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Full Length Research Paper

The Impact of Corporate Supply Chain Responsibility (CSCR) on Business Outcomes: Conceptual Framework and Research Propositions

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In the last decade, the research on corporate social responsibility (CSR) has increased significantly. An interesting extension of this stream of research is corporate supply chain responsibility (CSCR). CSCR is an ethical and responsible management approach that focuses on the improvement of all supply chain members by respecting all parties´ interests, promoting trust, building firm-supplier partnerships, and carefully using appropriate incentives. In this study a conceptual model on the effect of CSCR practices on certain business outcomes such as quality, delivery time, information sharing and order flexibility will be presented. In addition, and based on this model, some interesting research propositions will be develop and some useful managerial implications will also be discussed. This study will help managers and other business actors to better understand how important is to develop long-term relationships with supply chain members, with special attention on providers.

Keywords: Corporate Business, Supply Chain, Business social Responsibility

INTRODUCTION

Corporate social responsibility (CSR) practices have gained special attention over the last several years, especially so after the financial scandals of companies like Enron and WorldCom. In both cases, top executives made decisions that negatively affected stakeholders

Stakeholders are the focal drivers of any CSR effort (Carroll, 1999). A stakeholder is any individual or group which is - or can be - affected by the firm´s actions/operations. According to Carroll (1999) stakeholders include customers, employees, governments, communities, NGOs, investors, supply chain members, unions, regulators and media. The lack of interest regarding CSR practices can have serious consequences for the firm but they - in turn - can have an impact on the firm too.

Because the main topic of this study is directly related to social responsibility along the supply chain, supply chain members will thus become the ¨stakeholders¨ on which attention will be centered. Murphy and Poist (2002) argued that firms have been slow to adopt CSR practices within its supply chain, although CSR concepts within the supply chain are increasing in importance. This practice has been guided by the increasingly global competitive business pressures, such as the increase in global competition and international trade, which are forcing firms to adopt new management initiatives to maintain or enhance performance levels.

Some of these management initiatives include Business Process Reengineering (BPR), Total Quality Management (TQM), and Supply Chain Management (SCM). A key characteristic in all of these management techniques is that firms should develop and maintain a cooperative relationship with their suppliers. As a result, suppliers play critical roles in today´s competitive environment. Gonzalez et al., (2013) argue that:

“Suppliers will be seen as cost sources and attempts are made to reduce these costs even if suppliers are harmed. Such practices include forcing suppliers to reduce their prices and substantially delaying payments.” (p.4)

In addition, these authors argue that the results of these negative practices on suppliers can be very harmful; small suppliers can especially be affected because of the dependence on one or two main customers. These suppliers will be forced to increase debt levels, reduce their workforce, or even to liquidate the company.

However, these negative consequences can also harm the purchasing firm. If

suppliers are financially affected then the purchasing firm can face material shortages, reduced suppliers choice and a bad image in the marketplace.

All these negative outcomes stand in sharp contrast to the potential benefits of treating suppliers as a critical part of the customer satisfaction improvement effort. These benefits include increased quality, increased order flexibility, better information sharing and improved delivery time. Enhancements that will help the firm to improve customer satisfaction will also lead to reduced supply costs.

The previous arguments were used by Gonzalez et al. (2013) to develop the concept of corporate supply chain responsibility (CSCR), which is a management approach that adopts CSR practices with the ultimate goal of improving supply chain performance. Such performance will be achieved by respecting all parties’ interests and by building long-term relationships with suppliers. Also it is very important in this approach to promote trust and the careful use of appropriate incentives.

The purpose of this study is to present and theoretically support a research model for the impact of CSCR practices on information sharing, delivery time, order flexibility and quality. In addition, some interesting research propositions will be developed from this model which can be tested in future research. The findings may add to this interesting stream of research regarding corporate social responsibility and may lead to improved CSCR practices within firms and their respective suppliers and thus benefit the whole supply chain.

LITERATURE REVIEW

Corporate social responsibility

As a topic of research CSR has received attention from academics from different perspectives for example, corporate social performance (Carroll, 1979), resource based view of the firm (Russo & Fouts, 1997), agency theory (Friedman, 1970), stakeholder theory (Freeman, 1994) and corporate ethics (Kornberger & Brown, 2007).

The term corporate social responsibility (CSR) has been defined in different ways from the traditional and narrow economics perspective of increasing shareholder value (Friedman, 1962) to the CSR taxonomy given by Carroll (1979) which includes an economic, legal, ethical and discretionary perspectives of responsibility to the view by Hemphill (2004) of good corporate citizenship.

However, as McWilliams & Siegel (2001) argue, there is an emergent consensus that CSR decisions and actions are those that appeared to further the social well being, beyond the economic interests of the firm and that which is required by law.

Several definitions have been used for the term CSR. For the purpose of this study, this definition supports the main purpose of this study which is to assess how well firms are doing regarding their interrelation with suppliers. This CSR definition is:

The idea of social responsibility supposes that the corporation has not only economic and legal obligations, but also certain responsibilities to society which extend beyond these obligations (McGuire, 1963, p. 144).

In sum, considering more than just pure economic objectives, being ethical when trying to achieve organizational goals, and paying attention to stakeholders interests are the central ideas of CSR. In addition, according to Donaldson & Preston (1995) all stakeholders’ interests are important and valuable. Finally, Carter (2000) mentions that stakeholders include suppliers, and it is on this stakeholder group that we focus on in this research.

Supply chain management

Since the 1970s, manufacturing firms have utilized different approaches to improve efficiency, productivity, and quality. Programs like Total Quality Management (TQM), Business Process Reengineering (BPR), Just in Time (JIT) and many others have been implemented. In today's global environment customers demand not a standardized product for everyone, but a customized one which satisfies each individual need. Thus firms are being forced to look for innovative ways to customize their products and services and improve their manufacturing flexibility. Old processes and manufacturing practices must be modified in order to reduce delivery times and lot sizes. These competitive pressures to improve customer satisfaction call for approaches that maximize efficiency, productivity, flexibility and quality and minimize costs and waste.

These challenges have led many firms to create cooperative arrangements with distributors, retailers, suppliers and other firms within the supply chains. These firms recognize the benefits to working cooperatively which allows organizations to deliver products and services in a timelier manner.

This cooperative approach within the supply chain is known as Supply Chain Management (SCM). According to Tan, Kannan & Handfield (1998), Supply Chain Management, ¨encompasses materials/supply management from the supply of basic raw materials to final products. SCM focuses on how firms utilize their suppliers´ processes, technology, and capability to enhance competitive advantage. When all strategic suppliers in the chain integrate and act as a single entity, performance is enhanced throughout the chain¨ (p. 3). Generally speaking, the main goal of SCM is to improve performance and eliminate waste by creating synergy in the use of different capabilities of firms and their suppliers.

SCM's short term objective is to improve delivery time, reduce inventory, reduce lead times, increase flexibility and quality. In order to realize these objectives, all parties involved must recognize that purchasing is a crucial link between suppliers and customers and special attention must be given to this link.

In sum, SCM helps firms to minimize waste, reduce costs, increase productivity, and quality. In the long run, increased market share and competitive advantage are achieved by creating collaborative links with suppliers and other supply chain entities.

Corporate social responsibility and supply chain management

As Maloni & Brown (2006) mention, CSR continues to evolve and has reached supply chain partners including suppliers, customers, and logistic providers. CSR has become an integral component of business practices for many firms.

Applications of CSR to the supply chain have emerged recently, for instance Murphy & Poist (2002) suggest that corporate social responsibility issues in the supply chain are increasing in importance. Some studies have examined individual elements of CSR in the supply chain, including labor practices (Roberts, 2003), environment (Carter & Carter 1998), procurement (Haynes & Helms, 1991) and purchasing (Carter et al., 1999).

Other concepts that arose from the integration of the CSR and SCM literature is logistic social responsibility (Carter & Jennings, 2002a) and purchasing social responsibility (Carter & Jennings, 2002b), which relate to issues regarding specifically socially responsible logistics and purchasing management. According to these concepts, firms should extend CSR behaviors along the supply chain. Both LSR and PSR are concepts more attuned with the purpose of this study because both focus on the importance of treating suppliers as valued partners to gain a competitive edge in the marketplace. An extension of these concepts is the corporate supply chain responsibility (CSCR) model which will be described in the following section.

Corporate Supply Chain Responsibility (CSCR)

Previous research shows that suppliers are not seen as partners but as cost sources and firms attempt to reduce these costs even if suppliers are negatively affected.Case in point, Carter (2000) argues that many firms are forcing suppliers to reduce their prices and to substantially delay payments to them (Tulip, 2005).

One reason for these practices is that some firms are paying high bonuses to their employees if they are capable of reducing purchasing costs. In this regard, Lambert et al. (1997) mention that the purchasing function has become a focal point of cost reduction. Furthermore, a common practice of many large European companies is to delay supplier payments (Arminas, 2002). One main problem with these payment practices is that it has a domino effect on the whole supply chain.

Major concerns are the potential and devastating consequences that these practices can have on suppliers. For instance, firms can see their growth stall and even go bankrupt. In addition, suppliers may be forced to reduce their workforce which in the long run may lead to a cost increase and a performance decrease.

Moreover, suppliers will face difficulty to pay its own suppliers because they will not be able to generate enough cash flow to ensure the firm´s continued survival. As a result these cash flow problems will have a domino effect on all suppliers having to be paid and these payment delays will pass throughout the whole supply chain.

This can have a substantial impact on firms that engage in these practices because if suppliers are affected ultimately this will have a boomerang effect on the purchasing firm. If suppliers have low profit margins, the quality of the materials provided by these suppliers may decrease which may seriously affect the purchasing firm by adding costs for inspection, more defective products, unsatisfied customers and other quality costs. In addition, if suppliers have cash flow problems this may lead to material shortage which will ultimately impact the purchasing firm in the form of high stockouts, customer complaints and revenue losses.

Furthermore, if small suppliers disappear, firms will have a reduced supplier choice and will be forced to buy from larger suppliers which may set higher prices, charge additional fees for late payments and impose other demands.

CSCR definition

According to Gonzalez et al., (2013), CSCR is ¨an ethical responsible management approach that has an ultimate goal of improving supply chain performance; such performance is achieved by respecting all parties´ interests, promoting trust, building firm-supplier partnerships, and carefully using appropriate incentives.¨ (p. 18)

Organizational outcomes

Previous research suggests that collaborative efforts with suppliers have a positive impact on both, firm and suppliers. These benefits are very important in today´s global environment where intense competition is forcing firms to offer customized products with higher quality, lower cost, greater reliability and increased design flexibility (Tan, 2002). In this new competitive landscape the mass production model is no longer a viable alternative for firms that want to develop or maintain a competitive advantage. As Cannon & Homburg (2001) mention, a cooperative approach is better suited to today´s competitive market, an approach which seeks to lower costs through joint efforts of the firm and its suppliers. This collaborative effort will consequently help to improve the firm's competitiveness. Sambharya & Banerji (2006) also share this view; they suggest that the competitive advantage of the major Japanese firms is closely related to its unique supplier networks.

As shown, the competitive advantage can no longer be found exclusively in the firm's own resources and capabilities. Today the main advantages will be developed within these joint cooperative efforts between firms and its suppliers, and in the new set of resources and capabilities that may emerge from these collaborative relationships. If all parties involved in these agreements are going to gain then they are more likely to join in a cooperative relationship. As Shin et al. (2000) mention, an improvement in the supply chain orientation is going to improve the performance of both suppliers and the firm, which is a win-win situation.

On the other hand, if firms do not treat their suppliers in an ethical and fair manner, this will have consequences not only for suppliers but also for the firm. For instance, if suppliers are forced to reduce prices and their payments are delayed, these practices will negatively impact suppliers which due to low profit margins may be forced to reduce cost on the quality of the materials provided to the firm. These quality reductions will ultimately impact the purchasing firm in the form of costs of inspection, guarantees for defective products, stock outs, unsatisfied customers, and other quality and material shortage problems.

Moreover, the firm´s image can be tarnished, which may have important consequences. As mentioned by Simms (2006), the way in which retailers treat their suppliers will have a significant effect on their image and reputation. Also, Carter (2000) suggests that ethical behavior is a critical factor on a firm´s reputation. In addition, the purchasing behavior of firms affects the way it is viewed by suppliers and outside organizations (Dobler & Burt, 1996). Finally, as Carter (2000) suggest, this negative supplier treatment from the firm will cause relationship dissolution, bankruptcy, reduced flexibility and supplier dissatisfaction.

In conclusion, firms must engage in collaborative relationships with its suppliers. This cooperative approach will have a positive impact for every party involved. According to Simms (2006) and to Gonzalez et al., (2013), the potential benefits of treating suppliers as valued business partners include the following: better information sharing, improved delivery time, increased order flexibility and increased quality. Thus, in this study, a research framework that assesses the impact of CSCR practices on these four outcomes will be developed. In the next section, the four outcomes will be explicitly defined and previous literature that relates to supply chain management (SCM) and corporate social responsibility (CSR) with these outcomes will also be presented.

Outcome 1: Order flexibility

Mascarenhas (1981) defines flexibility as the capability for change. Thus, in an uncertain market environment those firms with higher flexibility levels will be able to favorably manage these uncertain conditions. This means that flexibility allows firms to "adapt" to change.

Previous research has identified manufacturing flexibility as a critical factor to success and competitive advantage (Suarez et al., 1995). Also, manufacturing flexibility has become a critical production goal, along with cost reduction, increased quality and delivery time (Calvo et al., 2008). If firms want to remain competitive in today´s uncertain global environment it is necessary for these companies to implement strategies that contribute to achieving the desired flexibility levels.

Collaborative and cooperative efforts with suppliers can help firms to achieve these flexibility improvement objectives. As Rockstron (2002) found, Garrett Engine Boosting Systems has implemented a collaborative supply chain system in order to respond to customer changes and requirements, while helping the firm (Garrett) to achieve greater external efficiencies and reduce internal costs. Also, Vereecke & Muylle (2006) found that higher levels of collaboration with suppliers will help the firm to achieve performance improvements in the area of cost, ¨*flexibility*¨, quality, delivery, procurement, and time-to-market. Moreover, Sirong (2005), mention that lead time flexibility increases supply chain responsiveness and better adaptation against demand uncertainty. Furthermore, Hulsmann et al., (2008), have shown that flexibility generates competitive advantage in Global Supply Chains. In addition, Swafford et al., (2008), mention that supply chain flexibility ultimately results in higher competitive business performance. Finally, Kok et al., (2005) found that a more flexible and reliable supplier will help the firm to virtually guarantee quantities and delivery times, while reducing the bullwhip effect.

The previous arguments support the following proposition:

H3: CSCR has a positive impact on order flexibility

Outcome 2: Quality

Quality has received many definitions; some of these are for instance the following:

¨Conformance to requirements¨ (Crosby, 1979)

¨Degree to which a set of inherent characteristics fulfills requirements¨ (ISO 9000; 2005)

¨The result of care¨ (Pirsig, 1974)

¨Uniformity around a target value¨ (Taguchi, 1992)

Quality is related to customer needs, wants, requirements and expectations. Thus, for business it is critical to fulfill their customer requirements in order to remain competitive in the marketplace. Companies want to satisfy their customers and a good way to achieve customer satisfaction is through high quality levels in products and services.

As previously mentioned collaboration and cooperation with suppliers can help firms to achieve high quality levels and customer satisfaction. For example, Wong (2002) showed that cooperation with suppliers can help companies to achieve higher customer satisfaction. Besides, Balasubramanian (2001) mentions that the objective of supply chain management strategies is to improve customer satisfaction by delivering high quality products and services. Moreover, Paulraj & Chen (2005), suggest that supply chain management initiatives improve the quality performance of both buyer and supplier firms. Furthermore, Kuei et al., (2005), conclude that in today´s global marketplace, collaboration with suppliers is crucial in achieving organizational effectiveness. As previously presented, the quality of products and services that the firms give is affected by the quality of its suppliers, thus cooperation through CSCR initiatives can help the firm to improve the quality of its products and services. Thus leading to the following:

H1: CSCR has a positive impact on quality

Outcome 3: Delivery time

Delivery time has been defined as “the average or normal time between placing an order and receiving the delivery¨ (Business dictionary, 2009).

According to McBride (2005) late deliveries affect the firm in the form of angry customers, loss of customers, inflated inventories, lower productivity, problems with cash flow, difficulty in obtaining new orders and low profits. Thus, delivery time is a critical variable for firms in order to remain competitive.

Cooperative relationships with suppliers can also help firms to improve delivery time. As a case in point, Balasubramanian (2001) mention that supply chain management practices help firms to continuously improve customer satisfaction by delivering products and services on time. In addition, Vereecke & Muylle (2006), suggest that firms need to engage in collaborative arrangements with suppliers in order to maximize the benefits in the areas of delivery, cost , flexibility, quality, procurement and time-to-market. Also, Simatupang & Sridharan (2002), found that in order to deliver excellent products on time, firms need to collaborate in the supply chain. Finally, Lo et al., (2006) suggest that firm and supplier cooperation help minimize operating costs and improve delivery times.

These previous assertions support the following:

H2: CSCR has a positive impact on delivery time

Outcome 4: Information sharing

According to Cate & Staten (2000), information sharing allows firms to ascertain customer needs and wants more accurately and meet those requirements faster and more efficiently. Also, information sharing helps to improve efficiency and significantly reduces costs of many products and services. If there is no information available, firms face uncertainty and have limited knowledge of customer needs and of the location of inventories and materials flowing through the supply chain production system. Information sharing can also help improve the

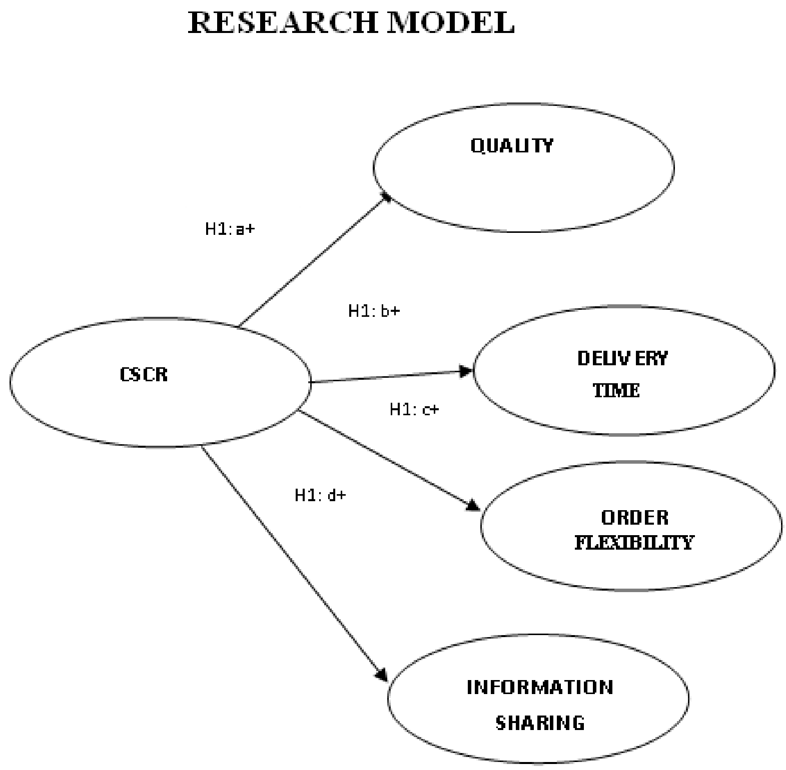

Figure 1. Model for the impact of CSCR on business outcomes

speed by which decisions are made. In addition, information sharing allows firms to know what to produce, what to stock and when, and reduces the cost at which goods and services can be provided to consumers. Finally, information sharing among companies allows for combining their data systems and operations which ultimately may help improve customer satisfaction and lower costs.

Furthermore, Ogden et al., (2005), found that information sharing among supply chain members will have the largest positive impact on organizations. Also, Marabotti (2003), mentions that building an information sharing capability will be critical to sustain competitive advantage in the next few years. Moreover, Zhao (2002), concludes that information sharing has helped firms and organizations improve their supply chain performance. Furthermore, Roethlein et al. (2002) suggest that information sharing and improved communication creates a competitive advantage for firms and their supply chain. In addition, Tronstad & Unterschultz (2005), mention that better information sharing between seedstock and retail industries help assure customer preferences and satisfaction while also meeting high production efficiency standards. However, to improve information sharing among supply chain members it is necessary to develop cooperative relationships. Thus, cooperation and collaboration between firms and suppliers is a critical issue to foster information sharing. In this regard, CSCR practices promote trust and win-win relationships which help to improve information sharing among supply chain members (Gonzalez et al., 2013). Thus leading to the following:

H4: CSCR has a positive impact on information sharing

CONCLUSIONS, LIMITATIONS AND FUTURE RESEARCH

The main purpose of this study was to present and theoretically support a research model for the impact of CSCR practices on information sharing, delivery time, order flexibility and quality and also develop some interesting research propositions from this model which can be tested in future research.

The literature review support the four research propositions which have implications for both theory and practice and also lead to interesting conclusions. For managers, this model gives additional support to the idea that collaboration and cooperation with suppliers and supply chain members may have an important effect on firm performance.

In the case of Quality, the firm that engages in collaborative practices with suppliers may develop a competitive advantage which help gain new customers and ultimately affect financial performance. These previous arguments should be an incentive so that more firms focus on the development of cooperative relationships with their suppliers.

Regarding Delivery time, these responsible practices on behalf supply chain members may help to reduce delivery times, which at the same time, may have a positive significant effect on customer satisfaction and ultimately may help to increase sales and other benefits for firms that develop these win-win relationships with suppliers.

About Flexibility, the firms that adopt these social and responsible practices with their suppliers will be capable to better and faster serve their customers. Moreover, these firms may obtain important cost reductions by maintaining their inventories at a minimum level. Finally, this will lead to a more lean production which may ultimately have an impact on the financial performance of the firm.

In conclusion, further research should be conducted in regard to CSCR to increase both, its academic and practical relevance. Moreover, managers are strongly encouraged to follow ethical practices within their firms and avoid unfair ones. Especially, multinationals and big firms should put special attention to these issues when negotiating with small size suppliers. These small firms cannot be used to finance the operations of big firms. These small firms are not financial institutions and can easily go bankrupt if these unfair practices are used by big firms.

Furthermore, business leaders must continuously audit the business practices within firms. Areas or departments that require most attention are purchasing, accounting and finance. Historically, these areas have been sensible to frauds and corruption thus requires continuous auditing.

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