

# CHAPTER 7

## ETHICAL LEADERSHIP IN SUSTAINABLE DEVELOPMENT: H&M AND WATER MANAGEMENT

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### ABSTRACT

*Multinational enterprises (MNEs) are increasingly compelled to consider the United Nation's sustainable development goals (SDGs). These goals are complex and may cause internal goal conflicts for companies. To stay the course, MNEs will benefit from an ethical compass enabling them to take on leading roles in driving change towards a better future. We argue that ethical leadership in this new business landscape is bolstered by virtue ethics. MNEs with genuine ethical groundings will be equipped to make decisions in complex situations where the needs of a variety of stakeholders must be considered. The purpose of this chapter is to conceptually and empirically explore an MNE's implementation of a particular SDG, through an ethical leadership lens. We contribute to international management and international business literature by offering a framework to analyse MNEs' pursuit of SDGs.*

**Keywords:** Ethical leadership; sustainable development; MNE; sustainable development goals; virtue ethics; international business

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## INTRODUCTION

MNEs are influenced by the United Nations (UN) SDGs. While there have been disappointing descriptions of MNEs that are not doing enough to achieve SDGs (Van Tulder et al., 2021), there is, indeed, evidence of MNEs that aspire to leadership positions (Prashantham & Birkinshaw, 2020). These MNEs are attempting to act as champions for a new form of capitalism, grounded in an ethical credo. From this perspective, profit-maximizing objectives (if needed) are subordinate to ethical principles. Ethical leadership can be described as ‘the showcasing of normatively appropriate conduct with the help of interpersonal relationships and personal actions, and employing two-way communication, reinforcement and decision-making to promote such conduct to followers’ (Brown et al., 2005, p. 120). Ethical leadership is becoming increasingly more important for MNEs as they are scrutinized by customers, suppliers and media (Lawton & Páez, 2015). Actions that are considered to be unethical can damage a firm’s legitimacy and cause financial, legal as well as social costs (Halter et al., 2009). MNEs that can take on ethical leadership to tackle some of today’s most pressing grand challenges will be able to reshape industries. In this way, they can get closer to being part of the solution rather than part of the problem.

MNEs are, thus, recognizing the benefits of broadening the business logic on which they operate not only to include financial performance (Elkington, 2013). The move towards a business practice that takes into consideration both positive and negative externalities of MNEs is being rushed because of UN SDGs (Buckley et al., 2017; Montiel et al., 2021). To stay relevant in the era of SDGs, compliance with globally accepted indicators is not enough. MNEs may be compelled to take control of the sustainable development agenda to have a say about how it should develop. Adopting an ethical leadership position may secure legitimacy and strategic autonomy in the industries where they operate.

In this vein, it has been noted that MNEs are seeking to transform themselves into more purpose-driven organizations with ethical values at the heart of their businesses (George & Schillebeeckx, 2022). The pursuit of SDGs challenges neo-classical assumptions of capitalism, for example, implying that self-interest deterministically will coincide with the creation of public good. Firms that are aspiring to abide by SDGs in their operations, thus, need to be prepared to compromise short-term economic gains to achieve long-term benefits, possibly affecting both the firm and the community. A self-proclaimed transformative effort towards sustainable development is exemplified by the global fashion company H&M, which has embarked on a journey to make fast fashion a sustainable business practice, seeking to erase the negative externalities of production and consumption. This endeavour is epitomized by H&M’s sustainability vision which is ‘to lead the change towards a circular and renewable fashion industry, while being a fair and equal company’. (H&M Group Sustainability Report, 2018, p. 13) While this journey has been tainted by shortcomings and criticism, it has set a new direction for the firm and prompted a transformation of the MNE’s organizational identity. Since the characteristics of a company and its purpose are likely to frame the firm’s strategy and business decisions, we see value in analysing how

the ethical leadership of the firm enables the company to tackle grand challenges, here reflected by a selection of SDGs that H&M is pursuing in its production market in Bangladesh.

The purpose of this chapter is to conceptually and empirically explore an MNE's implementation of SDGs, through an ethical leadership lens. The motivation for this is that sustainable development requires behaviours that go beyond a focus on rules and standards and emphasize leadership based on moral character (Lawton & Páez, 2015). This transition is, in our view, mirrored by a shift from ethical leadership based on duty ethics (issuing rules and standards) to virtue ethics (leading by example and breaking paths). Ethical leadership is a growing phenomenon in this context but is still underexplored as we do not know how such leadership is exerted and which traits it is anchored in. We intend to contribute to the international business and management literature by specifically examining the association between a pursuit of SDGs and ethical leadership. This motivates the following research question: Under what circumstances can ethical leadership of MNEs contribute to the realization of SDGs?

Extant literature in international business studies falls short of providing an in-depth understanding of how MNEs in emerging markets manage ethical issues, and the implementation of the SDGs. This study addresses this gap by conceptually and empirically showing how sustainability development is not only about words, schemes, rules and measures. Virtue ethics may enable MNEs to become immersed in specific SDG objectives and morally commit to such objectives, even when they are mutually conflicting or clash with other short-term economic targets. This study also contributes with an analytical lens for assessing virtuous business operations and offers action-based guidelines for running ethical operations.

## **THEORETICAL BACKGROUND**

### *Ethics and Sustainable Development in MNEs*

In the field of international business, there is increasing attention paid to grand challenges. The global arena lends itself well to addressing both problems and solutions associated with SDGs. Multinationals from advanced economies are frequently criticized for transferring the problems intimately connected to industrialization (e.g. greenhouse gas emissions, poor working conditions, unsustainable consumption) to emerging markets (Vachani et al., 2009). By playing a central role in global industrialization, the actions of MNEs are decisive for the fate of the planet. The UN SDGs constitute an influential framework for the global development agenda at the present time. While the SDGs provide guidance for companies on how to behave, they do not make companies immune to transgressions – not least because the sustainable goals themselves may present wicked problems where the achievement of one SDG may take place at the expense of another SDG. Navigating in a complex world where there is not one overarching objective to keep eyes on requires a new set of organizational skills and a heightened moral sensitivity.

Firstly, sustainable development is context dependent. Prior research shows that what is considered desired behaviour in a certain market may not correspond with values held by actors in another part of the world (Bondy et al., 2012; Elg et al., 2015). At the same time, MNEs that operate in multiple markets across the world often experience how cultural and contextual dynamics constitute major operational challenges. The challenges are particularly salient in an emerging market context, potentially affecting MNEs' ability to align their operations with global standards, such as the UN's SDGs. Local stakeholders, such as suppliers, business partners, the media and government, make different interpretations of the corporate ethical and sustainable claims (Crilly et al., 2016). It all suggests that the way MNEs interact with market and non-market actors, in emerging markets, can influence the level of alignment with SDGs in those markets (Buckley et al., 2017; van Zanten & van Tulder, 2018). An example could be MNEs that put a cap on the number of working hours in their factories in an emerging market setting. For workers and managers, this may not be seen as something contributing to their well-being. It could rather be viewed as intrusive regarding individual freedom, putting a strain on the possibilities to earn additional income.

Secondly, an example of a goal conflict related to SDGs can be illustrated by using Swiss food company Nestlé as an example. The company is asking its consumers whether it really is feasible for the company to completely stop producing palm oil. Palm oil production is infamous because it leads to deforestation and extinction of species (SDG 13 and SDG 15). Nestlé argues that the problem is more complicated than it appears at face value:

If we all stopped using palm oil and moved to some of the alternative vegetable oil options out there like sunflower oil, soybean oil or rapeseed oil, we could need up to nine times as much land to get the same volume of vegetable oil. This would simply shift the problem elsewhere and potentially lead to more deforestation, not less. (<https://www.nestle.com/beneath-the-surface>)

This point of view could be regarded as an expression of consequence ethics, meaning that an action that renders a lower net negative than the alternative can be considered beneficial. The counter argument is that it is never morally defensible to violate the health of the planet or human rights and doing so, regardless of intentions, means perpetuating a negative spiral.

Thirdly, MNEs may pursue SDGs at different levels of ambition. Some take leading roles, making them a central part of their strategies, whereas others are followers. A firm's competitiveness is no longer only determined within the scope of the marketing-mix. Sustainable development has surfaced as a critical variable that can enhance a firm's competitiveness. Rigidly confining sustainable development to the lowest required thresholds may lead to firms becoming outpaced by external change. Park and Ghauri (2015) argue that MNEs can benefit from adopting roles as global citizens and proactively drive sustainable development beyond stipulated targets. Such approaches cannot solely be underpinned by protocols but must be anchored in shared beliefs of organizational members, transparency and an active role in communities.

Overall, management challenges emphasized in the literature highlight the need for more empirical studies focussing on the ethical issues of MNEs' activities in emerging markets. For example, Kolk (2016) recognizes a research potential in

further integrating insights from the business ethics literature into the international business field in an interdisciplinary manner by integrating notions from business, philosophy and psychology. In the section which follows we will outline a virtue perspective on ethical leadership and discuss the potential of this view to establish a more reflexive outlook on business. Many MNEs experience challenges due to weak abilities to manage ethical issues effectively. To some extent, this could be explained by negligence, but in many cases, it is due to a lack of understanding of the local institutional environment and/or a failure to collaborate with local stakeholders.

### *Ethical Leadership: A Virtue Ethics Perspective*

Ethical leadership has predominantly been investigated within an organizational context, focussing on individual leadership, for example, the interactions between managers and their subordinates. In these settings, individual leaders can act as role models by exercising certain moral standards and social influence on peers and employees. (Mayer et al., 2009).

What do these inherent morals consist of? The sophists in ancient Greece claimed that 'man is the measure of all things' meaning that morals are subjectively determined. Socrates and Plato renounced this stance by arguing that, in fact, there is universal truth. From this perspective, morals of higher standards are expressed through virtuous thinking and virtuous behaviour. Aristotle, the disciple of Plato, developed the virtue ethics framework, claiming that virtue is defined by traits involving compassion, fairness, loyalty and openness.

While ethical leadership literature has focussed on individual behaviour and individual psychology, scholars have argued that organizations can strive for virtuousness to create a structural framing for morally exemplary behaviour (Bright et al., 2006; Cameron et al., 2004; Sison & Ferrero, 2015) and moral decision-making (Provis, 2010). From this perspective, virtuousness can function as both the determinant and outcome of organizational practices including both formal (e.g. work roles, training and guiding documents) and informal structures (e.g. culture, social bonds and storytelling) (Sison & Ferrero, 2015).

When organizations shoulder the responsibilities of ethical leadership, they are, from the conceptual understanding of the term, evaluated based upon 'normatively appropriate conduct' (Brown et al., 2005). Normatively appropriate conduct comprises an organization's inherent morals demonstrated by desirable traits that take into account their own actions and the actions of their associates (Piccolo et al., 2010). Moore (2012) argues that virtuous organizations need to assume an overall moral goal that transcends various pragmatic, economic objectives. Hence, virtue can be cultivated in an organization through shared visions and beliefs. Virtuousness is anchored in behaviour rather than rules. Hence, virtue ethics theory denies that making moral decisions is a matter of calculation or principle-based duties (Hartman, 1998; Stark, 1993). Instead, virtue ethics aims to motivate aspirational values and seeks to answer the question, 'what kind of organization should we be?' (Chun, 2005). While such goals may be conceived within organizations, it seems reasonable that influential externally imposed targets (such as the SDGs) likely can ignite and expand moral aspirations.

## CONCEPTUAL FRAMEWORK

In this section, we will discuss the link between ethical leadership based on virtue and a pursuit of SDGs. Pursuing SDGs creates challenges for MNEs. Virtue ethics can enable them to respond to those challenges and navigate a complex business landscape.

The objectives set to achieve SDGs occasionally stand in conflict with each other. Objectives can also be interpreted differently depending on cultural/institutional context. In addition, it is not always clear to multinationals to what extent they should transform their organizations to align with certain SDGs. Recent observations suggest that companies can deal with these uncertainties by becoming more purpose-driven and establishing themselves as ethical leaders (George & Schillebeeckx, 2022). Ethical leadership may not be all-encompassing but may be confined to certain firm-relevant SDGs. Arguably, ethical leadership enables MNEs to take control over their own destinies rather than letting others dictate the norms and rules for sustainable development. MNEs that are trying to establish themselves as ethical leaders need to develop internal capacities that allow them to act in ways that are morally defensible over time and create behavioural patterns that are consistent with ethical challenges related to SDGs.

The achievement of internal and external benefits is often a key tension in organizations, as demonstrated by the structural conflict in H&M involving the conflict between climate goals and upholding a business model based on (excessive) consumption (Tarnovskaya et al., 2022). Fig. 1 describes sustainable development as a progression that is anchored in traits of virtue, defining ethical leadership. These traits of virtue are captured by the following dimensions: Candidness, consciousness, courage and compassion (cf. Chun's, 2005) review of organizational virtuous traits). We realize that there is a danger to pick and match between different traits when putting together a framework that reflects virtue since there is no general agreement which traits represent virtue, meaning that the framework cannot be claimed to be exhaustive. Candidness represents the honesty and openness of an organization which enables stakeholders to accurately assess its actions. Consciousness reflects the dependability of the firm, meaning that the organization will commit to goals and not fail to do the right thing even if there is opportunity for short-term gains. Furthermore, virtue requires the courage of an organization to act in accordance with its purpose and beliefs. Ethical leadership will meet pushback that takes boldness and determination to overcome. Lastly, virtue relies on compassion. To make morally just decisions, organizations need to be emphatic and aware of pressing matters experienced by individuals in the communities where they operate. Dealing with SDGs often implies tackling complex problems, meaning that doing the right thing in regard to one issue may occur at the expense of another issue (Doh et al., 2019). A virtuous stance does not imply flawlessness. Each ethical dilemma requires reflection. The heuristics used in facing dilemmas may thereafter be modified in a learning process that could further reinforce a firm's ethical leadership.

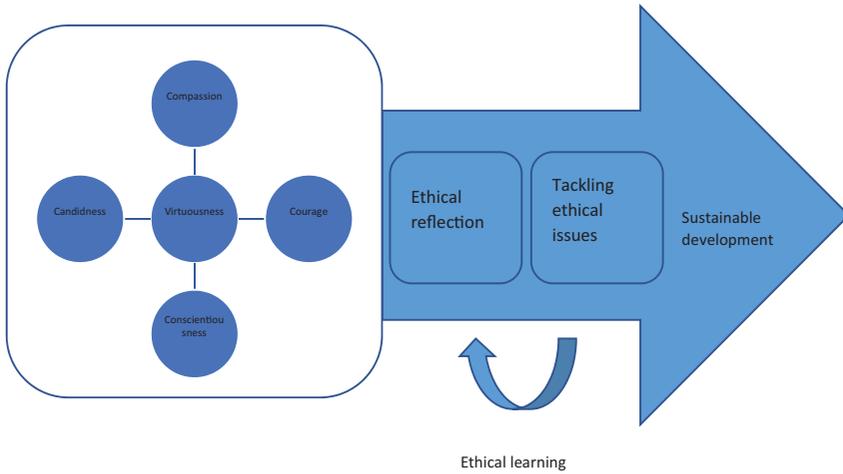


Fig. 1. Ethical Leadership in Sustainable Development.

## METHOD

This study departs from an understanding that both conceptual and empirical research are required to shed light on MNEs' ability to pursue the UN SDGs. Earlier literature in the international business and management fields falls short of providing the required depth of understanding on how MNEs can strengthen their ability to manage ethical issues effectively and implement SDGs. Hence, while ethical leadership is a growing phenomenon, it is underexplored in the context of MNEs and their ability to exert such leadership.

The ambition of this chapter is to address these shortcomings and develop an analytical tool for assessing virtuous business operations, which may help MNEs to become immersed in specific SDG objectives and morally commit to such objectives. Hence, while our aim is partly conceptual, we use a qualitative case study to illustrate and develop our conceptual points. In designing this study, we consider that ethical aspects and behaviour related to MNEs' operations are sensitive areas to study. A qualitative case study approach was, thus, considered highly appropriate, and an effective tool to advance our theoretical and conceptual understanding on an underexplored phenomenon. We also chose to conduct a single case study, as one of its advantages as compared to multiple case studies is that such a case enables rich descriptions of a phenomenon that we do not yet know much about (Sigelkow, 2007).

The case company is theoretically sampled to capture the challenges of MNEs' implementation of sustainability practices. The global fashion company, H&M and its work on water use in the supply chain was chosen as a focus for various reasons. H&M is an example of an MNE that has documented experience of working on sustainability matters for a relatively long time-period in emerging markets. One of its largest production markets is in Bangladesh. To gain insights

on those management-related challenges experienced by an MNE in implementing sustainability practices, with a focus on SDGs, H&M and its operations in Bangladesh, thus, proved both interesting and relevant.

### *Data Collection and Analysis*

The overall design of the data collection involves two phases. In 2019, we entered the first phase of our study. This phase focussed on conducting interviews with managers at the HQ level responsible for tasks and issues related to the company's sustainability work, including climate and water. The interviews were conducted in physical meetings. The aim of this first phase was to investigate the policies and codes of conduct relating to sustainability matters, learning about the company's overall strategy related to sustainability, and study the routines for interacting with local offices in emerging markets. We have specifically learned about what the company identifies as their main risk areas in emerging market operations as well as the rationale behind policies and roadmaps for change. In the second empirical phase, which began in 2020, we have focussed on the actual implementation processes of sustainability targets, often related to SDGs, in emerging markets. In this phase, we have conducted interviews with the local sustainability team in Bangladesh, to learn about their attitudes to sustainability programmes, possible mismatches between operations and strategy and stories about how sustainability projects have unfolded (e.g. related to water). The interviews conducted with the local sustainability team in Bangladesh were conducted via Zoom or Teams, and on most of the interview occasions, we met up with a team of two to four local managers helping us to gain an understanding on the chosen topic. We understood that the digital mode facilitated coordination and collaboration, especially in this emerging market context. For example, we were able to plan and set up video meetings with up to four participating local managers in the Bangladesh region despite them being situated at different local sites.

Primary data, in the form of 10 interviews with managers in the case firm, constitute the main data source in this case study. In both phases of data collection, we have, however, also used secondary data including company annual reports, sustainability reports, news articles, press releases and websites. The secondary data sources have served as anchor points in preparing the interview questions. The secondary data have also ensured the validity of the interview data and provided detailed knowledge regarding the sustainability work of the MNE, including knowledge on how sustainability activities are organized and implemented, relationships with different stakeholders, different ethical codes and commitments, etc.

To collect relevant secondary data, we have searched documents available through the MNE's website and used the database Retriever Business. In the Retriever Business database, we have searched for newspaper articles and press releases published from 2011 to 2021, using the keywords H&M, water, WWF. The search generated a vast number of items, and those considered most relevant for this study were downloaded and reviewed in more detail.

The interview questions that have guided all our interviews have concerned the organizational structure of the whole MNE, with questions on how sustainability

activities are organized at the headquarters level as well as implemented at the emerging market level. The questions have also covered how the MNE interacts and collaborates with different stakeholders and how different ethical codes and commitments are developed and implemented throughout the organization and markets.

To support rigorous data collection practices, each interview was recorded and transcribed. The transcribed interviews were analysed together with the secondary data documents. To make conceptual categorizations based on the data, we used an open coding strategy (Strauss & Corbin, 1990) anchored in our purpose and specifically our model dimensions (i.e. candidness, consciousness, courage, compassion).

## FINDINGS

H&M was established in 1947, then as a single store for women's clothing called Hennes, located in Västerås, Sweden. Today, the company's operations span worldwide through both physical stores and digital channels. In 2019, H&M operated around 5,000 stores in 74 markets and e-commerce sites in 50 markets.

The H&M group emphasizes that the role of H&M from the beginning has been to democratize fashion by making it affordable to broader customer segments (H&M Group Sustainability Report, 2018). The sustainability vision of H&M is 'to lead the change towards a circular and renewable fashion industry, while being a fair and equal company' (H&M Group Sustainability Report, 2018). The value proposition to consumers 'fashion and quality at the best price' or the 'H&M way' implies that it is offered in the 'ethical, honest, and responsible way' (The H&M Way).

The company is dealing with substantial challenges in its production markets to deliver on this promise. Ever since the company was established, the H&M Group has outsourced its production. H&M has subcontracted operations to locally owned or multinational garment manufacturers, based mainly in Asia and Europe. Bangladesh is one of H&M's largest production markets. The H&M Group has 214 direct suppliers in Bangladesh; some of these suppliers in Bangladesh have collaborated with H&M for 20 years. In the production office in Bangladesh, the local sustainability team consists of 28 persons. The team members work solely on sustainability issues in this region, organized into an environmental team – focussing on issues related to water and energy use, and a social team – focussing mainly on issues related to living wages, industrial relations and skills development. While H&M works actively in all these areas, we will, for the purpose of stringency, focus on challenges concerning water usage and water management.

### *The Challenge of Water Management in Readymade Garment Production*

Clean water is becoming an increasingly scarce resource. Climate change is causing new weather patterns around the globe, creating droughts in some areas and floods

in others. WWF states that in 2025, two-thirds of the world's population may suffer from water shortages (<https://www.worldwildlife.org/threats/water-scarcity>).

The fast fashion firms have gained a bad reputation for relying on innately unsustainable business models. By encouraging a high turnover of clothes, companies are pushing consumption to levels that are depleting resources and causing irreversible and negative effects on the environment. In the textile industry, water plays a particularly critical role. Water is required to grow cotton, to dye fabrics and create washed-out looks (<https://about.hm.com/en/sustainability/sustainable-fashion/water.html>). It takes about 10,000 litres of water to produce one pair of jeans using conventional manufacturing practices (<https://unfccc.int/news/un-helps-fashion-industry-shift-to-low-carbon>). While textile supply chains are heavily dependent on water, many production and processing sites are in the world's most water-stressed and polluted river basins.

Water is central to sustainable development and to have a dedicated SDG on water is important for guiding users of water resources towards sustainable management. The article also put forward that 'There's a strong business case for the fashion industry to manage its water footprint', but the real business case for responsible water stewardship is not about profit and loss, but about brand reputation. As the article 'Green with shame' in *The Economist* (2019) emphasizes, fashion companies are beginning to feel obliged to show that they are doing something to clean up their act.

In the case of H&M, excessive water use and toxic water are examples of areas where H&M's operations have negative effects on the environment. In this chapter, we will focus on water use which relates to SDG 6. Water is very important but challenging in the context of Bangladesh. The H&M sustainability team in Bangladesh asserts that ground water is rapidly decreasing in the country, which could lead to an environmental and economic catastrophe if not mitigated. The deeper actors drill for water, the more contaminated the water becomes.

Local H&M employees realize that water depletion in H&M may have severe consequences both for the local community and for business. If water sourcing is not handled with greater effectiveness and greater care today, the company will have fewer options for water sourcing in the future.

### *H&M and Water Management in Bangladesh*

H&M Group and WWF entered a partnership in 2011, focussing on water stewardship. The goal that H&M has formulated around water stewardship was ambitious, that is, to become a leading water steward within the industry ([https://hmgroupp.com/wp-content/uploads/2021/01/HM-group-calling-the-industry-to-join-forces-on-water\\_EN.pdf](https://hmgroupp.com/wp-content/uploads/2021/01/HM-group-calling-the-industry-to-join-forces-on-water_EN.pdf)). In the [H&M's Conscious Actions Sustainability Report \(2012\)](#), the collaboration with WWF was described as a game-changing water partnership. In the three-year partnership they set out to work towards implementing 'a holistic water stewardship strategy that aims to be a game-changer for our industry and beyond'. WWF explained that:

The partnership between WWF and H&M Group is founded on a joint vision for a sustainable future for people and nature. The purpose is to address key environmental impacts in the

H&M Group's value chain, with a special focus on water, biodiversity and climate. Our work also aims to lead and inspire other companies within the fashion industry but also beyond, towards solutions that keep within the boundaries of our planet. (<https://www.wwf.se/foretag/samarbeten/hm/>)

The partnership was the first of its kind, as it took the whole supply chain into account and went far beyond the factory lines. In the business press, the collaboration received substantial attention at the time when it was launched. In the *Guardian* (2013), the article 'H&M: an ambitious new water management strategy?' suggests that what makes this water management strategy unique is H&M's explicit commitment to engage others, through a holistic approach. At the same time, the article emphasizes that the holistic approach is connected to some big challenges, as working across industry is not easy.

The strategy itself included 30 water-connected objectives and activities in five different focus areas: raising awareness around water, increasing knowledge about water impacts in the value chain, internal actions around water management, engaging external stakeholders and influencing governments on water policy.

In 2016, the partnership expanded to include climate action and a strategic dialogue related to H&M Group's and the fashion industry's broader sustainability challenges and opportunities – signifying an important step towards a more sustainable fashion industry. In April 2017, H&M Group announced a new climate strategy that had been developed in collaboration with WWF and entered WWF's global program Climate Savers. By working together, combining expertise and leadership and taking a holistic approach on water, climate and strategic decisions, H&M Group and WWF sought to accomplish real change. As H&M Group is a leading player in the fashion industry, they have the position to influence suppliers, customers and other brands in their industry to become more sustainable. Further, the partnership wants to showcase to other companies, within the textile sector and beyond, that focussing on more sustainable practices is both feasible and valuable for business.

While the water stewardship strategy covers several locations, Bangladesh is considered the most important. Hence, by not only taking responsibility for its own actions but also for the industrial development at a larger scale for ready-made garments in Bangladesh, H&M set the aim high. One of the main challenges related to water usage in Bangladesh is that water is not a valued resource. On the contrary, the availability of water is taken for granted by people in business and civil society. Because ground is still not exhausted, and it is possible to extract it, there are no (short-term) economic gains to be made from recycling or using water more frugally and efficiently. H&M needs to explain to relevant actors that time is running out; unless behaviours are changed rapidly, everyone will have to pay for it in the future. The local sustainability team in Bangladesh emphasize that water is not perceived as a valuable scarce resource in the country. Hence, attitudes need to change.

To a large extent, water malpractices are associated with lack of information and knowledge. H&M has detected an opportunity to ramp up on their focus activities including improving subcontractors' knowledge about water, making them understand how water impacts the value chain. Working closely with

managers on these issues is viewed as more effective than trying to negotiate with the government to push for new water-related policies. In fact, laws and regulations related to water are poorly enforced and are viewed to have a weak impact on actual environmental practices in Bangladesh.

According to respondents, change must be instigated and developed from the business side. H&M believes that the company needs to unite international brands in Bangladesh around improved water management practices. If international brands recognize the problem, the leverage will increase, and subcontractors may follow suit.

### *H&M as a Water Steward*

Aspiring to become a water steward implies engaging others and driving change that, potentially, can bring broad and long-lasting impact to the local market. Both at the headquarters level and at the local level in Bangladesh, H&M employees assert that they are ahead of other brands in the development of responsible water management. While the company has stepped into a leadership position, other are lagging. An important challenge in the work on water stewardship is that it requires multilateral collaboration in the local market, involving both factories and competitors as potential partners in sustainable development. H&M believes that the company has the capacity to include these actors in activities relating to water management through leading by example. The reason H&M would be equipped to do so is partly because of its size and partly because of its knowledge about operations related to water. One of the local team respondents explained that H&M is taking on a leadership role for water management in Bangladesh.

For the water stewardship mission to become credible, H&M has decided to be result oriented. The firm is formulating targets to make it possible for itself and others to assess performance and discern progress. Formulating targets is ongoing work that creates touchstones for everyday practices and operations. The targets are used to estimate performance and discern progress.

Hence, water-related goals are broken down into milestone achievements which reflect achievable progress. H&M is implementing water and chemical management standards at over 500 suppliers in the supply chain. H&M has realized that it needs to be clear about rules and targets related to water management in its communication with subcontractors.

To demonstrate progress in water management, H&M can report several successful cases of developing new standards and new production methods. Actual outcomes of these activities are, however, more difficult to measure and report. While H&M focuses on fostering capabilities and progressive spirits of competitor brands, the firm cannot fully control actual outcomes of these concerted efforts. The generally held idea is that advocacy of SDG 6 eventually is going to spill over onto changed attitudes and capacities, enabling local actors to manage water more effectively.

Stepping into a leadership position in water management implies challenging current practices and shared beliefs in local markets. In Bangladesh, for example,

respondents assert that careful use of water is not a priority among managers in factories. The H&M respondents claim that managers will only listen and become responsive to H&M's requirements if they see a business case.

H&M realizes that by being a large influential company it, indeed, has the leverage to drive change. H&M realizes that the requirements placed on suppliers need to be aligned. Since H&M shares subcontractors with other international brands, coordination across these relationships is warranted. By agreeing on standards, H&M and its partners can send a convincing message to suppliers. The pool of international brands in Bangladesh is diverse, ranging from small firms to large players, the latter sometimes being competitors of H&M. H&M is widely proposing that other firms join them in water management initiatives regardless of competitive dynamics. The local team explain that there is regular and ongoing communication with other brands about various initiatives. Shared platforms are set up at the local market level for collaboration.

Progress in local collaboration is reportedly slow; however, some significant wins have been recorded along the way. This is manifested, for example, by broad agreements where 30 international brands have agreed on a zero discharge of heavy metals. H&M has also been part of forming the Water Resource Group which is a collaboration between international brands such as Coca Cola and Nestle as well as NGOs (WWF) and local government agencies. One of the main aims of the collaboration is to enhance water valuation by raising awareness of the impact of water consumption in terms of the quality and quantity of water. It also gives an opportunity for citizens to gain insight into and participate in innovative systems for water recycling and reuse.

## **DISCUSSION AND CONCLUSION**

By aspiring to a leadership position in the responsible use of water, H&M is not only setting out to legitimize its operations and its business model but also to reframe its purpose as a firm. That is, H&M is positioning itself as a representative for a new business order that does not only focus on short-term economic gains but pays attention to the context where business is carried out. The effort builds on the premise that a problematic legacy does not stop a business from stepping into the role as a force for good. However, H&M is dealing with colliding logics since its business is dependent on a consumption culture which demands high volume production of fashion which needs to be reconciled with care for the planet. H&M has chosen a pragmatic approach and not changed the core of its business model which has drawn criticism from stakeholders. The firm is instead aspiring to use water in garment production more responsibly, arguing that this is the more realistic way forward.

H&M started out its journey towards sustainable development from a situation where basic operations were grossly misaligned with SDG 6. Running operations that are harmful for the planet and its inhabitants have made the public, predominantly consumers and media, question the very business model that H&M operates. Consequently, H&M has been pressed to make a turnaround.

The new, more sustainable, approach to production is reflected by expressions that are closely linked to virtue ethics. From this perspective, the firm is committed to be a force for good (e.g. transform the fast-fashion industry), rather than just mitigate harm. Actions needed in accordance with virtue ethics are, in a condensed conception, reflected by traits of candidness, conscientiousness, courage and compassion (adapted from [Chun, 2005](#)).

Candidness can come in different forms, all the way from carefully crafted public relations strategies to indiscriminate disclosure to stakeholders of information-related firm conduct ([Elg et al., 2015](#)). Virtuous forms of candidness, however, are reflected by a willingness to be open about information relevant to stakeholders which may concern both successes and setbacks ([Sendlhofer & Tolstoy, 2022](#)). H&M is moving towards virtuous candidness in its ambitions to create performance measures and targets related to effective water usage. The firm's performance, in this respect, can be easily tracked by stakeholders. The case shows that H&M is setting ambitious targets and, thereby, enabling external stakeholders to hold them accountable. The main reason for being open about performance is to inspire other actors such as competitors and policy makers in the local market. By showing progress, H&M shows that change is possible. However, targets constitute a weak mechanism for long-term progress since they are not externally sanctioned and change over time, which limits accountability.

Conscientiousness reflects a virtuous stance not only to act in accordance with principles under certain circumstances but also to stay true to convictions and the overarching vision ([George & Schillebeeckx, 2022](#)). In the H&M case, this is reflected by a long-term commitment to the SDG tied to water management. It is also reflected by initiatives that are carried out even though they are met by pushback from local stakeholders. The case shows a long-term commitment to improve water management in Bangladesh on a range of different issues: frugal water use, reduction of chemicals and water recycling. H&M has not received any backing for these initiatives from the local government. Lack of constructive dialogue at the government level has led H&M to focus on factories where there has been limited responsiveness to the need to manage water more carefully. At the local level, there is a clash between the objective of caring for water as a resource and the objective of operational effectiveness ([Bondy et al., 2012](#); [Elg et al., 2015](#)). The issue that water is not considered a scarce resource is expressed as the biggest roadblock to progress in the market. H&M is dependent on coalitions with other international brands to enforce compliance with new practices. From a conceptual standpoint, conscientiousness is a mechanism for consistency and the ability to move forward even in times of adversity. H&M is gathering knowledge from the numerous projects it is involved in and using this knowledge to improve operations across its production network. Conscientiousness reflects an ethical leadership quality in the sense that it can enable a firm to break new paths. Once the path is broken, other actors (i.e. competitors to H&M) may follow suit ([Nylund et al., 2021](#)).

Courage is represented by H&M contesting current practices of how water is used in the industry. In this sense, H&M is a norm breaker that through its size and knowledge seeks to disrupt production practices in Bangladesh. While in

previous studies size has been identified as an indicator of compliance to SDGs, it also exposes companies to scrutiny (Montiel et al., 2021). Ethical leadership cannot, however, be based on resources only but needs to be fuelled by intrinsic motivations of fulfilling an innate purpose (Moore, 2012). Arguably, courage needs to be coupled with some level of risk that the firm is willing to take to stand up for its ideals. The initiatives taken by H&M are not bold in the sense that they challenge financial objectives of the firm. Operational improvements are incrementally implemented, and H&M has no internal accounting systems to charge failures to meet water-stewardship targets as costs.

Compassion is a key trait and determinant for virtuousness. It is here stipulated that compassion, from an ethical leadership perspective, is linked to a firm's sensitivity to local stakeholders and its ability to marshal them to orchestrate change at the local market level. The compassion aspect is missing in current perspectives on orchestrating stakeholders in pursuit of SDGs (Nylund et al., 2021) but could, indeed, add explanations to how ethical leadership is exerted. To act in a way that is beneficial for society at large, the company needs to be insightful about the consequences of its actions. Tackling social problems puts high requirements on a firm to pay attention to numerous scenarios that could follow its courses of action, ultimately affecting individuals. Compassion steers a firm away from dependence of doing good by merely abiding by rules (e.g. duty ethics) and may reinforce employees' intrinsic motivation to pursue sustainable development (Moore, 2012). The study shows that respondents, indeed, are aware of the critical economic importance of the ready-made garment industry for the nation of Bangladesh and realize that water management can only be successfully implemented if individuals realize the importance of adopting new mindsets and practices. Raising public awareness is identified as a key course of action but also a way of shifting focus of the firm's own responsibilities of operating in a market where compliance to sustainability standards is weak.

The findings indicate that ethical leadership can be fruitfully conceptualized as a function of virtual traits. However, firms do not just slip into these traits; they need to be earned. This may occur through a process where an organization sets out on a mission which allows the company to transform. H&M seems to be in the early stages of this transformation where through various initiatives it is establishing new production practices that have few but notable spillover effects on the readymade garment industry in Bangladesh as a whole. It is plausible that ethical leadership grounded in virtue can enable firms to orchestrate local actors and shape market practices in a way that is viewed as credible. However, this approach needs to permeate the organization as whole which is not possible when different logics (business and sustainability) are in conflict.

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