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CSR & Networking in Supply Chain

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Abstract

By comparing two unequal European buyers, this study explores network relationships in Supply chain (SC) from a corporate social responsibility (CSR) perspective in the Bangladesh apparel industry. A qualitative method has been applied for data collection though interviews and gathering secondary material in the form of newspaper articles and buyers' websites. A combination of network perspective and compliance and capacity building constitutes the theoretical foundation of the study. The result shows that the larger buyer stresses on control and strictly following the code of conducts while the smaller buyer relies on collaboration and dialog in implementing CSR.

Keywords: Relationship, Trust, Control, Bangladesh, Collaboration

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1. Introduction

Consumers are more conscious today about what they are buying and where the products are produced, and it has compelled multinationals to take responsibility for environmental protections, safety, security and economic well-being of the employees in the supply chain (SC). Cannon (2006) argues that there is a growing public interest in where and how goods are produced. Murphy et al (2013) recognize that consumers can vote for or against corporate behavior by either buying or boycotting products, which in turn affects a company's financial results. CSR has therefore become a significant issue for firms, particularly procuring products from developing country suppliers.

Commission of the European communities (2001, p. 7) has defined CSR as "the voluntary integration, by companies, of social and environmental concerns in their commercial operations and in their relationships with interested parties". Vaaland et al (2008) describe CSR as complex and ambiguous because it is reflected by multiple and different perspectives and views. Stakeholder theory has been largely used to study CSR (Smith et al., 2010) and it has been widely embraced by businesses as well (Kolk & Van Tulder, 2010). Freeman (1984, p. 46) has defined stakeholders as "any group or individual who can affect or is affected by the achievement of the organization's objectives". In this view, the organization (buyer) has the dominant role and can dictate how the work to be carried out. The scope for developing network relationship among the stakeholders is therefore limited.

Post et al (2002) however offers a new stakeholder view which stresses relationships rather than transactions within a network of stakeholders. This approach shows a broader context integrating different stakeholders for success and survival of the firm. But the stakeholder theory is not dynamic and does not address how asymmetric actors in SC network can work to implement CSR. Cramer (2008) observes that organizing CSR in SC is a challenging task and literature on how companies can organize CSR in such setting is scarce. We argue that industrial network perspective which deals with the establishment of close relationships between buyers, suppliers and other actors can significantly fill this research gap (Håkansson, 1982). The theoretical view in the network approach is that firms develop long-lasting relationships with other actors (such as suppliers, distributors, etc) and engage in activities with resources for a joint competitive position (Håkansson & Snehota, 2006; Ghauri

et al., 2008). Establishment of long-term relationship however does not hinder to form new relationships or terminating old relationships considering the objectives of the firm. Relationships are under permanent development and change (Ritter, 2007). The aim of this paper is to examine how European buyers work with network relationships in SC to implement CSR in the Bangladesh apparel industry. Bangladesh is world's second largest exporter of apparel products and came in world media in April 2013 for a collapse of an apparel factory in the capital city of Dhaka causing a death of 1,132 workers.

This study starts from the stakeholder theory and then adopts industrial network approach to highlight relationship between the actors along SC for the implementation of CSR. It stresses the activities of different actors including buyers, suppliers and suppliers' suppliers to offer a holistic view of SC in relation to CSR. Further it applies and compares two unequal European apparel suppliers to focus on the collaborative attitude of the companies.

2. CSR & Supply chain

CSR can be understood from the corporate, individual, and team perspective (London, 2012). CSR which includes economic, social and environmental benefits, is achieved when socially responsible behaviors go beyond the boundaries of a single firm and involve wider communities (Ciliberti et al 2008). The nature and location of international supply and production networks are directly related to a range of CSR issues, including the environment, health, safety and labor conditions, and this has driven MNEs to consider risks and vulnerabilities, e.g. by designing codes of conducts aimed at suppliers (Kolk & Van Tulder, 2010). Companies are evaluated not only on the products that they sell but also by their supply chain practices (Murphy et al., 2013).

Supply chains have to meet final customers' demands and hence the process carried out by chain members have to be coordinated (Ciliberti et 2011). Ciliberti et al. (2008) suggest that companies can apply two CSR management strategies along SC, i.e. compliance with requirements and capacity building. The first approach sets standards for suppliers and stresses on the strict compliance to the standards. The other approach seeks to build up suppliers' own capacity of handling CSR issues. Ciliberti et al (2011) discuss two extreme coordination mechanisms: hierarchy, in which all processes are carried out within one vertically integrated firm; and market, wherein each process is carried out by a different firm. A hybrid solution combining two mechanisms may be applicable in the SC for ensuring compliance. Ciliberti et al (2011) suggests that hybrid mechanism gives one partner a dominant role to dictate the other members to act in a different way. The reason is the dominant partner is usually better informed about the final customer's demands. There are at least three difficulties if a partner (buyer) is dominating: (1) instructions are carried out without motivation; (2) there is a little scope for dialog and understanding and (3) the partners (suppliers) lack flexibility to adapt with the local situation. Network researchers treat too much control as a hinder for development for network relationships (Ford, 2002).

Klerkx et al (2012) have applied a capacity building approach while discussing integration of CSR in SCs. Halldorsson et al (2009) argue for the need for a radical change in the corporate mindset to think boldly beyond the – mostly efficiency centered – principles of traditional supply chain management. The corporation needs to learn that suppliers are not there only to carry out the standards, there is a need for dialog to deal with several challenges in implementing CSR. The problem in CSR implementation may require a specific expertise, product, or service that the corporation possesses that needs to be adapted to the local situation (London, 2012). Capacity building through learning is more important for the suppliers who actually implement CSR in SC. The capacity building approach is focused on awareness building and education (Ciliberti et al. 2008).

3. CSR, SC and network relationship

Effective supply chain management can improve a firm's performance through several means including building strong relationships that enhance a firm's ability to respond to its customers more effectively (Martin & Grbac, 2003). Network relationships are built to decrease uncertainty and increase stability, but at the same time relationships act as the source of change (Freytag & Ritter, 2005). Apparently it sounds contradictory but it has important implications in SC. Buyers and suppliers work in a complex situation involving web of relationships which need scope for stability, flexibility, change, termination and improvement in relationships to implement CSR. It is not necessary that all relationships are functional or helpful to fulfill the CSR goals, and also new relationships may be required to complement networking in SC. Network coordination refers to a chain's overall structure and the control mechanisms that influence the whole set of organizations and relationships concerned (Elg, 2008).

The logic and dynamics of network relationships can be understood by identifying the critical actors, activities and resources and by analyzing their role within the exchange (Cova & Salle, 2000). Actors who take part in relationships have certain identity so that the criticality of their contribution can be recognized. Activities are carried out by actors pursuing their own goals and possessing their own perceptions of the interacting parties' activity pattern, among other things (Håkansson & Snehota, 2006). To carry out the activities partners need resources. By combining critical resources, the parties gain additional values and advantages (Ghauri et al., 2008). In case of CSR implementation in developing countries, it is often an unresolved issue who will pay the cost. The situation is like this: the code of conducts is in place, the actors are identified and the activities have been outlined, but in the absence of time, money and intention to put them together in action. By increasing the understanding of suppliers' conditions, a retailer can make better use of its own resources invested in the relationships as well as activate and utilize the suppliers' resources for mutual benefit (Ghauri et al., 2008).

In network perspective, two important properties are trust and control (Elg, 2008). Empirical evidence has indicated that trust is essential for successful supply chain relationships as it can make the supply chain more agile and responsive (Hoejmose et al., 2012). Jamison & Murdoch (2004) claim that most CSR efforts are targeted at monitoring first-tier suppliers while they leave second-tier suppliers intact or rely on first-tier suppliers' responsibility. In any given relationship, levels of trust may rise and fall in anticipated oscillation that doesn't seriously threaten its survival, or trust may be broken and relationships damaged in ways that are resistant to repair (Ciliberti et al 2011). We therefore suggest that some control is necessary along with trust in SC so that the interaction between actors, activities and resources can properly function to meet the organizational objectives. Further we add the issues of compliance and capacity building to our theoretical framework (Figure 1).
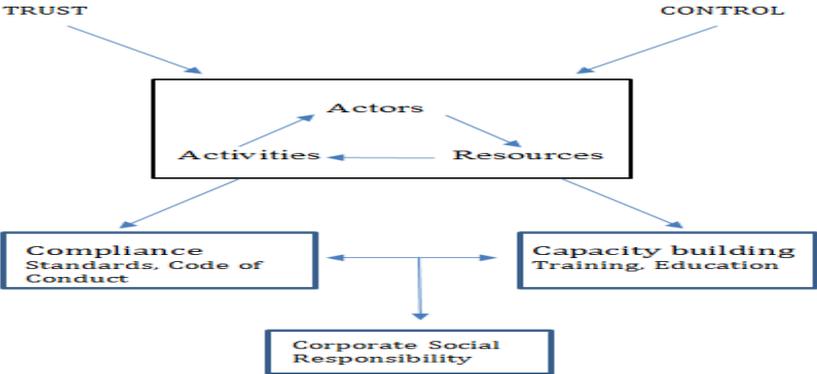

Figure 1   A framework on CSR based network collaboration

4. Methodology

To study network relationship in the supply chain, qualitative research approach has been applied. This approach stimulates according to Weick (2007) deeper thought (for example on CSR activity) by providing rich, thick descriptions of real phenomena and action instances (or streams). The local culture, institutions, administrative and institutional systems, and decision making pose challenges to international collaborations like the underlying study. Doz (2011) argues that qualitative research creates close contacts with the respondents and therefore is helpful to deal with contextual sensitivity and perceptual insight.

Data has been collected mainly through face-to-face interviews with first and second tier suppliers in Bangladesh. CSR managers of the two buyers, both in their European headquarters and the local offices have been interviewed. A total of 18 people were interviewed and time for each interview took between one to three hours. The semi-structured interviews covered several areas including CSR implementation, code of conducts, collaboration, development and extent of network, CSR training and reputation of suppliers and buyers. To understand the role of the context, representatives of Dhaka chamber of commerce, one apparel training center, buyer government's international development organization both in Europe and Bangladesh have been interviewed. The researchers visited eight factories producing apparels, clothes and accessories. Two workshops one in Bangladesh and the other in the buyer's country had been organized.

The data was transcribed twice by two different assistants to reduce the risk of mistakes. The researchers also made own notes which was also used to check the authenticity of the data. The data was coded and then categorized under different themes to ease the interpretation and analysis of data. While categorizing, it was observed that the information was systematically organized so that the research aim could properly be fulfilled.

5. The Empirical study

5.1 Case Alpha

Alpha is a leading European apparel retailer with a sales volume of 19.9 billion US dollar in 2012. It has over 2700 stores around the world and employs more than 72000 people. It does not own any factory but outsources its production to independent suppliers, mainly in Asia and Europe through its local offices. In Bangladesh, 350 people work with different assignments including design, quality control, purchase and CSR.

Buyers Forum was established in 2006 by the initiatives of Alpha along with a number of international buyers. An organization of World Bank is also collaborating with the Forum which functions as a meeting place for around 20 brands to discuss topics such as worker rights issues and local labor laws. Alpha is involved in a lot of CSR projects with local and foreign partners to improve the working condition of the apparel workers. It has run a training school for youths from slum areas for several years. The trained youths later get jobs in its suppliers' factories. The youths get vocational training and also a good insight on the code of conducts.

Factories which supply Alpha are required to have full compliance to the code of conducts, and regular audits to assess their level of compliance are carried out with the buyer's full audit program. A commitment to the code is mandatory if a local company is to be a supplier of Alpha. The Code which is developed on international standards covers eight issues: legal requirements, a ban on child labor, health & safety, workers' rights, housing conditions, environment and systems approach. The buyer tries to be clear what it wants from their suppliers on CSR issues and it applies zero-tolerance principle all the way.

In 2012, Alpha had 250 suppliers who are named as business partners. The suppliers are grouped in three categories depending on the degree of achievement in CSR compliance. The

first category enjoys trust from Alpha as a long-term partner and usually goes through routine controls. This group gets stable order and support with training and other resources to work for 100% compliance. The second and third categories go through a tight scrutiny including announced and unannounced audits. In fact all categories need to improve and there is a specific plan for the improvement. If some fault is detected, the supplier is given one month to fix it and during this time no new order is placed to the company. Alpha applies reward-punishment technique to deal with the suppliers. Suppliers who show strong improvement, in terms of business performance and code of conduct compliance, are rewarded with stable orders or higher order volumes. On the other hand a supplier is not allowed to continue if it fails to rectify the shortages within a stipulated time. Alpha claims that it offers reasonable time to the supplier for fixing, or finding other customers if the code of conduct requirements are not achieved.

When a new supplier is recruited, Alpha visits the factory to gather initial information on the capacity, other resources, management and CSR practices in the company. If satisfied, the buyer makes an unannounced visit and goes through CSR documents and meets the management and the workers. Every supplier needs to have one water recycling plant and a correction plan to work with the deficiencies. An announced visit takes 8-9 days. Three follow up visits are made to the factory which altogether takes 4-9 months. Middle management, who is responsible for CSR implementation in the factories, is found to be incapable. They are less qualified, often promoted from the lower level and lack the understanding and importance of being code of conducts compliant. Another delicate factor is the use of second tier suppliers when main suppliers outsource. Suppliers are only allowed to outsource to the nominated factories by the buyer. Alpha's own auditors make announced and unannounced visits to both first and second tier suppliers. Third party auditors also come to use to complement the control activity.

5.2 Case Beta

Beta is a medium sized European fashion chain with 400 stores and 4500 employees focusing eastern and northern Europe. Its sales was .65 billion US dollar in the financial year 2011/2012. *Beta's* business concept is to offer affordable fashion with wide appeal by applying a sustainable approach through the entire product flow – from design, production, transport and warehouse to store.

Beta has almost 35 suppliers with works placed around 50 factories in Bangladesh. It is a smaller buyer which procures 25% of its needs from the local market. Compared with the other buyers, Beta procures only 0.4% of the country's total apparel export. It collaborates with different companies in Buyers Forum where they have dialog on different business issues, particularly on the issue on CSR practices and how to deal with basic requirements of the code of conducts. Beta tries to have collaborations with large buyers but works better with similar sized firms in long-term projects. They are engaged in collaboration projects with other fashion chains to guarantee sustainable cultivated cotton and is a part of Business for Social Responsibility (BSR) – a global, not-profit organization that works for ethics and the environment.

Process of selecting suppliers is simple. Beta personnel initially visit the factory and see whether it fulfills the basic code of contacts requirements including safety, fire alarm, no child labor, freedom of association, no harassments, no discrimination and there is availability of clean drinking water. Beta does not see much difficulty with quality of products, price or lead-time with the local suppliers. It puts more attention on the safety issue. The buyer applies "business partners" concept which is based on collaboration, freedom of work and trust. It has a program to develop "key suppliers" to ensure good quality, maintaining delivery schedule and quick fixing of CSR related problems.

Concerning audit, it largely relies on the suppliers who have been its business partners for a longer time. Beta knows what its suppliers are doing and encourages them to improve their compliance to code of conduct. Suppliers do internal auditing and also third party auditors are used along with the buyer's own auditors. As a comparatively a small player, Beta has less resources to monitor second-tier suppliers and it also does not like to interfere in the main suppliers' responsibility. The buyer is involved when suppliers ask for support or advice, particularly in relation to CSR implementation. When second tier suppliers are used, the main supplier is however asked to tell Beta who they are and how good they are in dealing with CSR practices. In peak time, the suppliers seek sub-suppliers to support the procurement of apparel products to meeting demands of huge number of buyers. The buyer is however trying to minimize the use of second-tier suppliers to guarantee CSR compliance. Beta has developed key suppliers building on trust and close relationships. The buyer extends supports to the suppliers through training, guidance in implementing code of conduct and has continuous dialog in solving supply related problems.

Beta identifies middle management as the major source of problem for CSR adoption. It is not only the question of doing good things but there is a necessity to change their mindset to understand the importance of CSR issues. Beta provides some training to the employees but more is needed. Beta runs a training school for several years to offer vocational training to young and poor workers who can later get jobs in the suppliers' factories. This training deals with the technical aspect of the work, quality control and basic issues relating to code of conducts. Many buyers are member of Business for social compliance and initiative (BSCI) but Beta does not belong to them.

6. Analysis

Company size makes a major distinction between the buyers in handling CSR activities with their suppliers. Alpha had a strong base in the local market with major contacts within and outside SCs. It was found to take part in different activities for mobilizing resources to act for the improvement of code of conducts. They had been actively involved in increasing apparel employee salaries and also take part in the delegation sent to the highest level of the government. Compared to this Beta was not much in the scene although it was involved in CSR improvement activities in the country. It mainly concentrated to work closely with the suppliers due to its limited resources. However Beta took part in networks with international firms of similar size

In the areas of trust and control, the byers were found to differ most. Beta was from the beginning determined to develop trust with the suppliers for believing that CSR implementation must take place through dialog. It played an advisory role and not found to take a stiff stand against the suppliers missing to fulfill the code of conducts requirements. Beta even relied on the first-tier suppliers in connection to their performance of the second-tier. For Alpha, strict control was a central issue for the implementation of CSR. It was not ready to take any risk considering its substantial role in the local and global market. Creating different supplier categories was an attempt to secure control and had been directly linked to reward-punishment strategy. Alpha had some trust on the first category of suppliers but zero-tolerance was applicable to all. Even second-tier came under direct scrutiny of Alpha showing its eagerness to implement code of conducts throughout the SCs. This finding holds true with Jamison & Murdoch's (2004) claim that there is a mixed practice on the monitoring of second-tier suppliers. In Ciliberti et al's (2011) terminology, Alpha seems to apply hybrid coordination mechanism while Beta relies on market mechanism by building relationship with the suppliers.

The major similarity between the buyers is present regarding absence of qualified middle management. Unless this group is capable, and understands the need of CSR, it seems

difficult for the suppliers to make substantial improvement in the field. Change of mindset is therefore necessary at least at this level to bring changes in SCs as suggested by Halldorsson et al (2009). The capacity building was done in a limited way through vocational training and some education. Alpha put pressure on the suppliers for 100% compliance or at least it wanted to see that the conditions were gradually improving. Both partners were found to motivate the suppliers, but in a different way: Beta used social pressure through dialog and close collaboration while Alpha applied reward-punishment strategy.

7. Discussion and implication

By comparing two European buyers, this paper has investigated relationships in SC for implementing CSR. The result shows that the companies use both control and trust to develop supplier relationships. But it is found that much control is exercised to avoid the risk for bad reputation. It has a both negative and positive impact on the market. The positive part is that the message gets clear to the whole SC and everybody knows the rule of the game. Its negative side is that it may adversely affect local trust development and cause motivational setback, particularly in the long run. B2B stresses continuity of relationship and this is even more important in the apparel industry as the local suppliers who will ultimately do the implementation by the support of the buyers. Similarly control cannot be totally given up to risk non-compliance towards code of conducts. What is suggested, similar to London's (2012) view on adaptation, that one way communication will not work and some adaptation to the local environment is necessary to make a change in mindset of the middle management and employees.

Compliance and capacity building are seen to go hand in hand, which is also an important part of the theoretical framework for CSR implementation. Compliance is only possible when employees have the proper training, education, knowledge and capacity to carry out the huge work to make the SC sustained. The educational support is now given to some extent but the need is huge and urgent. There is a need for more resource mobilization and it is not enough by scattered and sporadic support efforts.

This study suggests that more collaboration is needed between buyers and sellers, particularly between CSR staff and middle management to create sustainable SCs. Managers need to work closely with local universities to educate their employees, and international buyers can actively support the universities for organizing courses covering major aspects of the code of conducts. A comparative study between two firms like this offers good insight of the SC relationship and implementation of CSR but a future research integrating several firms will be appropriate to generalize the result. We have looked on the buyers from the same country, so buyers from different countries may be included in a further research.

8. Biography

Akmal S. Hyder, PhD is a Professor at the Department of Business Administration & Economics, University of Gävle, Sweden. He has written several articles in international journals like International Business Review, Scandinavian Journal of Management, Industrial Marketing Management, European Journal of Marketing, Journal Business and Industrial Marketing, Business and Society Review and Competitiveness Review. He offers courses on international marketing and methodology, and engaged in research on strategic alliances, network and marketing strategies.

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