Supplier Perceptions of Distributive Injustice in Sustainable Apparel Sourcing

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ABSTRACT

The purpose of this paper is to analyze suppliers' perception of distributive justice in sustainability related activities in buyer-supplier exchanges. In the sustainable sourcing literature, many studies show that the relationship between the buyer and the supplier is of paramount importance to the suppliers' compliance to social and environmental requirements. One of the most significant concepts used to describe buyer/supplier relationships is justice. Distributive justice has a focus on the perceived fairness of the outcome of the exchange between the buyer and supplier. This paper sheds light on suppliers' perceptions of the fairness of buying company sustainability demands. To illuminate perceived distributive justice, we interviewed 30 suppliers/manufacturers within the apparel industry in India, Bangladesh, and China. Our findings reveal that overall textile and apparel buying companies fail to a large extent in respecting distributive justice, which affect suppliers' ability and motivation for implementing sustainability.

Keywords: Distributive Justice, buyer/supplier exchange, sustainable sourcing

INTRODUCTION

Research on sustainability has increased enormously the past decade and today sustainability is an inevitable theme when discussing buyer-supplier relationships. Existing research within the sustainability area of buyer-supplier exchange deals with many topics, but especially different governance structures have been in focus. Governance mechanisms like codes of conduct and monitoring activities have been studied (Andersen & Skjoett-Larsen 2009; Egels-Zandén 2007; Jiang 2008) but also relational governance and collaboration have been subject to investigation (Blome et al. 2014; Vachon & Klassen 2008). The focus in these studies has primarily been on

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the mechanisms and their effects on performance or compliance, rather than on the relational and social effects in the buyer-supplier exchange. One of the most significant social constructs used to describe the buyer-supplier relationship is justice (Campbell, 1985; Frazier, 1983; Jap, 2001), but in extant sustainable sourcing research, this element has received limited attention. A few studies focus on environmental justice, such as Ikeme (2003), who investigates morale and justice in environmental decisions. Social justice (Langhelle 2000; Wilson 2003) and "trade" justice (Macdonald 2007) are other types of justice that have been described in sustainability research. Justice has been a key topic in studies of buyer-seller exchange focusing on non-sustainability issues (Jap 2001). But we have identified no studies applying a sustainability justice perspective in buyer-supplier relationships, except from Boyd et al. (2007), who focus on suppliers' perceptions of the fairness of the buyers sustainability requirements from a procedural justice perspective. Also except from Boyd et al. (2007), no one applies the supplier perspective when looking at justice. Researchers look for the answer to how we reach sustainable compliance and how we expand the joint benefits for the buyer and the supplier, but few are asking how the output is divided between the buyer and the supplier. In this study, we actually ask the owners or manufacturers about their perceptions of distributive justice. How are the costs and rewards associated with sustainability distributed between buyers and suppliers and how does it affect the buyer-supplier relationship? We investigate suppliers' perceptions of this perceived fairness of exchange costs and rewards connected to sustainability. Distributive justice concerns the final allocation of economic rewards and responsibilities (Konow 2001) and is by Luo (2007, p 646) defined as: *the extent to which interparty sharing of the rewards from cooperation is fair in view of each party's contribution, commitment, and assumption of responsibility.* On this background, we address the following research question: How do suppliers perceive the fairness of sustainability costs and rewards in exchange with buyers and how do these perceptions affect suppliers' attitude towards the buying companies? To answer this question and hereby clarify sustainability distributive justice, we interviewed 30 suppliers/manufacturers about their perception of justice in the buying companies' sustainability requirements and activities. The paper is structured as follows. First we present a view of the existing research on sustainable sourcing and second the concept of distributive justice is discussed in the buyer-seller context. Following this, the methodological process used in research is described. Next the findings are presented, accompanied by relevant excerpts of the data that reflect emerging concepts, before we finally draw a conclusion.

LITERATURE REVIEW

Sustainable Sourcing

Purchasing and sourcing activities have achieved increasing importance during the last decades due to companies concentrating on core competences and relying increasingly on outsourcing (Handfield et al. 2002; Monczka et al. 1993). For the past 15 years, the importance of sustainability in purchasing and sourcing has followed this increase to a great extent. Sustainable sourcing has been defined by Pagell et al. (2010, p 58) as: "*managing all aspects of the upstream component of the supply chain to maximize triple bottom line performance*" – mentioning possible synonyms such as *sustainable purchasing, green purchasing, responsible purchasing, and ethical purchasing*. Much of the research within the purchasing/sourcing area has discussed different aspects of sustainable sourcing such as drivers and barriers to adopting environmentally

sustainable practices within organizations (Giunipero et al. 2012; Walker et al. 2008; Zailani et al. 2012) and the implementation of sustainability in the supply chain (Brockhaus et al. 2013; Roehrich et al. 2014; Zhu et al. 2008). Also, a part of the sustainable sourcing literature is divided into social aspects (people) and environmental aspects (planet) (Schneider & Wallenburg 2012). Research on social aspects of sustainable sourcing often deals with the implementation of codes of conduct, laying out social requirements like working conditions, minimum wages and health and safety matters, together with the corresponding monitoring activities in the buyer-supplier relationship (Egels-Zandén 2013; Mamic 2005; Yu 2007). Whereas the research within environmental aspects deals with areas like recycling, waste reduction and pollution prevention (Faccio et al. 2014; Ramos et al. 2014; Schoenherr & Talluri 2013). Studies of sustainable sourcing management aspects are also extensive, both within the social and environmental area (Carter & Dresner 2001; Gimenez & Sierra 2013; Jiang 2009). Governance structures, especially contracts, are explored in studies of codes of conduct and monitoring activities, but also relational governance structures has been studied looking into effects on supplier sustainability compliance (Albino et al. 2012; Blome et al. 2014; Vachon & Klassen 2008). Even though we see studies in the sustainable sourcing literature of overall relational mechanisms such as collaboration, the more detailed social aspects of buyer-supplier relationships and their impact on sustainability are absent.

DISTRIBUTIVE JUSTICE

Social Exchange theorists like Homans (1958) and Blau (1964) have been instrumental in developing the theoretical foundation for looking into the social factors of buyer-supplier relational exchanges (Wagner et al. 2011). The sourcing and supply chain management literatures continue to use Homans' theory of social exchange to evaluate the outcomes of the collaboration of both economic factors and social values (Wagner et al. 2011). Social exchange theory argues that individuals or corporate groups interact with expectations of a rewards from their interaction with others (Emerson 1976; Homans 1958) - and it is argued that a basic motivation for interaction is the seeking of rewards and avoidance of punishment. As such, Social Exchange theory states that attitudes and behaviors are determined by the rewards of interaction minus the penalty/cost of that interaction (Emerson 1976; Griffith et al. 2006). An important concept within research on social exchange is justice (cf., Emerson 1976) and while a number of justice aspects have been examined in the literature such as procedural and interactional justice, we use the theory of distributive justice in this paper to study the supplier's perception of sustainability outcomes in buyer-supplier relationships. Distributive justice deals with the perceived fairness of the exchange outcome in terms of costs and rewards, rather than the fairness of the interaction process (Adams 1966; Blau 1964). This kind of organizational justice has its origins in equity theory (Adams 1966), which defines a fair exchange as one in which each party to an exchange receives an outcome in proportion to ones contribution to the exchange (Blodgett et al. 1997). According to Homans (1958), distributive justice is obtained, among people or the members of two groups, who are in an exchange with one another, when the profits of each are proportional to their investments. Profit consists of that which is received in the exchange less the costs used (Adams 1966) – shown schematically as:

$$\frac{A's\ rewards\ less\ A's\ costs}{A's\ investments} = \frac{B's\ rewards\ less\ B's\ costs}{B's\ investments}$$

Luo (2007) defines distributive justice as the extent to which the sharing of rewards from cooperation between parties in an exchange is fair in view of each party's contribution, commitment, and assumption of responsibility. Rewards can be monetary, such as pay and dividends (Adams 1966; Homans 1958), and nonmonetary, such as knowledge acquisition and reputation enhancement, which also demonstrates that the assessment of distributive justice is perceptual (Luo 2007). A cost is that which is given up in an exchange such as lost advantages that can be achieved in another exchange or a burden assumed as a specific function of the exchange, such as risk, time, charges, uncertainty, responsibility, constraints and worries (Adams 1966; Homans 1958; Hornibrook et al. 2005). Investments in an exchange are the relevant properties that are brought by a party to the exchange, such as skills, effort, education, training and experience (Adams 1966), but in the business context also more financial investments like machinery, buildings, and environmental related changes and improvements. If a party in the exchange has put in a lot of investments and incurred costs but the achieved rewards do not meet the deserved and expected rewards, the party will perceive that an injustice has occurred (Frazier 1983) and this injustice can create a tension, which will be proportional to the inequity present (Adams 1966). As mentioned, equity is the basic norm of distributive justice and justice is a social norm, which stipulates that people ought to receive a fair reward for their investments in exchange relations (Blau 1964). If this does not happen and an inequality between each party's proportions exists, the parties involved in the exchange will experience a deprivation (Adams 1966). This inequality between the proportions can also lead to a feeling of dissatisfaction and anger (Homans 1958) and possibly to more harmful consequences such as interparty conflicts, partnership termination, and opportunistic behavior (Adams 1966; Luo 2007). In an exchange, there is always the possibility that one of the parts will experience or feel injustice and that an inequality in the ratio in an exchange will lead to a pressure for redress along with dissatisfaction (Adams 1966).

METHODOLOGY

Within existing research on sustainable sourcing, much focus has been on different sustainability mechanisms like collaboration, assessment, codes of conduct, and monitoring, and their effects on buying firm performance or how the mechanisms affect suppliers' ability to comply (Egels-Zandén 2007; Gimenez & Sierra 2013; Vachon & Klassen 2008). Only a small part of this research has taken into account the supplier's perspective and even less research has studied relational elements from a social exchange point of view. The purpose of this study is to explore *what* are the suppliers' perceptions of the fairness of exchange costs and rewards, but also to explore *how* this perception can affect suppliers' perception of the relationship. The research question is exploratory, which means that it requires a methodology that is appropriate for delving deep into how and why suppliers perceive, comprehend, react to, and manage the sustainability in buyer-supplier relationships. Charmaz (2014) suggest that the aims of a study are the ultimate driver of the project design. Grounded theory (Glaser & Strauss 1967) is an inductive research tradition that can help to show how social actors interpret and act on their environments in an exchange relationship (Flint & Golicic 2009). To be able to answer the research question, we conducted 30 semi-structured interviews with the owners or managers of suppliers in the apparel industry in India, Bangladesh and China. The selection of countries was three of the largest textile and apparel-producing countries exporting to Denmark chosen from the Eurostat Database (2012), and we wanted to cover several geographic regions. A semi

structured interview guide was developed around a number of topics to allow the participating suppliers to express their perspectives and perception of the customers' sustainability requirements and the resulting effects. In each interview, there was also room for discussing issues that were not covered in the interview protocol, but that the participants nonetheless found relevant (Yin 2003). We interviewed in English and each interview was carried out in person and ran for 41 min on average. All interviews were recorded and transcribed verbatim. All suppliers were promised beforehand that personal names and company names would be kept anonymous. This approach made it possible to gain insights into how the suppliers react to and perceive the fairness of the sustainability related costs and rewards in the buyer-supplier exchanges.

The initial data analysis was conducted through a coding scheme (Charmaz 2014). According to Charmaz (2014), coding should be conducted in three stages: initial coding, focused coding, and theoretical coding. During the initial coding, the analysis was performed very close to the data and the interview transcriptions were approached without direct consideration of existing theory (Charmaz 2014; Corbin 2008). The data was analyzed to make it accessible to constant comparisons (Glaser & Strauss 1967). During this initial coding certain groups of codes with close ties emerged and as a result categories were formed. During the focused coding phase the codes, which appeared most frequently or had the most significance (Charmaz 2014) were analyzed and further categorized. This activity was not carried out in a linear fashion, but instead went back and forth to the data as more abstract concepts emerged (Brockhaus et al. 2013). The final coding phase – theoretical coding is by Charmaz (2014) described as the sophisticated level of coding, which follows the codes selected in the focused coding. The theoretical coding is simply detecting the relationships between two or more categories. In this phase the categories from the focused coding were regrouped by the use of the distributive justice theory to conceptualize and to show the relationships (table 1).

Table 1

Criteria contributing to defining distributive justice	**Sustainability related rewards**	**Sustainability related costs**	**Sustainability related investments**
Codes which appeared most frequently or had the most significance	Payment Good reputation Knowledge Social satisfaction	Time regarding preparation for audits, the audit and follow up on correction plans Audit related payments Higher wages	Education Training Maintenance Improvements

FINDINGS

As mentioned previously distributive justice is achieved, among two organizations, who are in an exchange with one another, when the comparative profits of each are proportional to their investments (Adams 1966). The first purpose of our analysis is to illuminate suppliers' perceptions of fairness of sustainability costs and rewards. In other words, how fair the suppliers actually perceive the allocation of profits proportional to sustainability related investments

between themselves and the customers. The formulated equation by Adams (1966) which render this proportion visible is:

$$\frac{\textit{Supplier sustainability rewards} - \textit{Supplier sustainability Costs}}{\textit{Supplier sustainability investments}} = \frac{\textit{Customer sustainability rewards} - \textit{customer sustainability costs}}{\textit{Customer sustainability investments}}$$

The size of the different factors (*rewards, costs, investments*) in the equation can of course vary in many ways but when an inequity between the proportions exists, the supplier and the customer will experience a feeling of injustice and either the supplier or the customer will experience a loss (Adams 1966). In this study, we have interviewed 30 suppliers in the apparel industry about their perceived fairness of this distribution of sustainability related rewards, costs and investments. Based on the analysis, our overall conclusion is that the distribution is generally perceived inequitable.

In the analysis, we identified distinct themes (table 1) showing the suppliers' perception of the unfairness of the cost/reward distribution. One of these themes, which were broadly identified in the interviews, is the actual compensation of sustainability requirements from customers to suppliers. Only very few suppliers mentioned that their customers actually contribute to sustainability financially, whereas 23 suppliers answered no to the question whether or not the customers are willing to pay higher prices due to sustainability. This perceived missing reward for suppliers, which generates inequity, is perceived unfair, because sustainability compliance is actually demanded by the customers. For example, suppliers stated: "*They are neither willing nor do they want to compensate*" or "*if you think that customers would pay me extra – no that is an illusion*". The missing financial reward could be compensated slightly by the fact that some customers were providing suppliers with sustainability related knowledge, which help suppliers comply with the requirements. Also, quite a few suppliers feel that being able to comply with the customers' requirements gives them a good reputation, both to attract new customers and getting orders, but it also makes it easier to hire workers, which can be a problem in India and China because working in the apparel industry is not that desirable any longer. Both the sustainability knowledge and the effect of good reputation are areas which in some instances contribute to raising the supplier rewards, together with the social satisfaction many of the suppliers' experience. One supplier argued: "*the environmental things and sustainability is important, not only for customers - it is for our and everybody's personal life as well*". But added all together the amount of total rewards becomes almost insignificant because of the lacking financial compensation for sustainability from the customers. The sustainability related profit of either the supplier or the customer is as mentioned found by deducting the sustainability related rewards with the sustainability related costs of each. By analyzing the supplier interviews, the profit of the supplier seems to be minimal or even non-present because of the costs, which are caused by the customers' sustainable requirements. To be able to comply with the customers' sustainable demands, suppliers use much time preparing for customer audits or customer required third part audits. They also spent time participating in the audit itself, which takes one to two days per audit, plus additional time to follow up on correction plans made by customers or third parties. The suppliers have approximately 6-12 audits per year and one supplier actually had 25 audits in one year, which all together means higher sustainability costs for the supplier in the exchange. The audits are sometimes made by the customers according to their codes of conduct, but mostly

they are made on the basis of the different customer requirements of standards and certificates like the BSCI (Business Social Compliance Initiative) certificate, the Sedex (the Supplier Ethical Data Exchange) certificate, or the WRAP (Worldwide Responsible Accredited Production) certificate, depending of the country of the customer. If the audit is made by a third party, the customer pays the third party to make the audit, but these standards also charge the suppliers each time the certificate has to be issued or renewed. These codes of conducts and different standards all pose requirements of certain minimum wages and requirements of no overtime work for example, which in itself is reasonable. However, the interviewees argued that when customers keep applying pressure for faster delivery times and at the same time require them to comply with these standards and codes of conduct; it raises the total costs of the suppliers. Together, these findings show that the sustainability related profit is not visible to the supplier. The only sustainability related cost covered by the customer is the third party payment, small sustainability contributions via payments, a fee for the standards, and only a few customers time spend together with the suppliers for education and training. The data clearly shows that there is an inequity of the profit in the buyer-supplier relationship as supplier rewards seem small or non-existent and the supplier's costs appear higher than the customer´s.

But as previously mentioned, if we want to determine whether there is distributive justice in the exchange between the supplier and the customer we need to look at the profits in proportion to the investments. When we do that, the perceived inequity in the exchange seems even further compounded because the supplier is also faced with all the investments regarding the customer's sustainability requirements. All 30 suppliers actually answered no to the question whether or not the customers were helping them with sustainable related investments. This means that the suppliers pay for all the sustainable related improvements, for instance upgrades of machinery, facilities or systems, and all sustainability related maintenance required by the customers. Furthermore, the majority of suppliers paid themselves for all the sustainable related training and education of the employees. Altogether, looking at the distributive justice equation by Adams (1966), and when comparing it to the 30 suppliers' perceptions of sustainability costs/rewards, the equation clearly becomes unbalanced for the suppliers, who perceive distributive injustice in connection to sustainability.

In our research question, we also asked about the effects of the supplier's injustice perceptions. As elaborated above, suppliers' perceptions of the sustainability related costs/rewards are unbalanced resulting in perceived distributive injustice. Suppliers have high sustainability related investments and high sustainability related costs and at the same time only very few sustainability related rewards are present in the exchanges with the customers. Since these costs and investments are due to requirements of the customer, it would be obvious that the customer should pay a share. But as mentioned above, customers are not willing to pay higher prices caused by sustainability related requirements and in the analysis of the interview data, a clear picture of supplier frustration was apparent because of this missing reward. A striking example is one supplier saying: "*Of course no, if you think that customers would pay me extra – no that is an illusion – regarding payment they will never pay any more. On one hand they want a good price, but on the other hand they say "pay workers more, make them work less, provide them with all these facilities" - but we do not want to pay for it*". Suppliers' feeling of injustice, dissatisfaction, and anger as Homans (1958) describes it, can lead to opportunistic behavior (Luo 2007). This is also displayed in some of the interviews by suppliers confessing that they

sometime have to pay off third parties to approve audits because they cannot afford to invest in the required sustainability related improvements or changes. It is important to emphasize that it is not the sustainability related requirements that the suppliers find unfair, but the distribution of costs and rewards related to sustainability, which often makes it extremely difficult and challenging to be able to comply with the customers' sustainable requirements. A conclusion could be that if sustainability related costs and investments are higher to the supplier than to the customer, then distributive justice requires that the rewards of the supplier should be higher. At the same time, if the suppliers' sustainability related rewards are higher, then the sustainability related costs and investments should also be higher. This is what Homans (1958) refers to as the theory of noblesse oblige and he argues that "we all laugh at it because the noblesse often fails to oblige", which actually is what we see when contemplating the sustainability cost/reward distribution between the supplier and his customers and the fairness of it.

DISCUSSION AND CONCLUSION

This paper explored how suppliers in the apparel industry perceive the fairness of the sustainability related costs, rewards, and investments in exchange, and furthermore we investigated the effects of this fairness perception. In the sustainable sourcing literature, only a few studies have focused on fairness and from these only one identified study has focused on the fairness in the buyer-supplier relationship from the suppliers' point of view. In this qualitative study, we therefore asked 30 suppliers in the apparel industry about their perceptions of the sustainability related costs and rewards versus those of their customers. We presented the theory of distributive justice as it explains the fairness of costs/rewards, and also discussed the effects of it. Based on the findings, we can conclude that suppliers generally perceive the sustainability related costs and rewards rather unfair. In the analysis of the 30 interviews we found that suppliers' perception of the proportion between their sustainability related profits and their sustainability related investments was quite inequitable, relative to the proportions of the customers' sustainable related profit and sustainable related investments, which means that the suppliers perceived distributive injustice. What made this distributive injustice evident was the finding, that to comply with all the customer related sustainability requirements, suppliers receive a minimum amount of sustainable related rewards, and concurrently they also have all the sustainability related investments. There is a strong relationship between this perceived distributive injustice and the suppliers' obvious frustration about sustainability compliance. First of all, this inequity in costs/rewards makes it financially difficult and very challenging to the suppliers to comply with the sustainability related customer requirements. But also the fact that the majority of the suppliers in the apparel industry are situated in emerging countries like China, India or Bangladesh, makes it difficult for them. They do not find requirements unjust separately, but they find them unfair in relation to their costs and rewards. They feel reluctance from customers to contribute to sustainability, which they perceive as unfair. This distributive injustice could be a strong social or relational determinant in the sustainability related supplier-buyer exchange and should by the customers be taken into account when requiring sustainability compliance by the suppliers.

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