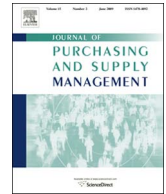




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# Understanding the adoption of socially responsible supplier development practices using institutional theory: Dairy supply chains in India

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## ABSTRACT

Supplier development (SD) initiatives play an important role in building buyer-supplier capacities to deal with social and economic performance. The aim of this paper is to explain the motivations behind the adoption of similar SD strategies to address sustainability (particularly social issues) occurring in local supply chains of a developing country. We compare the economic and social variants of institutional theory to investigate whether efficiency or legitimacy seeking drives the adoption (and copying) of SD practices. Twelve case studies involving private and cooperative dairies were conducted in India via semi-structured interviews. Findings revealed that both private and cooperative dairies adopt similar SD practices to build supplier capabilities and improve social and economic performance of buyers and suppliers. Private dairies imitate SD practices of the cooperatives to survive the competition; i.e., economic performance is the main reason behind their isomorphism. Cooperatives, on the other hand, take up SD practices more for legitimacy and even philanthropic reasons; though also partly note the long-term economic benefits from developing the supplier community. These findings can be used both by practitioners and researchers to gain valuable insights into the reasons driving organisational isomorphism in social sustainability practices from a developing country perspective, something rarely done so far in the literature.

## 1. Introduction

Various social sustainability issues, such as labour rights, gender equity, and community development are identified as needing to be addressed in supply chains (Maloni and Brown, 2006). For example, fair trade practices in supply chains are advocated to address the issues of living wages and decent livelihood at the supplier level (Karjalainen and Moxham, 2013; Awaysheh and Klassen, 2010). As fair trade practices are reactive strategies, proactive measures such as supplier development, however, are also required to improve both social and economic performance across supply chains (Parmigiani et al., 2011; Akamp and Müller, 2013). Supplier development (SD) strengthens the capabilities and simultaneously increases the efficiency of suppliers resulting in improved economic (Handfield et al., 2000; Krause et al., 2007) as well as social performance of both buyers and suppliers (Lu et al., 2012; Sancha et al., 2015a). Recent studies reveal that both supplier social performance and buyer operational performance are improved when the buyer engages in socially responsible supplier development (Sancha et al., 2015a).

A first step in thoroughly understanding the role of socially responsible SD and supply chain performance is to explore the underlying

factors that influence firms to take up socially responsible supplier development (SRS) practices. SRS in this study refers to those practices that buying firms take up to build the capabilities of suppliers and improve their financial and social sustainability performance. Previous studies emphasize that factors such as legal regulations, stakeholder pressures, and market dynamics play an important role in the adoption of socially responsible behaviour by the firms (Campbell, 2007). Apart from these, external factors such as political environment and governance structures also shape the organisational practices aimed at addressing social sustainability mainly at supplier level (Matten and Moon, 2008; Maignan and Ralston, 2002). These studies argue that interaction between business and society shapes the institutionalisation of socially responsible practices (Brammer et al., 2012). Therefore, institutional theory is an important tool in understanding the adoption and diffusion of sustainability initiatives (Jennings and Zandbergen, 1995). Institutional structures and stakeholder interaction drive the adoption of socially responsible behaviour at the local level (Ashworth et al., 2009), and applying institutional theory as a theoretical lens could provide potentially rich insights into the behaviour of firms (Kauppi, 2013). We thus frame our investigation of the adoption of socially responsible supplier development practices

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around institutional theory, and pose the following research question: *what motivates buying firms in developing countries to adopt and potentially copy from each other socially responsible supplier development (SRSD) practices*. Our main contributions centre around three key aspects of our research approach and focus; these are the areas where we have noted clear gaps in previous literature.

First, we differ from previous institutional studies to explain sustainability practices by using a comparative approach based on two variants of the institutional theory: the social variant focusing on legitimacy reasons in adoption and imitation (e.g. DiMaggio and Powell, 1983), as well as the economic variant emphasising economically motivated adoption and mimicking of practices (e.g. Haunschild and Miner, 1997). This inclusion of two competing explanations indicates that we take a broader perspective on exploring the institutionalisation of firm practices than previous studies where the focus has been restricted mostly to a single underlying motive (legitimacy). Only very few studies in supply chain literature have applied the economic variant (Kauppi, 2013), and we are not aware of any comparing it with the social variant. The relative paucity in using the economic variant of the theory is a clear gap in our field, as the theory has shown to explain company behaviour in other management fields (Ordanini et al., 2008). Our approach is thus timely and called for.

Second, we use data from a developing country, India, something rarely done in previous institutional theory studies (Campbell, 2007; Jamali and Mirshak, 2007; Adebajo et al., 2013). There is a void in research, which attempts to explore insights into firm sustainability practices in developing countries (Hsu et al., 2013), especially concerning supply chains completely located in developing countries, even though this enables us to move beyond the general perceptions of firm motivations and practices to a more nuanced view. Such research efforts are timely and encouraged (Adebajo et al., 2013; Zorzini et al., 2015) as they contribute to a more well-rounded, global understanding of the adoption of socially responsible practices, and also serve to assist developed country supply chain managers increasingly exposed to dealing with firms from these developing regions (Wouters et al., 2007; Mani et al., 2016). Furthermore, related to our institutional theory approach, Revilla and Sáenz (2013) have called for supply chain scholars to investigate whether the theories we use are applicable across countries and cultures, or whether we need to develop more contextual theories. Our application of the two variants of institutional theory serves as a first step in these investigations; we provide discussion on the relative explanatory power of both versions in a novel context. Managerially, understanding the motivations that drive these local firms in a developing country to adopt socially responsible SD practices can assist global companies in adopting similar practices for their own suppliers, something often desired by the consumers and stakeholders in developing countries.

Third, building up from our developing country approach, we furthermore study a local supply chain, meaning the buyers and suppliers are confined to a specific region or a place. Renting et al. (2003) argue that studies on local supply chains provide a better understanding of the socio-economic performance as both buyers and suppliers function in the same cultural and political environments. Characteristic features of local supply chain such as the close proximity and frequent information and communication exchanges between buyers and suppliers determine the sustainability related practices of the firms (Busse et al., 2016). Similarly, governance and institutional structures and unique cultural characteristics under which local supply chains operate determine the adoption of sustainability practices by the firms (Brammer et al., 2012; Matten and Moon, 2008; Campbell, 2007). Therefore, a focus on a completely local chain offers an excellent setting to examine institutionalisation of sustainability practices, as it has been argued that the micro-environment and network within which a company operates can have a significant impact on the practices it adopts (Cheng, 2010).

To answer our research question, we examine the institutionalisation of socially responsible firm practices using local dairy supply

chains as unit of analysis with data collection on the buyer side of the chain. Indian dairy supply chains are selected due to their distinguishing features wherein a strong alignment of social and economic issues exist. Involvement of small and medium scale suppliers, women's participation, presence of strong cooperative movement and the dependence of supplier communities on dairy income are some of the examples that illustrate the interlinking of social and economic concerns in Indian dairy supply chains.

The remainder of this paper is structured as follows: In Sections 2 and 3, we review the literature at the intersection of institutional theory and social sustainability. We then provide details about our methodology, followed by our case results. In Section 5, we discuss the findings and their implications. Finally, we draw conclusions and highlight the limitations and future research opportunities.

## 2. Literature review

As an introduction to the topic, we present the related literature on institutional theory and its relevance to sustainability practices in supply chain management. Specifically, we first discuss legitimacy-based and economically motivated adoption and mimicking of practices, i.e., the two variations of institutional theory. We then present the background on the use of institutional theory in sustainability research. Finally, we present the literature on supplier development, and the division of direct and indirect supplier development practices, and their impact on sustainability performance, used also in our empirical analysis.

### 2.1. Legitimacy and economic motives as competing phenomena to explain institutionalisation of organisational practices

A frequently studied phenomenon within organisational theory is that of isomorphism, i.e., similarity among organisations, their strategies, forms, and practices. Often this similarity of practices between organisations is explained by organisational imitation. Imitation is a typical behaviour of firms and industries, and several theories have been developed to explain mimetic phenomena from different viewpoints (Lieberman and Asaba, 2006). Hannan and Freeman (1977) argue that isomorphism is a result of competitive reasons, whereas DiMaggio and Powell (1983) focus on institutional reasons and firm interconnectedness. Our focus in this study is on institutional theory, but even within institutional explanations, a variety of viewpoints is included, and thus it is important to define which variant of the theory is applied (Ketokivi and Schroeder, 2004). Specifically, conformance scholars within institutional theory suggest that the adoption of practices occurs to gain acceptance, whereas the performance scholars claim that firms will favour those practices that give significant financial benefits in addition to acceptance (Heugens and Lander, 2009). The former stream of literature thus argues that institutionalisation and hence isomorphism of the practices happen due to sociological reasons only (DiMaggio and Powell, 1983; Deephouse, 1996; Dacin, 1997), whereas the other stream argues that besides the social construction and societal embeddedness, firms adopt similar practices due to economic reasons (Scott, 1995; Ketokivi and Schroeder, 2004). While legitimacy motives have been used quite extensively to study the motivations for supply chain behaviour, especially with regard to environmental sustainability (Kauppi, 2013), the use of the economically motivated mimicking argument is rarer (Turkulainen et al., 2017). We thus take a comparative approach and include two viewpoints to institutional theory as alternative explanations to understand the adoption of sustainability practices in a developing country context.

The sociological variant of institutional theory links firm behaviour (and isomorphism) to legitimacy (Deephouse, 1996), and “what” firms do to achieve legitimacy through the concept of isomorphism (DiMaggio and Powell, 1983). Adopting legitimated practices increases an organisation's survival probability (Lamin and Zaheer, 2012). The

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