



The relationships between corporate social responsibility, environmental supplier development, and firm performance



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ABSTRACT

This research is intended to deepen our understanding of environmental supplier development (ESD), which is the development of suppliers to manufacturers for the purpose of environmental performance. Corporate social responsibility (CSR) is examined as the precedent of ESD. The impact of ESD on firm performance is examined as well. Using the survey method, 314 responses were collected from Turkish manufacturing plants with more than 250 employees. A partial least square structural equation model (PLS SEM) was constructed to test both the reliability and validity of measurement and the structural model. The results indicate that CSR is positively related to ESD and that ESD has a positive influence on the financial performance and competitive advantage of the participating firms. The effects of size and sector were analyzed. It was discovered that while larger firms are slightly more sensitive to CSR, all the links are significant in both group 1 (250–400) and group 2 (>400). However the relationship between CSR and ESD was not significant in heavy industries as compared to the sectors of consumer products, textiles, and chemicals. It is possible that heavy industries (i.e., metal casting) that are somewhat away from the public eye put little emphasis on CSR, or that they may have other reasons as they develop their suppliers. Firms can be encouraged to practice CSR and ESD by being exposed to the performance benefits. To the best of our knowledge, this study is the first to test these specific relationships.

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1. Introduction

The interaction and integration of corporate social responsibility (CSR) and supply chain management (SCM) has led to sustainable supply chain management (SSCM). The factors of anticipated increase in climate change, demand for transparency, increased environmental pollution, energy prices, and consumer awareness will definitely serve to amplify the importance of SSCM.

There are several definitions of sustainability. The most well-known definition was offered by the [Brundtland Commission \(1987\)](#): “development that meets the needs of the present without compromising the ability of future generations to meet their needs.” This broad macro-economic definition was criticized for not being specific enough to properly guide companies and their supply chains. Therefore, in response, the triple bottom line

concept was developed, which included societal, environmental, and economic performance.

Considering that, on average, manufacturers purchase approximately 60% of their product components from suppliers, it is impossible for firms to be sustainable without greening their supply chains. [Seuring and Müller \(2008\)](#) stated “supplier developments were required before focal companies were even able to offer ‘sustainable’ products to their customers. This demands much deeper information flows along the supply chain, where suppliers have to gain detailed insights ...” If companies, especially Original Equipment Manufacturers (OEM), are genuinely interested in sustainability, it is imperative that they not dump their hazardous and/or environmentally polluting operations onto Small and Medium Enterprises (SME), whether in their own or other countries. Using small and midsize suppliers that do not employ appropriate environmental capabilities should not be accepted as an excuse for large companies to continue to operate as they have in the past. It is not unusual for SME to not have the necessary resources and capabilities to become environmentally safe companies.

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Socially and environmentally responsible companies are increasing in number. For example, Sony uses suppliers that exceed environmental regulatory requirements and who also work with an environmentally sound supply base (Handfield et al., 2005). Manufacturing companies are increasingly incorporating environmental criteria into their supplier selection processes. However, this is far from sufficient. It is important to encourage their suppliers to become sustainable and environmentally friendly when lacking environmental capabilities. Supplier development is the very essence of SCM and SSCM. Supplier development is the effort of the buying firm to increase their suppliers' capabilities (Ehrgott et al., 2013), which can be challenging because it requires a major commitment of time, money, personnel, and other resources by both parties. Several barriers demonstrate the challenges of supplier development (Monczka et al., 2009). It can be risky, costly, unproductive, and at times, the required investment can be unrecoverable. There is a need for survey-based and other methods of research applied to supplier development (Simpson and Power, 2005), and in particular, supplier development in environmental activities and processes.

There are three major groups of processes measuring the environmental performance of suppliers: supplier selection based on environmental criteria; the supplier's control and monitoring of environmental activities; and environmental supplier development (ESD). Unfortunately, much of the literature on the environmental issues concerns supplier selection and control, ignoring supplier development (Govindan et al., 2013).

Firms may choose to help their suppliers with several performance dimensions such as cost, quality (Lin and Chai, 2012), and environment. Where the literature on supplier development is limited, the literature on ESD is very scarce comparatively; this study is intended to contribute towards closing this gap. In essence, the research outlines several elements of sustainability by way of searching for the answers to two questions: (i) is ESD affected by CSR? and (ii) does ESD affect the firms' performances? By providing answers to these questions, this study attempts to extend the literature through clarifying the effect of CSR on ESD, and ESD on firms' performance (i.e., financial performance and competitive advantage). On a practical level, will the results of this study help firms to understand which factors catalyze to develop the relationship with their suppliers in order to improve environmental performance? In particular, because the effect of CSR on the financial performance of firms is unstable, by searching this relationship through the agency of ESD, this study intends to clear the way for firms such that if they use supplier evaluation, incentives, and direct involvement, CSR has the potential to indirectly promote the performance of firms.

2. Literature review

2.1. Sustainable supply chain management

There are several perspectives on sustainability, but the *triple bottom line* approach is receiving particular attention (Seuring and Müller, 2008). According to Elkington (1998), sustainability can be achieved by considering environmental, social, and economic performance. SSCM tries to answer the question of “what is it that we need to do, not just to survive, but to thrive and not just one year, three years, or five years from now, but in ten years, 20 years and beyond” (Carter and Easton, 2011). To build on the literature and also for clarity, the definition of Carter and Rogers (2008) for SSCM as “the strategic, transparent integration and achievement of an organization's social, environmental, and economic goals in the systemic coordination of key inter-organizational business processes for improving the long-term economic performance of the individual company and its supply chains,” is herein adopted, based

on the triple bottom line concept. Reduced packaging, more effective redesigns for recycling, higher levels of motivation and productivity, lowering disposal costs, and sourcing from ISO 14000 qualified suppliers are examples of SSCM activities.

Carter and Rogers (2008) identified four aspects of sustainability: strategy, risk management, organizational culture, and transparency. Strategy refers to determining SSCM activities, and considering the overall sustainability issues of a firm. Risk management consists of planning contingencies for the upstream and downstream supply chain. Organization culture includes ethical standards and transparency means traceability (the ability of monitoring) and controllability of the supply chain.

In addition, supplier selection and development (SSD) are crucial processes for successful SSCM. If problems surface regarding waste levels, transportation of hazardous materials or carbon emissions, suppliers may not be considered for future contracts. SSD plays an important role in avoiding the risks mentioned above. Reuter et al. (2010) identified some of the advantages of SSD. Firstly, suppliers can quickly respond to buyer expectations. Secondly, the image of the purchasing firm improves by excluding suppliers that do not meet standards like ISO 14001. Lastly, SSD affects the performance of firms positively by providing higher quality products with their security of supply. Reuter et al. (2010) therefore proposed that SSD increases the effectiveness of the supplier selection and evaluation process, and vice versa.

Environmental activities vary from the safe and legal disposal of waste to developing sophisticated environmental management systems (EMS). The disposal of waste includes a number of activities, such as reduction, recycling, and design for the environment (e.g., Srivastava, 2007; Kapetanopoulou and Tagaras, 2011). Reduction refers to using less energy, water, and incoming materials. Alternatively, Srivastava (2007) defined source reduction as “focusing on preventing pollution at the source (in products as well as the manufacturing process) rather than removing it.” Recycling is “simply the reuse of materials from returned products without conserving the product identity” (Kapetanopoulou and Tagaras, 2011). Design for the environment refers to solving problems at the beginning of the life cycle before waste is created. EMS implies the managerial procedures that guide a firm in its activities to organize its environmental initiatives (Lefevre et al., 2003). The firm may hire environmental engineers and establish sustainability departments. The level of sophistication of a supplier's environmental activities is proportionally related to the resources they have or receive from buyers. Govindan et al. (2014) wrote a literature review about eco-efficiency based green supply chain management. Moreover, Mudgal et al. (2009) pointed out the key variables to form a green supply chain for manufacturers.

2.2. Corporate social responsibility

Because of increasing pressures related to humanity and environment, major concerns have emerged in the business world. CSR has developed as a general framework for alleviating these pressures (Türker, 2009). The relevant literature has provided differing definitions of CSR. For example, Bowen (1953) defined CSR as the obligations of a manager “to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society.” Alternatively, Carter (2005) defined the concept as a “corporate activity and its impact on different social groups ... the firm's consideration of, and response to, issues beyond the narrow economic, technical, and legal requirements of the firm.” Taking these understandings into account, this study defines CSR as the behaviors of a firm which aim to affect social and nonsocial stakeholders positively and goes beyond its economic interest (Türker, 2009). In the current study,

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