Motivating corporate social responsibility in the supply chain

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Motivating Corporate Social Responsibility in the Supply Chain

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Abstract

There is a relative paucity of studies in relation to Corporate Social Responsibility (CSR) focused upon the ‘upstream’ components of the supply chain (business-to-business) hence our research investigates upstream CSR activities and their underlying motives using case studies from 5 UK industries. Findings indicate that whilst companies recognise the need to cover a range of CSR issues in their supply chain, motives vary plus only those aspects seen to have strategic implications will be allocated resources in any significant manner.

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Introduction

The reputational risk associated with corporate social responsibility (CSR) failure in the supply chain has been vindicated in recent years by Gap, Nike, Starbucks and Wal-mart, amongst others, in the context of ethical practices at supplier plants (Zadek, 2004). Intense negative consumer reaction forced each of them to take on responsibility for the ethical performance of their suppliers and sub-contractors. Technology has also had its part to play in the application and use of CSR. For example, the Uzbekistan government has been accused of allowing gangs to operate which ‘force hundreds of thousands of children from schools, and order them to pick cotton in searing heat and live in squalid conditions on pitiful wages’ (Mathiason, 2009). Eventual awareness of this lack of social responsibility has forced major UK retailers to boycott suppliers from the Asian state, including Tesco, Asda, Wal-Mart, Marks & Spencer and Gap. However, until recently, it has been hard for retailers to readily identify the true source of mixed cotton procured from other suppliers. Recent advances in technology allow for better tracking and tracing of any items contained in a clothing garment, including the exact source of cotton, which if used appropriately by buyers adds more pressure on governments and suppliers to act more ethically. However, the introduction and monitoring of CSR targets into the supply chain is relatively new, especially in relation to the ‘upstream’ components of the supply chain when applied to a business-to-business context (Vaaland et al., 2008). Focussing closely on the buyer perspective our research, based on case studies in 5 UK industries begins to fill this void by establishing: a) what approaches are used by buyers to ensure CSR compliance in upstream supply (i.e. collaborative or monitoring) and b) what are the key motives driving firms to encourage CSR criteria in their upstream supply?

Supply Chain and Social Responsibility

According to the literature, there are several factors pushing supplier-buyer companies to adopt CSR, many of which are driven by the concern of lost reputation ‘brand image, sales, access to markets and financial investments’ (Cruz, 2008, p.1011). CSR squares as a risk management strategy in relation to the corporate identity and it may also be considered a source of competitive and even financial advantage (Orlitzky, Schmidt and Rynes, 2003). Factors conventionally considered as drivers of CSR include both the negative risk avoidance and the positive performance issues; internal and competitive pressures; external pressures from investors and consumers; regulatory pressures and pressure from campaign groups and Non Government Organisations (NGOs) (Haigh and Jones, 2006). Spekman et al. (2005) have discussed and developed a framework based on the extent to which buyers ought to be responsible for the ethical behaviour of their suppliers, especially considering relative distribution of power within relationships. The distribution of power relates to the relative balance of influence in the relationship between supplier and vendor. Their framework allows the more powerful party to follow a process for effective CSR implementation, affirming that collaborative relationships lead to improved performance. A collaborative approach is one characterised by procedural fairness/justice where ‘the procedures and criteria used for making and executing decisions are unbiased, ethical, transparent and correctable’ (Boyd et al., 2007, p.343). This approach suggests CSR objectives can be better maintained by cultivating trust and commitment in the supply chain to support the ‘championing’ of CSR.
Alternatively, a monitoring approach, characterised by a need to ensure compliance via contractual norms may also ‘signal distrust on behalf of the monitoring party… a common reaction by the distrusted party is retaliatory behaviour such as non-compliance... monitoring suggests a transactional relationship, and investment in procedural justice inherently conveys a deeper and more meaningful commitment... greater likelihood that common goals will emerge and both parties will work towards a common vision’ (Boyd et al., 2007, pp. 346/347).

**Methodology**

Data was collected from five UK based case study companies from differing industries. The criteria for selecting the companies included: involvement in manufacturing activity, either in-house or whose business depended on the manufacturing activity at third party sites; need to have a recognisable CSR agenda, identified either via their web-site, publicity materials or by establishing at initial contact to explore as to whether they would be suitable. A broad cross-section of industries were included in order to be able to investigate different elements of CSR in differing contexts. Industries studied included electronics, mechanical and civil engineering, brewing, oil and plastics with six relevant interviewees including: Contracts and Services Manager; Risk and Governance Development Manager; Purchasing Manager; Health and Safety Manager; Regional Director and a Quality Systems Engineer. Earlier studies tend to be the realm of larger companies and as we wished to compare our findings to prior research, our smallest company had 200 employees and a turnover of £45 million/annum and some were significantly larger global operations. A semi-structured interview approach was chosen as the primary means of data collection. We first developed an interview guide based around a priori themes identified from the current literature. We then compared our collected qualitative data to the themes identified in the literature. The flexibility of the interview approach also allowed for discussion of the ways different CSR criteria are treated within the organisation. Whereas much previous research in this field has focussed on one aspect of CSR (predominantly the environment), it was important for our study to be able to investigate and compare processes across multiple criteria within the same organisation.

**Analysis**

The interview transcripts and other documents were analysed using a coding approach (Ryan and Bernard, 2003) that complimented the interview guide. The companies were consequently categorised according to one of the two upstream supply relationship approaches discussed above, namely as either ‘monitoring’ or ‘collaborative’. Finally, the motives for engaging in supply chain CSR were studied for each company. Motives were ranked according to the importance accorded identified in the interviews. The ranking was determined primarily on frequency that each motivation was mentioned, as well as the order they were mentioned in response to an open question, and by referring to additional company information.
Findings

It was clear in our analysis that different aspects of CSR were motivated by different forces, depending on the business’ individual circumstances where some issues took precedence over others. The four areas mentioned in table 1 cover all the areas that the selected companies included in their formal supply chain CSR requirements. Table 1 also outlines the motives clearly associated with the two different approaches being taken.

Table 1

<table>
<thead>
<tr>
<th></th>
<th>Rank*</th>
<th>Total Points</th>
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<td>1st</td>
<td>2nd</td>
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<tr>
<td>Collaborative approach</td>
<td></td>
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<tr>
<td>Reputational risk</td>
<td>3</td>
<td>4</td>
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<tr>
<td>Top mgmt</td>
<td>5</td>
<td>0</td>
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<tr>
<td>Legal</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Org. culture</td>
<td>1</td>
<td>1</td>
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<tr>
<td>Monitoring approach</td>
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<tr>
<td>Reputational risk</td>
<td>2</td>
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<td>Org. culture</td>
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Rank of 1st weighted 3 points, rank of 2nd weighted 2 points, rank of 3rd weighted 1 point. So reputational risk was ranked most important factor 3 times where it was associated with a collaborative approach, and ranked 2nd most important factor 4 times, giving it a total score of 3x3 plus 4x2 = 17.

Discussion

The ‘risk factor’ was repeatedly mentioned as an important motivation for engaging in supply chain CSR. This is consistent with prior research (Roberts, 2003; Haigh and Jones, 2006). The risk was associated either with customer perception of poor ethical or environmental behaviour, or customer perception of a breach of legal requirements. For companies where the reputational risk was high, predominantly because they were a well-known brand name, the attention was focussed very intensely on the CSR factor that made them most vulnerable. Because of the strategic implications those CSR factors were more strongly associated with a collaborative approach than a monitoring approach (see Table 1). For issues that had less risk attached, a low-involvement (monitoring) approach was undertaken. Government regulation featured several times in the interviews, but only once as the main motivator. It was associated with both approaches to supplier relationships for CSR and was generally regarded as a minimum threshold requirement, and the means of implementation varied, depending more on the cost of compliance or the risks associated with non-compliance than on the simple existence of regulation. For one company, for example, the costs of waste disposal in the form of tax on landfill is driving need to work with suppliers in order to improve the recyclability of suppliers’ products. For other companies, it is a simple ‘tick box’ requirement that they comply with all relevant legislation for environment, labour standards and so on.
Top management was primarily concerned about risk management, so where risk was significant, very rigorous processes were implemented and supported by top management as seen in Table 1. In addition, top management's concern with risk and CSR is strongly associated with a collaborative approach and not at all with a monitoring approach. With regards to the effect of the organisational culture, an interesting theme emerged regarding the way CSR has moved from being driven by some external factor, such as customer requirements, to become more of a way of life and this outlook transfers to the supply policy for CSR. Some of the comments on this included: “I think it's something that's happened as the company's evolved” and “We'd do it anyway, even if our customers didn't require it.” This outlook was associated with both a monitoring and a collaborative approach, but ranked much more highly where there was a monitoring approach in place. This could be due to altruistic motivations such as employee values being included in the organisational culture category. One potential interpretation of this finding is that the ‘strategic drivers’ underpinning the relationship in a collaborative approach, are not present for a monitoring approach, perhaps allowing the employees own ethical values and motives to come into greater play in the relationship and approach to CSR. Although tentative, this is an interesting finding and one that may warrant further investigation via future studies.

Conclusions

CSR criteria have been termed “non-core” in the supply chain literature and much debate surrounds the business case for CSR. Some regard it as a genuinely altruistic activity with little commercial value, others make a business case for it. The aim of this study was to explore how such “non-core” issues may be implemented in the upstream supply chain, given that the need to incorporate them is becoming increasingly important. The literature broadly suggested that collaborative relationships were antecedents to various supply chain CSR initiatives and that collaboration on CSR issues led to performance improvements. From our research, the first conclusion is that CSR issues in the supply chain cannot be broadly described as “non-core”. This means that certain CSR issues have real strategic significance and are treated accordingly within our case studies across all 5 industries. However, for aspects that are not strategic, where the risk of failure or the consequences of failure are not too severe, companies do not invest in taking their suppliers' performance beyond the legal requirements, and take a low-involvement approach.

In addition our findings highlight that particular issues that may be considered strategic will vary from industry to industry and even business to business. The approach taken depends on the underlying motivation. This study found that where the underlying motivations were essentially financial, companies were more likely to take a strategic, collaborative approach. It also found that where a monitoring approach was taken, this was not necessarily because the company took this approach to its supply chain management as a whole, rather that the specific CSR issues involved did not justify direct-involvement or investment. The motivations for extending CSR requirements beyond a company's own boundaries, whilst overlapping in many ways with those identified in the literature for internal CSR programmes, are also distinct and in some ways more complex in our study. A company's position in the supply chain may play a part.
Our conclusions contribute to findings from previous research on the drivers for CSR and contribute usefully to the debate about the business case for CSR. They show that drivers for CSR in the supply chain differ in some ways from drivers for internal CSR programmes, and that companies distinguish between ‘strategic CSR’ and ‘non-strategic CSR’ in the resources they devote to gaining compliance from their suppliers. Altruistic motivations by themselves do not extend to devoting resources to improving suppliers' CSR performance. Our findings indicate that companies seeking to gain compliance for CSR issues can use their existing strategic relationships with their suppliers to implement their CSR requirements to good effect, making it an integral part of the relationship. Monitoring may have a place where issues are non-strategic; as Boyd et al. (2007) suggest, ‘An ideal CSR implementation would be one in which a firm could employ a low level of monitoring (thereby building legitimacy) while also gaining a high level of supplier compliance. This approach respects the importance of relationships in the effective management of supply chains’ (ibid p.344). Industry codes of conduct or other voluntary measures designed to enhance CSR performance of supply chains need to take into account the fundamental, financial, and risk drivers that underlie companies' activities. The real difference will be bought about as and when CSR issues gain sufficient importance in strategic considerations, and collaborative supply chain mechanisms are harnessed to include them.

Limitations and scope for future research

Whilst a cross-section of industries was represented, the small number of companies studied reduces the generalisability of the results. The subject area would benefit from a wider range of case studies and a more thorough examination of individual purchasing processes within each company. In addition, the exchange of knowledge in this area could be studied; it is clearly a relatively new field and how CSR knowledge is transferred within supply chains would be a useful study. The drivers for supply chain CSR are complicated and it was clear from our study that there is considerable overlap between them which could be the focus of further clarification. This study did not explicitly distinguish, for example, between top management support that springs from owners' or founders' values and top management support that springs from purely strategic considerations. The same is true of the category ‘organisational culture’; altruistic drivers were placed in this category, influenced both by management and by employees' individual values. Finally, research could usefully investigate whether certain business models are antecedents to an effective CSR implementation in the supply chain. This study covered a range of business models, including companies that work on project by project assignment basis, offering turnkey solutions, through to others that are producing a standard range of goods. Is this difference in business models a relevant factor in how supply chain relationships can be harnessed for CSR?
References


