



Socially and environmentally responsible purchasing: Comparing the impacts on buying firm's financial performance, competitiveness and risk



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ABSTRACT

The paper presents a study that aims to compare the contribution of social and environmental practices along the purchasing process to economic performance, competitiveness, and risk mitigation of the buying firm. The number of studies dealing with the topic has significantly increased in the last few years. The majority of the extant research is focused on the environmental dimension, whereas fewer studies have explored the social dimension or the combination of both factors. The results are mixed, with some scholars supporting the existence of a positive relationship between socially and environmentally oriented purchasing management and financial performance, competitiveness and risk mitigation and others being more cautious. Relying on suggestions from earlier literature, the study presents an analysis of a database made up of 189 international buying companies operating in Italy, and the results have provoked two main observations. Data were collected through a closed-question questionnaire to purchasing managers, which was defined from items and variables identified in the previous literature. On the one hand, the results corroborated the hypotheses of the study, confirming that both dimensions contribute to firm performance. On the other hand, the findings showed that differences do exist and that the positive relationship between social and environmental dimensions and firm performance depends upon the stage into which those criteria are integrated. The integration of social criteria has proven to impact only risk mitigation throughout the purchasing process, whereas the environmental dimension contributes to risk mitigation and competitiveness when included in the supplier selection phase and to economic performance when considered in supplier relationship management.

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1. Introduction

Integrating social and environmental concerns in supply chain management has gained growing attention and importance from both companies and the society in general. Although it is perceived as one of the most complex and difficult business activities to implement, it is also considered as a key activity in promoting overall improvements in living and working conditions along the productive processes. Thus, companies are encouraged by societal pressures – mainly stakeholders' demands and governmental laws and regulations – to pay attention to a number of social and

environmental issues when dealing with their suppliers. The consequent relentless engagement of firms with socially and/or environmentally oriented issues in purchasing management has raised questions on whether the social and environmental dimensions contribute to strengthening the relationship between purchasing management, strategic objectives, and firm performance (Xia et al., 2015; Wang and Sarkis, 2013; Wu and Pagell, 2011). While the topic has been the focus of extensive literature, both scholars and practitioners are still questioning its relevance (O'Rourke, 2014; Golicic and Smith, 2013). The present paper emerges from that debate and follows suggestions in the literature regarding further avenues of exploration of sustainability practices and outcomes that may hold importance for both research and practice (Appolloni et al., 2014; Busse, 2016; Luzzini and Ronchi, 2016; Reuter et al., 2010). The results of the study have

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implications for companies and society in general, as they highlight how socially and environmentally responsible purchasing management can contribute to firm performance, competitiveness, and risk management. Moreover, the findings provide suggestions on how to promote further commitments by firms, which in turn creates better living and working conditions along the productive processes, with positive impact on overall societal well-being.

The study contributes to the literature by building on two valuable underpinning theories to expand the understanding and knowledge surrounding responsible supply chain management (Sarkis et al., 2011). The first is stakeholder theory, according to which companies may integrate environmental and/or social issues into purchasing as a response to pressures from stakeholders (Mitchell et al., 2015). Indeed, earlier literature predominantly assumed that socially and environmentally responsible purchasing was implemented as a reaction to external stakeholder pressures (Park-Poaps and Rees, 2010; Sarkis et al., 2010; Zhu and Sarkis, 2007). Accordingly, a stream of research focused on the role of stakeholders in the definition of supply chain strategies and policies, concluding that firms should collaborate with multiple stakeholder groups to reach better supply chain performance (Narasimhan et al., 2008; Wolf, 2014). Previous studies also indicated that socially and environmentally responsible purchasing might generate impacts on several stakeholders other than suppliers, such as local communities, governments, customers, media, non-governmental organisations (NGOs), and employees (Pagell and Wu, 2009). Stakeholder theory is therefore relevant to the investigation of the relationship between socially and environmentally responsible purchasing and firm performance, competitiveness and risk.

However, more recent theoretical developments question this view, proposing that firms may decide to manage social or environmental issues in purchasing to obtain benefits and objectives other than stakeholders' satisfaction (Wolf, 2014; Zhu et al., 2012). For this reason, the present study also builds on the theory of resource dependence, which suggests that firms in a supply chain depend on others for the resources that they need, and thus, firms collaborate to generate stronger economic performance and competitive advantages in the long run rather than pursuing individual short-term results (Cao and Zhang, 2011; Zhu and Liu, 2010). In line with this model, organizations engage in socially and environmentally responsible purchasing for instrumental purposes and as a way to contribute to long-term organizational survival (Reuter et al., 2010). Hence, this theory seemed useful about more recent developments around the contributions of social and environmental practices to risk mitigation, competitiveness, and economic performance.

Drawing on a sample of 189 international companies operating in Italy, this paper adds to the literature in three primary directions. First, it contributes to the application of existing theories to the field of sustainable or responsible purchasing management (Sarkis et al., 2011). Accordingly, the paper presents empirical evidence of the relationship between social and environmental responsibility in purchasing management and economic performance (Hoejmose and Adrian-Kirby, 2012), discussing the findings in light of stakeholder theory. The application of organizational theories to green supply chain management is not new, but there is a dearth of studies investigating the link to the social dimension.

Second, the study compares the effects of social practices and environmental practices, thus exploring whether differences exist between the two dimensions (Marshall et al., 2015). Most of the previous studies in the field have either focused on only one dimension or have addressed sustainability as a single construct without considering that policies and practices often differentiate between environmental and social issues (Park-Poaps and Rees,

2010; Seuring, 2013).

Third, this study explores a broad set of social and environmental practices that are integrated throughout purchasing management, drawn from previous studies and direct discussions with managers. Thus, the paper is not limited to observation of policy; rather, it adopts an operational point of view, which is intended to provide relevant insights as to how social and environmental practices should be incorporated into purchasing management, thus benefiting firms (Ferri et al., 2014; Golicic and Smith, 2013; O'Rourke, 2014).

The remainder of the article is organised as follows. First, the theoretical background introduces how responsible or sustainable purchasing management is linked to stakeholder theory and then discusses the literature development surrounding both the social and environmental dimensions of the purchasing process. Subsequently, the research methods are presented, focussing on data collection and analysis and variable construction. The results are then described, followed by a discussion of the results in the context of the theoretical framework. Finally, conclusions are drawn, suggesting both limitations of the study and areas of possible future research.

2. Literature review and hypotheses

The number of studies investigating the relationship between responsible or sustainable purchasing management and company performance has significantly increased in the last few years (Govindan et al., 2016). The first stream of studies originated in stakeholder theory and argued that responsible or sustainable purchasing management is the result of a firm's reactive behaviour to pressure from stakeholders, through which companies aim to reduce or avoid attacks and critiques from external subjects (Hofmann et al., 2014; Surroca et al., 2013). Universally known cases that support this view include the aggressive campaign by Greenpeace against Nestlé for rainforest deforestation in pursuit of palm oil supplies; the sweatshop scandals that hit Apple, Nike, and the Gap; and the toy recall that implicated Mattel for toxic materials and dangerous components (Wolf, 2014; Roloff and Aßländer, 2010). Most of the studies exploring the role of stakeholders in the integration of social and environmental criteria into purchasing suggested that companies' main objective is risk management (Seuring and Müller, 2008). The second stream of studies suggests that companies sometimes have a more proactive approach and implement responsible or sustainable purchasing practices because they are aware of the benefits that this may generate. This perspective suggests that socially and environmentally responsible purchasing may contribute to enhance firms' competitive advantage (Sarkis et al., 2011). Studies have found that benefits may come from better or unique resources or capabilities (Reuter et al., 2010), cost reductions through eco-efficiency, improvements in product quality, generation of new revenue in (niche) markets, and better image and reputation (Esfahbodi et al., 2017; Rao and Holt, 2005).

Before discussing the theoretical development of the integration of both social and environmental dimensions in purchasing management, it is useful to explain how competitiveness, economic performance, and risk mitigation are defined in this study to facilitate the understanding of the hypotheses presented in the following paragraphs. Competitiveness is a multidimensional concept (Vilanova et al., 2009) which ultimately relates to a firm's long-term performance compared to its competitors. Economic performance is the cost advantages deriving from higher efficiency, cost savings, and possible revenues, including new revenues and price premiums. Finally, risk mitigation in this study is the reduction or avoidance of potential damages or losses due to suppliers' deceitful behaviours or improvements gained by amending a

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