

# Socially Responsible Supply Chain Management: An Essence of Value Creation

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## ABSTRACT

Strategic supply chains are becoming integral part of a firm's competitive strength. It not only gives financial advantages, but also well-managed and extremely synchronised supply chain offers certain social obligation. Many businesses are now moving into course of unfolding codes of conduct as one of the ways of overseeing number of suppliers' behaviour inside the supply chain network. This research paper addresses the issues related with the degree to which customers must be accountable for moral behaviour of their partners, like suppliers in buying process. Corporate social responsibility is a very important issue for any firm but it is very depressing that extremely minute material is on hand on this issue. This paper conceptualises structure for recognising the responsibilities of the more commanding supply chain member to the other members of the supply chain. It mainly focuses on the degree to which one supply chain member should apply ascendancy as it relates to social responsibility on the members of complete supply chain.

**Keywords:** Corporate Social Responsibility, Partners in Buying Process, Supply Chain, Ethical Behaviour, Ascendancy

## INTRODUCTION

Given the economic turmoil in recent years, it is not astonishing that firms are trying to make their supply chains more lucrative, translucent, and receptive. The rewards of doing so can be great. Victorious companies exhibit that thinner inventories, lesser working capital, advanced earnings and yield, and better customer service are amid the profit. Companies such as Wal-Mart, FedEx, Procter & Gamble, Dell, and IBM have established that better supply chain management (SCM) can direct to industry superiority. Supply chain management systems and Internet-based solutions have turn into the focal point of many reengineering projects intended at solving supply chain problems. For example, HP's Internet-based swap has gained over \$100 million in less than 18 months. AMR research revealed that expenses for supply chain technology grew to \$5.6 billion and is usual to grow another 12 percent. These technology applications guarantee to deliver better control over part of the supply chain. These gains are not definite and can incorrectly forward management's concentration away from the importance of incorporated processes and people issues.

Technology might add to improved information flows amid supply chain members but the quality of information shared is far more noteworthy. The level of conviction among the supply chain drives the quality of information. AMR also mentions that major firms are nowhere near demonstrating the point of conviction required to attain the variety of supply chain reimbursement. When suppliers and their OEM customers were asked what level of price discount would cause them to toggle suppliers, their responses were 7 and 10 percent, respectively. The data suggest very sturdily that allegiance and partnership are worth very little in practice. Even more disturbing is the respond of buyers' rate manage programs with a normal usual cost fall of 5.8 percent. In the middle of the strategy operational are greater dependence on long-term contracts to catch in prices; getting benefit of size through inclusion of purchases; harder conference; use of repeal auctions and hunt for inferior cost labour opportunities; and trade on the spot market. Some buyers are demanding to reduce costs throughout cost engineering and product remodel. Although a number of these approaches make sense and have merit, the more admired approaches are focused on the short term and pay no attention to any effort to think

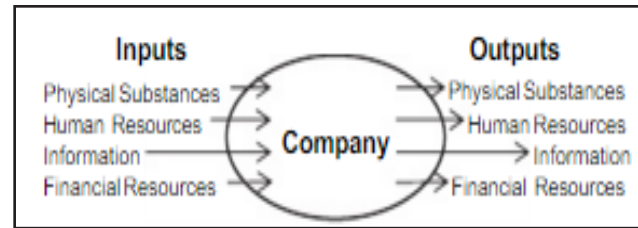
tactically about partnership and the reimbursement that accrue from the strategic supply chain management.

### DEFINITION OF CSR

CSR (Corporate Social Responsibility) refers to company commitment to behave ethically and contribute to economic development, whilst ensuring environment protection from own operations (Shabana & Carrol, 2010; Van Marrewijk, 2003). There are several pillars underlying CSR concept: economic (value creation through produced goods), environmental (minimising environmental impact of operations), and social (improving work conditions and the quality of life of community).

The morals of business activities are flattering more and more, and major companies are assessed on the ability to fulfil not only the customers' wants but also a variety of needs of employees, NGOs, representatives of the local community, and other concern groups. However many companies yet leave the question of CSR to rational minds, further companies are opening to understand that they cannot close the eyes to the ethical responsibility entrusted to them by society. The globalisation of economic activities has undeniably affected this growth. Even the idea is yet the subject of a lot argues few disprove the fact that many companies today are engaged in international business activities. When a fraction of the production process is outsourced to companies in varied geographic, cultural, and institutional settings, diversity in social and environmental standards are uncovered. In addition, it is still clear that companies can make use of these diversities by stirring their production services to countries with low social and environmental standards. Even though companies might get short-term repay from the decreasing of social and environmental standards, public criticism can harm the company's as well as the industry's legitimacy in the public and therefore has a depressing effect on sales, market shares, and stock prices. Over the years, ample companies have been condemned for breaking of union rights, use of child labour, unsafe working conditions, discrimination etc.

In reply to this progress, more and more companies are adopting strategic supply chain management. A supply chain is prepared of a number of companies, and the sustainability of the chain is reliant on the sustainability of the individual companies. To deal with the sustainability of a company, consider the relation shown in Fig. 1 which focuses on the four basic flows into and out of a corporation.

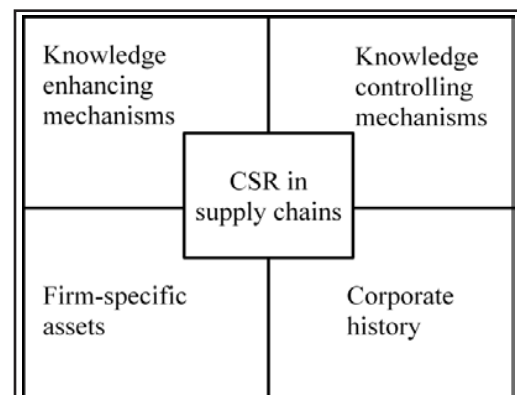


**Fig. 1. Four Basic Flows into and Out of a Corporation**

Since responsible behaviour of organisations in the supply chain is dependent on the performance of other parties such as suppliers and customers, only through co-operation of different parties concerned it is possible to realise resourceful CSR integration. Therefore, if a company wants to practice CSR in the supply chain, it's required that CSR is entrenched within the entire organisation. CSR shouldn't be only staff activity at the headquarters; it has to be to at all organisational levels and functional areas including subsidiaries abroad and suppliers.

### Incorporation of Sustainability into SCM

The SC incorporates the flow and alteration of goods and information from raw material stage to the end user (Seuring, Sarkis, Müller, & Rao, 2008). The optimisation of operations has augmented to the entire supply chain rather than an exact provision or organisation during the last two decades (Linton, Klassen, & Jayaraman, 2007). Sustainability in SCM must also comprise product design, manufacturing by-products, by-products produced during product use, product life extension, product end-of-life, and recovery processes at end-of-life, in addition to the core SC activities (Linton, Klassen, & Jayaraman, 2007). Organisational embed can be manifested through four mechanisms: knowledge enhancing mechanisms, knowledge controlling mechanisms, firm specific assets and corporate history.



**Fig. 2. Mechanisms in an Organization**

Source: Andersen and Skjoett-Larsen, 2009

**Information ornamental mechanisms:** aim to perk up and uphold the facts of parties working with CSR in supply chain and as a result augment their abilities and skills. Internal knowledge augmentation can be achieved through employees training focused on CSR topics as well as sharing knowledge and best CSR practices throughout the organisation. Some companies amalgamate CSR issues in their corporate ethics and strategy, thereby manifesting the importance of such issues for company's business. External knowledge expansion refers to establishing and maintaining consistent dialog with suppliers including intended at creating the CSR reference body between organisation and its suppliers. Supplier training programs resolute on CSR topics can serve as an example of external knowledge attractive mechanism.

**Knowledge controlling mechanisms:** Integration of code of conduct in performance management system can inspire employees to work on CSR issues with suppliers more effectively. Another approach is engagement of "change agents", employees responsible for monitoring and encouraging employees' pledge to CSR issues working closely with suppliers.

**Firm-pertaining assets:** It includes the size of the company, the design of its international supply chain, financial wealth and status. Large size and large amount of resources make company attractive for suppliers to work with, thus they will be more willing to take necessary actions to be conventional to CSR needs. Moreover, large international companies often have supplier development programs that include CSR issues management. In order to defend its reputation and avoid CSR related costs companies enforce more stringent CSR requirements on their suppliers; thereby setting supplier high social and environmental performance as a competitive advantage.

**Company history** refers to traditional way of working with CSR issues; organisations known for being busy in social and environmental activities as well as for rigorous supplier selection process are more likely to be approached by suppliers responsible for their social and environmental collision.

## OUTCOME-DRIVEN AND BEHAVIOUR DRIVEN CONTRACTS IN CSR MANAGEMENT

In order to alleviate information asymmetry and goal misalignment including risks linked with them. Customer company should find an apt way to reduce these two parameters. Outcome-driven and behaviour-driven contracts as mechanisms aimed to minimise the probability of opportunistic behaviour from supplier's

side. This means that it is pursuing a certain strategy in doing business and this strategy affects the way organisation manages relationships with its suppliers. Therefore, the type of strategy should be taken into account while investigating in the result and behaviour-oriented approaches in green supplier management.

Behaviour-driven contract fits companies pursuing differentiation strategy. Main goal of this strategy is "to develop an exclusive value or image for a product or service". Differentiation strategy is characterised by creating obvious value through advertising, prestige pricing and market segmentation, and value transfer. Some companies have accepted possible gains of using environmental friendly marketing strategies; "green" image allows setting higher margins for their products, because customers are ready to pay high price for high quality, safe and environmentally friendly product. For such companies maintaining their green image is a critical issue, therefore they should create such mechanisms that can help to ensure concord of their suppliers to the green corporate standards and needs. This problem could be addressed by investing in monitoring systems to improve information sharing, monitoring supplier progress and actions, and by building closer relationships with suppliers to augment mutual trust and reliability. These approaches make possible sharing risks between customer and supplier reducing the probability of moral hazard and adverse selection. Zsidisin and Elram (2003) propose four management techniques that serve to line up goals of the both parties and that focus on supplier behaviour: supplier certification, implementation of quality management programs, target costing, and supplier development. Supplier certification is an award to those suppliers that consistently meet encoded objectives in quality, cost, delivery, and environmental and social performance. Customer-company can be competent of certifying its suppliers or certification could be done by external certification bodies. Important advantage of certification is that may reduce the need for customer-company to conduct often costly and time-consuming inspections, moreover it is a good tool to obtain reliable information about supplier's performance and to make sure supplier's capability to conform to customer's wants in quality, sustainability and other aspects. Since certification criteria are standardised, supplier is expected to perform reliable standardised behaviour as well; this makes supplier and customer goals closer aligned. The execution of quality administration programmes in the supplier facilities helps supplier to conform to customer requirements and live up to customer prospect. Quality administration programmes hold broader range of aspects than certificates. For example, usually used Total Quality

Management programme addresses environmental and social issues. Target costing attempts to align customer's goals with those of suppliers by sharing information about customer financial targets. Targets could have different character – quality driven, environment driven, social and employment driven. Some customers collaborate with their suppliers to develop mutual targets of emission reduction, pollution prevention, safety enhancement etc., this is distinctive for companies having long-term and faithful associations.

Supplier progress means the caution customer-company takes in getting better supplier recital and abilities, so that supplier can assemble buyers' organisation every wants. Supplier development is accompanied with knowledge transfer activities that are time and resource concentrated for the purchasing firm, and firms undertake them with the objective of increasing supplier capabilities. The purpose of supplier development includes cost reduction, development of new capabilities, sustainable process redesign, improvement of quality and communication. This could be achieved by staff training and educating, implementing better environmental practices including environmental management system, implementing feedback mechanism. The process of environmental adaptation was found to be more successful in those cases where customers were actively involved in supplier development process. One more important mechanism not mentioned in the four approaches described above is supplier's 'Code of Conduct' which comprises least requirements to supplier performance including environmental and social aspects. Suppliers are expected to sign the code and fulfil necessary requirements, customer-companies in their turn conduct supplier auditing to ensure that suppliers are actually following the rules.

Outcome-driven contract fits companies following cost leadership strategy. The main goal "is to achieve industry's lowest cost structure through highly efficient operations, rigorous cost controls and economies of scale based on high unit sales volumes". Outcome-driven contract by its nature implies minimal monitoring and compensation based solely on the volumes sold. Firm or buyer is not expected to provide any special support and no value transfer occurs between parties; both parties preserve flexibility and avoid commitments. Arm's length relationships exist between principal and agent, thus supplier has no obligation beyond the sale of the product to the customer. From the agency perspective the customer will bear the inherent risk of this arrangement for two main reasons: he believes that product sales will justify the terms of the contract and switching costs are low. In the CSR context this result-oriented contact might mean less attention of the customer to what the environmental and social impact of the supplier actually

is. Considering monitoring investments to be low, buying company doesn't have consistent and efficient mechanism of verifying the environmental performance of suppliers. This increases information uncertainty and can lead to negative unexpected consequences, for instance, customer might find that these employees at the supplier factory are subjected to physical punishments and harassment, or underage labour is used. At the same time, outcome-based contract uses different interest aligning mechanisms, such as incentives and bonuses, to ensure that the other party behaves in expected way. For instance, customer can offer a monetary reward if supplier has obtained certain CSR certificates or been consistently conforming to CSR targets stipulated by customer company. The latter, however, implies having a verifying mechanism in place and/or certain degree of trust between the parties, which is more typical for long-term relationships characterised by relatively high switching costs. Customer company bears risks connected with CSR, which may be extremely unwanted considering the scope of negative penalty in case of any opportunistic behaviour from supplier side. These risks could be partially mitigated by minimising the adverse behaviour and implementing pre-contractual mechanisms, such as severe and composite process of supplier evaluation and selection. This might help to get rid of potentially risky suppliers, but at the same time such process can require considerable investments of time and resources from the customer. Overall, outcome-based contract doesn't seem to be an attractive mechanism to ensure the safety and sustainable performance of the suppliers.

## EXECUTION OF CODES OF CONDUCT

Execution of codes of conduct needs incentive and promise. In supply chains, actually, it is not sufficient that the company who has taken a lead in supply chain is dedicated to social and environmental interaction but the company has to sway the other organisations in the supply chain to behave socially responsible too. In such type of relationship, this might not be easy if, the other party does not show interest in CSR or the buyer initiate limited negotiating influence opposite to the supplier. Presumptuous that the buyer and the supplier do not show equal concern, there is a threat that the supplier will desert social responsibilities. Opportunism in relation to codes of conduct and other CSR standards arises due to the fact that these initiatives can be costly and time consuming actually, if CSR was always the optimal solution in terms of profitability, there would probably be no CSR debate. Each company will by default accept the uppermost social and environmental values so that they can enlarge their gain. Nevertheless, few suppliers might have a financial enticement to decrease social and

environmental standards in order to get rational reward. Moreover, the assumed advantage of executing codes of conduct might be uneven spread between the companies in the supply chain. For instance, the reputation earned by social responsibility is often linked with a brand name possessed by only one of the companies in the chain. This company will get all the advantages of initiating a code of conduct. The remaining companies in the chain will have to divide the indirect benefits, e.g. new orders. If these companies must incur cost of executing, there is a probable dispute of interest among the companies in the chain. This enhances the risk of taking chance for actions. In regard to codes of conduct, there is also a remarkable defect of proper assessment systems. Only a small margin of firms with codes of conduct actually state monitoring in relation to the implementation, and the widely held of these use internal systems.

## CHALLENGES

Effectively run supply chains have shown to provide very genuine cost advantage. There are also other less immediately tangible advantages from supply chain management. But focusing only on cost underestimates the true potential of supply chains for managing current and future customer relationships. Social responsibility on the part of business is an important means by which firms build relationship with present and future customers. The main reason behind success of strategically managed socially responsible supply chain is customers' increasing use of social criteria in choosing among firms.

After identifying the value of socially responsible strategies toward customer relationship management, leading companies are addressing social issues and seeing success with customers. For instance Hewlett Packard addresses these product related issues within its supply chain as part of its self-identified "Product Stewardship" and works with suppliers in several product related areas, which include product design, material composition, packaging, recycling and safety. Firms are also building social responsibility into their management strategies as a way of developing future markets and customers. Most supply chains generate lower costs by involving suppliers from developing countries where the labour rates are cheaper. Rather than seeing developing countries solely as opportunities for cost savings. Companies increasingly are viewing customers in developing countries as important markets for selling products in the future.

## HOW TO CONQUER CHALLENGES

Once the organisation incorporates strategic supply chain management, challenges are many but there are processes

to overcome these challenges. Thus firm can adapt to begin sourcing an ethical manner and take responsibility for its supply chain. At functional level purchasing personnel might adopt traditional role which is procuring right quantity, at the right time and delivered at the right time. Price is important but firms cannot close the eyes to their supply bases. For eg. Wal-Mart has 20,000 suppliers thus to what extent the firm should have pressure on supply chain. Thus managers must attend social and environmental issues in addition to managing their suppliers. Even the firm can enlarge ethical treatment to first, second, third, and fourth tier suppliers. A part from that support from top management is also very crucial. As managers face these challenges, the process that help in removal of these challenges becomes inevitable. Following are the steps mentioned to be followed to overcome challenges.

- ◆ **Glanceinside:** First the firm needs to measure that whether they are ready internally to do what firm is expecting the external parties to do. The issues concerned here are less related with ethical purchasing but integrating factors that will allow flowless information dissemination.
- ◆ **Describe code of conduct:** A firm cannot manage its supply chain partners unless it has uttered its own code of conduct and expectations that it has with its suppliers. The main point here is that codes are representative of the hard work each firm has put into writing a statement or in designing expectations regarding supplier corporate social responsibility. the firm should have clear cut guidelines mentioning the penalties in case of any infringement also ensure that it is tied with firm's core strategy.
- ◆ **Plot the process:**

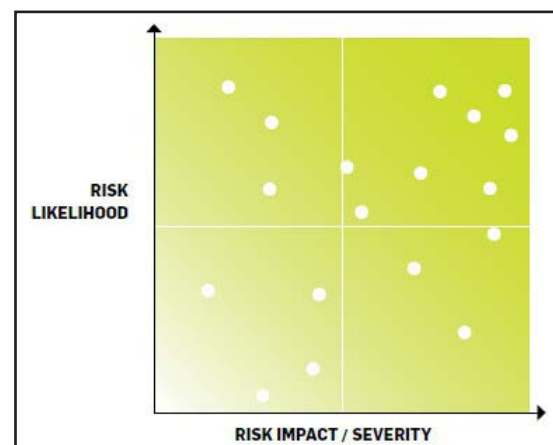


Fig. 3. Supply Chain Sustainability Risks Mapping

Following are the important steps of measuring risk in the supply chain:

### Identifying Danger Measures

Instance, low payment of wages at a plant in your supply chain, is risky for any business. Inside - and outside- events that may not only be flanking the rule but may also pressure the success of sustainable supply chain and company goals must be recognised. Risks can include business permanence, regulatory, reputational, market receipt, and customer needs risks. Interested group outside the business can also discover other social, environmental, economic, and dominance uncertainty which your company will have to gauge for their likely smash on business.

### The Probability and Sternness of Risk Events

Risk measures should be de-sectioned to recognise their possibility and latent crash. This will decide how they need to manage their supply chain under your company's supply chain sustainability programme. Risks can comprise business stability, dictatorial, reputational, market reception.

- ◆ Make sure the fit with centre strategy

If there is a lack of trust or if there is a gap in values and beliefs that a firm holds then discard that supplier from final list. Price differential or quantity cannot justify if that supplier is misfit with the profile of your firm.

- ◆ Monitoring and Reconsider at usual time period

Reviewing is very important in early years of programmes and as the time passage, relationship with supplier strengthens automatic control will evolve.

- ◆ Educate your customers and be constant in how they are rewarded

Price is important but the ability to maintain an ethical code of supplier development and management is equally as important. To ensure such policies are followed, buyers must have enterprise and supply chain wide perspective. They must understand the importance of this whole programme.

- ◆ Code of conduct should be communicated to the suppliers

If there is no transparency in information dissemination and trust is missing among supply chain members, if they do not share common vision and commitment to workers' rights the whole programme will be a big

failure. Transparency with respect to what is expected of the supplier and repercussion of non compliance.

### CONCLUSION

The abilities driven by consolidated SCM are reaping advantages athwart a series of businesses as different as structure and software expansion. These benefits are very influential even than stock lessening and more powerful than logistics, encircling new product idea, better cycle time, better in customer receptiveness, and overall superior productivity. Socially responsible supply chain is still an infant idea, and purchase managers have not still looked their world through this lens. Not so friendly relationship among buyers and suppliers is still a ruling fact and the success of relationship is still measured by price negotiation, but businesses are now recognising the advantages of socially responsible supply chain management and have started implementation of the same.

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