

THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY ON SUSTAINABLE SUPPLY CHAINS; A REVIEW OF LITERATURE.

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ABSTRACT

This paper critically analysed the impact of Corporate Social responsibility (CSR) on sustainable supply chains. Also limited reference to Zimbabwe and all the efforts that are being done to comply with this new dispensation of sustainable supply chains was made. However, useful examples from around the world were also explored bring out the impact of CSR on supply chains. The paper made use of literature from textbooks and journals to examine the concept of sustainable supply chains and clearly highlighted the impact of corporate social responsibility on these supply chains. Due to increasing pressures to be competitive in the markets, most companies are turning to international markets for competitive prices and quality for materials. This has however resulted in supply chains becoming more complex especially with the advent of mounding pressures for corporations to be more responsible socially and environmentally. According to Van Weele (2010) the idea of corporate social responsibility "is to develop business solutions in such a way that requirements of the current world population are met without doing harm to the needs of future generations".

Key Words: *Sustainable Supply Chains, Purchasing, Supply Chain*

Literature Review

Elkington (1997) as cited by Klassen and Vereecke (2012) proposed that the combination of economic, social and environmental performance be known as a “*triple bottom line*”. In support of this Van Weele (2010) provided some important insights when he defined the ‘people’, the ‘planet’ and the ‘profit’. According to Van Weele (2010) the “*people*” aspect includes all activities that are focused on providing good labour conditions to employees and a labour climate in which individual employees are able to develop their skills and competencies. This explains the great interest today for safety, health and environment (SHE) within organisations. He also defines the “*planet*” aspect as including all activities that are focused on the efficient use of natural sources of energy, raw materials and of other natural resources. Waste disposal, reuse of scrap and surplus materials, and reverse logistics are part of the planet aspect. Lastly he discussed about the “*profit*” aspect where he says it provides guidelines for sustainable financial development of a company, measured over a longer period of time. When improving profitability, the idea is the company should keep a good eye on the interest of all stakeholders concerned, like customers, shareholders, employees and suppliers. The three issues as shown in this paragraph forms the crux of corporate social responsibility.

According to the Danish Council on corporate social responsibility (2010), the concept of sustainable supply chain management deals with the dialogue companies create with their suppliers in order to prevent violations of fundamental human rights and international environmental standards. This therefore means companies are expected to deliver on social and environmental responsibility in accordance with internationally recognised principles and rights. Van Weele (2010) also talks about sustainable development, purchasing and profitability. He further asserted that sustainable profitability can only be achieved if the company is able to balance the interest of customers, employees, the environment, and its shareholders. This therefore means the needs of people, planet and profit are all taken care of. To add to this the Danish Council on Corporate Social responsibility stated that corporate growth is crucial but must be created with the respect for human rights, labour rights, environmental conservation, and must include anti-corruption measures and unfair trade practices. All this having been said, the implementation of corporate social responsibility throughout the supply chain is easier said than done, issues of how and who is responsible for influencing other partners to implement similar concepts and coordination thereof are the biggest challenge.

The Zimbabwean Context

In recent years Zimbabwe has been linked with alleged human rights violations which have seen the country struggling to sell its diamonds. However a lot has been done by the country to address corporate social responsibility issues to conform to required world standards. The following organisations were established by Acts of parliament to compel organisations to do business in a responsible manner.

Environmental Management Agency (EMA)

EMA is a statutory body which was established in terms of the Environmental Management Act (Chapter 20:27) of 2002. It is a hybrid body made up of the Water pollution control unit, Air pollution control unit and the Hazardous substances control unit. All business activities are subjected for conformance with the set standards regarding pollution of the air and water whether surface or underground. Clearly, these requirements have a significant bearing on supply chain strategies and designs as will be highlighted in the later sections of this paper. In 2012 EMA banned the use of all plastic paper bags by supermarkets in favour of biodegradable plastic bags. This affected upstream manufacturers of plastic carry bags that were forced to switch to manufacturing the required biodegradable carrying bags. Effectively, this also affected suppliers of the banned materials upstream of the manufacturer negatively and in the process bringing to the fore reverse logistics issues. (www.ema.co.zw/ as visited on 18/04/2012).

The Medical Control Authority of Zimbabwe (MCAZ)

MCAZ is a statutory body established in terms of the Medicines and Allied Substances Control Act (MASCA) Chapter 15:03. MCAZ is responsible for protecting the public and animal health by ensuring that accessible medicines and allied products are safe, effective and ensure adherence to standards by manufacturers and distributors. In their latest publication they advertised the existence of counterfeit drug ESB3. They also recalled drugs manufactured by R J Pharmaceuticals (Pvt) Ltd for not being registered and that the company was operating from unlicensed premises. (Please refer to www.mcaz.co.zw/ as visited on 18/04/2012)

The Standards Association of Zimbabwe (SAZ)

SAZ is a branch of the Ministry of Industry and Commerce. Its vision is to establish and maintain credible standards and quality that actively contribute to sustainable development in Zimbabwe and beyond. In general SAZ aims to safe guard the public by compelling companies to produce high quality products that are safe for the public. (www.saz.co.zw as visited on 18/04/2012)

Legislation

Zimbabwe has a labour act that many potential investors have complained that it is biased towards workers. This view stems from the fact that 95 percent of all labour cases are won by employees. To add to this, Zimbabwe is a signatory to the International labour organisation conventions. All the instruments discussed here show the importance of sustainable issues at national level.

CSR in supply chain management

Boyd et al (2004) points out that more firms are increasingly becoming involved in business networks like integrated supply chains. An integrated supply chain represents a vertically coordinated network of firms that engages in various activities associated with the production and distribution of the firm's products to the end customer. With the increasing pressure for companies to be good corporate citizens, coordination of a supply network that incorporates social responsibility becomes complicated. However, according to Amaeshi et al (2008), the possibility of irresponsible practices put global firms under pressure to protect their brands even if it means assuming responsibilities for the practices of their suppliers. As pointed out by Amaeshi (2008), the issues of responsibility and coordination in the supply chain are of paramount importance. The challenge here is how a company can compel other supply chain partners to embrace corporate social responsibility in their operations. Davis and Blomstrom (1975) seem to unequivocally suggest that CSR is the obligation of the decision maker to take action that protect and improve the welfare of society along with their own interest. This view is strengthened by landmark cases highlighted in the following paragraph. On the other hand, Boyd (2004) is of the opinion that more organisations are expanding their responsibility to include managing the corporate social responsibilities of their partners within the supply chain. Kolk and Tudder (2002) seem to differ with the foregoing discussion as they believe that other firms are indulging in other firms' CSR activities as a reactive response to managing risk. Cruz (2008) also noted that manufacturers may embrace CSR to minimize risk. He defined risk as the possibility for companies to suffer harm or loss for their activities and also for the activities of their partners in the supply chain. Feldman et al (1997) as cited by Cruz (2008) asserts that in terms of CSR risk, companies may be found liable for pollution, compliance with regulation, dangerous operations, use of hazardous raw materials, production of hazardous waste, and for health and safety issues. The risk may result in damage of brand image, loss of sales and difficult accessing financial investments.

The activities of the other supply partners should be kept under scrutiny, because CSR failure at any point of the supply chain may result in the brand of a company being damaged. Kong (2012) in a heart breaking case states that “the melamine contamination case was the major highlight of corporate irresponsibility”. He asserts that reports revealed that management of dairy companies involved knew that their products contained melamine long before the melamine crisis, but they were afraid that product recalls would heavily hurt their reputations and market shares. Boyd et al (2004) points out major brands like Nike, Adidas, and Benetton were accused of using child labour in Cambodia, Turkey and prison labour in China. It is also important to note that, only subcontracted companies that supply materials to Nike, Adidas and Benetton were resident in the stated countries. This however, does not absolve brand owners from the responsibility to ensure that sustainable practices are implemented throughout the supply chain. Creelman (2005) as cited by Klassen and Vereecke (2012) quoted a manager from Reebok saying “if a customer calls and complains that the sole got separated from the shoe, we can’t very well say ‘oh that’s not Reebok’s responsibility, that shoe is made by an independent factory in Korea. We have to take responsibility for the quality of the product even though we don’t make it ourselves. The same applies to the working conditions. If a customer calls up about working conditions at one of our suppliers, we have to take responsibility for those working conditions”. How then can a company ensure that other supply chain partners are complying with sustainability requirements?

Parmigiani et al., (2011) as observed by Klassen and Vereecke (2012) provide more insights when they defined responsibility in the context of supply chain as when a firm has authority to make decisions independently, and has the ability to control; pressure or induce action by suppliers and customers through such factors as product design or contractual arrangements. They further assert that, “in essence, the firm has responsibility because it can influence conditions either through action or inaction that result in specific social outcomes, and responsibility includes both legal obligations and ethical overtones”.

Enforcement of CSR in the Supply Chain Network

The foregoing discussions have indicated various authors pointing to the fact that the power of a firm to influence may be crucial to induce channel partners to comply with sustainable supply chains requirements. The Danish Council for Corporate Social Responsibility (2010) is of the view that sustainability should be achieved through dialogue amongst the supply chain partners. Cruz (2008) agrees with this assertion when he noted that “any level of social responsibility achieved between any two parties in the supply chain requires a strong level of collaboration between them”. He goes on to define collaboration as “any kind of joint, coordinated effort between decision-makers in the supply chain in order to achieve a common goal”. This method of seeking compliance is more persuasive and researchers have noted positive outcomes coming out of such arrangements.

The Danish Council in their guidelines assert that, “in principle, companies, of any size bear the same responsibility for their entire supply chain. On the other hand it is recognised internationally that responsibility depends, in practice, on several factors, including the company’s size and ability to exert its influence”. It further states that “it is recognised that, in practice, it is necessary to distinguish between large and small companies. Small to Medium Enterprises (SMEs) do not, in practice, have the same opportunities to influence suppliers, and they have limited resources available for practical supply chain management.

Use of Codes of Conduct

Amaeshi et al (2008) proposed that enforcement of CSR compliance can be achieved through the use of codes of conduct. They explain that a code of conduct will state in clear terms the value orientation of the suppliers. This can be mapped out in consultation with the direct suppliers or as an agreement between firms and new suppliers at the point of engagement. They went to say that the consultation should be characterised

by genuine intentions, dialogue, engagement, trust and fairness (also Swift, 2001). It is also their submission that the principal purchasing firm can as well institute a process that asks for periodic submission of ethical audit reports from suppliers as part of the engagement and ensure that any supplier found guilty either by the audit and, or by the public would be named and shamed, which might even lead to the severance of relationship. Auditing encompasses both the task of examination, and an appraisal of performance against some standard (Klassen and Vereecke, 2012)

Centralised control

Klassen and Vereecke (2012) believe centralised control can be instrumental to enforcing compliance. They assert that centralised control can be achieved through vertical integration, supplier contracts that require third party audits, and greater transparency of information.

Benefits of CSR Supply Chain Networks

Ashford (1993) and Kemp (1993) as cited by Cruz (2008) indicate that through knowledge sharing, and collaborative activities result in reduced uncertainty, willingness to change and reduce other sources of resistance frequently associated with lack of investment in social responsibility activities. Klassen and Vachon (2003) as cited by Cruz (2008) also pointed out that collaborations result in reduced packaging, joint recycling of parts and components, and process changes that reduce the use of hazardous materials. Also, research has shown that an established inter-firm collaboration can lead to reduced transaction costs and improvements to supplier manufacturing performance (Cruz 2008). Research has also shown that companies in CSR collaborative arrangements enhance their competitive urge and profitability. Cruz and Wakolbinger (2008) found out that CSR can potentially decrease production inefficiencies, reduce cost and risk and at the same time allow companies to increase sales. As a result of low costs, lower risk and increase in sales, companies become more profitable.

Harwood and Humby (2008) noted that a number of studies indicate potential performance gains from CSR activities that include cost savings, reputation risk mitigation and increased market penetration being some of the positive outcomes (Kong, 2012). Kong (2012) in his research did not find evidence to confirm that CSR initiatives influence investor decisions. However, he did find out that product recalls affected share prices and also investor decisions. Cruz and Wakolbinger (2008) observed that contrary to the notion that companies see CSR as a means for damage control or public relations, companies are increasingly realising that CSR activities offer opportunities to create value. Falck and Heblich (2007) as cited by Cruz and Wakolbinger (2008) indicate that the practice of CSR “is an investment in the company’s future, as such, it must be planned specifically, supervised carefully, and evaluated regularly”. Kogg and Mont (2012) also concur when they stated that sustainability issues have resulted in a shift of focus by companies from own operations to improving the performance of the supply chains. Krajewski et al (2010) found out that sustainable supply chains result in productivity improvement and innovation. This they say can be achieved by examining processes up and down the supply chain to increase material conversion, to increase energy efficiency, and to look for ways to convert waste into useful by-products. They also state that risk can be minimised as firms take great care to ensure that materials that go into their services, products or processes do not pose health or safety hazards to customers. Krajewski et al (2010) also pointed out that due to the fact that sustainable issues result in integrated supply chains, firms are able to mitigate the debilitating effects of supply chain dynamics such as the bullwhip effect by developing efficient flow of information and materials up and down the supply chain.

A Corporate Social Responsibility supply chain

According to Krajewski et al (2010), in addition to the normal supply chain, a CSR supply chain will incorporate reverse logistics. They defined reverse logistics as “the process of planning, implementing, and controlling the efficient, cost effective flow of products, materials, and information from the point of consumption back to the point of origin for returns, repairs, remanufacture, or recycling”. They also assert that a supply chain that integrates forward logistics with reverse logistics is called a closed-loop supply chain because it focuses on the complete chain of operations from the birth to the death of a product. Given on below is a proforma supply chain incorporating CSR provided by Krajewski et al (2010)

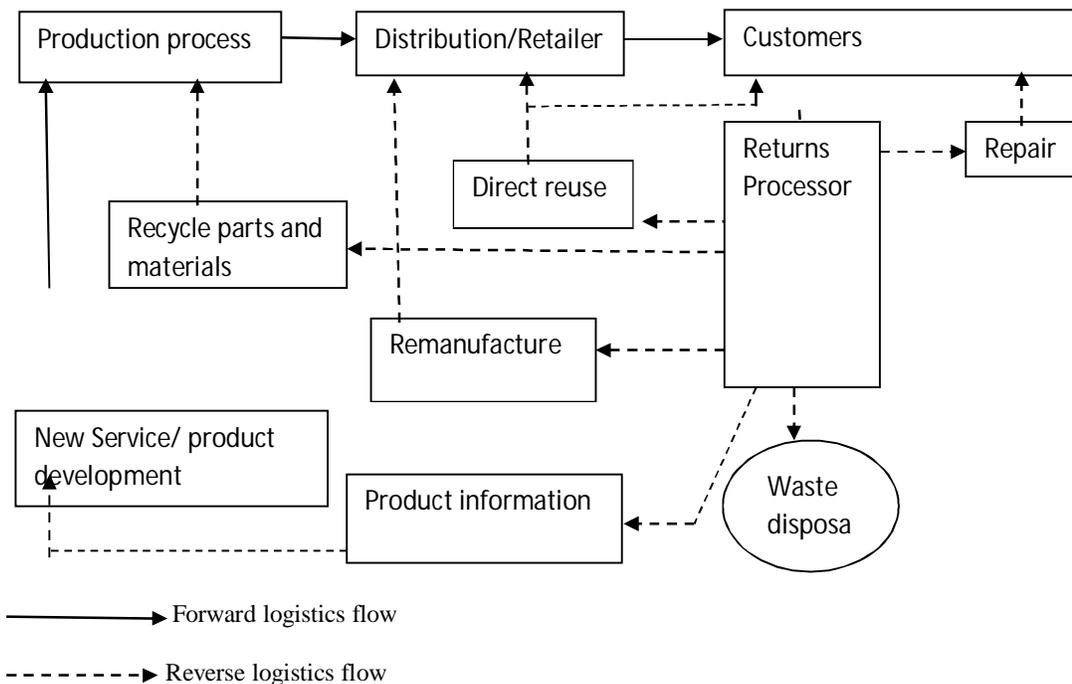


Figure 1.1 Closed-loop Supply chain Network.

It is clear that reverse logistics operations are considerably different from the forward logistics flows. A firm must establish convenient collection points to receive the used goods from the final customer and transport the goods to a returns processor, which is a facility owned by the manufacturer or outsourced to a supplier and that is proficient at disassembling products and gleaning any remaining value from them. If the item is inoperable, it could be repaired and returned to the customer. Another option is that it could be cleaned and refurbished for direct use and returned either to the distribution channel, which is the case with leased products, or back to customers, which is the case with a maintenance warranty. The product could be remanufactured by tearing it down, rebuilding it with new parts as needed, and returning it to the distribution channel. Finally, the product could be completely disassembled and the usable parts and materials cleaned, tested, and returned to the production process. There are two important by-products of the reverse logistics process namely waste, which must be properly disposed of, and product information, which is transmitted to the new service or product development process so that improvements can be made to future generations of products (Krajewski et al 2010). This supply chain network however, is addressing mostly environmental issues. The assumption here is that other sustainable issues dealing with people are addressed in codes of conduct and necessary agreements entered into by supply chain partners.

A typical case in Zimbabwe would be that of Art Corporation and Hunyani Carton and Print. The companies have an arrangement that facilitates the recycling of waste paper. They jointly own a company called National waste collection. Hunyani Carton and Print processes paper and supply it to Art Corporation which

manufactures a wide range of paper products. National Waste Collection is responsible for collecting all the waste paper from Art Corporation and other sources and supplies it to Hunyani Carton and Print for processing.

The supply chain of these companies is given below.

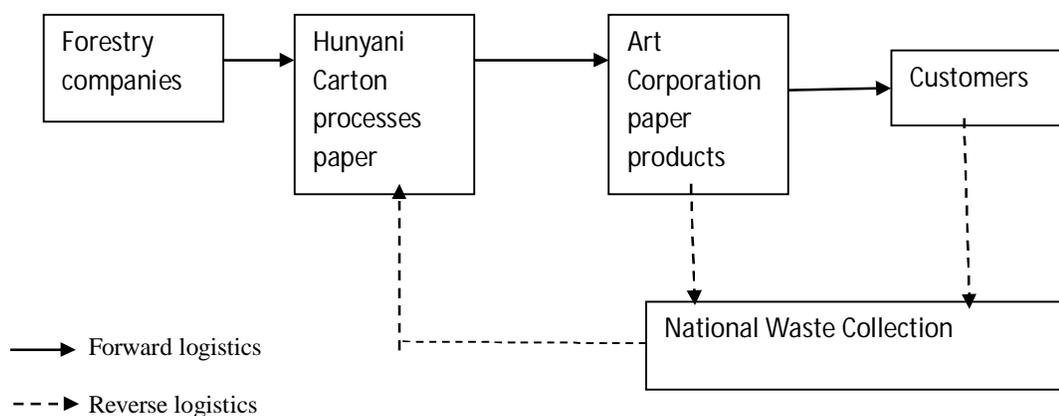


Figure 1.2 Supply Chain Networks of Hunyani and Art Corporation.

The arrangement of these companies has helped keep cities clean and has created employment for many people who collect papers and sell them to National waste collection company.

Conclusion

The foregoing presentation has clearly shown that issues of sustainability have gain popularity in recent times. Krajewski et al (2010) believes that in the not-too-distant future, sustainability issues will become one of the most important criterions to be used when selecting suppliers. The discussion has shown that it is important for companies to shift their focus on profit alone to incorporate the society and the environment. The future has become equally important as today. Whilst some authors have argued that corporate social responsibility is a way of mitigating risk, there is evidence that it can also bring more positive outcomes for firms that embrace it. While it is the decision of the firm to implement sustainable requirements, the dangers for not complying cannot be over emphasised. The melamine case and the case of other leading brand name companies such as Nike and Wal-Mart will always save as landmark precedents for the sustainability dispensation.

Even governments have not been outdone in this regard. They have, through various instruments formed by Acts of parliament, provided guidelines for companies to conduct business while protecting the environment and the society. Some of the provided guidelines are compulsory and violations may result in the culprits being severely penalised. Emphasis however, is for companies working together in the supply chain to self regulate through dialogue and agree on products, services or processes that promote the “triple bottom line”. Companies should now be driven by the desire to be philanthropic, ethical, and legally responsible. They should strive to contribute to a better world, a better environment and better labour conditions. Sustainability issues are no longer issues to be observed from the horizons but issues to be addressed, not tomorrow but now.

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