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Consumers' right for information on labour standards under which the clothes and sportswear sold in the European Internal Market are produced: Legal basis in the EC law and the rationale in buyer behaviour

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## Abstract

Consumers are increasingly becoming aware of the abusive exploitation of workers in some of the factories in the development countries that are contracted to produce exports to the European market. Thus, some of the consumers try to promote the enforcement of ethical business practices globally by using their buying behaviour. In effect, the ethical consumers prefer to buy ethically sound goods to the perceived unethical goods if there is no significant upward change in the selling price. To do so, consumers must have accurate information of the labour standards behind the clothing and sportswear brands available at the buying situation. This information however is seldom available and that causes information asymmetry between the businesses and the consumers. Such an imbalance of information hinders the efficiency in the European Internal Market; therefore this issue is an interest for the European Union and the EC law to address in regard to the European Union's overall objective of fully functioning Internal Market. Consumer protection is recognised as a principal objective of the Community in the Treaty establishing European Union. Is the European legislative framework however developed enough to enable legislative measures regarding consumer rights for extrinsic information of products, such as the information on product's impact on the environment? This paper concludes with the issue of corporate social responsibility being more important than ever and thus also corporations should take its addressing seriously. For example, perceived association with unethical practices may have harmful effects on company's brand image and thus have an undesirable influence on performance. On the other hand, being proactive in the field might be a source of innovation and increased resource productivity whilst the commitment to the social responsibility could add value to the marketing activities.

### Keywords:

Buyer behaviour, marketing, corporate social responsibility, brand image, business ethics, labour standard, clothing and sportswear, consumer protection law, EC law, European Union, ethical consumer, information asymmetry

## Abbreviations

EC	European Community
ECJ	European Court of Justice
EU	European Union
GATT	General Agreement on Tariffs and Trade
HS	Helsingin Sanomat
ILO	International Labour Organisation
MIT	Massachusetts Institute of Technology
MNC	Multinational Company
PWC	Price Waterhouse Coopers
SEA	Single European Act
TEU	Treaty establishing European Union
UN	United Nations
UNDP	United Nations Development Programme
WTO	World Trade Organisation

# 1. Introduction

Clothes and sportswear sold in the European Internal Market are manufactured increasingly outside the European Union in order for businesses to reach the lowest possible production costs. Media and human rights associations however report to the European public on the issues related to the production of the clothes and sportswear, such as poverty, use of child labour, dangerous working conditions and disrespect for labour rights, which sometimes involve directly or indirectly the western businesses. These practices are foreign to European culture of business conduct and thus perceived as unethical and unacceptable by many. Since the businesses associated with unethical practices produce everyday items for the European consumers, the knowledge of corporate misbehaviour in the countries of inadequate legislative frameworks for working standards leads some consumers to feel guilt and other negative feelings. People in the western world in general rely on market forces that are defined by the interrelationship between the supply of goods and public's demand for them. Therefore many consumers might say they would rather not buy goods that are produced under unethical labour conditions because they are under the belief that boycotting such products will lead the unethical production methods to cease. If however the consumers are not made aware of the unethical labour practices behind the products, which is most of the times the situation today, they cannot choose between the competing products in the marketplace accordingly. Thus the market forces of the European Internal Market cannot work efficiently since the consumers do not have enough information that would enable the formulation of their demand for goods according to the consumer preferences.

Because of the assumed asymmetry of information in the European Internal market, this thesis deals with the consumers' right for information on labour standards within the European legislation and with the buyer behaviour that explains the rationale for needing such a right. The aim of this paper is to explore whether the citizens of the European Union (EU), as individual consumers and as a collective entity, have the right to be informed about the labour standards behind the goods they buy? On the other hand, is there in buyer behaviour a need to have this information available for the consumers? If so, are there any implications of this to the business administration regarding the European markets?



This study focuses on clothing and sportswear goods because the garment and textile industry is one of the biggest and most globalised industries in the world. Clothing is also a necessity for all of us; therefore issues related to that industry are of relevance to everyone who buys clothes. According to International Labour Organisation (ILO)<sup>1</sup>, world textile employment was in 1998 estimated to be 16.4 million, clothing employment 11.2 million and footwear employment 1.7 million, making a total 29.3 million people. Between 1980 and 1995 total world employment in textiles, clothing and footwear did not increase very much although the geographical distribution of employment changed dramatically as the employment in this sector in Europe and Americas fell sharply whereas increase in Asian countries has been particularly marked. For example, in the textiles industry, the EU has faced a fall of 46% between 1990 and 1998 (ILO) whereas in Bangladesh almost a million jobs have been created in the garment industry during the last fifteen years (Wearing Thin, 2001). Clothing and sportswear manufacturing is the most important source of employment for the world's most vulnerable, such as migrants, women and children since it is labour intensive and does not require skilled workforce. In 1995, women occupied 74% of the jobs in the clothing industry. Altogether, clothing and textiles industry has a share of 5.7% of the production value of the world manufacturing output, 8.3% of the value of manufactured goods traded in the world and employs more than 14% of the world labour (European Commission<sup>2</sup>).

Thus, the objectives of this paper are:

- To find a legal basis from the legislation of European Union for requiring sellers of clothes and sportswear to declare fully and accurately to consumers under which labour conditions the clothing and sportswear are manufactured
- To study buyer behaviour in order to demonstrate a justification for such a legislation

The way in which I am going to reach these objectives will be discussed next.

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<sup>1</sup> See ILO website [http://www.ilo.org/public/english/dialogue/sector/techmeet/tmlfi00/tmlfir.htm#\\_Toc488740549](http://www.ilo.org/public/english/dialogue/sector/techmeet/tmlfi00/tmlfir.htm#_Toc488740549) [Accessed 8.5.2002]

<sup>2</sup> See European Commission's Website <http://europa.eu.int/comm/enterprise/textile/overview.htm> [Accessed 8.5.2002]

## 1.1. Research questions, limitations and methodology

If the European people as individual consumers did know about unethical or ethical working conditions behind the product labels, would that influence their individual buying decisions? Furthermore, could providing that information be regarded as a matter of consumer protection in the European supranational community legislation?

To study these questions, I will try to give scrutiny to both legal and marketing disciplines to address the paradox between product information and market competitiveness. Moreover, I will look at the legal framework as an opportunity to structure it. First I will study the European Community (EC) law in order to try to find what is covered by the consumer protection and whether it includes the right for knowing about the labour standards in production of goods. Secondly I will look at forces behind the ethical consumerism to study what, if any, drives European consumers to be willing to act on the mandatory information on labour standards in the marketplace.

There are however some limitations regarding the scope of this study. The research questions are rooted also in other disciplines than buyer behaviour and law, such as anthropology, sociology, economics, history, politics and international relations. Those however will not be given the study they deserve because that would be beyond the scope of my thesis. The questions affect many levels of stakeholders, each of them with perspectives of their own. Although retailing has a major role in formulating the selection of goods available for the consumers, it will not be discussed in this thesis. The assumed change towards ethical consumerism is likely to influence companies' marketing practices too if not only production methods, policies and human resource management. I will try to project any possible implications of ethical consumerism and possible legal measures as such on business administration yet it is not the main objective for this study. Furthermore, individual national economic states and supranational bodies, such as the World Trade Organisation (WTO), have all both major economic and political interests towards these issues, but will not be discussed in this thesis because that would be beyond the questions of my study on consumer behaviour and relevant European legislation.

Methodology for this thesis is twofold because of the nature of studied disciplines, law and business administration. Primary EC law sources are the EC treaty and Protocols as amended until the date. Secondary sources of the EC law are the Regulations, Directives and Decisions. Even though Opinions and Recommendations issued by the European Court of Justice (ECJ) are not binding nature they are regarded as comprising the entire jurisprudence of the European Courts, provided that they concern Community law matters. The EC law comprises also international agreements, such as General Agreement on Trade and Tariffs (GATT) and WTO, which are entered into by community institutions on behalf of the Community pursuant to their powers under the EC Treaty. Methodology for studying buyer behaviour is to use both primary and secondary sources of information as well as published literature on the subject. Investigation will take a form of analysing some of the established buyer behaviour theories and reviewing literature and articles relevant to the topic.

Primary research on buyer behaviour will be conducted by exploratory interviews concerning the research questions. To have a pan-European perspective to regarding interview questions, I will select candidates of different nationalities of the EU. In particular, my plan is to choose representatives of nationalities from those Member States of European Union, where consumers in general are found to be interested regarding the ethical matters.

In the next chapter I will try to give information on background of those recent global economics and developments that have led to the increased importance of ethical buying behaviour.

## 2. Background

In this chapter I want to bring up developments in global economics regarding the multinational companies, macroeconomic developments and consumer responses in order to give background to the subject of this thesis.

Increase in the international trade, which is actively promoted for example by World Trade Organisation (WTO), is often referred as globalisation. The WTO and EU promote the globalisation because they see international trade as one of the means that enables the world's economic actors to cooperate in order to enhance overall economic growth and meet consumers' needs. Globalisation has given multinational companies (MNC's) extensive opportunities to enhance their value chains by shifting manufacturing functions into developing countries where low wages and non-existent labour unions prevail. Production of clothing and sportswear is no longer seen as the value adding core competence of MNC's but expansion strategy and brand extensions for the company and designing and marketing the products. Therefore the making of clothes is often outsourced from the local contractors in developing countries. This has enabled the avoidance of Western tradition of national state that has for at least 300 years provided legal framework for market processes. As a result, the MNC's have been able to gain more competitive advantages than necessary from the global inequalities of labour legislation.

The rationale behind the globalisation of clothing manufacturing can be illustrated by the actions taken by the jeans manufacturer Levi Strauss. As Levi Strauss Americas division's president John Ermatinger explained the disappearance of 16,310 jobs from Northern America between November 1997 and February 1999, the strategic plan of Levi's in North America was to focus on brand management, marketing and product design and shift a significant part of the manufacturing to contractors throughout the world in order to give the company greater flexibility to allocate resources and capital to its brands and to remain competitive (Klein, 2000).

In January 1999 European Parliament voted in favour of resolution to promote European based MNC's ethical accountability by supporting code of conduct initiatives. The "Howitt resolution" proposes the establishment of a European Commission model Code of Conduct and the set up a monitoring body. European Commission put forward a Green Paper [a publication aimed to communicate on a specific policy area] in July 2001 on promoting European Framework for Corporate Social Responsibility, whereby companies voluntarily decide to take actions to contribute to a better society. However, there are some questions as to how effective a voluntary code of conducts can substitute for an internationally enforceable legal framework to regulate decisions taken by MNC's? Many manufacturers of clothing and sportswear have introduced code of conducts but those have seldom been found to improve working conditions at factory-level (Clean Clothes Campaign, 2001)<sup>3</sup>. The reasons for ineffectiveness of the use of voluntary code of conducts can be found for example from the structure of production chain for clothes and sportswear. For instance, many subcontractors produce goods for different MNC's and are therefore exposed to a multiple set of labour standards and varied monitoring mechanisms. Moreover, the introduction of code of conduct is often seen as a top-down public relations exercise rather than a concrete action. The labour force and labour organisations have seldom been given role in drafting them although they are whom the codes of conduct are supposed to protect.

There is however also a positive evidence of the effective use of voluntary code of conducts. Clothing manufacturer H&M has identified that corporate economic success requires the consideration of sustainable development to be addressed in the business strategy (HS, 25.5.2002). TV-documentary in the mid 1990's on H&M's unethical labour conditions had an unfavourable effect on H&M's brand image and resulted dissatisfaction amongst consumers. Thus H&M draw and set a code of conduct for ethical labour standards by employing information and influences from the International Labour Organisation (ILO), the United Nations (UN) in addition to consumer organisations and other businesses. The code of conduct is non-negotiable requirement for all the parties involved with the manufacturing of goods. H&M sees the implementation of code of conduct as a success; the contractors have followed the rules and the most serious violations of labour right's have been amended yet the implementation is still to date in process. The reason for successful implementation results so far is identified by H&M to be its own organisation of the

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<sup>3</sup> Clean Clothes Campaign's respond can be accessed at <http://www.cleanclothes.org/news/01-12-21.htm> [Accessed 13.5.2002]

local inspectors carrying out the monitoring of the code of conduct requirement enforcement, thus ensuring the expertise knowledge on local cultures and requirements.

The WTO rejected all attempts to establish rules for the protection of environment and labour during the Uruguay Round (1986-1994) on arguments that the ILO is responsible for this. However, the ILO is based on arrangements between worker unions, employers and governments, which are rather inadequate settlement in today's situation as governments are trying to pursue as competitive states as possible in order to attract foreign direct investment and therefore the interest of employers is directed against the establishment of social clauses. Control of capital i.e. outward foreign direct investment by MNC's is close to absolute.

Moreover, the national industrial relations in the developing countries, such as labour union developments, are a great source of fear in the export processing zones, the phenomenon seen in the U.S during the first decades of 20th century. In some countries, such as Sri Lanka, the strikes are illegal actions. As a result of hostility towards labour unionisation, a worker has no job security but is instead exposed to death from being locked to the factory or laid off for trying to improve conditions by own initiative (Sweatshop Watch 2001<sup>4</sup>, Wearing Thin, 2001).

Contractors throughout the world are often located in export processing zones or free-trade zones of Indonesia, Mexico, China, Vietnam and Philippines among the other developing countries. These zones are minimum-tax military state economies, separated from the local governance. United Nations and Social Council first introduced export-processing zones in 1964 in order to promote trade in the lesser-developed countries. However, they only became feasible options in the eyes of MNC's in the early 1980's when India offered a five-year tax break for those producing in its low-wage zones meanwhile the materialism raised its head in the western world. At the change of the millenniums, the International Labour Organisation argues that there are at least 850 export processing zones in the world employing more or less 27 million people yet some estimates are much higher (Klein, 2000).

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<sup>4</sup> For more information, see [http://www.sweatshopwatch.org/swatch/headlines/2001/nlcfire\\_aug01.html](http://www.sweatshopwatch.org/swatch/headlines/2001/nlcfire_aug01.html) [Accessed 11.05.2002]

From the economical point of view, the use of tax relieves as an incentive to attract foreign investment is seen as a dose of anabolic steroids (Oxelheim, 1996), which hardly contributes to the sustainable development<sup>5</sup> but ultimately leads and has led to an investment war instead. The periods in history after any wars, financial distress and disputes have been featured by extensive regulatory efforts. Furthermore, this type of short-term policy-making increases the effect of political risk premiums on interest rates, which in return has adverse effects on any economy as a whole.

The workers' stories from export processing zones are consistent throughout the world – workdays last from 12 to 16 hours, majority of workers are migrant young women, the contractors fill the orders from the companies that are originated in the U.K., U.S., Canada, Germany or Japan, the wages are below subsistence and the work tedious requiring low skills base (Klein, 2000). Because the MNC's do not pay taxes at all or only to the limited extent, the local infrastructure has no possibilities of development by the aid of tax contributions. In contrast, the environment outside the export processing zones is more likely to feature urban ghettos of migrants without basic services, uncontrolled pollution of natural resources and high crime rate rather than schools and commerce (Klein, 2000). The governments are not willing to raise requirements for the foreign companies in the fear of losing them.

For the MNC's an agreement to pay living wages<sup>6</sup> would still mean cost advantages. To illustrate this, living wage in China is approximately US\$0.87 an hour whereas corresponding wages paid in Germany and the U.S. are in average US\$18.50 and US\$10 respectively (ILO, 1996).

According to a study in 1998 (Kernaghan, 1998), the workers manufacturing clothing and sportswear for MNC's were paid from US\$0.13 to US\$0.35 instead of sufficient living rate of pay. The significance of these differences is illustrated in the figure below.

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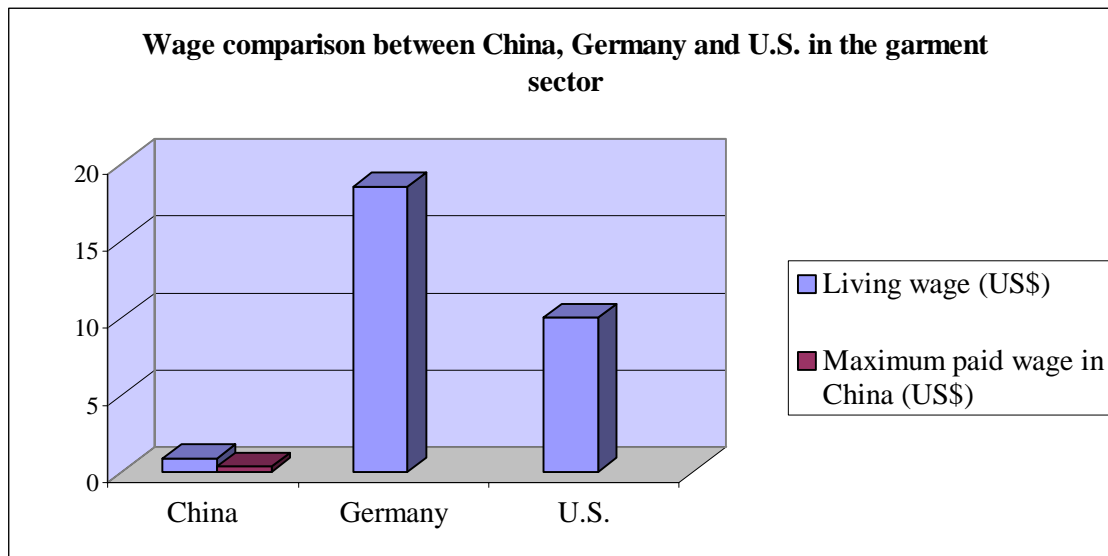
<sup>5</sup> Definition: Sustainable development:

"Development that meets the needs of the present without compromising the ability of future generations to meet their own needs." (World Commission on Environment and Development's report "Our Common Future", 1987)

<sup>6</sup> Definition: Living wage

"A wage that enables workers to meet their needs for nutritious food and clean water, shelter, clothes, education, health care and transport, as well as allowing for a discretionary income. It should be enough to provide for the basic needs of workers and their families, to allow them to participate fully in society and live with dignity" (Labour Behind the Label, 1999)

Figure 1.



Sources: ILO (1996), Kernaghan (1998)

The workers are afraid of losing their jobs, the factories are afraid of losing their contracts and the governments are afraid of losing the factories. This vicious circle is reinforced by the governments viewing export-processing zones as a matter of foreign trade policy rather than as a labour rights issue.

So far I have tried to give a broad illustration from a labour rights perspective of the problem area of outsourcing clothes and sportswear production as means of outward foreign investment. Next my aim is to provide a link between the unethical labour standards in production countries of clothes and sportswear and consumer perspective to these issues.



## 2.1. Consumers' right for information

Next I will try to highlight the topic from European consumer's perspective towards problem area in terms of ethical consumerism and individual consumers' right for information on labour standards.

Historically, the defence of consumer has always been given priority when it has coincided with the protection and expansion of the market. This can be seen as background to the development of market consumerism whose aim is to provide consumers with the adequate information on the characteristics of the product, which may influence consumer approval and choice. This notion includes both intrinsic, such as quality and price, and extrinsic characteristics such as impact on environment and solidarity concerns regarding the making of the product.

In the European Community legislation article 153 of Treaty establishing the European Community covers the consumer protection. In the paragraph 1 of article 153 community commits to *“contribute to the protection the health, safety and economic interests of consumers, as well as to promoting their right to information, education and to organise themselves in order to safeguard their interests”*. In paragraph 2 of Article 153 it states *“consumer protection requirements shall be taken into account in defining and implementing other Community policies and activities”*. Therefore there is in theory a legal basis to promote garment and sportswear manufacturers to disclose the information on under which conditions the goods are produced.

Access to information is the key element in the liberal conception of the world and finds its principal expression and condition in the free competition of market forces. A well-informed consumer is the one taking a decision on prevalence of one company's products over the other. It is expected of adaptive capacity of liberal model that seller incorporates and uses to its own advantage any request for adjustment as long as it does not affect adversely the core competencies.

An ethical consumer<sup>7</sup> is seen today as a rational and moral decision maker who takes appropriate responsibility of environment's well-being and constantly looks for relevant information to base the decisions on (Moisander, 2001). The presumption thus is that the buying decisions of individual consumers accumulate into sustainable development somewhat naturally and simply. Therefore it can be argued that ethical consumerism is perceived by the consumers as a driving force to reduce abusive exploitation of global inequalities. For this argument to be true, the ethical consumers would have to have all the information needed to make rational choices according to their morals.

Information provided to consumers is commonly limited to tangible features of the good in question, such as material, care instructions and size. Information on intangible features of goods, such as production methods, is seldom made available. Exceptions to this are businesses that have made ethical approach towards their business practices their critical success factors. For example, the Body Shop cosmetics company informs its public very clearly about values it stands for, such as its stance against animal testing, its commitment to protection of environment, its commitment to defend human rights, activation of self esteem of in its employees, consultants and customers and its support for community trade by enabling its customers to spend their money where it makes a positive difference (The Body Shop, 2002). At the moment, there are labels available to inform consumers of production methods, such as Fairtrade label<sup>8</sup> and labels for organic food products. From these examples of ethical trading approaches, we can observe that many consumers do care about the production methods. For example, in Finland consumer demand for Fairtrade labelled tea increased 82% in 2001, for chocolate 55% and for sugar 174% (Reilukauppa, 2002).

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<sup>7</sup> Ethical consumerism is defined by UK based Ethical Consumer organisation as "buying things that are made ethically by companies that act ethically. Ethical can be a subjective term both for companies and consumers, but in its truest sense it means without harm or exploitation of humans, animals or the environment"

<sup>8</sup> Criteria for Fairtrade label can be viewed on <http://www.fairtrade.net/criteria.html> [Accessed 5.5.2002]

The hypothesis of ethical consumer being a rational and moral decision-maker loads consumers with a responsibility to act always the way that drives the positive change. On the other hand, ethical consumer's buying behaviour is by no means genetically programmed to be ethical, nor is she or he independent decision-maker but exposed to many external influences. Hence the ability to act ethically is hardly based on rational thinking and autonomous choice. Therefore the responsibility of global equality should not be placed on consumers to the extent it is at the moment. In the current situation, the will for global equality has been heard although western world's efforts on sustainable development in the lesser-developed countries require purposeful political and economical choices at the supranational level, for instance at European Union level.

So far I have been trying to draw a picture of ethical consumerism at individual level in order to justify the need and legislative basis for consumer protection laws to ensure the consumers' right for information on labour standards. Under the next heading I will try to put ethical consumerism into a microeconomic perspective to view problems in the current situation.

## 2.2. Microeconomic perspective

In the following, I will try to see European consumers as a collective entity from the microeconomic perspective and bring up problems of ethical consumerism as means of promoting global equality caused by the lack of information and regulative measures to ensure it.

People in the Western World are increasingly aware of global disharmony of living standards and labour issues, such as worker's rights and the use of child labour. This can be recognised from the great number of organised interest groups, such as consumer organisations, and general attention given in the mass media. Furthermore, increased awareness is highlighted by appearance of Fairtrade label and ethical funds, which enable people as individual investors to react to their concerns by using their monetary power to some extent to promote ethical standards throughout the world. The monetary power of consuming however is not as straightforward means of promoting equality in practice as one would think in theory. The following research summary illustrates some of the views of consumers regarding the business ethics today:

The study by a Finnish market research company Marketing Radar (2001) found that almost 60% of the 18-65 year old Finnish interviewed (total 600) perceived it very important that companies had ethical rules to comply with. Only 5% of the interviewed did not attach any importance to ethical rules. Two thirds of the sample perceived that there are ethical problems in ways companies act and trade. Out of them, 20% mentioned child labour as a source of problem, 10% mentioned environmental problems (no details given here) and 9% inadequate information on country of origin of the product. Respondents listed most often the preferred ways of telling consumers to be reporting, use of television and labelling. The interviewed consumers mentioned most often (57%) child labour as an aspect of misconduct, second often disrespect of human rights and neglecting environmental management. However, 30% would accept use of child labour if the working conditions were good whereas more than two-thirds would not accept use of child labour in any circumstances.

Subcontracting from developing countries, producing in developing countries, shifting production to 'cheap' countries and misconducts in general in developing countries were viewed as central problem areas in this study. At the product level, the problems were associated with clothing (65%), carpets (37%), fabrics (22%), fitting and furnishing (15%), toys (13%) and sporting goods (9%).

20% of the respondents believed that consumers have power to influence by means of buyer behaviour and choices. 69% however believed consumers' bargaining power to be nonexistent.

If in Finland there were ethical rules for the companies, 12% would think they were very trustworthy and 66% would find those quite trustworthy. However, 19% thought that ethical rules would be quite unreliable or totally unreliable way of enforcing ethics. Reasons for unreliability were mentioned to be difficulties in monitoring (33%), general distrust (14%), money as a dominant value (13%) and disbelief on mechanism (12%). Among respondents who were familiar with Fair Trade products (51%), 40% had bought them. Most significant reasons for not buying products were limited number of distribution points and inadequate displaying of the products by retailers. The reasons mentioned for buying Fairtrade food products were experimentation and ethics.

From that study above, the most interesting finding is that almost 60% of respondents found ethical rules important to exist, 69% believed that the consumers' bargaining power to be non-existent yet 78% would find ethical rules at least quite trustworthy if there were ones. These findings are significant in the sense that there is very little information available at the moment on ethical

issues behind the product labels. Therefore the need for ethical rules can be assumed to be much higher if there was information on the scale of inequalities freely available and reported to consumers. On the other hand, since 69% did not believe they had consumer power in the marketplace, rules on ethical standards could increase ethical consumer's bargaining power at least in theory since 78% found ethical rules for the companies at least quite trustworthy if there were ones.

These inconsistencies illustrate the problems that ethical consumerism as an action of consumer behaviour faces today within the market economy system in force. Next I will put these findings into a macroeconomic setting to see the overall picture of the problem area.

### 2.3. Macroeconomic perspective

Here I will try to discuss the ethical consumerism in macroeconomic context by simplifying issues involved, i.e. global inequalities and western concern, in order to retain manageable analysis of the interactions of the global market economy.

Poor living conditions and furthermore working standards in developing countries are caused by poverty, low level of education and unfavourable international trading conditions, such as difficulties accessing export markets and world trade policies. Developing countries lack the know-how, education and experience of international trading and trading negotiations and are therefore at unfair competing position in relation to developed countries. This has led to a race between the developing countries offering the lowest cost in order to attract international investment (Klein, 2000) to gain export income – at the expense of local welfare.

Common people of western world, as habitants of the world, are concerned of the lack of welfare in the developing countries. Some of them are concerned with poverty, some with environmental problems and sex trade. Others are concerned with the appalling condition of workers, whose work input is used to produce goods to be sold for Western consumer in the Western market under Western label at the price that is many times higher than a unit production cost. The proponents of linking worker's rights and trade argue that everyone engaged with international trade should follow the fundamental principles of human rights (Leary, 1996).

However, this inequality cannot be solved solely by legal mechanism to force better national labour laws in the developing countries or by simply freeing the markets. Arguments to doubt labour laws' and human rights' ability to reduce inequalities are grounded in legal uncertainties in the development countries as well as economic hazards such actions could cause in short-term and the political difficulty of enforcing such laws. On the other hand, freeing the markets as means to promote equal wealth distribution in the world is inadequate because of asymmetries of information in the market place. In other words, lack of information prevents free markets from being 'free' and consequently 'invisible hand' introduced by Adam Smith in 1776 from doing the honours on a fair manner. Therefore, the viable alternative could be to enforce legislative measures on

corporations that link western consumers to exploitative practices in elsewhere. This argument is furthermore supported by the economic logic illustrated by Porter and van der Linde (1995).

From a corporate perspective, Porter and van der Linde (1995) argued that enforcing regulations concerning the environmental protection would actually benefit the companies and the economy as a whole. In their research they found out that tougher standards pushes businesses to initiating innovations and using their resources more productively. Therefore environmental improvements should be viewed as an economic and competitive opportunity rather than cost or an unavoidable threat. Porter and van der Linde recognise that environment, resource productivity, innovation and competitiveness should be linked together as an economic logic.

In this chapter I have been trying to establish an economical chain between ethical consumerism, the lack of information available on unethical production methods to consumers and the role of corporations to give background for the study if legal mechanisms providing consumers with information on labour standards are needed to provide consumers with sufficient information. In the next chapter I will concentrate on legal aspects of providing consumers with adequate information in order to solve mechanical problems of supply of clothes and sportswear meeting the demand of ethical consumer.

### 3. Legal environment for the consumer protection laws

In this chapter I will try to examine from a juridical point of view the requirement to give information on production methods. In specific, my aim is to study the European legal environment to see if providing consumers with information on labour standards could be regarded as a matter of consumer protection within the legislation of European Union.

Articles 2,3 and 4 of the Treaty establishing European Union (TEU) are inter-related and fundamental framework for the European Union's legislation. Article 2 sets the objectives for the legislation whereas Article 3 sets the means to achieve them. In specific, Article 2 of the TEU sets a principle objective of high degree of competitiveness for the community. The means to achieve high degree of competitiveness is described in Article 3 paragraph 1 (g), which states that the activities of the Community shall include "a system ensuring that competition in the internal market is not distorted". Furthermore, The European Union<sup>9</sup> introduces competition policy for the Community in the following way:

*"Competition policy is essential for the completion of the internal market. The raison d'être of the internal market is to allow firms to compete on a level playing field in all the Member States. Competition policy seeks to encourage economic efficiency by creating a climate favourable to innovation and technical progress. It protects the interests of consumers by allowing them to buy goods and services under the best conditions. It also makes it possible to ensure that any anti-competitive practices by companies or national authorities do not hinder healthy competition."*

Next to policies on agriculture, the EC competition policy is the most developed of the Community's common policies affecting businesses situated both inside and outside of the borders of European Union. In the other areas of law, the implementation has been relatively slow (Steiner and Woods, 1998). However, areas such as health and safety, environmental and consumer protection and research and development, have been progressed only after Single European Act (SEA), furthermore the Treaty establishing European Union (TEU) ensured continuing activity in

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<sup>9</sup> European Union's Competition policy <http://www.europa.eu.int/scadplus/leg/en/lvb/l26055.htm> [Accessed 9.3.2002]



these fields. By its nature, competition policy is fundamental for establishment of the Internal Market. Without competition law there would be perhaps no effect of having free movement of goods and services and freedom of establishment. This would be because the competing actors in the marketplace would be free to use their bargaining power to engage in concerted practices or abuse dominant competitive positions and by doing so manipulate the market. The weight of competition law seems to lie very much on monitoring the mergers and acquisitions as well as restricting the abuses of dominant positions and forbidding concerted practices, hence maintaining somewhat favourable market structure for the competition between the undertakings. Providing buyers with information has been taken far when it might affect the health of good's immediate user or for example children in direct contact of goods. Other information, such as information on production methods, which might have an influence on buyers choice, has been left to establishments' own discretion to display and for consumer organisations to require. Rather in contrast, a requirement by a Member State for manufacturers to display good's country of origin that might give some hint on production methods to the consumer has not been permitted under the Community law (see *Commission v UK (re Origin Marking Retail Goods)* 207/83, discussed later).

The European Union has however moved forward since, allowing increasingly more sophisticated developments in the field of better consumer information. In this part of this thesis, I will focus on the EC legislation and developments after first trying to illustrate the theoretical justification for a requirement to display information on production methods. Furthermore, I will also discuss some alternatives and matters related to the implementation of such a rule.

### 3.1. Theoretical justification for the legislation

Next I will try to explain theoretical reasoning behind the need for legislation to provide consumers with information in the markets of informationally weak buyers.

Information asymmetry occurs when sellers know more about the products than buyers. In the market of clothes and sportswear, the consumers are seldom if ever informed about the labour conditions even though such information seems to have some significance to buyers. Therefore this market can be seen as one with informationally weak buyers. Stuart (1978) argued that if unit-specific information is costly, an unregulated market might settle into a sub-optimal equilibrium. That means that units of too low quality, in this case meaning clothes and sportswear produced under unfair labour conditions from an ethically concerned consumer's perspective, are produced and sold. Stuart concludes that efficient market outcome is only possible when unit specific information is available at a sufficiently low cost. Consumer protection laws, such as laws ensuring consumers' right for information on labour standards, increase the efficiency in semi-efficient markets, such as the European consumer market. Stuart (1978) classifies three possible ways to legislate sellers to make known qualitative product information: laws that force product quality disclosure to reduce information asymmetry, laws that regulate which quality may be regulated and sold and contract law as a third possible solution to information imperfection on product quality.

Laws that force sellers to display information could be problematic to comply with. For example, Stuart stated that if acquiring that information is difficult due to elusive nature of information, enforcing such laws could be either expensive or ineffective. One could assume that the clothes and sportswear undertakings either know that information from the first hand knowledge or at least have some means to find this information from the subcontractors. Since the level of labour standards is more or less under full discretion of undertakings and subcontractors to set in the development countries in the absence of labour laws that would protect the interests of labour. However, since the contractual culture might be rather different in developing countries from the western tradition, the undertakings may find it difficult to maintain certain code of conduct because of the lack of certainty when making agreements on labour standards with the subcontractors. On the other hand,

displaying such information could be in conflict with an undertakings brand concept and thus seen as problematic.

Regulator has to know how much information seller has and that the buyer does not know in order to regulate disclosure of information on labour standards. The buyers hardly have information on labour standards since the developing countries and issues related to unethical labour practices are most of the time geographically away from the buyers in Europe, thus they seldom have first hand knowledge on standards. In the current setting, it is very difficult for the consumers to know intangible qualities of clothes, such as labour standards, without assistance from the manufacturers, monitoring bodies, media or independent researchers. Stuart found also another point that could set off a requirement to display qualitative information if there is so much potentially important information that processing its transfer could be too expensive. This argument does not apply necessarily to the issue of labour standards, manufacturers are likely to know or at least be able to find out the standards of the workforce they use. In addition, Stuart argued that the information the sellers are forced to display to buyers might not be useful to the buyers, this depending on whether buyers can process the disclosed information. In order to enable buyers to process regulated information on goods, the European Union has developed consumer information services.

Moreover, Stuart listed conditions for the information to be provided to fulfil in order to be of any use:

- Information can be standardised
- Can be expected to be known by the seller
- Is not itself part of the good sold
- Can be evaluated easily by the buyer

Information on labour standards can be standardised as it has been standardised in the developed countries. Seller, as a manufacturer if not retailer, can be expected to be aware of the labour conditions or at least to have an access to the production facility. The information on labour standards is not a tangible part of the good sold and the buyer can easily evaluate it if the mechanism is provided. Therefore it seems that a law that requires sellers to display this information to reduce information asymmetry fulfils the conditions drawn.

The second alternative that Stuart introduced to reduce information asymmetry was to regulate which quality can be regulated and sold. Stuart argues that this alternative presents a problem because regulator would have to know all that is needed to forbid the production of low quality goods. Furthermore, to regulate which quality can be regulated and sold is politically impossible alternative since there is no power that would be able to forbid production totally under unethical labour standards. Therefore such an alternative would not only be inefficient but also have drastic short-term consequences in the developing countries. In addition, market for clothes and sportswear are multidimensional, therefore is it very hard to define fixed labour standard requirement to meet different standard requirements by consumers, even though it might be viewed as efficiency-increasing form of market intervention.

Absence of regulation on labour standard disclosure is the third alternative and corresponds the situation today. Parties can somewhat freely contract yet the buyers do not have at least most of the cases bargaining power to get information on labour standards. This is because retailers in general selling the clothes and sportswear do not necessarily have the information and consequently do not provide buyers with it when asked. Manufacturers are not willing to provide this information since they are not required to do so by law and furthermore, displaying information on possibly unethical labour standards could affect consumer's perception of the seller unfavourably. Recently Swedish consumer magazine *Ur Råd & Rön* (February 2002) in association with Finnish, Norwegian and Danish consumer networks and an Austrian consumer organisation approached 12 jeans manufacturers asking for how these enterprises have addressed worker rights in their operations. Only three manufacturers showed any interest towards ethical questions and were able to produce documents of their internal codes of conduct in this field.

So far I have tried to give a theoretical justification and alternatives to reduce information asymmetry. Since the hypothetical implementation of a law to provide information on labour standards require actions primary from the sellers, i.e. undertakings responsible for production decisions, it is reasonable to view such a rule from a corporate perspective.

### 3.2. Corporate perspective towards consumer protection laws

Here I will try to highlight corporate perspective to a legislation to reduce information asymmetry in order to give points that should be taken into consideration when drafting such a rule.

For the sellers of clothing and sportswear requirement to provide information on labour conditions will mean probably changes to the business processes. Those will possibly involve changes to the corporate culture and the internal control systems, reviewing the contractor and subcontractor relationships as well as creating the processes that allow monitoring of the labour standards. Since the information on unethical labour conditions may affect the demand for goods drastically, many companies would be forced by the market forces to improve the labour standards and thus to create adequate human resource management systems involving participation from the employees, labour unions and the consumer organisations. Many companies would perceive such a regulation as a cost and an inevitable threat.

In contrast however, Porter and van der Linde argued (1995) that regulations on environmental protection imposed on corporations should be viewed instead as a challenge and opportunity for the global economics to improve towards more competitive business practices and innovations. Here, providing consumers with information on production methods can be seen as an instrument to ultimately to protect the environment (workers) by ethical production methods. Porter's and van der Linde's view rely on linking environmental protection (here that is by ensuring consumers with information on labour standards), resource productivity, innovation and competitiveness together as an economic logic.

In order to realise gains from such an economic logic, Porter and van der Linde provided with a list of essentials needed when implementing the regulation, which I will discuss next:

- Require industry participation in setting standards from the beginning
- Make the regulatory process more stable and predictable
- Develop strong technical capabilities among regulators
- Minimize the time and resources consumed in the regulatory process itself
- Harmonize or converge regulations in associated fields
- Develop regulations in sync with other countries or slightly ahead of them
- Employ phase-in periods
- Regulate as close to the end-user as practical, while encouraging upstream solutions
- Enact strict rather than lax regulation
- Use market incentives
- Focus on outcomes and not specific technologies.

Requiring industry participation in drafting regulation is essential in order for businesses as industry professionals to bring up potential problems of regulation. Moreover, also the employees, trade unions and consumer organisations should be involved with the drafting in order for the regulation to be effective and meet its ultimate objectives: to inform consumers on labour standards as well as to encourage more corporations to adopt ethical practices towards their employees and yet gain efficiencies in the field of human resource management.

Regulatory process should be stable and predictable in order to gain the trust towards it from the corporations, consumer organisations as well as from the public. To be effective in delivering to all the participants, the law must ensure that it is perceived as legally certain. For the European Union, a rule that provides consumers with adequate information would also develop European Union with deeper knowledge on issues surrounding globalisation and prepare the Community's law making bodies with the better understanding towards the changing world economics. By minimizing the time and resources consumed in the regulatory process the European Union could reduce the frustration of the parties involved and also encourage the European consumers' belief in European

Union “playing a leading role” it says it does (“Sustainable Trade”, 2001<sup>10</sup>) towards its goals to contributing to the global sustainable development. For the corporations, this would also send a message that European Union is serious in its attempts towards business practices that do not abuse the development countries. The measures imposed on corporation must be also consistent with the associated fields, such as other qualitative labelling measures on clothes and sportswear. Thus, only one type of method to indicate the labour standard level should be used in all the Member States of the European Union. The consistency in product labelling will prevent from the problems arising from consumer confusion that could hinder the free movement of goods within the Internal Market. In order for legislative measures to apply indistinctively, they should be developed and adopted at the same time in all the Member States. Moreover, by being the first developing such a measure would ensure businesses in the European Union that earlier adoption opens opportunities to gain innovations in the field ahead of other competitors from the other trading communities, such as the U.S.

Although the legislative measures should be adopted simultaneously, it does not mean that all the businesses are as prepared for adoption and implementation of such a change in human resource management. This is caused by the fact that issues in question, i.e. labour standards, are by no means simple to tackle because they involve many aspects of corporate culture, human resource management and also different current practices involving local cultures and sub-contractor relationships in the production countries. Therefore in order to manage such dramatic changes soundly, the corporations should be permitted with phase-in periods or other methods to allow progressive change.

Porter and van der Linde recognise also the need to regulate as close to the consumer as practical whilst encouraging businesses with proactive solutions. According to this principle, it would be appropriate that the regulative measures where adopted at the Member State level. This, however, would be unnecessary and perhaps impossible because of the nature of European legal framework. By encouraging corporations to create up-stream solutions at Community level, European Union would contribute for encouraging for innovation in the area. Again, for being trustworthy from the European consumers’ point of view, regulation for displaying labour standards must be strict rather

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<sup>10</sup> European Union’s views towards sustainable trade can be accessed on its publication “Sustainable Trade”. It is available on <http://trade-info.cec.eu.int/europa/2001newround/sus.pdf> [Accessed 12.5.2002]

than vague. Given the nature of differing labour standards in different countries as well as complex organisation of monitoring, following strict rules can prove perhaps hard work at least to begin with but it could be well worth the overall benefits of implementing such regulation. Moreover, strict regulations put all businesses to fill the same requirements and thus enhance the competition and truly drive for innovation of efficient practices. To encourage businesses to create innovative practices, requirement to declare used labour standards should be focused on the outcome of providing consumers with information rather than on technologies and specific processes how to meet that outcome. The use of market incentives might be used as an incentive to persuade the industry to adopt ethical labour standards. Market incentives also might increase the international trading as such, thus promoting more efficient international markets.

So far I have given some aspects of corporate perspective to the legislation proposal in hand. Under the next heading my plan is to study current legislative measures in force of the EC law to see if there is a basis for a consumer protection law ensuring consumers with information on labour standards.



### 3.3. European legislation of consumers' right for information

Next I will try to cover relevant EC law in force to see how the consumer interests have been addressed so far and to see whether that allows future legislation to require sellers to provide information on labour standards.

Consumer interests are protected by means of three fundamental freedoms (i.e. free movement of goods and services, free movement of workers and free movement of capital) and competition legislation in the EC law. Thus, consumer protection is supplementary by its nature. Originally, there was no provision for consumer protection because of absent pressure from the consumers. Therefore consumer interests did not receive legislation until Treaty establishing European Community Article 3(s) (after amendment 3(t)) appeared. Moreover, the term '*measures*' in Article 95 and then again referred in Article 153 (3)(a) demonstrates that harmonisation measures are possible in this field within the current legal framework. Even if the TEU did not provide the Community with necessary powers to ensure consumer's right for information and this action proves necessary in course for the operation of the common market as it could be seen, the European Council could by responding unanimously on European Commission's proposal and after consulting the parliament take measures on the basis of the TEU Article 308. According to the principle of supremacy, secondary legislation at European level, such as regulation to require sellers to disclose information on labour standards under which clothes are produced, would be directly applicable in all the Member States.

Consumer protection is covered in the TEU by article 153. Paragraph 1 states: "*In order to promote interests of consumers and to ensure a high level of consumer protection, the Community shall contribute to protecting the health, safety and economic interests of consumers, as well as promoting their right for information, education and to organise themselves in order to safeguard their interests.*" Thus Community shall contribute to promoting consumers' right for information and education, which could be seen as concerning the disclosure of production methods behind the clothing and sportswear. So far, the community has principally focused on two areas: information and purchasing. The right for information is secured by requirement for transparency and by harmonising national provisions for basic features, such as packaging, labelling,

presentation, composition, quantities and prices and by harmonising weighting measures as well as by the development consumer information services. Purchasing policy development has been based on principle that consumer should be able to assess the basic features of the goods and services on offer in order to make rational choice between them.

Consumer protection has been included as means to meet European Union's principle objectives as it is specifically mentioned in Article 3, paragraph 1 (t), *a contribution to strengthening of consumer protection*. Primary legislation here does not define what 'consumer' exactly means. 'Consumers' features articles 33(1) (e), 34(2), 81(3) and 82. In contrast, in French version of Community legislation there is a difference between the '*utilisateurs*' and '*consommateurs*' (in English end-users and consumers respectively). In the secondary legislation, Directive 85/577, Article 2, consumer is defined as "*a natural person who, in transaction covered by this Directive, is acting for purposes which can be regarded as outside his trade or profession*". Furthermore, Weatherill (1996) argues that the minimum base of EC consumer rights must be ensured in order to have consumer confidence in the market. However, European Court of Justice recognises consumers of the member states, whose interests should be protected on non-discriminatory basis, as a different sets of people rather than as the EC consumers as a collective entity (Gormley, 1998). This has left us with the establishment of two kinds of laws: national legislations and Community legislation, which is in conflict with Weatherill's argument on minimum base of EC consumer rights.

A requirement imposed at the EC level for sellers to display labour standards under which clothes and sportswear are produced could be justified on the basis of theory of competition, which requires consumers to be informed on factors that might affect their decision-making when choosing between the products. In the case of *Commission v UK (re Origin Marking Retail Goods)* 207/83 Commission claimed however that British requirement for clothes and textiles sold in retail to indicate their country of origin was in breach of Article 28 (ex Article 30), which prohibits measures having equivalent effects of quantitative restrictions. The British defended that the requirement to mark the country of origin enabled consumer protection in terms of qualitative assessment since consumers regard the origin of goods, which they buy "*as an indicator of their quality or true value*". The Economic and Social Committee argued in 1981 (Official Journal, C 185, p.32) that although it is essential for consumers to be provided with adequate information when making buying decisions, it considered that indication of the product's county of origin did

not fill a genuine consumer need. The Court held that British regulation merely enabled consumers to accommodate their prejudices and thereby hindering the economic integration of the Community. Manufacturers remained free to display country of origin if they wished so but not compelled to do so. Furthermore, the Court argued that consumers were adequately protected by the rules that enabled prohibiting the false display of country of origin. By this decision the Court demonstrated at the time that products must be permitted to compete on their merits and not on the basis of their national origin. This case therefore indicates that a law for ensuring information on labour standards could be seen as having an equivalent effect to quantitative restrictions (prohibited by Article 28) and unnecessary because of the prohibition on giving false information.

On the other hand, a requirement for the sellers to display labour conditions under which clothes are made could be perceived as a measure hindering the trade and therefore restricting the fundamental freedom of free movement of goods. Articles 28 and 29 of the Treaty prohibit any quantitative restrictions on imports and exports or measures having equivalent effect between the States. Moreover, the Court has consistently followed the decision of the Case 8/74 *Procureur du Roi v Dassonville* ((1974) ECR 837) that Treaty Article 28 prohibits “*all trading rules enacted by Member States which are capable of hindering, directly or indirectly, actually and potentially, intra-community trade*”.

*Cassis de Dijon* Case 120/78 *Rewe-Zentral AG v Bundesmonopolverwaltung* ((1979)) demonstrated that some provisions can be necessary in order to satisfy *mandatory requirements* relating to fiscal supervision, protection of public health, the fairness of commercial transactions and the defence of the consumer. In the case 240/83 *Procureur de la République v Association de defence des brûleurs d’ huiles usages* ((1985)) ECR 531 the Court held that the protection of environment is “*one of the Community’s essential objectives*” and as such, protection of environment may justify exceptions to the principle of free movement of goods. Moreover, the SEA also confirmed this view. The TEU covers consumer protection in its Article 95 in relation to approximation of national laws. In the paragraph 3, the Commission as well as Parliament and Council to their respective powers commit to a high level of health and safety, environmental protection and consumer protection. So if the protection of environment was seen in the case 240/83 *Procureur de la République v Association de defence des brûleurs d’ huiles usages* ((1985)) ECR 531 as community’s essential objective, does consumer protection [as providing consumers with information on labour standards], fall also into the category of the Community’s essential objectives? One could see a law to provide

consumers with information also as relating to the fairness of commercial transactions and to the defence of the consumer and thus justify such legislation as a *mandatory requirement* described in *Cassis de Dijon*. If so, in effect, even though requirement to display information on labour standards could directly or indirectly, potentially or actually, hinder the trade to some extent; it would legally limit the application of Articles 28 and 29 of the Treaty.

Article 30, *rule of reason for mandatory requirements*, states following:

*“The provisions of Articles 28 and 29 shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of public morality, public policy of public security; the protection of health and life of humans, animals or plants; the protection of national treasures possessing artistic, historic or archaeological value; or the protection of industrial and commercial property. Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between the Member states”.*

The EC case law has not been consistent in its evaluations on Article 30 due to difficulty of its interpretation, particularly where there have been a number of possible justifications for the measures having equivalent effects to quantitative restrictions. Also, the possible hindrances it may erect between the Member States have been rather difficult to evaluate. In the case *Keck and Mithouard C-267 & 268/91* the Court however moved forward to say that if national provisions concerning selling arrangements are implemented and justified by the rule of reason, these measures must “*apply to all affected traders operating within the national territory and provided that they affect in the same manner, law and fact, the marketing of domestic products and of those from other Member States*”. This implies the principle of non-discrimination; the rules laid down must indistinctively applicable.

This was further confirmed in the cases of *Commission of the European Communities v Federal Republic of Germany 178/78* and *120/78 Cassis de Dijon* where the Court held that in the absence of Community rules relating to the marketing of beer beverages, obstacles to free movement can be accepted in order to satisfy mandatory requirements relating inter alia to consumer protection as long as the rules apply to domestic and to imported goods without distinction. In addition, it was also stated in the Case *178/78* that when consumers attribute specific qualities to a specific raw material, it is legitimate for a Member State to seek to give consumers the information which

will enable them to make their choice in the light of that consideration but the means to do that must not prevent importation of goods that are legally manufactured and marketed in other Member States. Therefore a system of mandatory information is permissible it must not promote negative assessment on imported goods. Thus, a requirement to display information on labour standard might promote negative assessment of imported goods because of possible revelations of unethical labour conditions. This, however, would be due to companies' unethical business practices and a result of consumer choice rather than cause by laws themselves that enforce the display of such information to consumers.

Furthermore, in the case *Commission of the European Communities v Federal Republic of Germany* 178/78 the Court held that if there is a choice between the alternative measures, the measures should be chosen that least restrict the free movement of goods. This principle of proportionality suggests that a law of requiring information on production methods should be least strict on its requirements as possible. Here there is a danger however that by imposing least restrictive measures regarding the information on labour standards, the objectives of such legislation might not be met.

So far in this chapter I have looked at enforced EC law to figure out how the consumer interests have been addressed in the past and to see what general requirements the past interpretation of law has set for the future legislative measures. Next I will try to give an outline of recent developments in the field of consumer protection policy as well as strategies and objectives European Union has set for the future developments to see if there is a framework for setting a law ensuring consumers with adequate information on production methods.

### 3.4. Developments in the EC consumer protection policy and law

In this part, my aim is to review developments in the field of EC consumer protection policy.

Providing consumers with information was left in Maastricht Treaty 129a for the Member States to pursue. The Commission however proposed to concentrate its efforts on harmonisation measures designed to provide essential guarantees to maintain to safeguard the mandatory requirements of Member States on its White Paper 1985 relying on principle of mutual recognition goods in all the Member States. This approach and qualified majority voting introduced by Article 95 has been followed by many initiatives and adoptions in the field of health and safety and environmental and consumer protection. However, under the subsidiarity principle in Article 5, any proposals that *“do not fall within its exclusive competence, the community shall take action, in accordance with principle of subsidiarity, only if and insofar as the objectives of the proposed action cannot be sufficiently achieved by the Member States and can therefore, by reason of the scale or effects of the proposed action, be better achieved by the community. Any action by the Community shall not go beyond what is necessary to achieve the objective of this treaty.”* The consumer protection however has been better achieved by the actions on the Community level. The Treaty of Amsterdam 1997 (TEU), finally confirmed this view.

The latest consumer protection action in terms of policy formulation was taken by the European Commission, which issued a *Green Paper*<sup>11</sup> on fair trading practices in October 2001. In that paper, the Commission recognises that fully functioning Internal Market could make a vast contribution to meeting the goals of the Community. The Green Paper aims to enhance a large-scale debate on different ways to improve business to consumer practices in the Internal Market by setting two options for the Community to pursue. The first option is a strategy based on Community level harmonisation on specific issues. The second option is based on an introduction of a framework Directive to cover business to consumer practices and thus to complement specific legislative

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<sup>11</sup> European Union's Green Paper on fair commercial practices can be accessed at [http://europa.eu.int/comm/consumers/policy/developments/fair\\_comm\\_pract/fair\\_comm\\_greenpap\\_en.pdf](http://europa.eu.int/comm/consumers/policy/developments/fair_comm_pract/fair_comm_greenpap_en.pdf) [Accessed 12.5.2002]

measures. The Green Paper also sets out options for ensuring and improving enforcement of consumer protection rules. The Green Paper followed an analysis (PWC, 2000) made for the Commission, which indicated that existing Community rules on consumer protection are not up to date with the marketplace. Commissioner David Byrne stated on the Commission's press release IP/01/1354 that the wide differences in national consumer protection laws of the Member States and the limited scope of the Community level consumer protection legislation are the main reasons behind drawing of the Green Paper. The self-regulation and co-regulation are the central part of the strategy. In its Memo 01/307 Commission however recognises that legal backup to self-regulatory codes is necessary so that companies that breach the rules are punished and consumers can be more certain the rules are respected.

Principle of mutual recognition of European standards for consumer protection laws would here least likely to be effective and politically hardly acceptable. Hence one Member State's adoption of a national measure to require businesses to display labour standards under which goods have been produced would unlikely to result European wide movement towards information display, given the size and heterogeneity of the market. This is reflected also in the consumer protection policy strategy that followed the Green Paper October 2001, which the Commission adopted on the 7<sup>th</sup> May 2002. Consumer protection policy strategy aims at high level of common consumer protection at Community level, effective enforcement of consumer protection rules and involvement of consumer organisations in the EU policies.

The Community's latest action on common consumer protection laws concerned labelling of wine. From January 1<sup>st</sup> 2003, all wines and wine products on offer in the Internal Market must be labelled uniform way. Provisions applying to wines from the third countries outside the EU are also outlined. The labelling measures require display of alcoholic strength, lot number or the name of the bottler. Also the use of certain optional terms, such as production methods, traditional expressions and name of the vineyard of the vintage year is regulated. Franz Fischler, European Commissioner for Agriculture, Rural Development and Fisheries said on the Commission's press release IP/02/648 that this decision was a cornerstone to better protection of consumers' interests, ensuring the smooth operation of the Internal Market and to promote quality wine. The comprehensive labelling system means that wine producers will inform the consumers better about the wine they are buying. Furthermore, this regulation sets rules for applying basic regulation as to description, designation, presentation and protection of certain products. Thus, similar regulation could be enforced for

other goods sold in the Internal Market to require a uniform manner of displaying information about the intangible features of goods.

In this part, I have tried to review European Union's recent developments of the legislative framework for consumer protection actions. Since the legislation to provide information on labour standards to consumers would affect imports to European Union's customs territory, I will try to give a brief overview towards the international arena of foreign trade policies.



### 3.5. Foreign trade policies on clothes and textiles: WTO

As a member of World Trade Organisation, European policies that affect its foreign trade are subject to WTO regulations on trade. The foreign trade policies subject WTO regulations are monitored and disputed in the WTO. Also the outlines for trade policies are set by WTO negotiations on multilateral agreements on trade of goods between its 144 (as 1<sup>st</sup> January 2002) member customs territories. By its agreements, the WTO prohibits quantitative restrictions, which are not consistent with General Agreement on Trade and Tariffs (GATT) rules between its members. In the textiles and clothing industry, members are required to gradually remove the existing quantitative restrictions.

Article IX of the GATT 1994 General Agreement requires that the difficulties and inconveniences, which marks of origin may cause to the commerce and industry of exporting countries be reduced to a minimum. On the other hand, Article XX (General exceptions) and Article XXI (Security exceptions) recognise that governments may need to apply and enforce measures for general purposes, such as protection of public morals, human, animal or plant life and health. Thus, nothing in the GATT 1994 prevents governments from adopting and enforcing such measures. In the case of general exceptions, the measures adopted are subject to the requirements that they do not constitute a means of arbitrary or unjustifiable discrimination, and that they do not represent disguised restrictions on international trade.

The requirement for all clothes and sportswear sellers to display information on labour standards as ensuring consumer's right for information is not likely to be an issue of breaching the rules set by the WTO. This argument is based on the factor that the possible increased returns for some manufacturers would be generated from the market revenues as a result of consumer preference and not by the protectionist foreign trade measures prohibit by the WTO. Moreover, since the requirement would apply to all, it would be non-discriminatory and by no means pursued as a disguised restriction on international trade.

### 3.6. Summary of the findings on the EC consumer protection policy

Here I will summarise the key findings of the European legislative framework regarding the consumer protection in terms of requirement to provide consumers with information on labour standards.

Consumers' right for information is seen as a subject to consumer protection laws. Consumer protection law is supplementary by its nature in the EC law, its justification is found from the EC competition policy that aims for encouraging economic efficiency and innovation and also for protecting interests of consumers by offering them the best conditions for consuming goods and services. Theoretically, clothes and sportswear market has informationally weak buyers when it comes to the information on ethical standards. Asymmetry of information can be removed by legal measures since the information on labour standards can be measured, it can be expected to be known by the seller at least in theory since the seller acts as a standard setter and has the adequate bargaining power over its subcontractors. In practice however, the enforcement of contractual terms with subcontractors could be difficult due to possible lack of certainty regarding the fulfilled obligations. Information on labour standards is not a tangible part of the good and the buyer can easily evaluate it, given that there is a mechanism, for example common labelling, to enable that. At the moment, however, the buyers and sellers can somewhat freely to contract. This however seems inefficient regarding the objectives of EC competition policy because the consumers do not have the access to the accurate and full information on labour standards and that information is needed. Sellers in general seem to only be willing to provide this information, if they have a record of respecting the labour rights. This leads to an idea that other MNC's reluctance to give information could be caused by the fear of unfavourable consumer reactions thus indicating of theoretical market inefficiency (as an opposite the EC objectives) caused by information asymmetry. On the other hand, some theorists argue that the corporations should view complying with the codes, such as decent labour standards, as an opportunity towards more competitive business practices and innovations. Thus, by taking actions towards more ethical labour standards and by reducing the information asymmetry, the benefits delivered could contribute towards the overall aims of the EC competition policy.

The EC's view towards consumer protection policy has developed during the last decades.

According to the EC case law, the Dassonville formula from 1974 prohibited all the trading rules that could actually or potentially, directly or indirectly hinder the trade within the Internal Market. Cassis de Dijon case in 1979 however established that rules that fulfilled the Dassonville formula could be permitted if they were to satisfy mandatory requirements relating to fiscal supervision, protection of public health, the fairness of commercial transactions and the defence of the consumer as long as they do not go beyond what is necessary and apply to all sellers on a non-discriminatory manner. In 1983 the court added that also essential objectives of the Community would justify exceptions to the principle of free movement of goods in the Community. Regarding the *Commission v UK (re Origin Marking Retail Goods) 207/83*, a national law requiring the origin of certain goods to be displayed as an indicator of good's true value or of the quality was considered as unnecessary by the Court since it saw that consumers were adequately protected by the rules that enabled the prohibition of displaying false information. In the case *Keck and Mithouard C-267 & 268/91* the Court moved on to approve national provisions concerning selling arrangements. In 1997 the Community recognised consumer protection as its essential objectives, thus giving room for further developments in the area. The consumer protection policy strategy the Commission adopted on the 7<sup>th</sup> May 2002 was said to aim at high level of common consumer protection at Community level, effective enforcement of consumer protection rules and involvement of consumer organisations in the EU policies. Finally the EC law on uniform labelling of wines (from 2003) proves that sophisticated consumer protection measures regarding the production methods of clothes and sportswear are possible within the EC legislation.

Laws at community level that affect the international trade must be however consistent with the WTO rules. If however there were a law concerning the labour standard information, the increased revenues would be a result of consumer choice rather than a foreign trade policy. Therefore the regulation might not be in conflict with WTO rules.

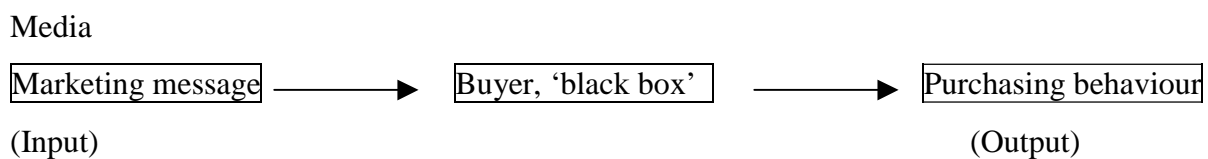
So far I have tried to cover the legal environment for imposing a Community level requirement for the sellers of clothing and sportswear to display information on labour standards in order to promote market effectiveness by improved conditions for consumer choice. Next I will discuss buyer behaviour studies in order to find out whether the information on labour conditions would have an effect on consumer choice.

## 4. Buyer behaviour regarding the ethical consumerism

Having discussed the European legal framework for consumer protection in terms of consumers' right for information, I will now try to study if buyer behaviour strives towards a need for the information on labour standards.

For the EU to set legislation at European community level to ensure consumers' right for information, regulators have to know how much information seller actually has and to know that a buyer is not aware of the facts that might affect her or his decision making towards purchasing (Stuart, 1978). Purely economic 'black box' approach considers input and output as most significant variables but ignores the buying process. The buying process remains therefore in dark, as 'black box' (Bareham, 1995).

Figure 2.



Source: Adapted from Bareham (1995)

For a cognitive consumer, the traditional marketing message i.e. intrinsic tangible characteristics of goods on offer, such as price, colour, size, shape and material, are not necessarily sufficient enough information in order to prefer one good over the other.

A need for the extrinsic information of products has appeared as a side effect of the economic growth in Europe after the Second World War. Many people in the developed parts of the world have learnt to have sufficient disposable income and to be able to meet more than basic needs for necessities. As a consequence of accumulation of disposable wealth of consumers, producers of goods and services have been able to increase sales prices by adding intangible value to the certain goods, such as clothing and sportswear, with the aid of marketing methods such as positioning by branding. These efforts have employed the use of images, celebrities and music in order to make the brands seem desirable at the emotional level. On the other hand, some businesses, such as the Body Shop, have used the ethical production methods as a point of differentiation. Successful marketing of intangible merits has enabled them to create dominant positions in the market and distribution points and enabled the companies to act as price setters in the market. This has decreased the consumers' bargaining power to choose from an adequately wide selection drastically.

The accumulation of the disposable wealth of individuals in the developed countries has also given the individuals economic independence from the community and pushed forward a cultural shift from collectivism to modern individualism. Thus, an individual is able to choose his or her ethics regarding the buyer behaviour and show how they work. On the other hand, individualism feeds materialism as means of allowing one to make independent consumption decisions in contrast of being controlled by the decisions of the community.

Bocock (1993) defined consumption as "a social and cultural process involving cultural signs and symbols". Consumerism has taken many roles in our society, Peattie (1995) recognised that consumerism occurs in an attempt to fulfil our needs and wants and therefore drives the economy, it can also provide entertainment and helps to define oneself. Consumerism can make a statement about who individuals are and how they perceive themselves. Consumerism can be a reward and is used as a proxy measurement of success. Consumerism can provide compensation for experiences and forms of satisfaction that are no longer available to consumers in other fields of life. Consumerism gives one power but can also become a disease.

In developed parts of the world people are learning that consumerism has also reverse sides to it. Not only does it fill the roles that were previously performed by direct human interaction, it is

performing those roles at the expense of environment and other living creatures in the world.

“William Rees, an urban planner at the University of British Columbia, estimated that it requires four to six hectares of land to maintain the consumption level of the average person from a high-consumption country. The problem is that in 1990, worldwide there were only 1.7 hectares of ecologically productive land for each person. He concluded that the deficit is made up in core countries by drawing down the natural resources of their own countries and expropriating the resources, through trade, of peripheral countries. In other words, someone has to pay for our consumption levels.” (Robbins, 1999)

Consumers are however slowly becoming aware of appalling living conditions in poor countries in contrast to abundance of material in developed countries. Consumers are increasingly learning of effects of the unethical practices in developing countries while providing goods for consumers in the highest-income countries. As a result, consumers may feel quilt over their consumption and/or perhaps be willing to use their consuming patterns and purchasing decisions to eliminate harmful practices and thus aim to reinforce fair re-distribution of wealth. Abandoning unnecessary consumption would probably be the most efficient method to save the world's resources yet the least feasible. This is because the economies of the developed countries are based on the consumption of goods and services; therefore collective ceasing from spare consumption of goods and services would consequently cause mass unemployment and social problems in our own backyards.

According to Human Development Report 1998 Overview<sup>12</sup>, the United Nations Development Programme (UNDP), the 20% of the world's people in the highest-income countries account for 86% of total private consumption expenditures whereas the poorest 20% of the world population account for a minuscule 1.3%.

More specifically, the richest fifth:

- Consume 45% of all meat and fish, the poorest fifth 5%.
- Consume 58% of total energy, the poorest fifth less than 4%.
- Have 74% of all telephone lines, the poorest fifth 1.5%.
- Consume 84% of all paper, the poorest fifth 1.1%.
- Own 87% of the world's vehicle fleet, the poorest fifth less than 1%.

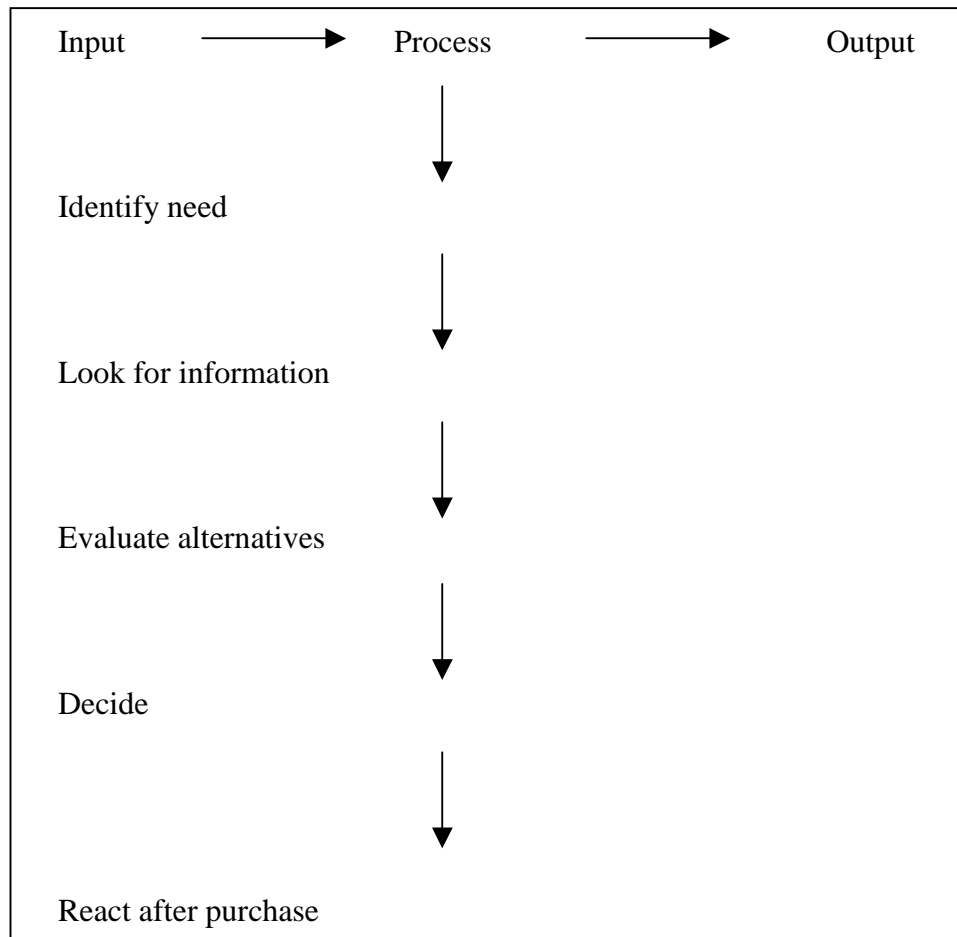
In addition to major inequalities in wealth distribution, the consumers are also gaining other information of the environmental crises through media, which are often said to be man made rather than natural disasters. Destruction of the rain forests and the pollution of the world's water reserves are truly global since they may affect directly or indirectly everybody's local environments even though they are occurring far away from the most consumers' own eye sight. Acknowledgement of the environmental issues and deepening of their scope translates into increasing societal concern and environmental education for consumers. This can be thus seen as a driving force behind ethical consumerism, i.e. consumerism that takes into account consuming processes' direct and indirect effects on self and others.

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<sup>12</sup> <http://www.undp.org/hdro/hdrs/1998/english/e98over.htm> [Accessed 31.3.2002]

Bareham (1995) simplifies the buying process down to elements of identification of need, collection of information, evaluation of alternatives, purchasing, evaluation of purchase performance and spillover effects of purchasing (see the table next).

Figure 3.



Source: Adapted from Bareham, (1995, page 4)



The buying processes are defined by the individual differences at every described level. Engel, Blackwell and Miniard (1993) argued that the three key factors influencing the identification of need (first step of the buying process illustrated above): Individual differences at personal level, environmental influences and information stores in the memory. The individual differences that influence the identification of need depend on the levels of consumers' disposable wealth, motivation, knowledge, attitudes, personality, lifestyle and demographics. The environmental influences that have an impact on the need identification derive from the culture, social class, personal influence, family and the buying situation. Information stores in the memory refers to learning from the experiences as a factor identifying a need.

After recognising the need, a consumer is likely to consider the information she or he has in order to fulfil the need in the most appropriate way. Information search combines two sources: external and internal sources (Rice, 1993). Internal information search involves the memory and the past experience whereas the external information search relies on the word of mouth, trial experiences and the marketing message delivered. Peattie's (1995) model of a green perspective on buying behaviour three categories of information regarding its gathering and analysis: product awareness, supplier awareness and socio-environmental awareness. The product awareness category includes quality and price, availability, distinctiveness, service, durability and sustainability. Supplier awareness means the information on corporate identity, nationality, social responsibility, eco-performance and locality. Socio-environmental factors involve awareness of issues, awareness of action strategies and awareness of commercial relevance. After the identification of want and collecting information regarding these factors, a consumer is able to reach his/hers expectation of economic satisfaction and comprehension of socio-environmental implications.

As a third step of the buying process, alternative evaluation is determined by the beliefs, intentions and attitudes (Rice, 1993). Beliefs, intentions and attitudes are determined by the culture. As Porter and Samovar (1994) defined it, culture refers to the cumulative deposit of knowledge, experience, beliefs, values, attitudes, meanings, hierarchies, religion, notions of time, roles, spatial relations, concepts of the universe, and material objects and possessions acquired by a group of people in the course of generations through individual and group striving.

Brown (1995) stated six key features of postmodernism (below with my examples):

- Fragmentation – growing product extensions, brand extensions, customised variations, engineered jeans.
- De-differentiation – blurring hierarchies, open offices, gender blending, high-low culture.
- Hyper reality – Virtual reality, Big Brother, Sci-fi industry, Fairy tales for adults, such as Harry Potter and Lord of the Rings.
- Chronology – Search for the authentic and a preoccupation with the past. No-nonsense advertising. Stability of good old days remains comforting. Organic food products.
- Pastiche – Copy paste of yourself and others. Slogans. For example, use of ‘Just Do It’ in other context. E-mails and text messages that travel around the world informally without any other meaning than entertainment. Andy Warhol’s artwork.
- Anti-foundationalism – Anti-campaign campaign. Culture jamming. Rejection of standard products in favour of less harmful to the natural and human environments.

Clothing brands have extended into sportswear and bags whereas sportswear brands have entered the casual clothing and accessories market, thus breaking from their former positions and come up with new features. For instance, the well-known brands, such as Nike and Levi’s, have extended their product ranges by starting to offer their customers custom made variations. De-differentiation has also driven the fragmentation of the industry as for example the phenomenon of City workers in London often choosing to wear casual sports trainers when commuting and by that breaking the strict business dress code. Ethical consumerism links to chronology feature if it is used as a medium to search for authentic ‘*real thing*’, as the famous marketing slogan for Coca-Cola states. To reflect chronology feature of postmodernism, an educated consumer is likely to prefer products made from organic and environmentally sound materials over the inexpensive goods produced to satisfy fast moving mainstream fashion trends. Anti-foundationalism drives ethical consumerism by promoting alternatives and counter-products in order to shake established foundations, such as strong brands. Thus postmodernism explains the consumers’ need to make ethical buying decisions. On the other hand, postmodernism as a term for cultural era does not provide any firm common ethical base or notion for widely accepted social justice according to its strongest critiques (Morawski 1996). Therefore it is left to the consumers to pick-and-mix the ethical path which to follow. Consumers demonstrate consistency between their values and the things they buy (Prentice, 1987). In

ethical consumption, the values are clearly driving the behaviour and particular product attributes are seen to aid a desired outcome or value (Clarke and Shaw, 1999). To illustrate this by examples, vegetarians are not likely to buy products that contain animal protein or a person concerned with hens' happiness will probably buy only eggs that are labelled with a guarantee of natural brooding conditions. In the clothing industry, vivid examples are the fur coats and accessories, which are not likely to be on a shopping list of an animal rights activist.

Consumer's appearance and social infrastructure make the extended part of one's self-definition (Belk 1988). Self-definition is not static but evolves over the time by individual and environmental formation. Individual may choose to an extent his or her self-definition by seeking certain social groupings and buying goods and services that reflect the individual values.

Belk defines four levels of self-extension:

- Individual level: Personal possessions reflect the self-definition, such as jewellery, cars and clothing.
- Family level: Consumer's residence and furnishing. It can be seen as a symbol for the consumer's family and often a central aspect of identity.
- Community level: It is common to describe oneself in terms of the neighbourhood or the town of which they come from.
- Group level: Memberships to certain social groupings can be considered as a part of self. Consumers may feel that sport teams, work organisations, theatre groups and political groups are a part of the extended self.

At individual level one may seek to communicate signals to others by buying certain brands and goods as a result of lifestyle marketing and branding. On the other hand, one may also seek to make a statement by not buying or wearing certain goods or brands, or by buying substituting goods, which by their own right make a clear statement against certain brands or lifestyle branding in general. Ultimate example of signalling one's values was demonstrated when a man, MIT graduate Jonah Peretti, ordered a customised logo "Sweatshop" to his Nike trainers. Nike refused this a number of times which led Mr. Peretti eventually to disclose the unsuccessful e-mail discussion

with Nike on the Internet<sup>13</sup>, where it spread fast and finally reached also the other media all over the world. On the other hand, some consumer seeking for sportswear and clothing produced under fair working conditions might reach the group level of extended self. Groupings against sweatshops and consumer organisations are organised in the Internet and at the newsagents; newsgroups, websites and publication subscriptions are available in great numbers gathering people with similar values together and informing about the issues, products and suppliers. These informal members of ideological groups are thus always represented for example when public events such as culture jamming or worldwide “Buy Nothing Day” takes place.

Bocock (1993) argues that a desire has a valence, either positive or negative. A positively valued desire is one towards consumers direct their behaviour and purchase products as instrumental in order to meet that. Sometimes consumers are motivated to avoid a negative outcome. Thus they structure the purchasing to avoid attainment of the negative outcome i.e. stay away from products associated with social disapproval or feelings of guilt. In the clothing and sportswear market, positive valence of a brand leads to a buying decision in order to fulfil a need or want, perhaps related to one’s self-definition or a desire for a change towards fair trading. In contrast, negative valence would disapprove the desire for a certain brand or a product that does not fill the ethical requirements and the purchase might be therefore avoided.

Buying decision thus requires information in order for one to evaluate either the positive or negative valence of the desired article in question. Number of researchers (Solomon, Bamossy and Askegaard, 1999) have confirmed that consumers assess first the effort required to make the particular decisions and secondly choose the best strategy to match the effort requirement. This is called constructive processing. Decision-making strategies vary from the habitual decision-making to limited problem solving and to extensive problem solving processes (Solomon, Bamossy and Askegaard, 1999). The habitual decision-making requires little or none conscious effort for decision-making. This strategy appears when one makes repetitive purchases and has loyalty to strong product brands, given that there is an adequate selection where to choose. Next level of decision-making is limited problem solving strategy, which means that there is no motivation to search information or to evaluate alternatives and simple decision rules are used in order to select. This strategy fits the pure materialism, where only intrinsic factors, such as price and quality are

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<sup>13</sup> The conversation is available at <http://www.shey.net/niked.html> [Accessed 20.2.2002]

taken into consideration whereas less visible extrinsic factors, such as impact on environment, are paid less attention. In contrast to habitual decision-making, extended problem solving strategy is used when a motive is fairly central to the self-concept and purchase decision is perceived to carry a risk. Extended problem solving requires as much information as possible, from the memory i.e. internal search and the outside sources i.e. external search.

For an ethical consumer, the extended problem solving is likely to be the case if the product or supplier in question is previously unknown regarding their trading reputation. In the absence of clear indication of ethical aspects of production methods used, for instance labour standards, the decision-making process requires vast amount of effort and time to find required information from the memory and the outside sources. Increasingly available information from ethical buying guides, environmental groups, consumer groups, Internet sites, government agencies and businesses should in theory be able to provide consumers with required resources to make the decision with ease by using limited problem solving method. In contrast, the information is spread to many sources, forms of sources and languages. It is also sometimes inconsistent and not necessarily relevant or adequate for the ethical decision-maker. On the other hand, consumers seeking information are reaching information overload (Dwek, 1993).

The effort required for the constructive process i.e. consumer's motivation to process information equals to product involvement. Product involvement is determined by the variables of person, product and the situation (Mitchell, 1979). As the information on ethical standards is not freely available at retailing points, the buying situation is likely to reduce consumer's product involvement and thus influence the buyer behaviour. Very low involvement is characterised by inertia and there is no motivation to consider alternatives. On the other end of the involvement scale, high level of motivation characterises high level of involvement. However, the involvement concept is not clear since it overlaps with other concepts and is interpreted in several ways. The only common notion is that there are actually several broad types of involvement (Richins etc., 1992), product involvement, message-response involvement and ego-involvement. Product involvement refers to the level of interest when making a particular purchase. Sales promotions are designed to promote this type of involvement. Message-response involvement refers to consumer's interest to process marketing communications i.e. the consumer's involvement is determined by the consumer's reactive behaviour towards marketing communications, such as branding. Different marketing communications channels enable differing levels of consumer reactivity. For example, simple

television advertising often leaves very little control for the target but the use of graphics, stories, soundtracks and printed text require and allow interpretation process. Ego-involvement emphasises the importance of a product to consumer's self-concept or extended self and thus carries a high level of social risk. This type of involvement is independent from the purchasing situation but rather an on-going concern related to the self and hedonic experiences.

Modern consumers' involvement when buying clothing and sportswear could be measured in all three broad involvement categories. Marketing activities of the clothing and sportswear are characterised by branding, which takes forms of graphics, slogans, soundtracks and film like adverts, which all require amounts of consumer reactivity to process the information in order to understand it. Interactivity is furthermore enhanced by the Internet, which enables games and customised product designs. The sales promotions by sponsored celebrities and the public relation activities with magazine are also important ways of increasing the involvement. Massmedia lifestyle marketing positions clothing and sportswear brands as desirable and therefore enable consumers to express their self-definition by using known brands as means to signal the marketed lifestyle i.e. values to the social environment at the levels of extended self. As an example, a consumer could wear top by Nike in order to signal his true nature's similarity to the admired footballer Edgar Davis's. An ethically oriented consumer wearing organic clothes made from hemp or perhaps 'Free Tibet' labelled ethically produced t-shirt is also likely to signal his values by his purchase decisions. However, the involvement with ethical consumerism is likely to be an on-going concern related to consumer's ego since these products are not widely available and therefore not picked up easily yet the message of the values of the wearer are clearly signalled. Above the other three broad categories, message-response category, however, seems to be the most crucial for measuring consumer involvement since the branding activities in the massmedia take such a significant role in the marketing of clothes and sportswear.

Laurent and Kapfener (1985) argued that no single component of involvement is predominant over the other. They recognised that the consumers can be involved with a product because it is risky and/or the use of it reflects upon or affects on self. Hence they developed a model of involvement profile containing five components:

- The personal interest a consumer has in a product category
- The perceived potential negative consequences of a bad purchase
- The probability of making a bad purchase
- The pleasure value of the purchase
- The sign value of the product category

In their research among French housewives they found that some products involve high or low involvement in all component areas whereas some products involve in only some areas. For example, the dresses and bras involved for a combination of reasons whereas a vacuum cleaner involve more in the potential negative consequence area than in the others.

When it comes to ethical consumerism, the personal interest a consumer has for a product category is featured often by consciousness of the production methods, such as animal breeding and feeding (food industry), animal rights (fur industry) and human rights (unfair production conditions in the developing countries). Materials used may also be of interest. Interests of an ethical consumer can be provoked by rational self-interest, such as health issues but also by moral principles of concern over the other living beings. In addition, these concerns may be also linked to consumer's self-concept/extended self concept discussed earlier. Since the clothing is a necessity and a tangible part of consumer's extended self, the personal interest is likely to be high in all component areas.

The perceived potential negative consequences of bad purchasing in the food industry, bad as unethical in contrast to ethical purchasing, might be health risks related to for example to the recent food scare products in Europe. In the clothing industry, potential negative consequences for example for a fur coat buyer could be becoming a target of dislike demonstrated by some pressure groups or even the public opinion in some urban areas. Moreover, in relevance to Bocoock's argument discussed earlier, brands that have been associated with unethical labour conditions by the media exposure, such as Nike and H&M, may have negative valence and are therefore

perceived to have negative consequences and hence in an ideal scenario avoided by an ethical consumer. Negative consequences of making an unethical purchase without knowing at the time might also produce a feeling of guilt. On the basis of this, the ethical involvement in relation to clothing and sportswear seems to relate to how much information the individual consumers has on the product and in general, how aware the environment is in order to react on it.

In relation to the food products, there are legislative measures to require food producers to disclose information on ingredients, which reduces the risk for instance for a vegetarian of making a bad purchase. Organic food producers have found consumer interest as a differentiation opportunity and use it to emphasise organic production methods in the packaging. Consequently, delivering the information reduces the probability of making a bad purchase for an ethical consumer and thus reduces the frustration of not being able to know. In the clothing industry, similar approach has been taken for example by Free Tibet, which in its clothing line does not only promote Tibet's freedom but also ethical labour standards and environmentally friendly materials.

The pleasure value of an ethical purchase may arise from tasteful organic food products or from a pleasure of knowing that a fair share of the money paid for the purchase is going to the people who are responsible of the actual production of goods. The pleasure may come also from the knowledge of for example that animals in food production have been treated well. On the other hand, given that 69% of people (Marketing Radar 2001) find bargaining power of consumers non-existent, that factor is likely to contribute to their buying behaviour and thus result in decrease of product involvement. Furthermore, the pleasure value may well be related to the consumer's self-concept if the consumer feels that wearing clothing brands associated with ethical consciousness reflects the vision the consumer is willing to signal to his or her environment. Therefore, the pleasure value of ethical consumerism and furthermore product involvement varies depending on how much consumer has information of the production methods behind the goods, how much she or he places value on ethical aspects of goods and on the other hand how much consumer trusts his or her economic power as means to promote fair trade.

The sign value of product category also defines the product involvement. Logically, since the money is a scarce resource to most people, high sign value implies high level of involvement. In the clothing and sportswear industry, selling prices vary depending on the supplying brands' profile and the materials used. Because the ethically produced goods require fair production costs,



they are likely in theory to add production costs and thus result increased selling prices. Moreover, the companies producing ethically are in most cases small or medium sized companies and thus not able to reduce selling prices by taking advantage of economies of scale, unlike the MNC's that are able to gain global efficiencies. However, the sign value of the product category of clothing and sportswear is also high because of extensive marketing efforts, such as brand positioning that increases the costs despite the economies of scale. On the other hand, branding efforts include also positioning by using a high selling price as a method to make products look more attractive in the marketplace and furthermore secure supernormal profits. Therefore, hypothetically speaking in the absence of factual information, an upward shift of production costs because of fair production practices would not potentially higher the sign value if the companies and investors were willing to accept voluntarily the reduction of supernormal profits or to be able to reduce the other budgets.

So far I have gathered together theoretical models of buyer behaviour for an analysis whilst trying to give a picture of ethical consumerism and the features of information asymmetry in the marketplace. This will be followed next with the summary of the above.

#### 4.1. Summary of the literature study on buyer behaviour

Having studied theories and models related to buyer behaviour process, I would here try to summarise my findings regarding the factors that are likely to contribute towards the need for information on labour standards.

The economic ‘black box’ model is a useful broad framework tool but it does not explain or predict the buying process, which is needed in order to find rational behind the ethical buyer’s behaviour. Therefore additional models are needed to clarify the processes that lead to buying decisions. Consumerism as means to fulfil need and wants has many roles in the society. It is a social process that involves both cultural and individual factors. Thus buyer behaviour depends on the consumer’s individual characteristics, such as values, which define the particular desires. To meet them, consumers gather information and analyse it in order to make buying decisions. Regarding the ethical consumerism, the information use and the gathering methods depend on the current levels of supplier awareness and socio-environmental awareness in addition to product awareness. The decision-making process of purchasing involves expectations on the economic satisfaction as well as the comprehension of socio-environmental implications, which formulate consumer’s attitudes and intentions at the purchasing situation. In the developed parts of the world, increasing awareness of global inequality translates to socio-environmental concern and to education for consumers.

The roles of consumerism in the modern society are for example the use of consumerism as a tool to define and express oneself and its role as the driving force of the economy. Clothing and sportswear could be perceived due to its visibility as individual’s added self-extensions at two levels, individual and group level, thus expressing individual’s personal uniqueness but also expressing the social grouping that one might want to be perceived as a member of. Thus, the desire for a clothing or sportswear article in order to satisfy a need refers to the sociogenic nature of needs since its consumption contribute to the formation of consumer’s self image. For a consumer seeking clothes and sportswear made under fair working conditions, the ethically sound items may therefore be related to the both personal and group levels of consumer’s extended-self.

A desire has either a positive or negative valence, thus indicating to the buyer of the items outcome in terms of suitability regarding the self-definition or ethical requirements. However, for defining an item's valence, one needs clear and accurate information for the constructive process and the decision-making.

The decision-making process of an ethical consumer is likely to be problematic most of the time because the extrinsic features of products are taken into account. Only if the purchasing of certain ethically sound product or brand is repetitive, a little or none conscious decision-making effort is required. The problems of decision-making arise from the absence of clear information on ethical standards, which results the ethical consumer behaviour to require extensive problem solving method to seek information from diverse sources. However, the pool of information is vast and fragmented and the information offered is often inadequate. Thus, the seek for relevant information needed for ethical purchasing is time consuming and hard and might hence have a negative effect on ethical consumerism. For example, the information seeker may face information overload when receiving types of information from various sources and thus not be able to process it down to simple rules, that would enable limited problem solving strategy regarding the buying decisions. Information overload may results buyer frustration and thus lower the ethical involvement and ultimately, reduce the motivation to consider ethical alternatives at all.

Product involvement as a motivation to process information is determined by the variables of individual, product and the situation. Since the situation (i.e. retailers) seldom provide(s) consumers with information on labour standards, it is likely to reduce consumer's overall motivation to make ethical purchases. Ethical considerations fall into the scope of all three broad categories of involvement: product involvement category, ego-involvement category as well as message-response category of involvement.

To measure involvement in a broad category of ego-involvement, one could measure components such as the personal interest, the potential negative consequences of a bad purchase and the probability of making a bad purchase, the pleasure value of the purchase and the sign value of purchase. However, in the absence of information on supplier and socio-environmental information, this model is not adequate enough tool to draw factual conclusions of the involvement regarding the ethical consumerism of clothes and sportswear. As the information and its channelling are the keys for understanding ethical consumerism, it would be essential to measure involvement in the

message-response category to find out if the information on ethical aspects in market communications makes a difference regarding the buyer behaviour. To find out more about if the information on labour standards would result a reaction in buyer behaviour, I have decided to conduct an empirical study, which will be introduced next.

## 5. The empirical study

In order to answer if the information on labour conditions has implications on buyer behaviour, one needs to learn about consumer involvement in this field. By interviewing people, I was trying to find out the current levels of consideration regarding the socio-environmental issues and supplier information and information about channels and places the interviewed used for information search and gathering. The reasoning behind finding about these was that the use of information in ethical buyer behaviour, on the basis of buyer behaviour literature discussed earlier, depends on the product awareness, supplier awareness and socio-environmental awareness. Thus, I was trying to explore what kind of relationship there could be between the information on labour standards and the consumers in buying situations.

My qualitative study amongst European consumers was conducted by means of explorative interviews in April 2002 in order to find out about buyer behaviour regarding especially ethical considerations. Respondents were selected for this study from people that I have come into contact with in England and Sweden. My aim was when selecting the people to choose representatives from different Member States of the European Union in order for this thesis to have a pan-European dimension. In Eurobarometer study on Fairtrade bananas (1997), it was concluded the most favourable perception towards ethically produced bananas was found amongst consumers from Germany, U.K., Scandinavian and Benelux countries. Therefore I sought to over-present the U.K. and Scandinavian countries in my study in order to find consumers that have most likely come across with ethical consumerism and can therefore provide valuable information towards the objectives of this thesis.

### 5.1. Creditability of the empirical findings

The empirical findings are hypothetically indicative if not giving a true and clear picture of all the European consumers as a collective entity due to small sample, socio-economical background of respondents and brief interview technique in contrast to deep interview. This assumption is based on a fact that all the respondents had received higher education and were therefore likely for being more concerned with the societal issues. This argument is supported by the Eurobarometer findings of “Attitudes of EC consumers to fair trade bananas” (1997). In that survey it was found that the level of respondent’s education had a significant effect on their experience of fair trade. In addition, it was found that awareness of the concept of fair trade was strongly correlated with educational attainment. Thus, as the level of education increases in the EU, so does the proportion of consumers who act upon their awareness. In summary, it was found that consumers with higher education were three times more likely to purchase Fairtrade bananas than early school leavers. Both the experience and awareness on fair trade concept increased hand in hand with the income of respondents, which is often linked to higher education background.

The interview questions were also hypothetical questions regarding the possible actions rather than questions measuring the factual information of buyer behaviour. Better results could be probably received if there was extrinsic information in place and thus the consumers would have had more experiences of the ethical buyer behaviour.

## 5.2. Analysis of the findings

Next I will summarise and analyse the findings of the empirical study in the light of literature review presented in Chapter 4. For this study, I interviewed consumers from Dutch, British, Swedish and Finnish backgrounds in order to have a pan-European dimension. May aim for this empirical study was to identify the levels of socio-environmental and supplier information and its direct relevance to consumers regarding their buyer behaviour. Altogether, I interviewed seven people by presenting them with six questions, which may be find found with corresponds as appendix to this paper. Interviews took about 20 minutes each and they were made at homes of the correspondents. All respondents were aged between 21 and 31. Youngest of the respondents, Helena, is a 21 years old Swedish technology student. Anke is a 21 years old Dutch female who studies Human Rights as her major discipline. Gunnar is a Swedish technology student aged 22 years majoring in Physics. Anna has recently finished her Master's degree in Biomedical Engineering, she is a 24 years old Finnish. Per is a 25 years old Swedish Computer Science student. Kate works in the field of education in London; she is a 26 years old English university graduate. Phoebe is a 31 years old Londoner, who works in IT consultancy. She has a degree in languages and English literature. Thus, four of the respondents were female and three male and all of them had received higher education.

The findings of the empirical study confirmed that the most relevant characteristics were the basic intrinsic features of clothes and sportswear: price, size, shape and material. These were not however the only aspects the respondents of the empirical study considered. Production methods, brands and marketing of brands by using sophisticated marketing communication tools, such as music soundtrack in TV adverts that involved the emotions of consumers, were seen as inputs as well as the previous experiences with brands and retailers, thus indicating that the respondents used both internal and external search for information. Therefore, the purely economic 'black box' approach towards buyer behaviour could be said to have become obsolete when it comes to clothing and sportswear industry since the traditional intrinsic features of goods are not the only aspects that affect the buyer behaviour.

This was demonstrated by the following comment:

**Phoebe:** *“I prefer products made by individuals rather than mass produced. Individuality is the most important aspect to me when buying clothes and sportswear”*

Extrinsic aspects, such as socio-environmental and supplier information on products, were taken into consideration to some extent if they were available. Only Anke and Gunnar of the respondents searched proactively information on ethical standards on their own. All of the respondents gathered the information of suppliers and socio-environmental issues whilst gathering the general information. Found information was processed and used to form attitudes and intentions towards suppliers in question. Publicity on actions by suppliers that were regarded as unethical seemed to be remembered better than the good corporate behaviour. Information on unethical practices of companies was found from the media - the newspapers, TV text, TV, magazines, radio and the Internet. In situations where the respondents had received information on ethical aspects, Anke noted the information's its inaccuracy, inconsistency and the lack of certainty of found information. This indicates that there is a need for information that is regarded as trustworthy. The lack of reliable information and too few opportunities for making ethical choices seemed to result frustration amongst some respondents.

**Anke:** *“I think information on labour standards should be definitely displayed. It would also affect my buyer behaviour, now I'm never sure whether I'm contributing to the Third world exploitation, for example with H&M. At the moment, you have to make and trust your own research. If the companies don't respect human rights, they won't surely tell about it either. It is left up to media to tell people”*

The consumers' motivations to process information are determined by the variables of person, product and the situations. Since in the current setting there is seldom information on socio-environmental aspects and supplier available in the buying situations, the buying situations variable is likely to reduce consumers' motivation to process that information and react on it. Thus automatically provided information would reduce the burden of finding the needed product, supplier and socio-environmental information for ethical consumption for those consumers whose person variable is high enough to ensure the motivation to process it.

Respondents did not give praise for the MNC's regarding the voluntary respect for labour rights.



They seemed to make a difference between the practices in Europe and outside due to different legislative framework, moreover indicating the belief that the labour conditions in Europe are adequate and the corporations respect the rule of law. In general, respondents thought that businesses exploit where they can as much as it is possible without breaking the law. Brands that specifically make a point of not exploiting where they could were found as exceptions, such as the Body Shop.

The respondents looked at labels inside the clothes and sportswear in order to find out about the care instructions, authenticity of the brand and the country of origin the products were made in, thus indicating the search for product and supplier information. Looking at the labels was not however seen as always crucial, depending on the thrill the product gave, previous experiences and the nature of retailing point. Therefore the information given by labels inside was seen as supplementary but trustworthy source of information.

Respondents were quite aware of the Fairtrade label and assumed that it stands for fair pricing of products. All of the respondents apart from one, Helena, indicated socio-environmental awareness. The respondents recognised the lack of information from the suppliers. Most respondents were willing to act differently in the marketplace upon the information given on ethical production methods, if it did not increase the prices very much. Even Per who said he did not place high importance on ethical factors argued that there should always be an ethical alternative provided.

All the respondents had a somewhat similar vision of how the ethically sound businesses behave. Ethically sound brands meant to the respondents that the environment was respected, the people as producers of the products had fair working conditions, the corporation did not do social dumping, and no child labour was abused. The products of ethically sound brands were perceived to be more expensive because of the fair pricing.

The supplier information that affirmed the respondents on ethical standards was found from the personnel, marketing communications and the university. In general, it was quite difficult for the respondents to come up with ethically sound brand names. In contrast, the brand names that were found to be unethical were much easier for the respondents to identify. Per first said that the ethical labour standards are not the top priority when shopping. When however he had to identify unethical brands, he said:

**Per:** *“Carlshamn moved the factory and jobs from Sweden to Poland. I will NEVER buy anything from them.”*

This indicates that if a consumer has supplier information that indicates unethical behaviour and socio-environmental awareness, one might be willing to act on that rather than on favourable product awareness since the respondents felt much stronger about the unethical brands than ethical brands. This assumption is not however clear, since there are very few examples of active information spreading of favourable product awareness in contrast to unfavourable. On the other hand, this might be because, hypothetically speaking, the consumers when using the limited problem solving strategy expect unconsciously the European standard for labour rights as a standard for all product productions and thus only react when someone is specifically reported to depart from that standard.

Respondents showed clearly interest towards unethical corporate behaviour, especially if that involved respondent's domestic environment. Anna found the ethical issues associated with clothes to be far away and therefore less emotional, thus indicating that unethical labour conditions and the scope of the problems in the development countries are left with less media space and attention in comparison to domestic information. This might be because of the geographical and social distance of issues in development countries, therefore limiting the socio-environmental awareness that it brought to consumers through the massmedia.

Publicity on unethical business practices seemed to be remembered better than good corporate behaviour. Hypothetically speaking, this might indicate that such information departing from the standard corporate behaviour was stored in the memory and hence demonstrates that information on immoral corporate behaviour has importance and thus creates negative valence. Some respondents stated that they had found it difficult to avoid buying brands that they had some knowledge of having acted unethically. This indicates that the intrinsic features of goods have higher importance regarding the good's valence than extrinsic characteristics. On the other hand, this is likely to depend on the person, situation and product in question and the type of involvement in question. Consumers' difficulties to avoid certain brands with perceived negative valences might be also caused by practical reasons, such as the absence of ethical alternatives on the shelves and pieces of information the consumers are able to process into clear decision rules.

Respondents being aware of their inability to avoid negative outcomes regarding the ethics of their buyer behaviour indicates that they were using extended problem solving strategy when evaluating the ethical aspects of clothes and sportswear. In the following, Kate admits that she was aware of corporate misbehaviour but did not trust that information enough to set off the product's desirable intrinsic features.

**Kate:** *“I decided not to buy Nike because of reputation of using child labour. This decision didn't however last because I don't know enough of the allegations to be sure”*

This points out that even though ethics is an aspect to consider for consumers, it is not always a factor contributing to the purchase decision and thus perhaps factor considered after the intrinsic product features. This however seems to vary depending on the personal variances.

**Gunnar:** *“Price and reputation of the company are the first aspects I consider. Unfortunately you can choose only between ‘Made in China’ and ‘Made in North Korea’. One has alternatives, Lee or Levi's, but no choice”*

Therefore one could argue that if the consumer has not got the specific information of the supplier nor the ethical aspects are particularly central to buyer's self-definition, she or he is likely to use simple decision rules and thus limited problem solving method when buying clothing and sportswear. Thus, consumers need to have clear and creditable information on suppliers' social behaviour in order to respond to that correctly. The respondents of my investigation seemed to assume that if the clothes and sportswear are made in the development countries, no labour rights are respected because of the absence of legal requirements to do so. Consequently, the leading brands of clothes and sportswear are perceived to have no respect for labour rights even if there was no specific evidence of that and yet there are no ethically sound alternatives available on the same shelf, thus enhancing frustration amongst some consumers.

Therefore, hypothetically speaking in the light of my empirical investigation, if the intrinsic features of competing brands are equal but only one brand is perceived as respecting labour conditions, the consumer is likely to act on that information in favour of good corporate behaviour. Anke's logic in the following statement demonstrates this:

**Anke:**           *“Previously I did not buy from H&M [as before reporting of the improvements] because of allegations of using child labour. I like shopping at Indiska because I know it is Third World friendly”*

Amongst the respondents of my investigation, involvement regarding the ethical consumption was clearly covered by three broad types of involvement – the product involvement, the message-response involvement and the ego-involvement. Apart from few exceptions, such as Fairtrade products and the BodyShop, it seems that there is no information available that would promote product involvement and message-response involvement in relation to ethical aspects. Therefore, at the moment, ego-involvement is most likely to be the case of an ethical consumer who prioritises the ethical information over the product information and is therefore motivated to process information from the various sources because it is important to consumer's self definition. This type of involvement is independent from the purchasing situations as it is an on-going process. The statement given by Phoebe demonstrates this:

**Phoebe:**       *“I think word ‘organic’ is a tag itself. It increases the desire for that product. Fairtrade label does the trick.”*

When reflecting the replies against the model presented by Laurent and Kapfener (1985), the clothes and sportswear were a great source of interest amongst the respondents, thus indicating involvement in that area. The perceived negative consequences of bad purchases were the feelings of guilt because of newly found information on unethical production methods after the purchasing. For this element however, the involvement is unlikely to be high for most consumers because of low availability of exact information and therefore there is a low probability for the occasions of guilt and the occasions of external environments reactions actually happening. Respondents found a probability of making an unethical purchase high since they did not believe corporations having adequate labour standards. The pleasure value of making an ethical purchase was found high when a consumer was aware of having contributed to the fair trade. The information is crucial

component here; hypothetically one could argue that in the presence of information on supplier's social impact, the motivation to process that information is high. To summarise, my investigation suggests that the ethically ego-involved consumers are motivated to process the information on labour standards of manufacturing of clothing and sportswear due to high involvement in all but one (the perceived potential negative consequences of a bad purchase) component.

On the basis of above, I found the information on ethical aspects and its direct relevance to consumers in buying situations to depend on if that information had relevance to consumer's self-definition and whether it had an impact on selling price. Under the assumption that consumption is a socio-cultural process, one could try to argue that if it is important to a consumer's perception of self to consume ethically, at individual and/or at group level, the consumer is likely to be highly involved and thus react on both negative and positive corporate information since every purchase carries a risk. Even if the ethics are not important to the consumer's self-definition at individual level, the ethical aspects might have an effect at group level. For instance, the consumer's buyer behaviour might be affected if the bad corporate behaviour has negative effects in his or her at community level of the extended-self. In that case the consumer might take the bad behaviour as a personal insult and thus translate it to be a significant aspect in decision-making. The national differences between the respondents did not play a viable role when comparing the answers, thus reassuring the homogeneity of the areas presented regarding the business ethics.

## 6. Conclusions

Having studied the buyer behaviour and European Community law to reason my thesis, I would like to draw my conclusions. First, however, before presenting the final conclusions I will try to give an illustration of the crucial conclusions from the personal observations in life and the academic field as a background for my final conclusions and suggested future research topics.

The process that finally led me to the dilemma that motivated me to write this thesis was long and personal. At an early age, I learnt to define myself by identifying and following suitable dress codes of urban social groups of youngsters, which were influenced by, for example, music videos, rock stars, sports stars, rap stars, models, marketing communications and what was available in the shops. Levi's, Benetton, Stefanel, Milli Vanilli and Disney were the important brands when I was 12 years old. At sixteen, it was Levi's, Snoop Doggy Dogg, Adidas, New York Yankees, Nirvana, Ice T, Air Jordan and Pearl Jam that influenced the decisions on what I was wearing. By the age of nineteen, I was already disappointed by the fact that Diesel was too expensive even though it was *so cool*, luckily I got to know the Gap and French Connection when travelling. Nike felt good too although Nike sneakers were not quite as witty as Adidas Superstar sneakers that referenced to 1980's *real* rappers, Run DMC. Then in the university in London, U.K, I realised when observing groups of young people of my own age from different ethnic origins that Asian seemed to be willing to come across as black, black as white and white as black. Nobody would want to look Asian, not until Madonna's video release "Frozen" and the following record "Ray of Light" pushed the trend forward. All of this was demonstrated by the recognisable brands and styles the young people were following.

On the other hand, the idea for this thesis came from the other slow learning curve of realisation that not *all* the kids received as much money to spend on appearances as we did in the Nordic countries. News articles on sweatshops and environmental disasters as well as the pictures and stories of the Third World backbagging experiences hit me – globalisation was here, I knew what was going on far, far away. I also learnt what was going on near me. To afford to wear desirable brands, many of the metropolitan area kids of London raised funds by doing extra jobs, such as selling drugs and stolen goods amongst more conventional sources of income. Those who

could not afford the luxury brands would buy mass-produced articles of appropriate fashion from the high street retailers. All of this led me to think – Why do we need these recognisable brands and fashions? Who am I? Who is affected by our addiction to *cool*? By that time I had already decided to change my buying behaviour in order to change the world on my own behalf. The change started from the decision that I would not buy make-up that was tested on animals. Next I would not eat meat of animals that had been suffering. Then, I would not buy food products that had been made under unfair working conditions. Actually, I would not buy *anything* that was mass-produced in the development countries because of the possibility that it could be made by someone abused. I would not support the disrespect towards the environment, human or animals. But sticking to my decisions was *so* difficult!

Thus this paper was to study buyer behaviour and frameworks that facilitate the consumerism. In specific, the aim of this paper was to explore whether the EU citizens, as individual consumers and as a collective entity, have the right to be informed about the labour standards behind the clothes and sportswear they buy? On the other hand, is there in buyer behaviour an explanation for a need to have this information available for the consumers? Moreover, are there any implications for the European business administration? To answer these questions, I had to try to draw conclusions from the pieces of information on background that had caused my problem. They follow from here.

The globalisation has changed the structure of clothing and sportswear industry drastically. The implications of globalisation have relocated the jobs of the clothing and sportswear sector from the developed parts of the world to the lesser-developed areas. The globalisation has been justified by the economic logic: international trade enhances economic growth for all and thus contributes to the development of the lesser-developed countries. When shifting the productions to the locations of more favourable business environments, the companies have had to adapt to the local environments and to employ the local employees. Many of them have chosen to pursue that by hiring a local contractor. Because the legal framework in lesser-developed countries for labour conditions is either non-existent or far less developed than in the developed countries and their bargaining power regarding foreign investments low, many western businesses have exempted themselves from the western tradition of ensuring the respect for labour rights. By doing so, the developing spill-over effects of globalisation are offset, thus bringing positive effects of free trade to the MNC's at the expense of local welfares. The European Union (EU) has responded to this by establishing non-binding initiatives for the companies regarding their social responsibility in order to enhance the

consumer confidence and promote the better society. The World Trade Organisation (WTO) however argues that the International Labour Organisation (ILO) is in charge of labour rights regulation and has thus rejected negotiations on this. The ILO practices on the other hand are based on arrangements that cannot be enforced in the development countries the way that would guarantee respect for the labour rights.

Thus it seems that there is no international framework in place that would grant employees in the lesser-developed countries to be respected the way the workers in the developed countries are respected. However, the issues of global inequality and sustainable development and the fact that they are related to consumerism as such in the developed parts of the world have had an effect on buyer behaviour increasingly, causing ethically tuned consumerism. Nor the clothing and sportswear industry despite few exceptions nor the legislative frameworks for the market processes have however addressed this the way that would enable consumers to choose according to his or her values, this is demonstrated by the fact that the social information of the goods is rarely available to consumers. Access to information is the key element in the liberal concept of world and is required as a principal condition for free competition of market forces. Thus the information symmetry is needed in order for consumers to choose according to their preferences and hence the international trade to deliver its benefits. Because the information on labour standards is not provided to the consumers by law currently, they cannot exercise their consuming power in the marketplace in favour of MNC's that respect the labour rights.



## 6.1. Final conclusions

My hypothesis was thus: If there is no difference in intrinsic features of goods, most consumers are likely to act on the labour standard information in favour of goods that have been produced under ethical working conditions, given that they have the information to make that choice. In the European legislation that regulates the market processes, there is likely to be a framework that could be considered as a foundation for a consumer protection law that would enable the consumers to assess the labour standard information on goods sold in the European Internal Market. To find out whether these were true, I explored a number of EC law textbooks, Economics, websites and EC publications to make sense of the European legal environment. For reaching the objective regarding buyer behaviour, I visited books on Marketing and Buyer Behaviour, magazines on economic trends, number of journal articles and several websites. Finally I engaged in an exploratory study amongst few European citizens. After doing so, I believe I am able to present final conclusions in order to defend my hypothesis and try to suggest some amendments that would contribute towards solving the problem in the future.

Consumer's interest towards ethical production methods is relative to the general and specific information she or he has. Ethical consumer comprises three types of awareness: socio-environmental awareness, product awareness and supplier awareness. First requisite for a consumer to identify a need for information on labour standards arises from socio-environmental awareness, such as awareness of the scale of exporting from the development countries to the European Internal market, of the level of local labour standards maintained and of the offsetting effect the foreign investment race has on the sustainable development of that area. In order for this information to translate to ethical consumerism, consumer has to have confidence on the effectiveness of the market system.

The modern individualistic cultural era enables consumers to choose their ethics and show how they work. Consumers demonstrate consistency between their values and the things they buy. Consumers are receiving increasingly information on labour right violations, which causes the threat that they stop buying goods they see as adverse to their values. In reverse, a good that

demonstrates consumer's values might in fact be an incentive to identify a desire and possibly result a purchasing decision.

In general, after identifying a need for a purchase, the consumers are likely to look for information of the product for the assessment. Information search involves internal and external search on the available information. The effort how much information is needed to search depends on consumer's motivation to look for the information. After this constructive process, consumer might take into consideration both intrinsic and extrinsic aspects of the good. The nature of aspects under consideration is controlled by the combination of variables of person, product and situation. On the basis of information gathered for this study, I found that consumers are likely to place more effort on assessing the intrinsic features of goods than on the environmental aspects.

Consumers do however place any importance on the extrinsic information of goods. The information available on, for example, the labour standards in the production is rarely available at the buying situation and thus the information search requires superior efforts in comparison to intrinsic information search. Since this information search requires high motivation and extended problem solving strategy, it is likely to be left for less attention than it would if the information was given accurately at the buying situation.

How much importance consumers in general give the impacts that goods have on the environments is dependent on the culture and environmental education consumer has received. How significant this knowledge is regarding the actual buying situation and alternative evaluation is dependent on consumer's extended-self definition, which consists consumer's appearance and social infrastructure. If the extrinsic information of the goods is important to consumer's self-definition, she or he is likely to be motivated to process available information and thus that information influence the alternative evaluation of goods. If however the information supply is limited at the time of purchase yet the consumer is revised afterwards, the reaction could be feeling of guilt, thus causing negative valence for a particular seller. Thus, limited information on extrinsic features of goods prevents an effective alternative evaluation of goods.

Currently, if the consumers are aware of the labour abuse in development countries to some extent, this knowledge is not necessarily relevant in the buying situation due to their social and geographical distance and the absence of full and accurate information of the supplier. Since, however, the education on social aspects of corporate behaviour is increasing due to greater than ever attention given to the social issues in the media, it is likely to bring these questions closer to the consumer's extended-self and thus become more relevant in decision making. Therefore labour right violations are likely to affect more and more consumers' behaviour in the marketplace. This sets a challenge for the corporations and legal frameworks to address this concern in their strategies by assuring the consumers on good corporate behaviour in order to restore and encourage the consumer confidence in the market.

To do that, consumers have to be provided with sufficient information on the products and suppliers the way that it can be processed and used in a manner that requires only limited problem solving strategy. Too many sources of inconsistent information and extended decision making strategy may result buyer frustration and thus lower the consumer's motivation to consider alternatives. Hence, the low motivation to process varied information prevents the benefits of having informed consumer as such towards the efficiency of the market. Because increasing efficiency of the market is an aim of the European Union's competition policy and consumer frustration hinders that, this issue could be viewed as a matter of the Internal Market under the Article 5 of the Treaty establishing European Union.

For the information to be useful for consumers, it has to be perceived as trustworthy. Therefore it has to have legal backup that ensure the consumers that corporations take their promises seriously and the violators prosecuted, since many consumers seem to view corporations in general operating as economically they can, even at the expense of the environment if they just can without being prosecuted. National legal systems to ensure consumers with the adequate information is not in line with the Community objectives of efficient Internal Market, since the many separate overlapping systems might hinder the cross-border trade and lower the consumer confidence. This is reflected in the EC consumer protection policy, thus the European Union is committed to the creation of common consumer protection laws that are non-discriminatory and do not go beyond what is necessary.

Previously, the European Court of Justice recognised that marking the goods with their country of origin as a qualitative indicator was unnecessary and would merely facilitate consumers' prejudices than promote the efficiency of the Market. The Court believed that the consumers were adequately protected with the prohibition to present false information. Since that decision in 1983, the world has changed very fast due to globalisation phenomenon and thus the EC policy has evolved towards recognising the consumer protection as an essential objective of the Community in 1997 and well informed consumers.

As a cornerstone for the new generation for consumer protection laws was the wine labelling law, that requires sellers to information of the intangible qualities of wine, such as the bottler and the alcoholic strength, if not directly extrinsic information of the good. This regulation sets rules for applying basic regulation in the future regarding to description, designation, presentation and protection of certain products Aim of the law was to protect consumers' interests better and thus ensure the smooth operation of the Internal Market and to promote quality of wine. Similarly, the sellers of the clothes and sportswear could be required to describe the exact producer of the good [similarly as the bottler of wine] to indicate the consumer of the quality and thus to promote the quality of labour standards. As however the size of the clothing and sportswear industry is large and the consumers' likely to apply limited problem solving as a method of processing information, it might be more appropriate to require the sellers to provide consumers with the simple indication of the labour standards to address the consumers' increasing concern for the unethical labour conditions.

Because the perceived increased returns for some suppliers due implementation of such law, some might wonder whether such as a law was in contrast to rules set by the WTO. The law would apply to indistinctively to all sellers in the clothes and sportswear sector of the European Internal Market and therefore be a result of consumer choice rather than protectionism of goods produced under European standards of labour law. Therefore it is likely that such law would not be in conflict with the WTO rules.

In the EC's recent consumer protection policy formulation European Commission recognises to benefits of fully functioning Internal Market and aims at improving business to consumer practices in the Internal Market by Community level harmonisation and introduce a Directive to cover business to consumer practices and thus to complement legislative measures. To implement such actions, the Community see the self-regulation and co-regulations with the legal backup as a central part of the strategy. In its Consumer protection policy strategy adopted in May 2002, the Commission also recognised the need to give a role for consumer organisations in formulating the EU policies.

Thus, formulating the requirement with a legal backup requires involvement from the EU as the authority and the industry and consumer organisation representatives in order to meet the needs of these stakeholders. Since the consumer organisations are likely to require that, also the trade unions of the production countries should have an opportunity to contribute towards a policy regarding the labour conditions that could be monitored and reported. The aspects that need further study concern for instance the implementation and monitoring the enforcement of the codes of conduct. Since the EU sees the self-regulation as the basis, the multiple set of standards set by a number of sellers might prove difficult for the contractors to fulfil all of them at the factory lever. Thus, the co-regulation might prove more appropriate than self-regulation. On the other hand, different countries have different needs due to cultural and geographical differences; therefore the codes as well as their monitoring should reflect their relativity to the local conditions in order to be effective. Legal certainties of contracts require also attention and local expertise for monitoring and implementation of measures regarding the labour regulations.

Business enterprises in the clothing and sportswear industry should see this type of development as a strategic opportunity and challenge to seek competitive advantage. Since there is an indication that the trend towards ethically tuned consumerism is to increase and it has not been addressed so far adequately, there is room in the market to supply clothes and sportswear that are produced under the adequate labour standards. In order to realise all the potential gains from respecting labour rights, the businesses should reflect their respect for their employees in the development countries and thus their contribution to the local sustainable developments in their market communications as well as in the retail environment since that is likely to add intangible emotional value to the brand. Moreover, the consumers of clothing and sportswear are highly involved in the message-response broad category. For the businesses, in the absence of local laws, it might be appropriate to

consider also other actions in addition to good working conditions because the consumers process and use other extrinsic information, such as social dumping and environmental management policies. These issues however cannot be left as a mere lip service or marketing gimmick, since the consumers are likely to remember misconducts well and thus attach negative valence to the goods of supplier, who has been caught from violating promises. Therefore there is a danger of companies sabotaging their brand concept and reputation by simply not performing the social responsibilities, marketed or not. Once the brand been associated with immoral practices, it is likely to be far more difficult to remove the negative association than it is to be an early adopter of perceived social responsibilities. The enterprise might also sabotage its social reputation because of other factors, such as poor implementation of the working condition requirements by the contractor. Thus, companies must take the adoption and maintenance of the social responsibilities seriously. Early adoption of the requirement to report the labour standards could also be a source for competitive advantages, since it might force companies to find new production methods under the unexplored business environments and thus strive for innovation and resource productivity. If the new innovation and resource productivity are reached by following regulations that require respect for the environment, it is not only a step towards the multiple objectives of the European Union, it is also a big step towards the sustainable development of the whole world.

## 6.2. Further research

Here I would like to present few ideas related to my subject that crossed my mind during the process of preparing this thesis.

In order for a regulator to set a rule that requires qualitative information, the regulator has to know how much information the consumer needs? The right level is important to find because too much information might not be useful to most consumers if they cannot process it. On the other hand, too loose restrictions would hardly be effective. Moreover, do the consumer requirements vary? Information about labour standards might not be enough for those consumers who are concerned also for example the waste management of the corporations. Is thus the all-round concept of socially responsible corporation as such the next step? How that could be set, managed and monitored in varied business environments of the globalised business world?

My investigation proposed that the consumers are likely to prefer goods that are produced under the ethical labour conditions only if they are not significantly more expensive than the more conventional alternatives without “ethical” marking. Since however the differences between the paid wages and the living wages are relatively small in comparison with the wages and purchasing power of money in the developed countries, it suggests that paying living wages would not necessarily be a significant cost driver justifying higher selling prices. Hence, hypothetically speaking in the absence of factual information, an upward shift of production costs because of fair production practices would not potentially higher the sign value if the corporate governors were willing to accept the risk of slight reduction in the short-term profits. Studying the company budgets and proportions that are spent on for example marketing activities and production respectively would enable further speculation of the sign value effects of employed ethical production methods of clothes and sportswear.

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## Appendix

Empirical study questions and responds:

1. What aspects do you take into consideration when shopping?

...environmental aspects ...social aspects ...Are those the only reasons?

- Phoebe:** *“Aspect that I take into consideration are price, uniqueness and quality, these aspects altogether defines the durability of the product”*
- Anna:** *“Price, brand, style, quality and materials matter when I’m making decisions. Bad quality stays in the shop.”*
- Per:** *“Appearance, colour and the price are important”*
- Helena:** *“Looks, price, colour, durability... I don’t give much thought for environmental or social aspects, only if I hear something from the media. I don’t do research.”*
- Gunnar:** *“Price and reputation of the company are the first aspects I consider. Unfortunately you can choose only between ‘made in China’ and ‘made in North Korea’. One has alternatives, Lee or Levis, but no choice”*
- Anna:** *“Quality-price ratio must be usually ok, sometimes I do compromise though because as a student I haven’t got much money”*
- Anna:** *“Sometimes I’d like to try unusual options but I rather choose a previously known, ‘safe’ alternative”*
- Anke:** *“I take into consideration the appearance of the garment, price, quality, brand and retailer, material, previous experiences with the brand and the retailer”*
- Kate:** *“Reputation of the brand is important. For example, I know from experience that Adidas lasts long.”*
- Phoebe:** *“Clothes have to be classic, not boring and contemporary at the same time”*
- Anna:** *“If a shop looks dodgy, there will be no purchase”*
- Anke:** *“Previously I did not buy from H&M [as before reporting of the improvements] because of allegations of using child labour. I like shopping at Indiska because I know it is third world friendly”*
- Kate:** *“I decided not to buy Nike because of reputation of using child labour. This decision didn’t however last because I don’t know enough of the allegations to be sure”*

**Phoebe:** *“I prefer products made by individuals rather than mass produced. Individuality is the most important aspect to me when buying clothes and sportswear”*

**Phoebe:** *“I know hemp is environmentally sound material but designs are not stylish. I never buy something only because of environmental aspects”*

**Phoebe and Kate:**

*“Market communications matter to me. I respond to TV adverts and magazines, I see them as an incentive to visit shops. Marketing communications don’t however always meet the expectations when I go to the shop. For example, Levi’s gives a very strong incentive to visit a shop, especially because of funky soundtracks. Engineered jeans were a great disappointment”*

2. Do you look at labels? ...How often? ...What do you want to know? ...In which situations do you look at the labels?

**Phoebe:** *“I look at the labels to see whether it needs dry cleaning and what fabric products are made of because I prefer natural materials.”*

**Anna:** *“I look at the labels, what I want to know depends on the product’s price. I want to know of materials, washing instructions and country of origin even though it makes no difference to me. I never buy ‘dry clean only’ products”*

**Anna:** *“If I doubt the originality of the brand, I always read the label to be sure”*

**Kate:** *“I look at the labels in 30% of times, more or less never that is. I never buy polyester”*

**Per:** *“I always look at washing and caring instructions, I don’t do hand wash.”*

**Gunnar:** *“I want to know the country of origin and material the garment is made of.”*

**Helena:** *“I don’t always look at labels. If I like the product, I’ll just buy it. I might check the brand from it.”*

**Phoebe:** *“I look at labels 70% of times, I want to know of fabric and care conditions.”*

**Phoebe and Kate:**

*“I look at the labels when I’m shopping at the high street. In the open markets, there are no labels on clothes available. You have to trust on your instincts and what the seller says.”*

**Anke:** *“Yes, I always look for the size, care instructions, material marking. When I know the material from my experience, there is no need to look at the label for that”*

3. Do you know what fair trade label stands for? Do you think information on labour standards, such as fair trade label, should be displayed on goods? ...Do you think that would affect your buying behaviour?

**Phoebe and Kate:**

*"I think fair trade label stands for fair trading of ingredients, that growers and suppliers are reasonably paid."*

**Phoebe:** *"I think information on labour standards should be displayed. I feel good about making a fair purchase."*

**Anke:** *"Yes, I more or less know what Fairtrade label stands for. Coffee producers are paid adequately and not abused. I think information on labour standards should be definitely displayed. It would also affect my buyer behaviour, now I'm never sure whether I'm contributing to the third world exploitation, for example with H&M. At the moment, you have to make and trust your own research. If the companies don't respect human rights, they won't surely tell about it either. It is up to media to tell people"*

**Gunnar:** *"I think I know what Fairtrade label stands for."*

**Per:** *"I don't know what Fairtrade label stands for."*

**Anna:** *"I think information labour standards should be displayed because it justifies higher selling prices, at least for the organic food products."*

**Per:** *"I think products should be marked even though I don't care about it myself but I think that one should have a choice."*

**Helena:** *"I'm not sure what fair trade label stands for. Fair pricing? I think there is a need for that. If I had to choose between, I'd choose fair trade if it was more or less the same price."*

**Phoebe:** *"Being able to make an ethical purchase adds value to the product"*

**Phoebe:** *"I think that information on labour standards should be attached on imported goods, I've seen it on coco beans and chocolate products"*

**Phoebe:** *"I think word 'organic' is a tag itself. It increases the desire for that product. Fairtrade label does the trick."*

**Anna:** *"If there is not much difference in retail price because of ethical labour practices, it affects my buyer behaviour in favour of ethical options."*

**Gunnar:** *"I would change my behaviour."*

**Per:** *"I might change my behaviour a little bit but not necessarily since it is not the top priority."*

**Phoebe:** *"If I knew about unethical practices behind the products, I would not buy them."*

**Kate:** *"I don't know enough so I can't decide whether I'm making ethical choices or not."*

4. Can you think of an ethically sound brand name? What is ethically sound brand name ...Why do you think so? ...How did you get that information? Can you think of any other brands?

**Phoebe and Kate:**

*"The Body Shop. Green and Blacks [chocolate]."*

**Anke:** *"Indiska, Fairtrade shops and third world shops guarantee ethical standards. I require that producers are well paid, no child labour is used, respect for ILO standards and exports are fairly paid."*

**Helena:** *"I can't think of a brand name. Ethically good means that they consider where and how goods are manufactured and are environmentally friendly."*

**Per and Gunnar:**

*"Coop. I know because they provide with ethically correct alternatives on the same shelf and is jointly rather than privately owned and moreover, it is expensive!"*

**Gunnar:** *"Ethically sound means that no child labour has been used, employees have a right to join trade union if they want, reasonable wages, reasonable hours, no forced labour."*

**Anke:** *"I know things because I read about them on leaflets and I speak to personnel in shops. Fairtrade coffee is more expensive and the ethical standards are explained on the packaging. In Indiska the sales assistant told me of their ethical standards. Indiska was also mentioned as an ethically sound brand name on a university course of Human Rights. Fairtrade shops and Third world shops have also volunteering programs in operation in development countries"*

**Anna:** *"I think design clothes, especially haute couture stuff are definitely made under ethical conditions."*

**Anna:** *"To me ethical company means transparency, that companies are aware who work for them, adequate pay, that they don't exploit their own employees, that they contribute to the sustainable development, that company takes care of the*



*environmental factors, manage recycling, such as obsolete mobile phone batteries and pay their suppliers adequately.”*

**Phoebe:** *“Ethically sound brand name means that there has been no exploitation in pricing and wages and no profits made are invested in arms industry.”*

**Gunnar:** *“My information is of general knowledge – newspapers.”*

**Phoebe:** *“I know The Body Shop is ethically sound because Anita Roddick says so.”*

**Kate:** *“Marketing communications says so. They would not say so if they didn’t mean it.”*

5. Can you think of a brand you would not buy? ...Why not? ...How did you get that information?

**Phoebe:** *“I would not buy Coca-Cola and Nike.”*

**Gunnar:** *“Nestlé. But I’m not very good at consumer boycotts.”*

**Anke:** *“I haven’t bought anything from Ikea for years because of allegation of using child labour. I don’t buy Nike either. Boycotting is however difficult since I haven’t got much money. I would shop more ethically I had more money. Ericsson has been associated with dictatorship in Chile. I read about these things on newspapers and magazines and hear on TV news. I also hear from these at the university”*

**Per and Gunnar:**

*“I would not buy anything from Continental because the factory was moved to Portugal, which caused job losses in Sweden. Continental is an unethical company because they used EU subsidies and then liquidated the company.”*

**Per:** *“Carlshamn moved the factory and jobs from Sweden to Poland. I will NEVER buy anything from them.”*

**Anna:** *“I can’t think of a brand I would not buy. Poor must compromise. If I had money, I would not buy H&M and Ikea because of negative publicity. Publicity doesn’t guarantee anything though. On the other hand, ethical issues associated with clothes are far away, they do not really bother me”*

**Anke:** *“If I find out afterwards that a company whose product I bought has a reputation of unethical practices, I feel guilt”*

**Gunnar:** *“I would not buy Philip Morris, they make cigarettes addictive and are trying hide harmful side-effects of smoking.”*

**Helena:** *“No, I can’t think of any, I think more or less every company exploits their employees if they can”*

**Anke:** *"I would not buy Nike because of reported exploitation of children"*

**Phoebe:** *"I don't buy Coca-Cola because of its dedication... It leaves no other choice as it dominates the retail point. I know this from first hand experience"*

**Anna:** *"I think Marlboro Classics is an unethical company but I don't know whether it is worst than the others"*

**Gunnar and Per:**

*"I get my information from the newspapers, TV and telly text, Internet and Radio News"*

**Kate:** *"Newspaper articles have made me aware of Nike's misbehaviour"*

6. Do you think brands sold in Europe have adequate policies regarding labour conditions, such as adequate pay and safe working environment?

**Kate:** *"I have no idea"*

**Gunnar:** *"No, they don't have adequate policies."*

**Helena:** *"Not all of them. They take the best offer, which is not always the best way necessarily."*

**Per:** *"I don't think they do."*

**Phoebe:** *"I think products have adequate policies if they are manufactured in Europe"*

**Kate:** *"I doubt that there are policies on adequate pay, I don't know what regulations there are"*

**Phoebe:** *"I don't think there are adequate policies unless brands specifically states so"*

**Anna:** *"I don't think there is any control whatsoever and companies can always lie"*

**Anke:** *"No because in for example Asia worker's rights are not respected unlike in Europe. Only money matters to MNC's. I think 95% of MNC's do not respect ethical working conditions."*