



# Corporate responsibility, supply chain partnership and performance: An empirical examination

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## ABSTRACT

Unlike corporate and business levels, there is little research examining corporate responsibility (CR) at the functional level of the firm including supply chain strategy. The results of a firm-level survey show that CR internal awareness, and monitoring CR performance are positively related to the supply chain partnership approach, however sharing CR best practices is negatively associated. Furthermore, the impact of CR on firm performance is mediated by the functional behaviour of supply chain partnership formation. Our study provides support for including CR awareness building and monitoring in the development of partnerships but cautions against imposing CR best practices on suppliers.

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## 1. Introduction

To maximise their operational efficiency and effectiveness, firms in supply chains have turned to closer collaborative relationships with their suppliers (Szwejczewski et al., 2005). In parallel over the last few decades, consumer pressure, public concern, regulatory forces, industry peer pressures, perceived market advantage, reputation concerns and media interest (Banerjee et al., 2003; Dummett, 2006; Park-Poaps and Rees, 2010) have heightened firms' appreciation of the importance of corporate (ethical and environmental) responsibility. This has led to the prevalence of corporate responsibility on firms' top management agendas (McWilliams and Siegel, 2001), and recent research suggests that corporate responsibility issues have become an increasingly more significant part of strategy in large and small companies alike (Carlisle and Faulkner, 2004; Petts et al., 1999).

The extant strategy literature identifies three levels of strategy. These are corporate, business and functional (Hofer and Schendel, 1978). A great deal of research considers corporate responsibility at the organisational level and considers its interaction with corporate or business strategy (Laplume et al., 2008). The examination of corporate responsibility and functional strategies is much less prevalent. Strategy at a functional level focuses on the maximisation of resource productivity within the function in question, for example, operations and marketing (Hofer and Schendel, 1978). It is generally assumed that functional strategies are derived from

the business level strategy (Fitzsimmons et al., 1992). Purchasing, more recently referred to as supply management, is recognised as one of the core functional strategies of the firm (Virolainen, 1998; Baier et al., 2008). In this paper we examine the relationship between firms' corporate (ethical and environmental) responsibility attitudes, policies and practices towards suppliers and the supply chain partnership strategy.

Corporate responsibility consists of a matrix of strategies, policies and behaviours. What is clear from the corporate responsibility literature is that corporate responsibility is a way of managing relationships with stakeholders (Waddock, 2004). It is a signal to stakeholders that the firm will not betray their interests. As such, corporate responsibility shares some of the central tenets of the partnership relationship approach, notably fair treatment and collaboration. Corporate responsibility is often said to increase trust in, and support for, organisations (McWilliams et al., 2006). It facilitates the development of trusting relationships with key stakeholders based on the principles of distributional, procedural and interactional justice, increasing the likelihood of nuanced information sharing, in turn spurring innovation and enabling the organisation to better deal with environmental change (Harrison et al., 2010). We would therefore expect that firms exhibiting corporate responsibility would also exhibit a tendency towards relationships based on a partnering ethos. That is, we would expect that firms that put into place corporate responsibility practices at the functional level of purchasing and supply management are more likely to be in close partnership with their suppliers than those firms where corporate responsibility practices are less prevalent.

To contribute to the development of SCM as a discipline in its own right by explicitly recognising linkages to other disciplines (Vachon and Klassen, 2006) we examine how the assimilation of

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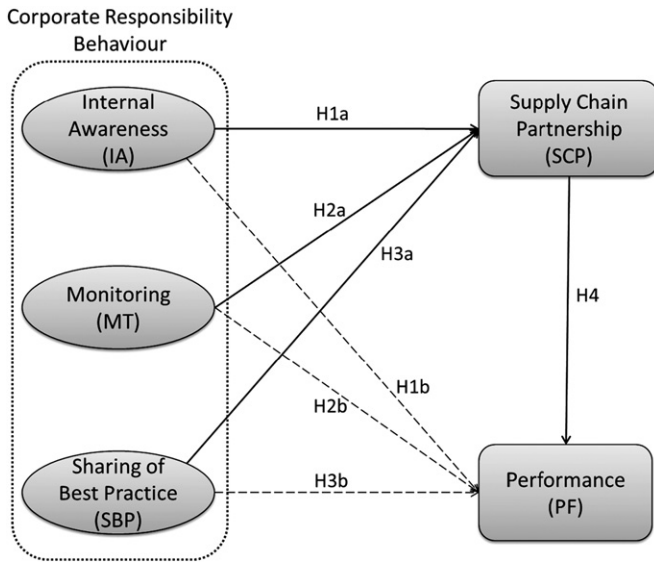


Fig. 1. Conceptual model.

a supply chain partnership approach is affected by corporate responsibility practices. We attempt to identify the impact of different facets of corporate responsibility on supply chain partnership. With more and more firms recognising the market and economic benefits that can be derived from partnering (Carr and Pearson, 2002), knowing how to move towards and facilitate partnership relationships with suppliers has become a high priority and vital challenge for firms. However, the extant literature on corporate responsibility in the buyer–supplier relationship domain provides only limited insights into how the efforts of firms to make ‘corporate responsibility’ operational affects the relationship between buyer and supplier. It is the contention of this study that increased levels of *corporate responsibility internal awareness*, *corporate responsibility monitoring* and *corporate responsibility best practice sharing* will result in greater levels of supply chain partnerships between a firm and its suppliers. We also assess the impact of corporate responsibility and supply chain partnership formation on firm performance (see Fig. 1). Through these efforts, we attempt to enrich the understanding of how firms’ ethical and environmental practices support or otherwise the development of partnerships with suppliers and how these partnerships affect firm performance.

## 2. Conceptual development

### 2.1. Supply chain partnership

This study is concerned with a specific type of inter-organisational exchange relationship referred to as supply chain partnerships. Squire et al. (2009) note that the type of relationship between a buyer and supplier can vary from adversarial to cooperative (Carr and Pearson, 2002). In the adversarial approach, high levels of competition, price bargaining and continuity of supply are achieved through having a large number of suppliers and this approach is suitable where low value or low risk parts are required (Squire et al., 2009). Supply chain partnerships operate at the cooperative end of the spectrum and are strategic in nature and purpose. They are likely to be preferred when items need to be sourced that are strategic in terms of their importance to the organisation and/or the complexity of the supply market, either because there are limited sources in the market place or because supply is at risk (Squire et al., 2009).

Within the context of cooperation, relationships between firms and their suppliers can occur in a variety of forms. The literature on the development of cooperative relationships notes the emergence of two broad perspectives—contractually based and non-contractually based. In this paper we focus on the more ubiquitous type, the non-contractual supply chain partnership approach. The former, such as joint ventures or strategic alliances, involve the negotiation and maintenance of explicit contracts that detail expectations and deliverables and sometimes revenue share (Chauhan and Proth, 2005) and they have legal structures that define their boundaries (Wilson, 1995). Supply chain partnerships on the other hand tend to operate without a formal contract (Lambert et al., 1996) and seldom involve any direct equity investment (Stuart, 1997). Mohr and Spekman (1994) define partnerships as ‘*purposive strategic relationships between independent firms who share compatible goals, strive for mutual benefit, and acknowledge a high level of mutual interdependence*’. By joining efforts they seek to achieve goals that each firm, acting alone, could not easily attain (Mohr and Spekman, 1994).

The characteristics of supply chain partnerships have been widely explored in the literature (e.g. McDonald, 1999; Szwejczewski et al., 2005), and a number of partnership development models are proposed (e.g. Lambert et al., 1996; Tuten and Urban, 2001). There is also a wealth of literature on the motivations for firms to develop partnerships with selected suppliers (Mohr and Spekman, 1994) rooted in transaction cost economics (e.g. Williamson, 1985), competitive strategy (e.g. Porter, 1980) and resource dependence theories (e.g. Pfeffer and Salancik, 1978). However, beyond these key antecedents of strategic buyer–supplier relationship formation, which tend to dominate in the literature, the influence of other factors that are prevalent in today’s business environment on the development of a supply chain partnership ethos between firms is lacking. The factor we focus on in this study is the influence of corporate responsibility. In the remainder of this section we develop our conceptual model of the influence of corporate responsibility on supply chain partnerships and set our hypotheses.

### 2.2. Corporate responsibility—ethical and environmental behaviour

Corporate responsibility (CR) has emerged from a series of developments over the last few decades, notably the development of corporate social responsibility (CSR) and the synergies between CSR and strategic management’s ‘stakeholder’ concept.

CSR has its roots in business and society literature (Andriof and Waddock, 2002). The concept attracted considerable academic interest in the 1950s/1960s (McGuire, 1963) with early work based on the social contract theory (Eells and Walton, 1961; Elbing and Elbing, 1964) and moral agency theory (French, 1979). The basic premise was that business should be of service to the larger community. However, the concept attracted considerable criticism because of its vagueness and disconnection with firms’ economic responsibilities (Levitt, 1958; Friedman, 1962).

From the late 1970s the field witnessed a number of notable conceptual developments. These included the development of corporate social performance (CSP) by Carroll (1979), Wartick and Cochran (1985) and Wood (1991). Carroll (1979) proposed a multidimensional model encompassing four aspects of responsibility: economic; legal; ethical and discretionary. Wartick and Cochran (1985) highlighted relevant issues through a process of analysis. Wood (1991) combined content and process insights and proposed a set of principles of engagement. The key messages of this work were that businesses need to reflect on the nature of their responsibilities and analyse, measure and monitor social issues (Wartick and Cochran, 1985; Wood, 1991), and to develop an appropriate response style to public expectations in areas not clearly defined by law (e.g. Preston and Post, 1975; Frederick, 1978).

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