs (Häner, 2011). The lack of a functioning infrastructural system in Argentina is also causing problems for SMEs. For example the instability and increasing difficulties for electric supply are a serious concern for SMEs and is affecting their production growth, in particular for industrial SMEs. Several other challenges have an impact on SMEs in Argentina, such as the high inflation and the political issues in the country (Häner, 2011).

One of the main issues to the development of SMEs in Latin America is finance. Often, SMEs are not able to access credits due to high collateral requirements; high interest rates and the bureaucratic and technical requirements can be too difficult and complex. SMEs often turn to other solutions, using internal funds or requesting credits from suppliers (OECD, 2011). However Inter-American Development Bank reports in their press release "Survey: Confidence in SMEs grows among banks in Latin America and the Caribbean" in November 14 2011 that the confidence in SMEs among banks in Latin America is increasing (Rojo, 2011). SMEs are considered a strategic business sector for banks in the near future. A large majority of Latin American banks expects an increase in their SME portfolio and considers SMEs as a strategic part of their business. They are also planning to increase their credit portfolio for this sector in the near future.
2.4 The Business Case for CSR

In order to understand the consequences a SME may encounter by investing both time and resources in building a CSR strategy, it is necessary to ascertain the term business case itself. Business in the Community (BITC, 2011) acknowledged seven main benefits a corporation may gain from implementing a CSR strategy, thus proving the business case. The seven benefits are as follows:

**Brand Value and Reputation:** Directly linked to the perceived reputation and brand value a responsible organization has in the market. Responsible values and standards can attract customers, foster more satisfactory relationships within the whole business operation, differentiate the brand or firm from competitors and thus strengthen the brand identity through brand value and reputation. Vogel (2005) and Verheugen (2003) who support this corporate organizational benefit as well, also argue that a company can experience an increased level of employee morale due to gained positive reputation.

**Employees and Future Workforce:** BITC (2011) refers to the ability to affect the working life of current employees, but also the ability to attract new workers and retain the current workforce. Businesses experience a low turnover of workers, also higher level of employee loyalty due to the pure motivation of being a part of a respected and reputable team. Regarding the future workforce of a firm, many new employees are seeking companies that are coherent with their beliefs and values.

**Operational effectiveness:** Meaning the improvements and innovation a company can achieve in organizational practices and processes as a direct result of being a more sustainable and responsible firm. This can create operations that are more effective and leave the firm with a higher level of efficiency. BITC (2011) research indicates that a main cause of operational effectiveness derives from improving firm’s stakeholder relationship. Understanding how practices can be changed, and more importantly who their stakeholders are and what they actually expect, could lead to more effective operation and lead to improvements in product development, efficiency in production and distribution, and an all over better relationship with suppliers. Pursuing stakeholder engagement for enhancing the operational effectiveness of the firm is also proven when giving support and security to stakeholders, stable terms and conditions that lead to a healthier supply chain. Operational effectiveness can also improve when businesses
invest in relevant eco-efficient programs, working to reduce waste, better usage of raw materials and reducing the firms’ carbon emissions. This aspect can also help as International Organization for Standardization (ISO) claims that firms may experience cost savings by lowering water and energy consumption when implementing CSR principles (ISO 26000, 2009). Being an active corporate citizen regarding environmental issues, with for example adopting new supply chain standards, could improve the ability to better integrate operations on material substitution. A scarcity or high expenditure cost for material could lead to better and faster production and in the end generates cost savings on materials when finding more eco-friendly substitutions (BITC, 2011).

**Risk reduction and management:** Is linked to the benefits resulting from corporate responsible actions that improve the firms’ ability to acknowledge and reduce the exposure to risk and prepare for and manage risk better. The risks involved in the corporate sector are often referred to social or environmental factors. A good reputation can reduce the risk for boycotts and minimize negative press on the company. A positive and strong presence by the corporation in the society could help reduce the exposure to risk and conflict (BITC, 2011).

**Direct financial impact:** Refers to the direct link between being a socially responsible firm and their financial performance, the actual collected financial impact of the firm. CSR could lead the company to achieve a better access to capital, cost savings due to proactive strategies, added investor and shareholder value, and also impact revenues and returns that are directly linked to responsible corporate behavior (BITC, 2011). Vogel (2005) also mentions the advantage a firm may experience by self-regulating themselves, it can improve their position in the market for possible future governmental legislations by simply being more prepared. In other words, firm can accumulate cost savings by being provident towards the future.

**Organizational growth:** Meaning the overall growth as a whole, in size, turnover, presence or product or service portfolio. Organizational growth in the corporate sector could also be associated with growth in new markets, product development, lateral expansion, new customers or partnerships (BITC, 2011).
**Business opportunity:** This benefit is mainly considered after a CSR strategy has been successful; it refers to the new opportunities a firm can achieve because of their efforts in being a social responsible firm. The firm and its stakeholders working together trying to solve an issue and create, what BITC (2011) calls a “win-win” opportunity, meaning trying to satisfy the stakeholders needs or demands, but also finding a profitable operation to the firm. In other words, seeing stakeholder demands as an opportunity, not a constraint.

3 **Empirical Study: Sustainable SMEs within the Textile Industry in Argentina**

In the following chapter, the results from the empirical study will be presented. The empirical study is mainly based on interviews with sustainable micro SMEs operating in the Argentinean market, that have been contacted through the network B Corporation, a global non-profit organization operating in 32 countries with the aim of certifying and promoting sustainable businesses. The firms that have been interviewed for the purpose of this thesis are all certified by B Corporations in Argentina and are producing and selling garment- and textile products. Also, a less formal interview has been conducted with Patagonia Argentina in order to connect the Argentinean context to the global context. In general, a conclusion from the empirical study is that the market for sustainable SMEs within the textile industry is rather small in Argentina; it is characterized with few actors with an enormous drive to produce sustainable products. Also, even though sustainable alternatives are starting to appear on the market in Argentina, it is still hard for consumers wanting to purchase sustainable products to know where to find them. Sustainability seems to be a rare reason for purchase as most customers to the interviewed firms buy the products due to the design and quality rather than how it was produced.

The first interviewed firm, Mafia Bags, produce bags and accessories made out of re-used kite-sails in a socially sustainable manner. The second firm, Onda Organica, produces clothing for adults using organic cotton and with socially sustainable manufacturing. The third interviewee, Cubreme, was founded with the idea of creating 100% sustainable clothes with a “clean” supply chain, using materials that comes from renewable sources. Finally, Patagonia will also be referred to in the empirical study in order to gain a broader understanding for the market from a larger company’s
perspective, operating both globally and in Argentina. Also, a brief summary of the organizations and networks striving for improved labor conditions in Argentina will be introduced, as all interviewees use organizations and cooperatives such as La Alameda, Talleres Libres, La Juanita and Avanzar for fair production of the textile and garment products. It is important to note for the reader that these organizations are not referred to or analyzed in the report as SMEs, but is rather included to emphasize the movement of organizations working for better social conditions in the textile industry. The interviews with Mafia Bags, Onda Organica, Cubreme and Patagonia are attached in Appendix 2-5.

3.1 Economic Aspects

In order to fulfill the purpose of this thesis, and analyze if there is a business case for sustainable SMEs within the textile industry in Argentina, it is crucial to examine the economic aspects of the interviewees and company examples, both from a short- and long term perspective. It can be concluded from the empirical study that all three interviewees are profitable, however it was argued by Onda Organica that the firm is only profitable in a short-term perspective. The firm still is struggling to start selling large volumes of clothing and get economically sustainable in a long-term perspective. All three firms achieved Return Of Investment (ROI) within two years after launching the first collection, as initial funding Mafia Bags had a start-up capital of 40,000 pesos whereas Onda Organica had a start-up capital of 20,000 pesos. Five years after its launch, Cubreme had an annual turnover of 200,000 pesos. It took two years for Cubreme to gain ROI, whereas both Mafia Bags and Onda Organica gained ROI within the first year. Cubreme is the only one of the brands that has opened its own store, which was partly funded by Buenos Aires Emprende, a program owned by the development ministry that gives technical and financial assistance to innovative start-ups.

All interviewees are aiming for the medium, medium high customer segment. Cubreme tries to produce products for different segments, so that more consumers can have access to sustainable products. Mafia Bags are aiming for young spirited and adventurous people living in the city or on the countryside that love nature. They have a high appreciation for design and style but is always driven by responsible consumer actions. However, most of Mafia Bags customers base their purchase decision on the fact that it is a cool, attractive product rather than the fact that it is produced in sustainable manners. The same applies for Patagonia Argentina, who states that most of
their customers purchase their products due to that it is a cool product and brand with high quality. The customer market is continually expanding for Mafia Bags and the firm is planning to expand to the U.S. market in the upcoming year. Onda Organica argues that most of their customers base their purchase decision on the fact that the product is produced in a sustainable manner, with some exceptions for customers who base their purchase on the fact that it is an attractive product. Nicolas at Onda Organica furthermore argues that the market for sustainable products actually is increasing in Argentina, but the focus right now is more on organic food rather than clothes. Cubreme has several different kinds of customers; some that are truly ethical consumers that aim at finding sustainable alternatives in every aspect of their life, some that just now starts to be aware of sustainability, and finally some that purchase the products due to its timeless design and high quality. Also, some customers (mainly tourists) purchase the products due to its exotic materials.

For Onda Organica and Cubreme, who are producing their products with organic cotton, the purchasing cost for raw material is a major factor affecting the final price, as the cost for purchasing organic cotton is about twice the price compared to “regular cotton”. Furthermore, there is in general limited availability of organic cotton and the complex import rules in Argentina results in increased issues to source organic cotton. Nicolas from Onda Organica argues that due to the small market for sustainable clothing, the few actors that are operating should promote each other rather than seeing each other as competitors, in order to increase the market for sustainable textile and garment.

3.2 Social Aspects
All interviewees utilize cooperatives and organizations with fair labor conditions such as La Alameda, Talleres Libres and Avanzar for the production of the textile and garment products. It is important to emphasize the initiatives and movements on the Argentine market related to improved labor conditions, as there are several organizations and networks on the market striving for improved conditions and to stop the utilization of sweatshops. A fourth example is Patagonia Argentina, who is producing t-shirts produced out of organic cotton in cooperation with Cooperativa PIHUE in Buenos Aires.

One of the cooperatives, La Alameda, was created in 2002 as an answer to the two main problems that affected the community: hunger and unemployment. The first step was
setting up a communal dining hall that fed over 140 neighbors; many of them had specific skills they were eager to use. This set the basis for the second step: fighting for a dignified workspace and against slave labor. Amongst other projects, the textile project commenced. It started with three workers and managed rapidly to establish itself selling different Slave work free clothing lines. La Alameda are currently employing over 20 employees and take care of the whole production, including design, molding, stamping, cutting, sewing, etc. and can guarantee excellent quality (La Alameda, 2014).

Another example of movements on the Argentine market is The No Chains brand, which was born in 2009 by La Alameda in cooperation with another cooperative in Thailand, Dignity Returns. The objective was to build a global worker-led and sweatshop free garment brand that would show not only that workers could produce affordable quality clothes in decent conditions, but that worker cooperatives could play a role in both national and international labor struggles for garment workers everywhere. In these few years, the story of No Chains has been spread widely, in many languages, with one of the most important occasions being the feature on CNN's Freedom Project: Ending Modern Day Slavery (La Alameda, 2014).

Tamma Talleres Libres was created with the purpose of providing dignified working conditions to textile manufacturers. As Dana Batista (the founder) expresses her view: “If your job implies something that harms someone/something, it is necessary that you change your job”. After working many years with textile factories and seeing firsthand the local and overseas working conditions, she decided to combine both her passions: social work and fashion design and created this cooperative (Gulam, 2013).

Avanzar is a non-profit organization that aims at developing skills and to a sustainable improvement in living conditions of low-income families using the support of social-productive initiatives. Furthermore, they help by providing micro-credits and developing training programs in shantytowns and poor neighborhoods. These micro-credits are used to develop micro ventures and these training programs help the management of these ventures so the entrepreneurs can improve their quality of life (Avanzar, 2014).

Mafia Bags emphasize the importance of happy workers, as happy workers become loyal employees that want to continue to work with the firm, which implies less training of new employees and a better final product. Also by choosing to work with the
cooperatives and local organizations as Mafia Bag do, the result is a transparent supply chain and that you as a company can keep a close dialogue with your suppliers. The same applies for Onda Organica and Cubreme, which both also argue that close collaboration with the people working with the manufacturing of the products makes it easier to secure fair labor conditions and results in better final products. It is argued by Marcos at Mafia Bags that another advantage of employing previously rather inexperienced workers is that the workers can get trained in how to run businesses and for example the importance of appearing in time for set meetings, to deliver products on set deadlines and so on. In the long term, this helps improve the competitiveness of the cooperatives and organizations. According to Marcos at Mafia Bags the minimum wage in Argentina is set to 30 pesos an hours, but Mafia Bags are paying an average of 5-15 pesos more per hour.

3.3 Environmental Aspects
The interviewed companies have different ways of approaching the environmental aspects, as Mafia Bags’ products mainly are produced out of re-used material whereas Onda Organica are producing with organic cotton. Cubreme are producing their products with organic cotton, bamboo based cotton, sustainable lama, alpaca, merino and sheep wool, natural fibers, linen from Brazil, silk from Paraguay and no synthetic fibers. No chemicals are used at any stage of the production and all raw materials are renewable. Furthermore, the brand's pieces are absolutely dye-free, with all the colors from the coats obtained from the natural shades of animal hair. Cubreme creates timeless clothes without paying attention to trends, which encourage more responsible consumption. Patagonia is sourcing 100 % sustainable wool to their global operations from the region Patagonia in Argentina, in cooperation with an organization named Ovis21. Ovis21 helps Patagonia to maintain the sustainability in the production of wool by making sure that all grassland used will be regenerated.

4 Analysis
As stated in the beginning of the report, the textile and garment industry is in general characterized with a high level of globalization, short product life cycles due to trends and price competition, and while contributing to wealth generation and employment it also results in both social and environmental issues. Manufacturing of textile and garments implies a high level of water usage, raw materials and results in high level of
pollution. However, as argued by Reddy et al (2013) globalization has resulted in positive trends in the textile industry, as the customers are starting to put larger pressure on the large brands to improve their supply chains and the large brands are starting to respond to these demands. As seen in the empirical study smaller actors are starting to appear in the Argentine market that are promoting environmentally sustainable production of textile and garments, such as the interviewees in this report. Onda Organica and Cubreme are two of the few actors on the market that are producing their products with 100 % organic materials. From the empirical study, a conclusion can be drawn that the awareness is starting to appear in the context of small groups of consumers and business networks on the Argentine market. However, it also argued by the interviewees that few of the consumers are buying the products due to its reduced environmental impact. The start-up reason for most of the sustainable SMEs referred to in this report is a strive to start create a sustainable movement in Argentina and also to make sure that there actually are sustainable alternatives available on the market. All of the interviewees are dedicated to sustainable issues and can be seen as visionaries on this specific market. For example, when Onda Organica launched its first clothing line, there were no similar alternatives for adults available in the market according to the owner. As stated in theoretical framework, the CSR activities are generally more focused on social issues rather than environmental issues in Argentina. This also becomes clear when performing the empirical study, as some of the interviewees emphasize on the social issues rather than the environmental issues.

A large global problem related to social aspects is the unfair working conditions in textile factories around the world. In Argentina, it is argued by Yanzon (2008) that the first criminal complaints regarding working conditions were brought to court in 2005 and these issues remain as there currently is approximated a number of 10,000 sweatshops only in the Buenos Aires region. However, as seen in both the theoretical framework and in the empirical study positive movements are starting to appear as a reaction to these issues. There are now several different organizations, cooperatives, and unions acting against the unfair working conditions in the sweatshops and the unfair distribution of value along the supply chain, both on a global level and in Argentina. In a global context, consumer boycotts are often used as means of expressing dislike for the social issues in the textile and garment factories. As mentioned in the theoretical framework, 81 % of Argentineans claim that the government is responsible for social
issues rather than companies, and that the demands on the private sector not are as high in Argentina than in other parts of the world (Milberg et al, 2003). However, more recently there has been some indications that the consumers in Argentina are reacting upon the labor conditions in sweatshops, at least when there has been scandals with large foreign brands taking advantage of labor rights in Argentina.

Even though it can be seen that the Argentine market is not mature yet, movements are starting to appear and small actors producing in sustainable manners have in recent years started to be available on the market. But are these market trends enough to make a business case for the sustainable SMEs within the textile industry in Argentina?

4.1 Is There a Business Case?

In the sections that follow, the business case for sustainable SMEs within the textile industry in Argentina will be analyzed. The analysis will follow the structure of the framework presented by BITC (2011) and will be based upon both the theoretical framework and the empirical study. The identified aspects of the business case for CSR identified by BITC (2011) are as follows: brand value and reputation, employee and future workforce, operational effectiveness, risk reduction and management, direct financial impact, organizational growth, and business opportunity.

**Brand value and reputation:** As stated above in theoretical framework, this refers to any benefits generated by doing business responsibly that improve the value of the brand and/or reputation of the brand or organization. Patagonia at a global level is one of the best examples worldwide of Brand Value and Reputation Enhancement; they have managed to acknowledge the relevant needs and concerns of other stakeholders such as employees, local and national communities and environmental issues. They have successfully transmitted these sustainable values to their branch in Argentina. Both Cubreme and Onda Organica also created and launched their brands with all stakeholders in mind and have managed to create opportunities and find markets by leveraging the brand strength achieved. Mafia Bags have also included the environmental issues in their offer, by using recycled products that reduces waste and lowers the cost of their components.

For example Mafia approached Reef to use their old polyethylene banners, which would otherwise go to land waste, and proposed to make bags out of them. This collaboration resulted in a very successful line of co-branded Reef/Mafia backpacks that sold out. The
positive and sustainable image of Mafia was a major factor for an established brand such as Reef to partner with a “new” player such as Mafia. The positive press coverage and sustainable image was an added benefit for both Reef and Mafia Bags.

However, as all of the companies interviewed expressed, in Argentina the sustainability aspect of SMEs is still not a major consideration when choosing products to purchase. Customers give preference to price, quality and “coolness” of products rather that the effect on the environment and the community. As Marcos from Mafia Bags confirms: “the main driver for sales is how cool the bags looks, 98 % of customers in Argentina don’t care if it was produced in a sustainable manner.” However, Mafia Bags is taking a proactive role and continue to communicate its sustainability work, by for example including a flyer illustrating the supply chain with every Mafia product purchased.

The small niche of responsible consumers is growing slowly and according to Nicolas at Onda Organica there is a growing interest for organic food, but it does not yet affect other areas such as clothing to a large extent. As mentioned above, the PWC survey shows that 96% of companies in Argentina made it evident that their commitment to sustainability will increase during the following three years, which implies that companies operating in Argentina are starting to see an increased need for CSR initiatives in order to remain competitive.

From the empirical research done it can be conclude that the main sustainable differentiator is on the production side, not using sweatshops is a strong differentiator. For example the No Chains branding helped La Alameda to enter new markets and sell overseas. Also, as evaluated in the theoretical framework social issues are generally said to be higher on the agenda than environmental issues in Argentina, hence the emphasis on fair working conditions could result in a positive impact on brand value for the interviewees.

As mentioned in the theoretical framework, there is a general opinion in Argentina that the government is responsible for social issues rather than companies. From a brand value perspective, this could imply that customers do not think it is the companies’ responsibility to remove sweatshops but rather the governments, which hence implies less impact on brand value. On the other hand, strong trade unions and civil society organizations have increased trust from the people, hence the associations with
organizations such as La Alameda can help increase the trust of stakeholders and customers.

Being a member of the B Corporations has helped all brands (Mafia, Onda Organica, and Cubreme) to communicate their sustainable values. It has also provided valuable networks for all members to work together and benefit of each other experiences. By joining forces they also increase their presence as a movement, helping with the expansion of all involved and strengthening their brands.

**Employees and future workforce:** As stated previously Mafia Bags gives great importance to the wellbeing of all of their workers, as happy workers become loyal employees that want to continue to work with the firm, which implies less training of new employees and a better final product. The founder, Marcos, was inspired by the book: *Let my People go Surfing*, written by the founder of Patagonia, Yvon Chouinard, and attempts to apply these principles at all levels.

Mafia Bags also argue that an advantage of employing previously rather inexperienced workers is that the workers can get trained on how to run businesses. In the long term, this helps improve the competitiveness of the cooperatives and organizations and increase loyalty on all sides.

Patagonia at a global level has succeeded in maintaining this trend over the last 40 years. The level of applicants for each job is incredibly high (over 900 for each opening) due to their strong values and reputation. This is also the case in Argentina and they have managed to fill all positions with capable employees found within their close circle of acquaintances.

All of the companies interviewed are small and employees have been with them from the beginning, they believe in the company and share the same vision. As a result, the turnover of employees is very low. Once the smaller companies start to grow they will be in a strong position to hire highly talented individuals due to the passion of existing employees and the entrepreneurial spirit.

**Operational effectiveness:** Mafia Bags, Cubreme and also Onda Organica have decided to work with cooperatives and local organizations such La Alameda, Tamma Talleres Libres, Cooperativa Pihue and others, which results in a more transparent supply chain and a close dialogue with the suppliers. All three also argue that close collaboration
with the people working with the manufacturing of the products makes it easier to secure fair labor conditions and results in better final products. This also results in increased efficiency and effectiveness. This is further strengthened in the theoretical framework, where BITC and Doughty Centre for Corporate Responsibility (2011) state that productivity improves when suppliers are given support and security.

The collaboration with partners on specific issues such as protecting raw materials also increases operational effectiveness. For example, there is a business opportunity for actors sourcing the same scarce resources, such as organic cotton in Argentina where the importation is restricted. Onda Organica and Cubreme could for example source together from neighboring countries and in this way become a more powerful buyer. This same principle can be applied to transport and distribution to compensate for the lack of infrastructure in Argentina and could also impact negatively on the operational efficiency.

The decision of being proactive on environmental issues is an advantage if harsher legislation would be implemented. All of the SMEs analyzed in this paper could improve their communication on sustainability, by either producing annual sustainability reports or posting regular updates on their blog/website.

Cubreme uses recycled materials throughout the entire showroom and for example use recycled wood for the coat hangers, bamboo poles to hold the lights, and natural light making the most of the huge windows. All is in line with their sustainability concept, being as eco-efficient as possible, and investing in material substitution.

Based on the interview with Mafia Bag a conclusion can be drawn that the company’s approach to the environmental aspects of the products is not sufficient or structured. The company has many positive aspects from an environmental perspective such as the re-usage of material and local sourcing, which reduced the carbon footprint from logistical activities. On the other hand, the company is sourcing plastic parts instead of sustainable materials, such as leather or natural fibers for all parts of the bags and accessories that are not produced out of recycled sails. An increased focus on the environmental aspects by for example using reusable material for all parts, logistics, chemicals, environment could further reduce the environmental impact. According to the theoretical framework, this is typical for how start-up and SMEs in Argentina tend to appear and survive with a informal organization, based on intuition and with a
medium to short-term vision. If Mafia Bags were to consider the environment in all aspects of their supply chain, this would probably result in higher eco-efficiency.

Patagonia is certified by the Bluesign system, which assures the elimination of harmful substances right from the beginning of the manufacturing process. It also sets and controls standards for an environmentally friendly and safe production. This not only ensures that the final textile product meets very stringent consumer safety requirements worldwide but also provides confidence to the consumer to acquire a sustainable product.

One of Onda Organica’s organic cotton suppliers has been certified by Global Organic Textile Standard (GOTS), which was developed through collaboration by leading standard setters with the aim of defining requirements that are recognized worldwide. Furthermore, GOTS aim to ensure the organic status of textiles from harvesting of the raw materials through environmentally and socially responsible manufacturing all the way to labeling in order to provide credible assurance to the consumer.

Risk reduction and management: As argued by BITC (2011) the risk of consumer and employee boycotts reduces when securing a supply chain taking into account both social and environmental risks. Right now, the level of awareness on the Argentine market can be argued to be rather low, however the interviewees are taking a proactive role and hence reducing the risk for future boycotts by producing in socially and environmentally sustainable manners. Also, all the companies referred to in the empirical study can be argued to have a positive impact on the communities they are operating in by providing fair wages to both workers and suppliers, which protects the companies license to operate in the society.

It is furthermore stated by BITC (2011) that business risk management should include issues such as biodiversity, health and climate change. By using recycled material, sustainable wool and sourcing of organic cotton it can be argued that the sustainable SMEs referred to in this report are considering these issues and hence reducing the risk. Finally, risk reduction and management is said to become more important the larger the firm is, on the other hand SMEs are not as likely to refer to these issues as a key part of their business case for CSR.
**Direct financial impact:** As mentioned in both the theoretical and empirical context of this report, being a responsible company in Argentina can have a direct financial impact. Access to start up funding, credits and investors is one of the benefits. For example, Cubreme received a $42,000 non-refundable grant from the Argentinean government for being a social responsible enterprise.

Another aspect of direct positive financial impact for sustainable SMEs is the opportunity to reduced costs in the production. As mentioned in the interview with Mafia Bags, they have a low manufacturing cost, as their main raw material is recycled sails given to them for free, with a finished bag as the only exchange. On the other hand, as mentioned is the interview with Onda Organica, the sourcing of organic cotton globally is very expensive, around fifty percent higher than the price of regular cotton. This leads to a higher price of products made of organic cotton for the end customer. As Marcos at Mafia bags mention, having a close relationship with the workers in the manufacturing department is resulting in reduced recruitment costs, hence a high loyalty, increased productivity, and is resulting in better quality of the final products.

**Organizational growth:** Organizational growth refers to aspects that enable the organization as a whole to grow in size, turnover and presence. An important aspect of this, based on the empirical study is the growth of Mafia Bags, who will enter the U.S. market this following year and in this way expand its presence to a new market. This is also an opportunity for a smaller actor, Onda Organica, which currently is only present in the Argentine market. By expanding its business to other countries like both Cubreme and Mafia Bags have done, the firm could reach a broader crowd and sell larger volumes. This is currently one of the largest problems for Onda Organica.

One could argue that there is great potential for development of new products for all of the interviewees. Onda Organica is currently expanding its product offering by adding pants and shorts to the t-shirt collection, this gives them a greater potential for organizational growth. Mafia Bags have expanded into producing wallets and accessories out of the pieces of sail that are left over from the production of bags. There are other potential uses for the production of other products made out of old sails close to their core business such as surfboard covers and weatherproof clothing.

Other ways of reaching the wider market and gain organizational growth is for example by starting to sell the products at larger retailers or cooperate with larger brands, such as
selling the products at the Tom’s market place (A platform provided by Toms Shoes on his website for other offerings that are selling under the “One For One” model). Onda Organica has also started conversations with Patagonia to potentially supply them with organic t-shirts.

Another important aspect that can help organizational growth is continuous networking and the utilization of the existing networks on the market such as B-Corps. Mafia Bags are often present at surf events all over the world as Marcos is a professional kite-surfer, which is an excellent opportunity for creating markets and finding new customers. There is also potential in utilizing celebrities as brands ambassadors that can communicate the brands and a wider crowd could be met.

Finally, it is important to emphasize the importance of production of timeless products with high quality and that not is sensible to trends and seasons in order to continue growth, due to the small-scale production of the interviewees.

**Business opportunity:** Using local socially responsible labor helped the growth of cooperatives involved such as La Alameda, Cooperativa Pihue, Talleres Libres and Avanzar amongst others. This in turn created value to the SME’s giving them the social credibility and fundamental characteristic to be a certified B Corporation.

The collaboration with the suppliers is also mutually beneficial; by creating stable work for small farmers (suppliers of organic cotton for both Cubreme and Onda Organica) it creates a more secure future for the community and also reduces the risk in the organization’s supply chain.

In summary, it can be argued that there are perceived benefits in all the above identified seven aspects, which implies that there is a business case. On the other hand it can also be argued that as there only are a few actors in the market that are selling products based on its sustainable characteristics to a limited market of customers, there is great potential for development as the business case still is on quite a small scale. This will be further developed in the next section.

**4.2 Is the Market Ready?**

Based on the analysis above, several aspects indicate that there could be a business case for sustainable SMEs within the textile industry in Argentina. If looking at the Product Life Cycle curve (see Figure 2), which can be used as an analysis tool for market
development, it can however be argued that Argentina still is in the very beginning of the curve; in the first phase. The mindset of the Product Life Cycle curve can be applied on all kind of developments, for example if looking at women rights or racial issues, both issues started in the very first phase with low awareness and acceptance. Now, these issues have developed throughout the curve, have reached a higher level of maturity, and are no longer seen as an issue in most parts in the world.

The first phase of the product life cycle curve is characterized by exploration and puts emphasis on experimentation, learning and growth. It can be argued that the visionaries referred to in the empirical study in this report are the innovators and the ethical consumers, basing their purchasing decision on sustainable production, are the early adopters. Right now, the innovators are experimenting with different products and ways of communicating their sustainable products to the customers. It can be argued that the innovators on the market in Argentina are getting inspired by other markets in the world, where the development of sustainable clothing and textile products has already moved further up on the curve. For example t-shirts made of organic cotton has already reached late adopters and the larger crowd in more mature markets such as Europe and the U.S. As it is right now, Argentina’s market and production is rather limited in regards to sustainability. The society is just beginning to understand the need to, for example, recycle and also the value that sustainable products have. However, it is important to note results from studies such as the one referred to in the theoretical framework by Greendex (2012), implying that Argentineans believe we need to change the way we consume in order to act more sustainably. Also, in a company survey performed by PWC (2013) 96 % of Argentinean companies state that their commitment to CSR will increase during the following three years. It can be argued that there is a global movement towards more sustainable production of textile and garments, both concerning social and environmental issues. Thus, this movement also applies to Argentina even though perhaps on a smaller scale right now than in countries that are on the forefront of this development, such as the Scandinavian countries. One of the main reasons for the development of more sustainable textile production globally is customer demand and pressure; hence, one could argue that the customer awareness and demand needs to increase in Argentina in order to continue the development further up on the curve. In addition, another incentive for change can be downstream pressure in the supply chains of larger global brands that are sourcing and producing in Argentina.
Change can only be created if there is a change in pattern concerning both supply and demand. Hence, there is a need for the kind of actors referred to in this report but there is also a need for larger customer awareness in order to create a business case for sustainable SMEs within the textile industry in Argentina.

5 Conclusion

The aim of this report was to investigate if there is a business case for sustainable SMEs within the textile industry in Argentina. Based on the analysis of the theoretical framework and the empirical study, a conclusion can be drawn that there is a business case. From the analysis of BITC’s framework for the business case for CSR it can be argued that there are perceived benefits in all seven aspects, although the business case is limited to the undeveloped market for sustainable products in Argentina. Based on the analysis of the market for sustainability applied to the product life cycle curve, it can be concluded that there is a global movement towards more sustainable production of textile and garments, both with regards to social and environmental issues. Thus, this movement also applies to Argentina even though on a smaller scale right now than in countries that are on the forefront of this development, such as the Scandinavian countries. Thus, there is large potential in the future for an even stronger business case for sustainable SMEs within the textile industry in Argentina.

Figure 2 The Product Life cycle curve, adopted from Atle Midttun's version. The star and arrow illustrates where the market for sustainability in Argentina is and how the trends can be developed in the future.
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7 APPENDIX

Appendix 1: Framework for Interviews

1. About the company
   - Number of employees
   - Annual turnover
   - Development & history
   - When did the firm start to be profitable?

2. The business idea
   - When and where did the company start?
   - Why? With what mission?
   - Funding?

3. What does the supply chain look like?
   - How and where is the material sourced?
   - How are the products being produced?
   - Who is the final customer? Which point of sales?
   - Marketing, how do the firm reach out to their customers?
   - Main competitors?

4. Sustainability and CSR
   - Environmental, social and economical aspects?

5. Future trends and potential development?
Appendix 2: Interview with Marcos Mafia at Mafia Bags 2014-03-13

Founded in October 2012 by Marcos and Paz Mafia, the business idea came up as Marcos is a professional kite-surfer, which implies that he had connections and experience in sports-ware. There is currently four persons in charge and the firm produce around 800 bags per month. Mafia Bags produce and sell bags and accessories made out of old kite sails and advertising banners in a socially sustainable manner.

**Supply Chain**

- Mafia Bags receives old kite and sailboat sails from clubs, stores and kite surfers and take them to the warehouse. They also receive polyethylene commercial banners from for example surf contests. Instead of paying for the sails Mafia Bags trade them for bags. Zippers, buckles and other purchased parts of the products are bought from local suppliers. In the warehouse the sails gets cut by hand before getting sewed into bags by Avanzar. Avanzar is an organization that produces textile products under fair conditions, outside of Buenos Aires (http://www.avanzar.org.ar/). Mafia Bags have also utilized another NGO for the production of the bags, called Dignidad. According to Marcos at Mafia Bags one of the main issues is to get suppliers to agree to fair conditions, such as for example no work after 6.00 PM. By working with Avanzar, Mafia Bags gets a clear and transparent supply chain and way of working as they can communicate directly to the people producing their products. Mafia bags pay 45 pesos an hour for the production, whereas the minimum payment is set at 30 pesos an hour.

- Mafia bags customers are young spirit and adventurer people living in the city or in the countryside that loves nature or having something that resembles it. These group of people have a high appreciation for design and style but always driven by a responsible consumer actions. According to Marcos, probably 98 % of the customers purchase a Mafia Bag because it is a cool product rather than because it is produced in a sustainable manner. The main sales is made in Argentina, but Mafia Bags ship to the rest of the world using the logistics provider UPS.
Mafia Bags have 30 resellers in Argentina, mainly sport-, surf- and clothing stores, 2-3 resellers in Peru, 2-3 in Uruguay and 1-2 in Brazil.

- Produce and sell 11 different products.
- Pricing strategy: Above similar products produced in China but below competitors with similar mission and products.
- Lifetime warranty on the products.
- Marketing and communication: The customers should not know what to expect next, Mafia Bags try to communicate their business in new and fresh manner. Social media is a very useful tool for marketing.

**Economic aspects**

- Mafia Bags needed a start-up capital of 40,000 ARS, which was funded by the founders personally.
- Main current goal is to expand to the U.S. market
- Profitable today.
- ROI after 2-3 months.
Social aspects

- Fair labor conditions, above the minimum wage and is utilizing the organization Avazar for the production.
- Marcos emphasizes that happy workers become loyal workers that stays with the firm, which implies less training of new employees and a better product.

Environmental aspects

- Re-usage of material for production of the products.
- Finance projects for river cleaning in Argentina.
- Utilize local production in order to reduce logistical activities such as shipping and hence the environmental footprint.

Key success factors and issues

- Marcos has studied marketing and social entrepreneurship (knowledge).
- Started an entrepreneurship program with Paez (shoe brand from Argentina), which helped to gain know-how within the area of sustainable production.
- Selling a “cool” product, Mafia Bags think that is the key driver rather than that the products are produced in sustainable manners.
- Possibility to reduce the manufacturing cost as the main raw material is recycled. Mafia Bags exchanges a finished bag for a whole “new” kite to manufacture more bags.
- Finalist in NAVES IAE Business School, Winner at Buenos Aires Emprende, BCorporation Certification and various other rewards.
- Argentina’s market and production is limited. The society is just beginning to understand the need to recycle and the value that product like this has.
- Lifetime warranty on the products.
- As a professional kite-surfer Marcos travels overseas to attend competitions, taking advantage of these trips he takes his bags along and expands the market by finding resellers and promoting the brand wherever he goes.
Appendix 3: Interview with Nicolas Cludius at Onda Organica 2013-03-14

Onda Organica is a small producer of clothes, mainly t-shirts, for adults produced with organic cotton and was launched in February 2012. When Onda Organica was launched there was no producer of organic clothing for adults in Argentina, only for babies. Currently there is only one employee in the firm, the founder Nicolas Cludius, and during the start-up year Onda Organica produced 120 units.

Supply Chain

- There are two suppliers of organic cotton in Argentina, one cooperative in the north of Argentina (Chaco) and one that imports from Paraguay and Peru (Verde Textil). Verde Textil is certified by Global Organic Textile Standard (GOTS) whereas the supplier from Chaco does not have any certification.
- Cooperativa Pihue does the weaving and dying of all products.
- A friend of Nicolas mainly makes the design for the prints and one of the main issues related to design is the fact that there are only a few different colors available when sourcing organic cotton.
- The productions of the clothes have been made in cooperation with two different organizations, producing clothes with fair labor conditions: Talleres Libres and La Alameda.
- The focus customers are ethically responsible consumers and yoga practitioners. The marketing and communication to customers is generally made through interviews with the press, ethical fashion bloggers and magazines, radio programs, and to be present at fairs and events.
- Point of sales: Onda Organica is currently present in six different stores in Buenos Aires, scattered in different areas of the city. It is important for Onda Organica to utilize resellers that understand and can communicate the concept of the products, that they are produced with consideration to both the environment and social conditions. When launching the first line, the resellers did not want to purchase the products from Onda Organica, as they saw it as risky and did not know whether their consumers would purchase the products. Hence, the products were instead left in the store and Onda Organica got paid first when a consumer purchased a product. This is still the sales-model, but Nicolas is hoping to change that during 2014.
Economic aspects

- The initial funding was 20,000 ARS, and return of investment (ROI) was eight months after launch.
- The pricing strategy is to approach the medium, medium high segment but not premium. The cost for organic cotton is twice the cost for regular cotton. The price to customer for Onda Organica products is set by manufacturing cost + structural cost and multiplied by two.
- Onda Organica is profitable now, but there is still the issue to start selling larger volumes and to become economically sustainable in the long term.
- The first production was 120 units; now Onda Organica is still using the production unit of 120 but is producing some different lines such as t-shirts, shorts and yoga pants.

Social aspects

- The productions of the clothes are made in cooperation with two different organizations producing clothes with fair labor conditions; Talleres Libres and La Alameda.
- Onda Organica is also working closely with some corporation in Argentina such as Eset Latinoamerica and Globant and providing the t-shirts for their “Social Project Day” and is in discussion to also provide the branded t-shirts for the cleaners.

Environmental aspects

- All material in Onda Organica’s products is produced with organic cotton, which for example implies that the production is made without the usage of chemicals.

Key success factors and issues in the market

- Educational history: Foreign Trade and Environmental Management.
- One of the major issues is the import restriction to Argentina, as there currently is no organic cotton available on the market. In order to source organic cotton, Onda Organica needs to transform the company type into a Ltd company or find another firm that can import for Onda Organica from the neighboring countries.
o There is increased awareness in Argentina for organic products, however Nicolas argues that the trend mainly regards the food industry.

o Nicolas argues that as there are very few sustainable SMEs within the textile industry in Argentina and hence the few actors need to stick together and help each other in order to expand the market rather than seeing each other as competitors.
Appendix 4: Interview with Alejandra Gotelli at Cubreme 2013-04-05

Alejandra Gotelli started her research in 2005 and starting the first alliances with different cooperatives and organic producers. Cubreme was born with the idea of creating a 100% sustainable product with a “clean” Supply Chain, using materials that came from renewable sources, giving value to the local economy, using handcraft, recovering the artisan side and promoting responsible consumption.

Supply Chain

- Cubreme has multiple suppliers for each different material she uses. For the organic cotton there are two suppliers in Argentina, one cooperative in the north of Argentina (Chaco) and one that imports from Paraguay and Peru (Verde Textil). Verde Textil is certified by Global Organic Textile Standard (GOTS) whereas Chaco does not have any certification.
- Most design ideas come from Alejandra and are then developed further with a dressmaker.
- Home workers make the productions of the clothes in workshops with dignified conditions and Alejandra personally visits the sites to make sure the conditions are appropriate and holds monthly meeting with all members of the team.
- Point of sales: Cubreme is offered in a main showroom in Palermo and has presence in 5 shops across Buenos Aires.

Economic aspects

- Took about two years to gain ROI, before the opening of a show-room.
- Monthly revenue: 40,000 pesos.
- Alejandra and her partner are the sole proprietors.
- Given the commercial structure and long-term objectives of the company; every part of the supply chain needs to grow in the same pace and every part needs to get their fair share. This implies lower marginal profit for Cubreme.
- No help from the government to the textile industry, hence double effort of keeping the production and trying to make it grow is needed.
- Cubreme has several target customer, some that already are truly ethical consumers, that are living in a sustainable way and hence are looking for sustainable alternatives in every aspect of their life (food, transport, clothing),
and some that are starting to get aware of sustainable issues and finally some that purchase the product due to its good quality. Time-less designs (not trends, customers that want classic clothing). The same customers that are looking for time-less design are often interested in the exotic materials in Cubreme's clothing, for example many tourists are interested in the bamboo products, etcetera.

- Although the prices are high Cubreme tries to produce clothes for each different customer segment so that everyone can have access to sustainable clothing and so that Cubreme can be a part of the change. Well-positioned in relation to the quality you get for the money spent.
- Very competitive in the local and international market.
- Competition: Cubreme argues that the only competitors are the ones that produce in sustainable means using alternative fabrics or qualified artisans or craftmen. Examples of competitors: Cosecha Vintage, Un secreto, Maria Rojo (all actors in Argentina).

**Social aspects**

- The spinning mills, looms, tailors that work with Cubreme are all closely involved and are a fundamental part of the project. Alejandra personally supervises all these suppliers and makes sure working conditions are the best and compensates them generously. Production is made locally in Buenos Aires Province. The sewing of the product is made by women working from home, organized in a network and the fair social conditions if for example secured by monthly meetings with Alejandra.

- Even the packaging is made by a cooperative that recycles old magazines (Old National Geographic provided by Alejandra herself) into paper bags. The workers are all housewives in low-income households that make the bags during their spare time to help with the home economy.

**Environmental aspects**

- All materials in Cubreme products are produced with organic cotton, bamboo based cotton, sustainable lama, alpacas, merino and sheep wool, natural fibers, linen from Brasil, silk from Paraguay and no synthetic fibers. Also, no
chemicals are used at any stage of the production and all raw materials are renewable.

- The brand's pieces are absolutely dye-free, with all the colors from the coats obtained from the natural shades of the animal hair. Classic yet contemporary, the label has two lines: warm and cold season, without paying attention to passing trends.

**Key success factors and issues on the market**

- One of the biggest issue is the import restriction to Argentina, as there currently is few or no local supplier of organic materials.
- One of the major success factors is Alejandra’s passion and extensive knowledge.
- There has been great interest from the media in the new organic trend and Cubreme was one of the first major players in the market, this helped with Cubreme’s exposure as Alejandra was interviewed in several major newspapers and magazines during her early years.
- Another success factor is the small social entrepreneurial network in Buenos Aires and the fact that they all work together towards a common goal.
- The short production chain and the direct contact between owner and all members is fundamental to take care of the social and environmental factors.
Appendix 5: Interview with Cristóbal Costa, CSR Manager of the Argentinean division of Patagonia (2014-04-8)

Patagonia was the first company ever to be certified by B Corporations, which means the 70 suppliers globally are all covered by rigorous social and environmental performance standards and they are all accountable and transparent. These can be all found on Patagonia’s website, most of their suppliers are centered in eastern Asia and some in North America.

Patagonia currently has presence with their own stores in 15 markets and through resellers worldwide. In Argentina Patagonia has partnered with Ovis21 (also a B Corporation) to source sustainable wool from them. In turn this organization certifies that the product comes from responsible producers that are keeping and restoring their natural grasslands, and keeps instructing them together with The Nature Conservancy. To secure that the obligations are fulfilled all the farms are audited monthly by the association. Patagonia Argentina has recently also initiated a relationship with a cooperative in Buenos Aires, in order to produce organic cotton t-shirts locally.

Patagonia participates in a number of global and local organizations, initiatives and programs that are aiming to improve both environmental and social performance within textile industry. The Argentinean division also takes part in the 1% for the planet incentive, which implies donating 1% of their yearly proceedings to different Social or Environmental NGO’s. Patagonia Argentina has 10 employees working in the single flagship store. The offices and warehouse are also located in Argentina. Cristobal considers that there is a market for high-end sustainable textile products in Argentina. His major issues are the barriers to importation existing in Argentina and how this affects the costs and final price.