Corporate Social Responsibility in Supply Chain Management: From Arm’s Length Interactions to Deeper Buyer-Seller Strategic Unification

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ABSTRACT

This conceptual inquiry examines recent efforts by corporations to embed corporate social responsibility (CSR) into their supply chains. The question underlying this study is: Why must corporations today ensure that CSR values get embedded into their Supply Chains? Supply chain management (SCM), once the technical purview of engineers, epidemiologists and operations researchers now takes up a legitimate place for inquiry on the CSR front-- for both pragmatic as well ethical rationalities. Four major pragmatic factors lie behind the need for corporations to have a closer buyer-seller strategic unification: 1) legal and regulatory mandates; 2) guilt-by-association factors; 3) risk management; 4) the issues of ethics and equity. The paper argues that buyer firms must take the lead in this effort, since the end-products are associated with their names. Deontological, teleological, and virtue lenses, and theories of justice, underpin leadership obligations for ethical rationality in strategies for supply chain management.

INTRODUCTION

Tragedies such as the garment factory building collapse in the Rana Plaza in Bangladesh which housed factories employing workers manufacturing apparel for well-known global brands; and the suicides and employee abuses revealed in Foxconn’s manufacturing campuses in China, illuminate supply chain problems connected to multinational companies. The aggressive competition and crush on profit margins have placed emphasis on cost reduction in the supply chain--oftentimes with tragic results. While the benefits of the cost reduction are enjoyed by shareholders and customers, this leaves the workforce in these outsourced venues to pay the true cost of the production of cheap finished goods. In place of the “arm’s length” model with respect to supply chain oversight of a couple of decades ago, corporations today cannot afford to ignore the growing need for responsible stewardship of supply chain management (SCM). In turn, suppliers today should expect to not only to conform to industry standards and firm-specific requirements, but they need to be self-aware of their impacts. Suppliers know that they could be jettisoned from the mother ships, if their supply chain practices bring disrepute (or even infamy) to the end-product upon which their respective buyers place their brand names. In the complex web of multiple alliances that bring products and services to the consumer, suppliers often account for a large, or even a majority of a focal firm’s social and ecological footprint. Kraft guesstimates that a whopping 70 percent of its greenhouse gas emissions originate not from within its own operations but from its raw material suppliers. Other types of suppliers emit greenhouse gases by consuming energy during production, transportation, processing, and distribution (Bapna, 2012). Agency theory (Metnick, 2006; Jensen & Meckling, 1976) is at the heart of this new relationship. Buyer firms act as principals to suppliers who are
their agents. Agents who act on behalf of principals must include ecological and ethical concerns for human resources (along with economic objectives) to satisfy the corporate social responsibility (CSR) strategies of buyer firms. What used to be termed as an “opportunity” (such as sourcing from low-cost manufacturers overseas) may have turned into threats to focal firms. Four factors deemed essential for principled supply chains are explained below:

1. Legal Mandates & Related Guidelines:

The Dodd-Frank Act of 2010 on the sourcing of “conflict minerals,” eschews sourcing from “conflict zones,” also known as “Conflict Countries” and requires reportage of such. These include the conflict zones of the Democratic Republic of Congo, Rwanda, Uganda, Nigeria and others who have extractive industries in their nations.¹ Statutes such as the EPA provide mandates on clean water, air and land; OSHA rulings on health and safety standards; labor statutes define the ethical standards on the terms and conditions of labor on a variety of human and ecological standards. While not specifically targeting the supply chain, prescribe ethical firm behavior. State-mandated regulatory law, such as the California Transparency in Supply Chain Act” 2010², do specifically relate to supply chains. There are also guiding principles from the United Nations—such as the United Nations Global Compact³, trading blocs like the EU and NAFTA, and professional SCM societies. In the regulatory landscape, emergent new issues invariably surface. For example, human rights issues have been pushed up on the schema scrutiny in SCM. The UN’s Ruggie framework⁴ (2008) on human rights abuses as well as the explosion of social media where documentation of human trafficking are common, have brought more of these hitherto hidden supply chain issues to light. Banks and financial institutions have turned to “Equator Principles” in lending. These principles prohibit lending to companies that have projects involving ecological or human suffering⁵.

2. Problems by Association:

Then there is the “you are judged by the company you keep” dictum which gained momentum since the exposure of Hon Hai’s (Foxconn) employee abuses that impacted buyer firms like Apple (also HP, Dell and others). Primark was judged by its link to child labor by way of its subcontractors in India. The problem of slavery supply chains in the cases of Nestle and Cadbury has been examined. Numerous other instances linked wrong-doing of suppliers can be cited. In March 2015, the Associated Press released results of an investigation into slavery on Southeast Asian fishing trawlers that supply major restaurants, supermarkets, and seafood companies throughout the United States. Thai Union Frozen Products, a leading seafood supplier named in the investigation, supplies Darden Restaurants Inc., (parent company to Olive Garden). The AP report builds on a Guardian inquiry released in June 2014, disclosed that fishing vessels used to catch the fish, which were used to feed farmed prawns, were crewed by Burmese slaves. These slaves were appallingly treated—sometimes beaten or killed and tossed overboard Corporations such as Gap, and other clothing retailers, such as Marks and Spencer, source many of their manufactured garments from Cambodia, which has an abysmal human rights record of workplace conditions of labor.

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¹ This list also includes, Zambia, Angola, Burundi, Tanzania, The Central African Republic and South Sudan (Luxton, 2012).
² This took effect in 2012, and requires specified disclosures on slave labor and human trafficking
⁴ UN Special Representative John Ruggie proposed a framework on business & human rights to the UN Human Rights Council in June 2008, resting on three pillars: 1) the state duty to protect against human rights abuses by third parties, including business; 2) the corporate responsibility to respect human rights; and, 3) greater access by victims to effective remedy, both judicial and non-judicial. http://www.business-humanrights.org/Documents/UNGuidingPrinciples
⁵ The Equator Principles is a risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects and is primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making.
management. A 140-page Human Rights Watch Report entitled "Work Faster or Get Out," (2015), details hundreds of cases where labor laws were violated in Cambodian garment factories. The combination of short-term contracts that make it easier to fire and control workers, poor government labor inspection and enforcement, and aggressive tactics against independent unions make it difficult for workers (the vast majority of whom are young, uneducated, women) to assert their rights. These guilt-by-association phenomena have prompted statements like this one from Tom’s Shoes: “on an annual basis we require our direct suppliers to certify that the raw materials incorporated into our products are procured in accordance with all applicable laws in the countries they do business regarding slavery and human trafficking.6

3. Risk Management:

Avoidance of threat, also known as risk management in corporations, is a consuming activity that involves analyses of all aspects of business processes. For example the draining of toxic chemicals and industrial waste into rivers and waterways by big business poses the risk of health problems for large populations of impacted people. The outcomes of poor risk management reverberate quickly back to buyer entities in the form of business failures, for example, after the salmonella outbreak from peanut paste, the Peanut Corporation of America in 2009 filed for bankruptcy (Layton & Miroff, 2009). More often costly lawsuits emerge. The case of the 2010 BP oil spill in the Gulf of Mexico. Recalls by Toyota in 2009 and 2010, resulted in losses by the billions of dollars in law suits and lost sales (Sanchanta & Takasi, 2011). Food safety risk, such as the adulteration with melamine of powdered milk in China has caused similar problems (Spencer, 2009). It is not just the litigation costs, but the lowered perception by consumers of the quality of the product category (not just the individual corporation’s brand image) that results in lost sales (Henson & Reardon, 2005; Trienekens and Zuurbier, 2009).

4. The Issue of Ethics and Equity:

Then there are the issues of ethics and equity in the supply chain. The question, “who pays the true cost of the product or service?” must be asked. If the answer is that abused workers, and polluted bio-systems result from the pursuit of cheap goods, then corporations need to recognize that this business model is badly-flawed. The cost of the production of a good or service needs to be re-calculated from costs to people (employees and consumers) and the environment, and be placed on a corporation’s realistic reduction of profit. Supplier-generated ethics abuses are undoubtedly one of the biggest corporate threats that the largest Fortune 500 companies face in this century. While companies do not necessarily set out to deliberately create human and environmental abuses, it is corporate blindness in the overwhelming drive to maximize competitive advantage and beat rivals for market share that often is the key factor in why so many supply chain harms develop. Today’s supply chain managers have seen enlarged responsibility for oversight and accountability for CSR and ethics in their respective corporate supply chains. This includes a requirement for both “hyper-transparency”, and to be willing to be interactive and proactive in SCM dynamics. These new SCM professionals know that about 6.8 billion mobile phones are in use around the world, and that more and more of them are being used for anonymous reports and videos about corporate environmental and labor abuses on the parts of corporations. Firm reputations are being lost in this mobile-phone-enhanced hyper transparency trend, which makes violations hard for firms to hide and to ignore. The reasons for ethics in SCM are shown in Table 1:

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Table 1: CSR: The Fundamental Ethical Values Underlying SCM

<table>
<thead>
<tr>
<th>Issue</th>
<th>Deontology</th>
<th>Teleology</th>
<th>Virtue</th>
<th>Kaldor-Hicks</th>
<th>Rawls</th>
<th>Pareto Optimum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee workplace wellness</td>
<td>Right thing to do; Do no harm; Obligation in the Principal-agent relationship; Obligation to other human beings.</td>
<td>Consequences to workplace well-being; Benefits vs. costs; the Greatest good; good for greatest number of stakeholders.</td>
<td>Good corporate morality, practical wisdom, &amp; eudemonic principles; do not violate health of others</td>
<td>Winners must compensate Losers; compensatory justice for harms</td>
<td>Greatest good for all-including least advantaged in society is needed.</td>
<td>Cannot make a firm better off without making workers, consumers worse off violates this principle.</td>
</tr>
<tr>
<td>Slavery &amp; human trafficking</td>
<td>Do no harm; obligations &amp; responsibilities to fellow humans who are autonomous beings.</td>
<td>Consequences of slavery violate the Greatest good for Greatest number principle; spillovers to image via the Benefits vs. costs calculus</td>
<td>Good corporate morality; Practical wisdom; &amp; Eudonomic principles; Do not covet humans as property</td>
<td>Winners must compensate Losers; compensatory justice for harms</td>
<td>Greatest good for all-including least advantaged in society is required.</td>
<td>Cannot make a firm better off without making workers worse off violates this principle.</td>
</tr>
<tr>
<td>Environmental protection &amp; conservation</td>
<td>Stewardship of common goods—land, air, water</td>
<td>Maintain common goods for present &amp; future generations; Greatest good for Greatest number; Consequences; Benefits vs. Costs</td>
<td>Good corporate morality; Practical wisdom; &amp; Eudonomic principles; Do not covet/abuse common goods</td>
<td>Winners must compensate Losers; compensatory justice for harms</td>
<td>Greatest good for all—including least advantaged in society</td>
<td>Cannot make a firm better off without making the environment worse off, violates this principle.</td>
</tr>
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</table>

Coates, B.E. 2015

CORPORATE SOCIAL RESPONSIBILITY

For many corporations in the second decade of the 21st century, supply chain ethics policies, are a natural outgrowth of their strategies on corporate social responsibility. CSR in general is an issue that arises in two quintessential questions: “what are the effects of a firm’s actions on the natural environment? and, “what are a firm’s effects on employees and global societies?” Archie Carroll, et.al. (2011) provide another key question to the discourse: “to whom, and for what is the modern corporation responsible?” Carroll’s question is echoed in the work of the Tomorrow’s Leader’s Group, a think tank of CEOs from such major corporate entities such as British Petroleum, Proctor & Gamble, GrupoNeuva, TNT, CLP, StoreBoard, and others, who endeavor to seek broad non-conventional answers on firm behavior. Instead of asking, “how can we amplify wealth-maximization strategies? Today they are considering the broader issue: “what is business for?” The answer for this group, and others, is that the old rules are changing, and the role of business on big societal issues such as human rights and welfare, preservation of the living planet are as important to business as wealth maximization and integrally related. A new overarching question has emerged in business roundtables: “how can wealth be created in the context of also making a difference?” Porter and Kramer (2011) have advocated a new strategic mantra—“shared value”—i.e., value considerations for both shareholders and other stakeholders. A unified theme among firms that have had success with CSR strategies is the commitment to make CSR an overall part of business strategy from the cradle to the grave of the whole product or service cycle. These groups can be said to be embracing a new corporate principle: “you can have competitive advantage by a balanced approach to economics, ecology and employees—i.e., the Triple Bottom Line (TBL) Principle (Elkington, 1994). A logical corollary follows: “you don’t have to squeeze out the most profit to have competitive

7 You tube, http://www.youtube.com/watch?v=Xox7Z0Bq7jY
In other words, the firm’s competitive advantage today nests within the tenets of the TBL philosophy, and is an acceptable measure. The newly-formed Benefit Corporations springing up in most U.S. states (Coates, 2015; 2013) supports this corollary, as do new laws in countries and regions such as India and the European Union, and evolution of international regulations (ibid, 2015).

Over recent years several definitions of CSR have materialized. Dahlsrud counted 37 classifications (2008). The overarching term “CSR” is, however, still the most widely recognized phrase, and it is used throughout this paper. It is useful to pause here and to point out a few other well-known phrases that are also used as pseudonyms for CSR. Mike Peng (2014) notes that CSR “pertains to consideration of, and response to, issues beyond the narrow technical and legal requirements of the firm to accomplish social benefits” (pg. 479). The United Nations Industrial Development Organization defines CSR as “a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders” (UNIDO http://www.unido.org/).

Bill Gates employed the term “creative capitalism” when he spoke at the World Economic Forum in 2008. He urged business firms to create services and products that would “stretch the market forces” for broader impacts (Chabra, 2014). Another significant term that has gained currency in recent times is “conscious capitalism” (CC) which has emerged from popular book of the same name by John Mackey CEO of Whole Foods & Professor Rajendra Sisodia. The premise of this work is that conscious business in a capitalistic society can work well within the Triple Bottom Line framework (2014). Conscious capitalism of Mackey and Sisodia also denotes firms who display “capitalism with a social conscience” (Civitia, n/d/, www.newfuturesmedia.com). Another term written about in recent times is the term corporate citizenship—or firms that are expected to conscious of their expanding roles in the modern capitalist society (Coates, 2015). Today corporations are making attempts to adjust their business goals to a set of standards of socially and environmentally-responsible actions (Du, et.al. 2013), generally expressed as CSR.

CSR as a corporate philosophy has grown in recognition primarily due to the well-publicized problems associated with big business in terms of human and environmental harms, which has led corporations from reactive business behavior, to their current state of self-reflection (Wagner, et.al. 2009). This evolution that has thus evolved represents a swing from the sole pursuit of wealth maximization exemplified by the Friedman school of thought (1970; Ghoshal & Moran, 1996; Ferraro, Pfeffer, &
Sutton, 2005). Finally, a significant change has emerged even more recently as corporations today are going one step further and calibrating supply chains with the CSR strategies of their individual firms.

DETERMINING THE APPROPRIATE STANDARDS FOR SCM

Because of the extent of complexity of supply chains, many corporations decide on where in the supply chain to focus specific remediations, generally sorting them under the categories of “risk” and “impact”. For example, Coca Cola selected specific areas of CSR—such as waste management, and specific geographical regions like Ghana in which to manage that waste—either eliminating it completely, or minimizing it. This experience is translated into Coca Cola’s scorecard to monitor how well they and their suppliers manage waste for the eventual goal of zero waste—including zero defects—which leads to less waste (Schniederjans and LeGrand, 2013). Huawei established its “Supplier CSR Committee,” to ensure that SCM is managed in accordance with its strategies throughout the procurement process and supplier life cycle (Huawei). They hold conferences to socialize their suppliers on the requirements. New suppliers must qualify on a scorecard of issues to be monitored.

In the past there was no globally-accepted standards for measuring greenhouse gas emissions from suppliers, until the Greenhouse Gas Protocol (GHGP) was created. The GHGP standard is now the most is the most extensively-utilized measurement instrument by which governments and corporations comprehend, measure, and supervise gas emissions. This protocol has come about via a collaborative effort between businesses, environmental groups, governments, and international agencies—such as the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD). An array of major companies from diverse industries like electronics, food, automobiles, garment producers and others have field-tested and installed the GHGP protocol. The Consumer Goods Forum has also approved the use of the GHGP. S.C. Johnson, described their road test of the standard as the “key data to drive our strategic business decisions regarding greenhouse gas reductions.” PepsiCo’s Senior Director of Environmental Sustainability, Robert ter Kuile, praised it as “an economically, as well as an environmentally valuable tool,” which he noted would help the company manage the carbon footprint of its vast supplier network (Bapna, 2012). Smaller companies like Swire Beverages (a supplier of Coca-Cola products in China) are doing their parts to cut electricity use—in the case of Swire Beverages—at 35-40%, by investing in, and adopting energy efficient processes (ibid, 2012). These measures will be the source of innovation and creation of energy options for a low-carbon future.

How does a firm select standards and accountability factors when there are so many standards to choose from? To create standards for responsible and responsive supply chains, the firm may have to seek an SCM consultant to help push through the more than 450 consumer-facing eco-labels around the globe to determine factors and standards appropriate for an individual corporation (Jaffe, 2015). Collaboration between firms instead of competition—variously referred to as “inclusive business” models or “co-opetition” is being encountered whereby firms share knowledge and techniques for mutual gain. For example, joint research for more efficient and greener fuel cells and electric car battery

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9 The Consumer Goods Forum is an entity comprised of over 400 corporations who do about a combined $3 trillion dollars in sales.
10 The term inclusive business was coined by the World Business Council for Sustainable Development (WBCSD) in 2005. It refers to sustainable business solutions that go beyond philanthropy and expand access to goods, services, and livelihood opportunities for low-income communities in commercially viable ways.
11 This term refers to cooperation within competition
technologies, is being done between Toyota and BMW who are using the inclusive business model of co-opetition. Heinz has copied Coca Cola’s greener bottling and packaging (Ireland, 2015).

Given the spotlight on supply chains today, many companies include the following steps in their consideration of supply chain sustainability:

- Collaborate w/ peers to find creative solutions.
- Hire a Consultant to write stds.

A mapping exercise can identify the crucial realms on which emphasis can be placed. That might mean prioritizing particular commodities, or countries, or types of supplier, amount of supplier spending, under the headings of “Risk” (concerning the supplier); and “Impact” (concerning the firm itself). Questions such as the ones that follow can help shape CSR-SCM strategy:

<table>
<thead>
<tr>
<th>Table 1: Mapping Risk and Impact of a Supplier</th>
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</thead>
<tbody>
<tr>
<td><strong>RISK--Questions</strong></td>
</tr>
<tr>
<td>What are the potential risks connected to this Supplier?</td>
</tr>
<tr>
<td>How will these risks impact our TBL strategy?</td>
</tr>
<tr>
<td>Is the risk from this Supplier worth taking?</td>
</tr>
<tr>
<td>How can we eliminate the risk, or minimize it?</td>
</tr>
<tr>
<td>Is the risk such that the Supplier should be replaced?</td>
</tr>
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Measuring positive (and negative) social, environment and economic impacts in the supply chain can provide crucial learning and knowledge creation insights for the buyer entity. Having done due diligence in mapping risks and impacts, and found the best, most meaningful, metrics, a firm can then carve out a strategy with its suppliers that provides best value in terms of efficiency and effectiveness.
SUMMARY

The situation is changing between buyers and sellers, as companies do a better job of auditing their global operations and working environments in terms of human and environmental ethics, and CSR. The buyer firms must take the lead on this in aegis of the principal-agentic relationship. This paper argues that buyer firms take centrality in this effort, for deontological, teleological and virtue reasons, as well as justice principles offered by the Kaldor-Hicks Criterion, the Rawl’s Criterion, and the Pareto Optimum Criterion.

Consumers today are becoming better educated about overseas working conditions, and the unfair treatment of workers can seriously harm sales and brand identity of buyer firms. The public’s growing awareness of environmental issues also puts pressure on companies to build more sustainable supply chains. This all adds up to a huge opportunity for companies to encourage their suppliers to reduce emissions contributing to climate change—and spur efficiencies in this process as well as other environmental issues. Increasingly, investors, shareholders, and consumers are pressing for action.

Heedful of the bitter lessons from its supplier Foxconn, Apple has recently reported that: “in January 2014 we confirmed that all active, identified tantalum smelters in our supply chain were verified as conflict-free by third-party auditors…We’re pushing our suppliers of tin, tungsten and gold just as hard to use verified sources,” (Peters and Mukerjee, 2014). Apple is also making strides to green its operations. It has partnered with The Conservation Fund, an American environmental non-profit entity, with a dual charter to pursue environmental preservation and economic development, to purchase 36,000 acres of forestland in Maine and North Carolina which will be conserved. The pulp from the trees will be used for Apple’s packaging needs and other companies will be able to buy fiber from them (Singh, 2015).

On April 21, 2015, McDonald’s, working with the World Wildlife Fund, announced that it had vowed to eliminate deforestation across its entire supply chain. Related pledges have also been made by Yum Brands, Dunkin’ Donuts and others. These fast food corporations will have a significant impact on World Wildlife Fund which advised others in the fast food industry (Srinivas, 2015).

One of the largest demolishers of rain forests is the giant palm oil industry—as palm oil is an ingredient in many foods, We also see some progress in conservation efforts by consumer colossuses like Unilever—which announced its policy to find sustainable solutions for its use of palm oil in its supply chain so that all of it is traceable and sustainable by the year 2020.

Under pressure from Darden, and other seafood buyers, the seafood supplier Thai Union Frozen Products has dropped the supply source that was using slave labor from Burma (AP, 2015). Based on prohibitions of statutory law such as the Dodd-Frank Act, firms like Nintendo have taken steps to stop sourcing of conflict minerals that are used in electronic devices (Brownstone, 2013). Thus it can be said that scrutiny by the media, investors and consumers of Fortune 500 companies’ supply chains are making a difference in the reduction of abuse to employees and the environment.

To conclude this paper makes the following points:
1. CSR has been extended to include supply chains of buyer firms.
2. Agency theory is at the heart of the Seller-Buyer dyad and explains obligations and responsibilities on the part of each one.
3. Buyers and sellers today are acutely aware of triple bottom line responsibilities and enforce these across their networks.
3. There are 4 key PRAGMATIC factors behind ethical supply chain management: a) meeting legal and industry mandates; b) avoiding guilt by association; c) management of risk; d) ethics and equity imperatives.

4. There are 6 key ETHICAL values behind ethical supply chain management, i.e., a) deontological, b) teleological and c) virtue philosophies; and the criteria of justice philosophies offered by: the Kaldor-Hick criterion, the Rawl’s criterion of justice for the least advantaged, and the Pareto optimum criterion.

Based on the above rationales the following also apply:

The concept of competitive advantage is being corporately re-calibrated in the modern firm—under a new rubric: “It is not necessary to squeeze out the most profit for a firm to have competitive advantage”.

Proof of this new rubric is the growth of Benefit Corporations in the United States, new country and regional laws and international regulations that support this kind of thinking.

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WORD COUNT =  5,245