

SPREAD OF CORPORATE SOCIAL RESPONSIBILITY PRACTICES IN SUPPLY NETWORKS

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ABSTRACT

The aim of this paper is to develop a conceptual framework of the spread of practices towards suppliers in a supply network with a specific focus on corporate social responsibility (CSR)-related practices.

The motivation to increase our understanding of how CSR practices towards suppliers spread in the context of supply networks is derived from two sources: the growing attention focused on the voluntary steps companies take to integrate environmental and social concerns into their business operations and the dearth of previous research on CSR in the supply network literature.

Industrial business network research is used as a base for generating the conceptual framework, which is then utilized in the CSR context.

This study contributes to both business networks research as well as to the literature on CSR in supply networks with increased understanding of the spreading of CSR practices in supply networks and the facilitation of further research in the area.

KEYWORDS

Corporate social responsibility, supply network, buyer-supplier relationship, spread of practices.

INTRODUCTION

Organizations have increasingly begun to consider the interests of society by recognizing the impact of their activities on stakeholders and the environment. Voluntary steps taken to improve the quality of life local communities and society beyond merely complying with legislation is known as corporate social responsibility (CSR). CSR is defined by the European Commission as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” (European Commission, 2008).

Various interest groups such as international organizations and NGOs, in their concern for the social impacts of the corporate world, recommend guidelines, watch over the actions of companies, and reveal misconducts. The most glaring corporate social responsibility misconduct events attract media attention, often aimed at the brand owner, in whose supply network the event occurs. The effects of such misconduct spread within the same industry as other brand owners see the risk of being exposed and receiving unfavorable press. Actions or changes in practices towards upstream members of the supply network are likely to be taken to mitigate these risks in the various buyer-supplier relationships within the industry. (See e.g. Amaeshi, Osuji & Nnodim, 2008).

How does such spreading of CSR-related practices take place? Supply network literature offers limited research on CSR, and specifically on the social dimension of it (e.g. Seuring, 2008). Research on business networks identifies and is based on the idea of the connectedness of businesses in a network. Although the spread of structural change in networks has received increased attention (e.g. Halinen, Salmi & Havila 1999; Hertz, 1998), only limited attempts have thus far been made to describe how business practices in general spread in the network context.

While the few attempts to understand CSR in supply chains focus on certain industry-specific practices, this article explores not the exact practices of implementation, but rather those CSR practices implemented in buyer-supplier relationships as a result of pressures exerted via the supply network. Thus, merely one area of a single company's management practice and policy on CSR - CSR implementation with upstream suppliers.

The aim of this paper is to create a conceptual framework of the spread of practices towards suppliers in a supply network with a specific focus on corporate social responsibility (CSR)-related practices.

After thoroughly reviewing CSR in supply network literature, this article provides an overview of how business network literature sees connectedness and change in networks. A conceptual framework of the spread of practices in networks is then developed and applied to a specific case of CSR-related practices spreading in a network. Lastly, the article concludes with discussion and suggestions for further research.

CORPORATE SOCIAL RESPONSIBILITY IN SUPPLY NETWORKS

Supply networks can be defined as sets of supply chains, describing the flow of goods and services from original sources to end customers (Lamming et al, 2000:676). The view is extended here to look outside the material flows to accommodate study of business practices and CSR. E.g. Kovács (2004) in her research includes also stakeholders that are not related directly to the material flows. Any business network boundary is arbitrary and depends on perspective (Anderson, Håkansson & Jansson 1994:4). Perspective here is that of various buyer-supplier relationships serving to same customer market, and thus the study is on the level of the entire network. Point

of reference is then the end-customer and not the focal company somewhere in the middle of single supply chain as is customary to supply network literature.

It has been pointed out by Kourula, Kovács and Salmi (2007) that while corporate responsibility literature typically focuses on individual companies only, it is their embeddedness in a network and their relationships with corporate and non-corporate stakeholders that creates the need for corporate responsibility in the first place. However, it seems that the importance of CSR in supply chain decision-making has already been established (e.g. by Carter, 2004) with case studies and survey research.

In the reviewed literature sustainability is often reduced to environmental improvements only. The social dimension of sustainability has been neglected so far, as it is difficult to measure social impacts along the supply chain. (Seuring, 2008). In Seuring's (2008) literature review, only 16 papers (out of 131 identified) focused on the social dimension and a further 15 papers were classified as sustainable, as they integrate environmental and social issues. This reveals a clear deficit in supply network literature on social issues as well as on the amalgamation of all three dimensions of sustainable development.

One of the reasons for limited literature could be found in the lack of successful introduction of CSR initiatives in the supply networks. Even though consumer criticism of perceived CSR deficiencies can be extremely detrimental to corporate profitability and market share, the infusion of supply chain accountability into CSR increases the complexity of corporate CSR management (Maloni & Brown, 2006:35). In general companies pursue CSR for a variety of reasons and media play an important role also. An example of this with supply network implications could be brand owner NIKE. Consumers and non-government organizations (NGOs) criticized apparel company NIKE regarding sweatshop labor issues at its overseas suppliers. NIKE initially declined social responsibility for its supply chain partners but later shifted its stance under increased public pressure. As a consequence the entire apparel industry now takes a more diligent approach to supply chain CSR with extensive supplier labor codes. (E.g. Amaeshi, Osuji & Nnodim 2008)

Buyer-supplier relationships play a critical role in the decision-making processes of most suppliers, which in turn has the potential to stimulate environmental change within the supply chain (Hall, 2000). The base assumption of also this paper is that the CSR change within the supply network occurs ultimately in the changing CSR practices towards suppliers in single buyer-supplier relationships. Intuitively, continuous supplier development would serve as good domain for CSR practices. Wagner (2004:555) defines supplier development as "supporting the supplier in enhancing the performance of their products and services or improving the supplier's capabilities... The firm offers incentives or enforces supplier improvement, and hence makes use of the external market to encourage performance improvements. This is frequently done by assessing suppliers, communicating supplier evaluation results and performance goals, increasing a supplier's performance goals, instilling competition by the use of multiple sources or promising future business." CSR practices would seem to fit perfectly under supplier development. Therefore it can be perceived that CSR practices are not so different from more general practices between buyer and supplier offering ground for drawing parallels between spreading of CSR practices and spreading of practices in more general terms within a network. CSR practices are in this paper understood as practices aimed at solving a specific CSR concern e.g. certain supplier requirements, auditing topics or performance measures.

In order to understand what could be the dynamics of CSR practices towards suppliers spreading through supply networks, the deeper analysis of what the practices are is omitted from the analysis and focus is put on understanding how the spreading of these practices can be seen from business network dynamics perspective. Therefore next, an overview is given of how previous studies on business networks describe

some of the characteristics of business networks and what has been studied on spread of change in networks.

CONNECTEDNESS AND SPREAD OF CHANGE IN NETWORKS

Network theorists describe industrial markets as networks of inter-firm relationships. Companies become connected to broader networks of business relationships through exchange relationships they have built with other companies (E.g. Halinen, Havila & Salmi, 1999). Anderson, Håkansson and Jansson (1994) conceptualized the view of business networks as set of connected relationships. By adapting activities in several relationships to each other, thus rising complementary of sequences or other interdependent activities, activity chains stretching over several firms are created. They argue that finally, by getting close to its partners, a focal firm may have its views shaped by, and shape of views of, its partners' partners.

Network consists of the interdependencies between the different relationships. These interdependencies exist as regards activities, resources and actors. The performance and effectiveness of organizations operating in a network, by whatever criteria these are assessed, become dependent not only on how well the organization itself performs in interaction with its direct counterparts, but also on how these counterparts in turn manage their relationships with third parties. An organization's performance is therefore largely dependent on whom it interacts with. (Håkansson & Snehota, 2006:260-261). With the holistic, borderless, connected view offered by network approach (e.g. so called IMP group) gives conceptual tools to the study of dynamics in business markets and has provided good ground for research on change in networks (e.g. Halinen, Havila & Salmi 1999; Hertz, 1996; Madhavan, Koka & Prescott 1998)

Most IMP group contributions dealing with change in networks distinguish between different types of change, or different degrees of radicality (Aastrup, 2007). Hertz's (1996) focused on gradual and radical changes. Havila and Salmi (2000) investigated the spread of change in business networks with focus on critical events as triggers of radical change. Their conceptual discussion is based on the analytical framework for change developed by Halinen, Salmi and Havila (1999). The framework, compiling the mechanism, nature and forces of change in business networks, distinguishes between confined and connected change.

Madhavan, Koka and Prescott (1998) developed a framework which explains how industry networks evolve over time and in response to specific events. Their main thesis is that industry events may be either structure-reinforcing or structure-loosening, and that their potential structural impact may be predicted in advance.

"Netquake" concept was introduced by Dahlin, Havila and Thilenius (2005) in the 21st IMP conference in Rotherdam. They propose a framework inspired by seismology, using the term 'netquake' to describe spread of change in business networks. Their paper discusses connectedness at network level, i.e. network connectivity, as an important factor for understanding variations in netquake intensity. High level of connectivity means that changes spread easily in the network, whereas a low level of connectivity moderates the spreading, and thus the business netquake intensity.

All the above mentioned studies on change in networks are related to the change in structure of the network, the structure-reinforcing or structure-loosening factors. The idea that dynamics in network could be seen outside the network structure dimension and in light of practices could be driven from the activity dimension of network. Gadde (2003:360) explains that the linking of activities between two companies is useful and valuable because it gives both companies the opportunity to rationalize operations that are important and that extend beyond the ownership boundaries. He argues that also other activities than those in a flow of materials are significant in this respect because

interdependencies also occur in joint customer–supplier projects in product development or buyer–seller operations in service marketing, for example.

A supporting factor for looking at the dynamics of activity dimension within a network in a new light is found in Håkanson's paper (2002:134-136) who claim that relationships provide the opportunity for the company to influence others, but the same relationships are also a force for these others to influence the company. He also says that the change by companies and change within companies occurs through changes to the structure of the network and that the existence of the structure and its inertia makes action in the network more difficult, but also more important. Secondly, the only way that a company can achieve change is through the network. This requires persistence in convincing others of the benefits of that change and managing their expectations. A company must give others a picture of the intended direction of a change and find ways to combine changes in internal resources and relationships that relate to their motivations and resources.

An interesting study on “contagion” of practices from one dyadic relationship to an adjacent dyadic relationship within the supply chain has been conducted by McFarland, Bloodgood and Payan (2008). The study focuses on conditions under which contagion is likely to occur and is limited to downstream influence on strategies. They draw on research from the interfirm relationship, marketing channels, operations management, and network theory literature and on the basis of qualitative depth interviews, the authors identify a new phenomenon they call “supply chain contagion.” Supply chain contagion is defined as the propagation of interfirm behaviors from one dyadic relationship to an adjacent dyadic relationship within the supply chain. Contagion can occur inadvertently and with or without the knowledge of the affected parties. Using institutional theory, the authors develop a conceptual model that predicts the conditions under which contagion is likely to occur. Although contagion may take the form of any number of interfirm behaviors, operationally, the authors focus on whether the downstream influence strategies that manufacturers use with their dealers are imitated by these same dealers with end customers. (McFarland, Bloodgood & Payan 2008) Thus, the conceptual model of the study is too limited for the purpose of studying the spread of practices in supply networks in general.

What has not been studied in-depth is the spread of changes in the practices, or activities performed in the business relationships within a network. The following chapter utilizes the business network research tradition in general and studies on connectedness and spread of change in particular to generate a conceptual framework for how practices spread within a network.

FRAMEWORK OF SPREAD OF PRACTICES IN SUPPLY NETWORKS

As concluded above, this paper takes the view that business relationships in a network are connected, and thus activities in one buyer-supplier dyad affects the activities by other buyer-supplier dyads in the same network. Although business decisions on new practices are limited or confined to the single buyer-supplier dyad, it is argued here that the practices spreads though the relationships through different kinds of influences once triggered somewhere in the network.

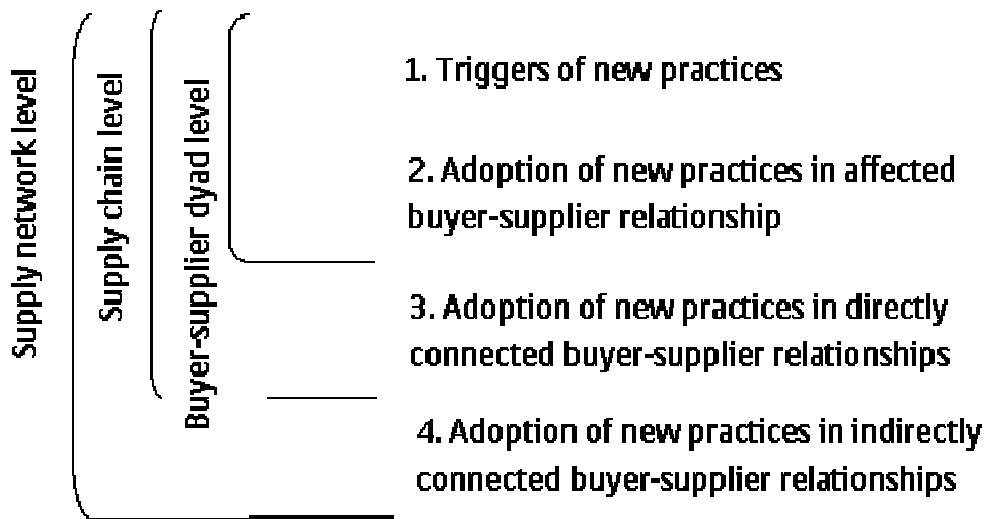


Figure 1. Conceptual framework of spread of practices in a supply network

Conceptual framework of how new practices towards suppliers spread within a network is split into three levels to illustrate the understanding that change in practices is transmitted within the network through individual relationships and that “waves of change” spread firstly to the immediate vicinity of the original buyer-supplier dyad i.e. supply chain which has closer connectedness to the original dyad i.e. the supplier’s suppliers and buyer’s other suppliers. The view is then extended to network level. As here the perspective point is that of end-customer’s, but the starting point is located anywhere in the network the last level may include companies with no direct contacts with the original buyer-supplier dyad, but are connected through 3rd parties. In each stage, the spread of practices in a business networks are also discussed in light of corporate social responsibility practices to address the original objective of this article.

1. Triggers of new practices

Halinen, Havila & Salmi (1999:786-787) consider what factors trigger changes in business networks looking at critical events. For understanding network dynamics, they define critical event as “an incident that triggers radical change in a business dyad and/or network. It is a manifestation of the change forces inherent in networks.” They continue that “critical events may arise from dyads in different parts of the business network and ultimately from outside it, from the broader business environment and society as a whole. While environmental forces seem to have a general impact on networks, they are always transmitted within the network through individual relationships. In the network context, environmental forces are channeled through business relations with other specific parties, rather than operating as a kind of general market force influencing the firm.” In the same spirit, the trigger is defined as an incident that triggers change initially in one buyer-supplier dyad. The trigger may arise from different parts of the business network and ultimately from outside it, from the broader business environment and society as a whole.

A trigger for a new corporate social responsibility related practice could be a CSR misconduct event that has received significant media attention (e.g. news that has been broadcasted among other news channels at least on CNN (Cable News Network, a major English language television network)). Some use also the term CSIR – corporate social irresponsibility to describe the phenomenon. (e.g. Tillmann, Bicen & Hall, 2008). This trigger would arise from outskirts of the network e.g. customer base, but focusing most likely on a single buyer-supplier dyad positioned anywhere in the

network. It is likely that the brand owner gets most of the attention as was the case with the above mentioned NIKE incident.

2) Adoption of new practices in affected dyad

Assumption is that the trigger from the first stage initially affects a single buyer-supplier dyad. This incident triggers creation of new practices within one dyad, most likely initiated by the buyer side or the brand owner. The trigger initiates creation of case specific practices firstly implemented in the affected buyer-supplier dyad to mitigate further damage to image or profits. Havila and Salmi (2000) suggest that part of the change always remains within a business relationship dyad, whereas some element of change may also affect other relationships and actors in a network. The former they call confined change and the latter connected change. It can thus be that part of the change remains confined and latter stages never occur.

In addition to the new practice implementation, the immediate effects of the trigger could even be the structure loosening radical changes as studied by Halinen, Havila and Salmi (1999), where the business relationship would be ended by the brand owner to mitigate further consequences on image, profitability or the like. This would not necessarily mean that the spread of practices would end here, on the contrary, breaking of relationship might mean that the trigger was strong enough to have far reaching influence on the supply network alerting even distant dyads from the original incident to act and create practices around the CRS topic in question.

Panapanaan et al (2003) have studied CSR practices in Finnish companies. One included dimension was management practices towards suppliers. They observed that with CSR gaining more attention in the market, many Finnish companies are making an evident shift in dealing with their suppliers and checking CSR requirements and auditing supplier's facilities as newly added purchasing procedures are starting to develop. Triggers influencing some of the Finnish companies are likely to increase this activity.

3) Adoption of new practices in directly connected buyer-supplier dyads

In the third stage the new practice is implemented in other closely connected dyads of the affected dyad as well to gain maximum benefit of the effort. The influence of the trigger is transmitted through the original buyer-supplier relationship to the other dyads in the vicinity i.e. in the relationships between supplier and supplier's supplier and buyer and buyer's other suppliers. This would already reach the single supply chain level as it involves the closely connected parties.

It is likely that the affected buyer wants to make sure also its other suppliers are following the new CSR practices to reduce risk of reoccurrence or increasing the future opportunity of gains. An example could be that the affected buyer changes the whole code-of-conduct and requirements towards all suppliers. Also the affected supplier may want to make sure the business can continue and would implement the same practices upstream with its suppliers.

4) Adoption of new practices in indirectly connected buyer-supplier dyads in the network

As has been stated above businesses in supply network are connected through the various relationship linkages. Thus, in this fourth stage, not unlikely the structural changes in the network, also the practices are transmitted through the different buyer-supplier relationships to further buyer-supplier dyads if the trigger has been strong enough.

In the last stage the new CSR practices are adopted even more widely throughout the supply network. The competitors of the brand owner as well as suppliers further

upstream are picking up the new practices towards their suppliers increasing the coverage throughout the industry.

This spreading of CSR practices may be sped up by creation of new industry standards taking the best practices in use. E.g. Hemphill (2004) looks into industry standards on labor conditions in international apparel and banking industries and uses definition of this industry self-regulation as a regulatory process whereby an industry-level, as opposed to a government- or firm-level, organization sets and enforces rules and standards relating to the conduct of firms in the industry. In his study both industries have formally embraced the use of self-regulation regimes as means of policing commercial practices that have negatively impacted the reputations of many global corporations in the respective industries.

DISCUSSION

The presented conceptual framework covers the spreading of change in four stages from single buyer-supplier dyad through different buyer-supplier relationships to finally cover a very broad supply network serving a customer base. Support is found in business network literature, more specifically in previous work on spread of change in business networks. Existing, but fragmented, CSR literature has offered some hints on what developments on CSR practices have taken place even on supply network or industry level mainly through case studies.

The article built on and contributed to business network research tradition in developing a conceptual framework of how practices towards suppliers spread in supply networks. This paper also increased understanding of how corporate social responsibility (CSR) related practices towards suppliers spread in supply networks as was the aim of this article. Furthermore, this article added to the scarce literature on CSR in supply chain management.

The developed conceptual framework offers an excellent starting point for further research that should look into CSR related practices in supply networks utilizing the framework in an empirical setting. A suitable event should be selected that could be seen as a trigger for new CSR practices. The scope of the study should be a network in a broad sense. A good starting point would be the members of an industry organization, where not all the dyads would be directly linked but serving the same customer base. Also, which specific practices are spreading should be tackled by further research as CSR practices can mean many things. The framework would benefit also from more thorough investigation of motivations to implement the new practices.

The framework has potential of practical contribution on efficient influencing to CSR practice development, which is in interest of many NGOs and governmental organizations alike. Understanding of the dynamics can bring light into how to successfully trigger important developments in CSR practice throughout target industries.

Utilization of the developed framework is not limited to CSR practices. Further research could look into spread of other type of practices in business networks e.g. in such areas as quality practices.

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