



Sustainability in multi-tier supply chains: Understanding the double agency role of the first-tier supplier



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ABSTRACT

In light of the growing complexity of globally dispersed, multi-tier supply chains, the involvement of first-tier suppliers has become instrumental in the quest for achieving sustainability compliance along the supply chain. We describe this new responsibility as the double agency role. We employ agency and institutional theory arguments to explore the conditions under which first-tier suppliers will act as agents who fulfill the lead firm's sustainability requirements (i.e., the primary agency role) and implement these requirements in their suppliers' operations (i.e., the secondary agency role). The findings from three in-depth case studies embedded in different institutional contexts highlight the importance for lead firms to incentivize each agency role separately and to reduce information asymmetries, particularly at the second-tier level. In addition, our inductive analysis reveals several contingency factors that influence the coupling of the secondary agency role of the first-tier supplier. These factors include resource availability at the first-tier supplier's firm, the lead firm's focus on the triple-bottom-line dimension (i.e., environmental or social), the lead firm's use of power, and the lead firm's internal alignment of the sustainability and purchasing function. We integrate our findings in a conceptual framework that advances the research agenda on multi-tier sustainable supply chains, and we subsequently outline the practical implications of assigning the double agency role to first tier suppliers.

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1. Introduction

This paper brings to the fore the critical and rather neglected role of the first-tier supplier as a bridge between the buying company and upstream suppliers in disseminating sustainability standards along multi-tier supply chains (Grimm et al., 2014). Typically, the regulatory frameworks and guidelines for adhering to sustainability standards originate from the buying company and the institutional context within which the organization is embedded (Tachizawa and Wong, 2014). Therefore, in its quest for a transparent supply chain, the buying company would ideally like to monitor all the relationships with upstream suppliers independently. However, this is a complex and rather ambitious undertaking, given that these suppliers are often globally dispersed, are situated in remote locations, and may not have access to

collaborative technologies. These conditions make the buying company lethargic in monitoring and nurturing the relationships further upstream in the supply chain, culminating in devastating consequences.

For instance, in 2007, Mattel had to recall toys that were coated with toxic paint (Hora et al., 2011). Their source was traced to a subcontractor of Mattel's first-tier supplier. In 2011, the Brazilian government listed 52 charges against Inditex, Zara's parent company, accusing it of sweatshop-like working conditions in the subcontractor's facilities of Zara's main supplier, AHA. Although Inditex argued that it could not be held responsible for AHA's unauthorized subcontracting, the Brazilian authorities responded that AHA was a logistical extension of its main client, Zara Brazil, and that because "(Zara's) raison d'être is making clothes (...) it follows that it must know who is producing its garments" (Burgen and Phillips, 2011). These incidents are responsible for the chain liability effect gaining currency in academic discourse, whereby nonadherence to sustainability standards across lower tiers in the supply chain culminates in negative publicity for global brands

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(Hartmann and Moeller, 2014).

It is estimated that the most serious environmental and social breaches are caused by sub-suppliers rather than direct suppliers (Plambeck, 2012). However, managing the sustainability of sub-suppliers is extremely challenging, as lead firms have inadequate information about their lower-tier suppliers (Choi and Hong, 2002) and, subsequently, limited means to exert control over them. Moreover, sub-suppliers are often small and medium-sized enterprises that are sheltered from the glare of the general public (Lee et al., 2012) and are, thus, far less exposed to institutional pressures. The aforementioned reasons indeed make a compelling argument for first-tier supplier's engagement with managing the sustainability standards upstream in the supply chain (Ayuso et al., 2013; Grimm et al., 2014). Little is known, however, about the conditions under which the first-tier supplier will actively pursue a role as a disseminator to "pass through" (i.e. communicate, train, and monitor) the sustainability standards of their customers to the next tier.

The main aim of our study is, therefore, to discern the conditions under which the first-tier supplier acts as an agent toward fulfilling the lead firm's sustainability requirements and implementing them in their suppliers' operations. We refer to this situation as "double agency." This is a complex undertaking, as these first-tier suppliers operate in different contexts and are exposed to conflicting trade-offs that dictate efficiency and legitimacy concurrently. It is this delicate balance that intrigues us and may result in a multitude of outcomes, including first-tier suppliers' complete defiance of the lead firms' requirements; merely ceremonial compliance with the requirements; or, in the best-case scenario, obedience and perfect compliance with the lead firm's sustainability requirements (Christmann and Taylor, 2006).

To answer this vexing question, we employ agency theory as our overarching theoretical anchor. We complement this with institutional theory arguments to provide a better understanding of how to create transparency in the supply chain, focusing on the critical role of the first-tier supplier in a multi-tier supply chain. Although multi-tier supply chains are better characterized as networks with vertical and horizontal linkages among actors (Choi and Hong, 2002), we operationalize them as a three-tier supply chain. This simplified operationalization enables us to gain a more in-depth understanding of the double agency role while taking the institutional context into account.

Our paper proceeds as follows. First, we establish the theoretical background of our study based on the literature on sustainability dissemination to suppliers and an agency perspective on sustainable supply chain management. Next, we discuss our methodology, which is followed by a comprehensive within- and cross-case analysis. This is followed by the development of a conceptual framework that leads to future research avenues and concluding remarks.

2. Theoretical background

2.1. The double agency role of the first-tier supplier in sustainable multi-tier supply chains

To be considered sustainable in the supply chain context, firms have to perform well in all three dimensions of the triple bottom line, focusing explicitly on social, environmental, and economic issues (Elkington, 1997; Klassen and Vereecke, 2012). Even though the triple bottom line has received criticism, including for the operationalization and non-summative nature of its three dimensions (see MacDonald and Norman (2007) for an overview), we use it as a guiding framework in our research because the concept is widely accepted in practice and is seen as a vehicle to achieve true

sustainability in the long run (Wu and Pagell, 2011). As the emphasis on a particular dimension of sustainability is also contingent on the context (e.g., environmental concerns in the automotive industry, as opposed to social concerns in the apparel industry), this more holistic understanding of sustainability allows us to pursue a much-needed comparison of firms across industries. This is specifically the case because environmental sustainability is, in many instances, less context-dependent and easier to measure than social sustainability. For example, carbon footprints have an impact on the earth independent of where they are emitted. However, working conditions combined with different expectations from stakeholders may vary significantly, so that a 12-h work shift might be illegal in one country but socially and legally acceptable in another.

Rising external pressures to extend the triple bottom line to the supply chain level have shifted the focus toward the first-tier supplier as the disseminator of these standards in the quest for the creation and management of a sustainable multi-tier supply chain (Ayuso et al., 2013; Grimm et al., 2014). The first-tier supplier as an agent for the buying company may make critical decisions that may impact the sustainability considerations of the entire supply network. Such decisions could include the selection and deselection of suppliers and the alignment of processes according to customers' expectations (Choi et al., 2001). To better understand the important role of the first-tier supplier within this domain, we apply agency theory as our theoretical anchor.

Agency theory is concerned with problems that arise when one party—the principal—delegates work to another party—the agent (Eisenhardt, 1989; Jensen and Meckling, 1976). Central to agency theory are specific assumptions that also guide our research. The actions of agents are driven by self-interest and opportunism; therefore, it is difficult or expensive for the principal to verify what the agent is doing, which creates a risk for principals, particularly when there is high information asymmetry in favor of agents and goal conflict among members (Eisenhardt, 1988, 1989; Wright et al., 2001; Zsidisin and Ellram, 2003).

Based on an extensive literature review by Fayezi et al. (2012) on the use of agency theory in supply chain management and the screening of additional representative studies that take the unit of analysis beyond the dyad and/or specifically addressed sustainability, we found that scholars have not delved deeply into understanding the specific role of the first-tier supplier in disseminating sustainability standards. For example, Wiese and Toporowski (2013) argue that the complexity of food supply chains implies that lead firms need to rely extensively on their agents (i.e., the direct suppliers) for controlling sub-suppliers. However, this study is silent on the conditions under which the first-tier supplier actually accepts this responsibility and begins to manage sustainability considerations autonomously in their upstream processes. In a similar vein, Ciliberti et al. (2011) investigate how codes of conduct can help to reduce the information asymmetry that exists between principals and their agents. Although relations between chain directors (as principals) and both direct and indirect suppliers (as agents) are considered, no systematic contrasts between the management of these two types of relationships are drawn. Finally, Tachizawa and Wong (2014) identify contingencies to explain how and why firms engage in managing lower-tier suppliers in sustainable supply chains, which also includes the possibility that this responsibility is delegated to the first-tier supplier. Although the potential of agency theory is highlighted explicitly to better understand the delegated responsibility, the perspective that is taken is still that of the lead firm and the question of when and how it will delegate sustainability management upstream.

Typical agency theory constructs used in the literature are adverse selection, moral hazard, information asymmetry, and

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