

THE INFLUENCE OF CORPORATE SOCIAL RESPONSIBILITY ON SUPPLY CHAIN MANAGEMENT

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Abstract

The concepts of supply chains and the integration of organizations which are part of them are being increasingly observed and stressed. The same applies to the concept of corporate social responsibility, which is nowadays seen as essential for maintaining of economic, social and natural environment. However, it is rarely considered how these two concepts influence one another and how they can be combined in order to create a new paradigm for protecting the triple bottom line: "People-Planet-Profit".

In this paper we try to explore the relations between the concepts of corporate social responsibility and supply chain management, where we particularly focus on the opportunities that this combined concept brings to today's business environment, when we are surrounded with threats of crisis, layoffs, bankruptcies and on how we can fully use knowledge from both fields to provide a future to organizations and their supply chains, employees and the environment in which they operate.

With implementing a necessary holistic style of thinking, we'll add to the supply chain management system, which is inherently a highly multidisciplinary system, a dimension of necessary and sufficient social responsibility of organizations operating in the chain, thus presenting new opportunities for a socially responsible supply chain.

Keywords: supply chain, corporate social responsibility, holism, systemic management

1. INTRODUCTION

Every day, numerous activities in every supply chain have impacts that have a wider influence than just on the products and services that are the focus of the chain. Here,

implementing principles of corporate social responsibility comes into consideration to ensure minimal negative and maximal positive supply chain impacts. Both topics, supply chains and their management as well as corporate social responsibility, have seen an extensive rise in actuality and research in the last decade. However, little is written on the effects of one on the other or on the possibilities which implementing social responsibility principles to supply chain management brings. Therefore, the main aim of this paper is to present a short overview of both topics separately and then offer some insight into the necessity of combining these two practices and into the possible positive outcomes. The authors will mainly rely on a review of the literature from both fields to present topics to the reader and then, based on this, will develop the notion of supply chain social responsibility.

2. SOCIAL RESPONSIBILITY

Social responsibility is a concept that is increasingly encountered in the business sphere. The most used phrase is corporate social responsibility or social responsibility of the enterprises. Social corporate responsibility represents the ability to use knowledge of social responsibility in one's field of work. It is one of the main factors of building success and reputation of modern organizations. It represents an awareness that the organization is responsible for their own acts and problem solving, which has influence on the people and wider business and social surroundings of the organization. Organizations can interpret social responsibility in different ways, based on their goals, values and culture of the higher management, which should be explained and made clear to employees, the social environment and the organization. In supply chains, which link together a various number of different organizations from different fields of business with different goals and ways of managing, common understanding of social responsibility becomes a major challenge for all the stakeholders.

A major step forward in this area was made with the ISO 26000 standard, which was approved by ISO - International Standardization Organization. It covers all the points of view of social responsibility, which organizations should be aware of and think on while organizing and managing their operations. The standard consists of guides and principles, but it's not meant for certification purposes. One of the most important contributions of the standard is the definition of social responsibility, which states: "Social responsibility is the responsibility of the organization for the effects of its decisions and activities to the society and environment through transparent and ethical behaviour, which:

- contributes to sustainable development, including health and wellbeing of society;
- takes expectations of the stakeholders into consideration;
- is in accordance to laws and consistent with international norms of behaviour;
- is integrated to the entire organization and reflected in its internal relations." (ISO, 2010)

This definition follows until now valid definitions of different organizations, for example the European Commission, World Business Council for Sustainable Development and Global Reporting Initiative, where a key focus, as pointed out by Castka and Balzarova (2007), is on providing optimality of three key areas: economic, environmental and social. Elkington (1998) named this threesome of successful and responsible business the "triple bottom line" or the concept "People-Planet-Profit". In accordance with this, there are five priority areas mentioned by Elkington:

- human rights;
- rights of employees;
- environmental protection;
- inclusion in the community;
- relationships with suppliers.

Especially relationships with suppliers are the foundation of functioning of supply chains, which we will further explore later in the paper. It's also important to explain that the concept of social responsibility, especially in the field of logistics and supply chain management, is often replaced with the concept of “sustainability” (Carter & Rogers, 2008).

Basic concepts of organization's functioning, as defined by ISO 26000, are (ISO, 2010):

- responsibility (especially for the own influence on society, economy and environment),
- transparency (especially about the decisions and activities that can impact the society and environment);
- ethical behaviour (which is based on values of honesty, equity and integrity);
- respect for stakeholder interests;
- respect for the rule of law;
- respect for international norms and behaviour;
- respect for human rights.

Ethical behaviour of organizations is important in the way that ISO 26000 defines it, which is “behaviour that is in accordance with accepted principles of right or good conduct in the context of particular situation and is consistent with international norms of behaviour” (ISO, 2010). Sustainable development, which represents the key component of corporate social responsibility, is defined by ISO 26000 as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (ISO, 2010).

ISO 26000 also describes the concept of supply chains, and defines them as “sequence of activities or parties that provide products or services to the organization” (ISO, 2010). More about supply chain and their social responsibility will be explained in the following chapters.

3. SUPPLY CHAINS

Almost 20 years ago, Stewart (1995) recognized the need for the transfer from functional-oriented supply chains towards integrated supply chains, which required philosophical, operational and system changes. Mentzer, DeWitt, Keebler, Min, Nik, Smith and Zacharia (2001) have shown the increasing incidence of the concept of supply chain and the beginning of an intensive understanding of the organizations as links in the supply chains. Although a uniform and common definition of the concept of supply chain still doesn't exist, as the gap between them is mainly in the area of defining the included flows, we can use the generally applicable definition of Mentzer et al. (2001): “a supply chain is defined as a set of three or more entities (organizations or individuals) directly involved in the upstream and downstream flows of products, services, finances, and/or information from a source to a customer”. Same authors define supply chain management as “the systemic, strategic coordination of the traditional business functions and the tactics across

these business functions within a particular company and across businesses within the supply chain, for the purposes of improving the long-term performance of the individual companies and the supply chain as a whole."

With a change in thinking about supply chain management, questions about dependencies between each part of a supply chain, their responsibility and influence, are being raised. This change of thinking on the field of management and integration has brought awareness about the importance of connecting, integration and cooperation between all links in the supply chain, which are part of bringing products and services to the end customer. With development of different concepts about supply chain management, different requirements about necessary points of view that need to be taken into consideration while functioning also arise. Social responsibility is one of them, and nowadays, together with economical success of supply chains, it is becoming the key element for efficient supply chain operations and their existence.

3.1. Social responsibility of supply chains

Supply chains that include material flow, services and other supporting activities from first supplier to end customer and back, are largely based on connections between stakeholders and the establishment of trust between them. With vertical integration of the customers and suppliers we can achieve higher potential for successful supply chain operations and for satisfaction of end consumers. One of the foundations of successful supply chain management is compliance with their holistic nature, which Cruz (2009) applies also on social responsibility in them: "Each stage in the supply chain gives rise to its own effects, impacts, and opportunities for improvement, but effective corporate social responsibility strategies require an analysis that encompasses the entire supply chain. It is important for any firm in the supply chain to take a network approach to the investment in corporate social responsibility. The network approach would benefit all members of the network and require lower individual investment in corporate social responsibility." We can draw clear parallels between holism in supply chain management and holism in social responsibility management. Even more, in modern supply chains management of social responsibility of supply chains has to be the part of holistic supply chain management.

Carter and Jennings (2001) developed the term "purchasing social responsibility" in the context of social responsibility in supply chains. They determined that with involvement of purchasing officers in organizations and in whole supply chains in the processes of social responsibility, direct and positive effects on the success of suppliers is developed. With integration of socially responsible suppliers into supply chains of the organization, trust in suppliers and the whole supply chain is increased. Therefore authors determined that the social responsibility of the organization is one of the key factors with which certain supplier can achieve higher trust and better relationship with their (existing and potential) clients.

But nowadays, when consumerism requires from suppliers that product and services are the best, that they have the lowest price and they satisfy a high spectre of additional requirements, manufacturers and service providers are confronted with more and more challenges. Other point of view is the fact that activities of suppliers and intermediate customers in supply chains are directly reflected on the reputation of final sellers and on the reputation of products or services that are offered on the market. One of the most known cases of this type of unethical behaviour from the supplier side that was reflected on the brand and final seller is the case of the Kathie Lee Gifford brand and Wal-Mart, which is described by Bond, Spekman, Kamauff and Werhane (2006). The company advertised the

mentioned brand as products that are Made in USA only. After a production line of the clothes in Honduras was disclosed, consequences were so grave that not only the name of the company and the brand were harmed but also some exclusions of shares of the company from some investment portfolios were made. Of course, this case is not the only one; we can find them in supply chains all over the world.

We can conclude that monitoring of supplier's activities through the whole “downstream” supply chain is crucial for operations of the whole supply chain and also for the reputation of all links in the supply chain. Currently, most well-established way of monitoring all activities of the supply chain is a structured approach to risk management throughout the supply chain. We can also look at this from reverse point of view – if the organizations want to operate in a socially responsible way, they have to include risk management techniques that arise from guidelines of socially responsible business management. Faisal, Banwet and Shankar (2006) identified 11 factors that influence supply chain risk management success, where one of the most important is social responsibility of all links in supply chain. The most important is awareness that the acts of organizations and supply chains influence a wide spectre of stakeholders, therefore also the overall awareness about the importance of socially responsible operating and implementation of actions for pursuit of common goals of social responsibility.

Spence and Bourlakis (2009) named integrated promotion of social responsibility of all organizations that are involved in supply chain, regardless of their position in it, “supply chain responsibility”. This concept covers the entire supply chain and its consideration of and response to questions beyond the narrow economic, technical and legal requirements of supply chain management with the purpose of achieving higher social and environmental benefits that are complementary to the traditional economic objectives of these chains. We can assume that this type of functioning largely depends on the level of trust and integration between the various links of a supply chain – a strong social responsibility of the supply chain can be achieved only on fundamentals of socially responsible organizations, so first each link should take care of its sufficient social responsibility, and then social responsibility of the chain can be built. Spence and Bourlakis (2009) identified four necessary conditions for successful integration of social responsibility in supply chains:

- a chain-wide commitment to achieving social (and environmental) benefits,
- the legitimacy and possibility of all links in the chain to have a voice,
- genuine partnership approach,
- acknowledgement of different approaches to ethics by different organisational forms within the supply chain.

We can conclude that the connection between supply chains and their social responsibility does not entail a substantial shift in the management of mutual requirements and relationships; it just means an upgrade and expansion of them. This facilitates decision of organizations and supply chains for introducing the principles of socially responsible business in their operations. Even though the principles of socially responsible business can be implemented progressively, all partners in the chain have to show a common goal from its beginnings, which is achieving a level of corporate social responsibility of all organizations and the supply chain as a whole, which will ensure the economical survival of the organizations and also the environment in which they operate, the preservation of social and natural potential.

4. CONCLUSION

Nowadays, not one organization can exist without being connected to and dependant on other organizations, which forces them to inevitably influence them and be influenced by them. The operation of such supply chains can be limited only to material and service flows, or there can be higher levels of integration. This contributes to increasing the trust between participants of the supply chain and also increases the chances of survival of participants and whole supply chains in increasingly harsh economic conditions.

Global business, consumerism and the need for sustainable operations and management; all this are modern phenomena to which organizations and supply chains have to adapt. Supply chains that were connected and interacted between each other only because of economic benefits, will have to cooperate because of different requirements of customers and consumers – they will have to become socially responsible if they wish to maintain (or obtain) competitive advantage and satisfy a wide spectre of wishes of end consumers, and ultimately to survive in the environment in which they operate. Based on our research, we can claim that this shift from merely cohabiting and cooperating to being socially responsible as a whole supply chain should not (and in fact does not) represent a major shift of business operations, it represent an upgrade of supply chain relations and a needed step towards long term survival of all supply chain participants and their respective environments.

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