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Achieving a socially responsible supply chain through assessment and collaboration

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ABSTRACT

Our study analyzes the effectiveness of two sustainable supply management practices (i.e., assessment and collaboration) on achieving a socially – responsible supply chain. Based on data from 120 Spanish manufacturers the paper investigates the impact that both practices have on the buying firm's and the supplier's social performances. SmartPLS was used to test the hypothesized relationships between practices and performance. Our results suggest that while assessing suppliers contributes to improve the buying firm's social performance, collaborating with them enhances the suppliers' social performance. Furthermore, the paper provides some additional insights on how to measure social performance.

1. Introduction

In today's global context, firms are pressured by governments, non-governmental organizations and customers to act in a sustainable manner. In the pursuit of sustainability one key challenge they face is its extension to other supply chain partners such as suppliers. Customers and other stakeholders do not differentiate between all the different actors in a supply chain (Seuring and Gold, 2013) and therefore, buying firms take the responsibility for their suppliers in front of stakeholders (Hartmann and Moeller, 2014; Koplin et al., 2007; Seuring and Muller, 2008). Krause et al. (2009) emphasized this fact when stating that a firm is no more sustainable than its suppliers. In fact, a buying firm's sustainability performance can be damaged by their suppliers acting unethically (Faruk et al., 2001). This is also true for the case of the social dimension of sustainability. Companies such as Nike or Apple have been vilified because of their suppliers employing child labor. In that sense, buying firms need to implement practices that ensure that their suppliers are sustainable.

When a buying firm encounters shortcomings in their suppliers' sustainability performance it has the following options: (1) invest resources to increase its suppliers' performance or (2) search for alternative suppliers (Krause et al., 2000). This paper is based on the premise that the buying firm has chosen to improve its supplier sustainability performance through practices such as supplier assessment and collaboration. Several authors have considered these two types of supply management practices to extend sustainability issues to suppliers (e.g. Gavronski et al., 2011; Gualandris and Kalchschmidt, 2014; Klassen and Vereecke, 2012; Lee and Klassen, 2008; Vachon and Klassen, 2006). While supplier assessment entails the use of arm's length transactions by the buying firm, such as the evaluation of suppliers' sustainability performance; collaboration with suppliers comprises the buying firm's direct efforts and involvement to jointly improve suppliers' sustainability performance (Gavronski et al., 2011; Gualandris and Kalchschmidt, 2014; Klassen and Vereecke, 2012; Lee and Klassen, 2008; Vachon and Klassen, 2006). It is important to mention that although firms may use a hybrid structure comprising a mix of both practices (Williamson, 1991), in this paper we will follow previous literature on the extension of sustainability to suppliers and focus exclusively on these two (i.e., supplier assessment and collaboration with suppliers).

There is a big stream of the literature that has analyzed the impact of these practices on performance. However, most of these papers have focused mainly on the environmental dimension (e.g., Green et al., 2012; Lee and Klassen, 2008; Theyel, 2001; Vachon and Klassen, 2008; Zhu and Sarkis, 2007; Zhu et al., 2012, 2013) being

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very limited the literature on the social one (e.g., Foerstl et al., 2010; Hollos et al., 2012; Klassen and Vereecke, 2012). Another characteristic of the existing literature is that most of the papers study the performance implications of these practices (i.e., assessment and collaboration) for the buying firms (e.g., Gimenez et al., 2012; Hollos et al., 2012; Rao and Holt, 2005; Zhu and Sarkis, 2004) neglecting the implications for suppliers. Few papers have considered the impact of these practices on the suppliers' side (e.g., Akamp and Muller, 2013; Carter, 2005) but no paper has considered the impact of assessment and collaboration on both the supplier and the buying firm's social performance. Thus, the current state of research in this area would seem to provide only a partial view of the effectiveness of these sustainable supply management practices.

In light of the above mentioned gaps, our objective is to study the effectiveness of both assessment and collaboration on achieving social sustainability along the supply chain by analyzing the effect of these practices on both the buying firm's and the supplier's social performance. More specifically, our study aims to answer the following research question: Are these practices contributing to improve suppliers' and/or buying firms' social performance? To answer our research question we elaborate a conceptual model and posit a set of research hypotheses that relate each type of practice to the suppliers' and buying firm's social performance. Then, we rely on data coming from 120 manufacturing firms and use partial least squares (PLS) to test our model.

This study challenges and extends recent work on the adoption of supplier assessment and collaboration to achieve sustainability along the supply chain by analyzing a neglected area of sustainability – the social dimension – and by considering the suppliers' role. We argue that the adoption of the suppliers' perspective emphasizes the relevance of this research. The extension of sustainability to suppliers comprises two entities: the buying firm and the supplier. By considering not only the buying's firm performance but also the supplier's performance we will broaden the understanding we have about the relationship between these supply management practices and performance. We will be able to study if buying firms rely on these practices to improve their suppliers' sustainability performance or if they implement them simply as a means to improve their own sustainability performance. For example, companies such as Apple perform audits to their suppliers' premises. These audits should serve not only to signal a sustainability behavior but also to achieve real improvements in the suppliers' working conditions. However, Foxconn, one of Apple's main suppliers, has been largely criticized due to the poor working conditions at their facilities (The Telegraph, 2012). A similar situation has been recently observed in the textile sector. While companies such as Inditex, GAP and H&M make efforts to assess and/or collaborate with their suppliers, the accident in Rana Plaza (April 2013) emphasizes the existing poor working conditions at the suppliers' facilities. This kind of events casts doubts upon the effectiveness that practices such as auditing suppliers have on making suppliers more sustainable. This study will help us to clarify if these practices contribute to improve the suppliers' sustainability performance or only the buying firm's performance. These results will guide companies in their work to extend sustainability to other partners such as suppliers and as a consequence, obtain a truly sustainable supply chain by really improving the suppliers' social performance.

The paper is organized as follows: In the following section we provide a literature review and develop our hypotheses. Next, we provide a description of the sample and the data collection process. Then, we present the data analysis and results. We finalize the paper by providing a discussion on the findings and by highlighting its main conclusions.

2. Literature review and hypotheses development

2.1. Sustainable supply chains: the social dimension

Sustainability has been described as encompassing economic, environmental and social dimensions (Elkington, 1994). However, recent studies on the topic of sustainable supply management highlight the imbalance between the number of papers focusing on environmental and social issues (Ashby et al., 2012; Gold et al., 2010; Hollos et al., 2012; Leppelt et al., 2013; Seuring and Muller, 2008). With the exceptions of Carter and Jennings (2004), one of the first papers analyzing social purchasing, and Awaysheh and Klassen (2010) and Klassen and Vereecke (2012), who focused on the social dimension of sustainability, research on social issues in supply management has been scarce.

Social sustainability is met when firms support the preservation and creation of skills and capabilities of current and future generations, and promote health, support and equal and democratic treatment within and outside its borders (McKenzie, 2004). Social sustainability encompasses two types of communities: internal (e.g., employees) and external (e.g., local communities with weak economic ties) (Pullman et al., 2009). In other words, firms need to care about the well-being of their employees and that of the local community in which it is embedded.

The difficulty to quantify social performance in comparison to the economic and the environmental performance dimensions makes it the most neglected element of the triple bottom line (McKenzie, 2004). The lack of studies that have looked at the social performance dimension of sustainability results in a lack of agreement with respect to the measurement of this construct (de Giovanni, 2012). For instance, some papers have considered employees' working conditions (e.g. de Giovanni, 2012) while others have used social reputation to measure social performance (e.g. Gimenez et al., 2012). Recently, Golini et al. (2014) and Gualandris et al. (2014) measured social performance considering items related to both employees working conditions and social reputation. It is also important to highlight that all these previous authors have considered the social performance of the buying firm and not the social performance of the supplier in their studies.

Employees working conditions covers "a broad range of topics and issues, from working time (hours of work, rest periods, and work schedules) to remuneration, as well as the physical conditions and mental demands that exist in the workplace" (ILO, 2014). Corporate reputation, on the other hand, is a more intangible concept. It is the result of the process of "social legitimization" of the firm (Martin de Castro et al., 2006). Martin de Castro et al. (2006) carried out an empirical study to measure this "socially complex" factor and concluded that corporate reputation is made up of two dimensions: (1) business reputation and (2) social reputation. Business reputation includes the different aspects related to the agents and stakeholders closely tied to the business activities of the firm, such as customers, suppliers, managers or employees. Social reputation is related to the insights and perceptions of stakeholders not so close to the day-by-day business activities, such as investors and the community in a wider sense (Martin de Castro et al., 2006).

In this paper, we will follow the approach of Golini et al. (2014) and Gualandris et al. (2014) and will measure social performance of the buying firm using both, tangible measures such as employee working conditions and more intangible measures such as social reputation. Employees working conditions will be more related to the internal community while social reputation will be related to the beliefs of the external community (Golini et al., 2014).

It is important, to highlight that employees' concerns should not only be limited to the company workers but they should also