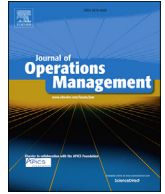




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Social management capabilities of multinational buying firms and their emerging market suppliers: An exploratory study of the clothing industry

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ABSTRACT

For sustainability, research in operations and supply chain management historically emphasized the development of environmental rather than social capabilities. However, factory disasters in Bangladesh, an emerging market and the second largest clothing exporter in the world, revealed enormous challenges in the implementation of social sustainability in complex global supply chains. Against the backdrop of a building collapse in Bangladesh's clothing industry, this research uses multiple case studies from two time periods to explore the skills, practices, relationships and processes – collectively termed “social management capabilities” (SMCs) – that help buyers and suppliers respond to stakeholder pressures; address regulatory gaps; and improve social performance. The study not only captures the perspectives of both multinational buyers and their emerging market suppliers, but also provides supplementary evidence from other key stakeholders, such as NGOs and unions. Our findings show that, in the absence of intense stakeholder pressure, buyers can lay the foundation for improved social performance by using their own auditors and collaborating with suppliers rather than using third-party auditors. However, in the face of acute attention from customers, NGOs and media, we observed that consultative buyer-consortium audits emerged, and shared third-party audits offered other advantages such as increased transparency and improvements in worker education and training. Finally, we present research propositions derived from our empirical study to guide future research on implementing social sustainability in emerging markets.

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1. Introduction

Multinational firms that source materials, components and products from emerging markets face increasing scrutiny on the sustainability of their suppliers for economic, social and environmental performance – referred to as their “triple bottom line.” Intense examination has arisen for multiple reasons. In the clothing industry, recent tragedies in Bangladesh have spurred customers, non-governmental organizations (NGOs) and regulators to examine the degree to which suppliers in emerging markets follow socially sustainable practices. For example, the Rana Plaza building in Bangladesh collapsed in April 2013, killing 1129 people – the

deadliest incident in the clothing industry to date. This facility housed five clothing suppliers for such international brands as Primark, Loblaws, and Benetton (Forbes, 2014). Unfortunately, this disaster followed other large-scale problems in clothing factories supplying Wal-Mart, Sears and Inditex, the world's largest clothing retailer (New York Times, 2013).

These repeated social failures – defined here as events that have a negative impact on the well-being of employees, local communities or customers – were linked to inadequate attention to safety. In light of global outsourcing, adverse publicity surrounding such socially unsustainable practices has caused significant damage to the image of international brands (Clean Clothes Campaign, 2013). Not surprisingly, stakeholder attention has increasingly focused on this and similar industries, and expectations and pressure have increased on multinational clothing firms to identify, develop and implement higher social sustainability standards. For the most part, these efforts focus on upstream supply chain partners, often located

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in distant emerging markets (Hoejmose et al., 2013), particularly for high profile brands (Hartmann and Moeller, 2014).

A body of research is slowly developing in supply chain management (SCM) that addresses sustainability (Pagell and Shevchenko, 2014); however, much of the research has focused on environmental issues rather than social ones (Carter and Rogers, 2008; Zorzini et al., 2015). Recently, social sustainability issues have received growing attention, partly driven by enhanced sensitivity in developed countries to concerns such as employee pay inequality (e.g. Fairtrade) or advanced community-oriented programs (e.g. education and healthcare) (Moxham and Kauppi, 2014; Marshall et al., 2015). Also, the problem of worker safety in emerging countries can overshadow issues of employee pay and environmental protection in developed countries, as evidenced by recent problems in Bangladesh. Critical gaps remain in our understanding of how multinational firms might better implement social sustainability in supply chains that extend to emerging markets, as well as the capabilities for internal development or external diffusion of best practices in complex global supply chains (Zorzini et al., 2015). Multinational firms must do more than adopt internal practices: they must ensure the timely implementation of their own or third-party socially sustainable practices into their emerging market suppliers.

We use the term social management capabilities (SMCs) to encompass the skills, practices, relationships, and processes that enable a firm to improve its performance on human safety, welfare and community development (Klassen and Vereecke, 2012). In this paper, we narrow the focus to capabilities that advance social practices of suppliers in emerging markets. Based on our field data, this construct is multi-dimensional, as it encompasses capabilities in both multinational buyers and emerging market suppliers. Moreover, particularly in emerging markets with less effective social public policies, SMCs also must explicitly consider the nature of relationships and pressures from other key stakeholders (De Brito et al., 2008), ranging from unions, to industry associations, to government agencies and NGOs (Vachon and Klassen, 2006; Meehan and Bryde, 2011). Stakeholder theory examines how firms attend to stakeholder interests and corporate interests (Mitchell et al., 1997) and guides the development of processes that address the concerns of groups who have a stake in the business (Freeman, 2010). For the development of SMCs, thoughtful stakeholder management is expected to be a key success factor (Ehrgott et al., 2011; Schneider and Wallenburg, 2012), and we explore how multiple stakeholders play different roles in the development of SMCs.

However, stakeholder pressure is not necessarily a uniform, slowly building (or declining) force over time. Instead, crises and social failures, such as supplier behavior resulting in the deaths of workers, can create a sudden impetus for a focal firm to attempt to regain legitimacy (Hartmann and Moeller, 2014). Stakeholders naturally attribute significant responsibility and liability to the focal firm for any unsustainable supplier behavior in their supply chains (Snir, 2001). Yet, relatively little is understood about how such disruptive events substantively alter the development of social practices of supply chain partners (Meyer, 1982). To that end, this paper examines the nature of firms' SMCs before and after the Rana Plaza collapse in Bangladesh.

This study explores two primary research questions: what social management capabilities (SMCs) are needed in multinational buyers and their emerging market suppliers; and how do external factors affect the development and evolution of buyer and supplier SMCs in emerging markets? Drawing on field data from the clothing industry in Bangladesh, acquired both before and after recent disasters, this study better defines the nature of, and development paths for, multiple capabilities that address social

issues in a complex global supply chain. Three major contributions emerge. First, based on a synthesis of prior literature, we identify and assess how SMCs potentially link multinational buyers and emerging market suppliers. Second, we conducted a two-period analysis – pre- and post- Rana Plaza collapse, (i.e. 2011–13 and 2013–15) – to explore the evolution of SMCs in Bangladesh during a period of intense stakeholder pressure when social improvement and standards were rapidly evolving. Third, by integrating prior theory with our field data, we derived research propositions to guide future research in emerging markets.

2. Literature review

Sustainability for business is often operationalized as the triple bottom, encompassing environmental, social and economic performance. Environmental sustainability captures resource use and impact on the physical environment; social sustainability considers the health and well-being of people in the supply chain and impact on society (Huq et al., 2014; Marshall et al., 2014). Firms that have strong sustainability practices in one area may have weak practices in another. For example, Wal-Mart is known for having stringent, industry-leading environmental practices in its supply chain, but the company has been criticized for the treatment of people in its supply chain (Pfeffer, 2010). Although significant insight into the strategic importance of social sustainability has developed, more research is needed to understand the capabilities and practices required to implement social sustainability. In a systematic review of socially responsible supply chain practices, Zorzini et al. (2015) point out that the focus of research to date has emphasized a buyer's demands, with that buyer being located in a developed nation. We address this important research gap by exploring social management capabilities (SMCs) in an emerging market context and by considering the emerging market suppliers' perspectives and their relationships with multinational buyers.

Social sustainability can be broadly characterized in at least two ways: avoiding social failures with adverse impact, such as child labor or loss of life; and improving employee and community health and welfare. Social failures in the clothing industry have been in the public eye for decades. For example, retailers like Wal-Mart and Nike were subjected to media scrutiny in the 1990s following several sweatshop scandals (Emmelhainz and Adams, 1999). Important insights on the implementation of socially sustainable practices are emerging from the few studies that focus on the emerging market supplier's perspective. For example, Jiang's (2009) study into Chinese clothing suppliers discovered that a buyer's enforcement of its code of conduct (CoC) only encourages suppliers to undertake "just enough" responsible practices to avoid being caught. As a result, code of conduct enforcement fails to significantly increase social sustainability over the long term. However, firms that shift from threatening non-compliant suppliers to collaborating with them ultimately experience better compliance. Huq et al. (2014) found that external stakeholder pressure is an important motivator for emerging market suppliers and CoCs of multinational buyers oblivious to the cultural and socio-economic conditions of emerging markets act as barriers to implementation of socially sustainable practices. Mamic's (2005) research highlighted the important catalytic role of training and education of emerging market suppliers by multinational buyers for achieving social performance objectives. Using these studies as a starting point, the following section draws on stakeholder theory and sustainable supply chain management as theoretical foundations for our empirical study focusing on social management capabilities.

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