



# Environmental and social responsibility in supply chains: The practise of choice and inter-organisational management

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## ABSTRACT

The general concern for the state of the environment sets requirements on strategies developed by companies to curb environmental and social impacts of their activities. One of the most notable changes in the way companies work with sustainability issues is the shift of the focus from own operations to improving the performance of supply chains. This paper aims to analyse the practise of corporate responsibility in the supply chain through the lens of two distinct but related fields of research: Global Value Chain analysis and Supply Chain Management. Using data from two empirical studies that were designed to study the practise of Swedish buyers in addressing social and environmental issues in their respective supply chains, we demonstrate that both fields offer vital insights about how companies can and do exercise environmental and social responsibility in their respective supply chains. We suggest that one can better integrate these two perspectives on governance in the supply chain by acknowledging that responsibility in the supply chain can both be exercised through choice and through inter-organisational management. We discuss role of certification schemes in this context and provide recommendations for future research.

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## 1. Life Cycle Thinking and Supply Chains

Current patterns of production and consumption of products have a profound impact on the environment. According to the logic of life cycle thinking a product is not only a vehicle for the satisfaction of a need or desire, but it can also be seen as a unit which generates a distinct set of environmental impacts along its life cycle. Thus the characteristics of products and the nature of the systems in which they are produced, distributed, used and disposed of, partly determine the magnitude of critical environmental problems associated with e.g. resource consumption and depletion, CO<sub>2</sub> emissions and the use of hazardous chemicals (Lenzen et al., 2007).

Conceptualising the product as a determinant of environmental impacts is empowering in the sense that it shows that all individuals can exercise a positive influence by letting purchasing decisions and/or decisions about product design, sourcing and procurement be informed by sustainability concerns. This is the great promise inherent in the life cycle logic, the idea that we can reduce the negative environmental and social impacts associated with production and consumption, regardless of where these impacts arise, by making informed and responsible decisions about products.

While historically there has been a producer-centric approach in environmental policy making and in the general discourse related to responsibility for environmental impacts (Lenzen et al., 2007: 30),

we now see evidence of a life cycle logic both in policy and in the public discourse related to responsibility of companies and consumers. This development is manifested in regulatory and policy documents, especially in product-oriented environmental policy (Leire et al., 2009; Lenzen et al., 2007), and can be noticed in ethical and environmental requests of consumers who are increasingly looking for the “world behind the product” (Töpfer 2002).

The trans-boundary nature of many product chains clearly reduces the ability to address the impacts associated with a country's total consumption, through traditional regulatory measures directed at producers within the boundaries of a nation state. The impacts that our consumption is generating, arise, or are determined, elsewhere. The study by Chapagain et al. (2006), on water related impacts of cotton production illustrates this dilemma. They found that only 26% of the water footprint of cotton consumption within the EU25 arose within the region, with remaining impacts located elsewhere, particularly in India and Uzbekistan (Chapagain et al., 2006). Consequently we can argue that decisions about product design and consumption of textiles made by European companies and European citizens have environmental impacts in India and Uzbekistan.

It is desirable that actors along the product chain take environmental concerns into account when making decisions about products. If many actors start choosing raw materials, components or products that have significantly lower environmental impacts than the average (throughout its life cycle), or if they actively deselect products/components/raw materials with significantly higher environmental impacts, this will effect the patterns of production, and consequently the environment. However, while the logic of life cycle thinking

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appears to gain ground (Heiskanen, 2002), and also broaden its scope beyond the original focus on environmental impacts along the products life cycle,<sup>2</sup> action informed by life cycle information is still not the norm.

Provision of information regarding life cycle environmental impacts is not likely to be sufficient for changing the way people make decisions related to production and consumption of products. However while such information may not motivate changed decision patterns, it is absolutely necessary for enabling such a change. Here companies play a key role. We need companies to transfer signals from the market upstream, through their respective supply chains, so that it reaches the relevant actors – suppliers, and we also need companies to transfer relevant and reliable information about products to actors that operate downstream in the product chain – consumers. While the access to information will not guarantee that it is being considered, the lack of relevant and reliable information is currently thwarting many actors (whether it will be an operations manager, a product designer, a public procurement official, or an individual consumer) from bringing life cycle thinking into life cycle action.

## 2. Corporate Responsibility in the Supply Chain

While many corporate practitioners working with environmental and social issues recognise that they are, or will be, facing an expanded scope of environmental and social responsibility (where the boundaries of responsibility are increasingly aligned with the scope of their products' life cycles), many practitioners, across different industry sectors, have acknowledged that they find this expanded scope of responsibility challenging to cope with.<sup>3</sup> There are of course considerable differences, some things are more easily addressed than others, and different actors are more or less well equipped to address them. However, we know that even those companies who are sometimes described as front-runners in the field of corporate responsibility show far from perfect results.<sup>4</sup>

This is not only problematic for the companies in question but also from a societal perspective. In order to realise the promise of life cycle thinking, the responsible consumer needs responsible companies to provide relevant and reliable information about products, and the success of product oriented environmental policy largely depends on the ability of corporations to exercise influence and control in the supply chain. Thus the ability of companies to exercise social and environmental responsibility in the supply chain is a question of relevance for companies that need to respond to expectations and requirements

<sup>2</sup> While social and ethical impacts are not necessarily determined by the product per se, the life cycle of a product has increasingly also become a determining factor in defining our perception of the scope of social and ethical responsibility. Recently we have seen examples of this in several sectors including food (e.g. concern over working conditions in the cocoa plantations), textiles (e.g. concern over the use of child labour in cotton plantations), and electronics (e.g. concern over exploitation of labour and child labour in Coltan mines). What is interesting is that such concerns often are voiced in the direction of the retailer of the final product, even though the operations where these problems are identified may be many tiers removed from the companies who are being held accountable.

<sup>3</sup> We base this statement on the personal communication that we have had with CSR professionals over the years and as a former Head of environmental and social affairs in the textile sector, Kegg has first hand personal experience of practical the challenges involved in seeking to address e.g. issues related to chemicals in products and workers rights and safety along the supply chain.

<sup>4</sup> For a case in point visit <https://www.fairlabour.org/fla/go.asp?u=/pub/zTr4>. Here the Fair Labour Association publish its, so called, Tracking charts that shows the current level of compliance within a random sample of FLA members suppliers. The performance of unannounced Independent External Monitoring audits of factories used by companies affiliated with the FLA is a part of the organisations programme monitoring programme designed to verify affiliate companies' internal monitoring efforts. The reports of these IEM audits, the Tracking charts, are made available on the FLA website. Going over the ten reports that were available for 2010 on the 1st of May 2011, all identify a range of non compliances in factories supplying to the likes of Nike, Adidas, H&M & Puma.)

of salient stakeholders (Mitchell et al., 1997), and to the consumer and the public policy maker that buy into the logic of life cycle thinking and the idea of an expanded scope of responsibility.<sup>5</sup>

Our aim in this paper is to look at the practise of corporate responsibility in the supply chain through the lens of two distinct but related fields of research: Global Value Chain analysis and Supply Chain Management (with a particular emphasis on contributions related to sustainable and/or environmental supply chain management). While these streams of research look at the issue of inter-organizational governance from different perspectives, and at times appear to be contradictory, it is our intention to show that both perspectives offer vital insights about how companies, exercise environmental and social responsibility in their respective supply chains.

The empirical data used to illustrate our discussion comes primarily from two different studies that both focused on how Swedish companies address environmental and social aspects that arise upstream in the supply chain. The results of both of these studies have been published separately (Kogg, 2009; Mont and Leire, 2008). In these previous publications the emphasis has been on describing operational practise and the observed consequences of these practises. A key finding was that the management of environmental and social aspects within the supply chain is a vastly heterogeneous phenomenon. In this paper we explore how theory from the field of Global Value Chain analysis and Supply Chain Management can explain such differences and what further research remains.

## 3. Assuming Responsibility – Supply Chain Management and Governance in Global Value Chains

Recent changes in perceptions regarding the scope of corporate responsibility, among policy makers and other groups of salient stakeholders have had an impact on the role of the sourcing and supply management function (Carter and Rogers, 2008; Gold et al., 2010; Seuring and Muller, 2008). Indeed, if one look at the responsibility of companies through the lens of a life cycle perspective, one could argue like Preuss (2005b: 124) who says that “Seen from a life-cycle perspective, environmental initiatives are impossible without involvement of the supply chain management function”.

Two particular streams of research have explored interactions between actors involved in the production and distribution of products and the ability of one organisation to influence another one; the first being supply chain management and the other one commonly known as Global Value Chain Analysis (GVC). In both fields we find streams of research that put a particular emphasis on environmental aspects. Below we provide a brief overview of key contributions within these two fields of research that are of relevance for our discussion.

### 3.1. Global Value Chain Perspective

The *global value chains* (GVC) perspective views product chains as a “network of labour and production processes whose end result is a finished commodity” (Hopkins and Wallerstein, 1994: p. 16). Originally its main focus was on economic globalisation and specifically on the globalisation of production from a political economy perspective (Gibbon et al., 2008). Applications of GVC have however expanded and have also been used to explore issues related to the economy–environment interface (Dahlström and Ekins, 2006; Rieple and Singh, 2010; Riisgaard et al., 2010) and private social standards (Riisgaard, 2009).

<sup>5</sup> In this respect the issue is urgent and important but not very contentious. However, it must be recognised that the methods and approaches through which companies chose to address environmental and social aspects upstream in the supply chain are also of high relevance to the people who are interested in the impacts that such activities may have on international trade, on the upgrading prospects of producers and the economy in developing countries (Humphrey and Schmitz, 2001; Kaplinsky and Morris, 2002).

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