Socially Responsible Supplier Development Practices
An Institutional Theory Approach

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Abstract

The purpose of this paper is to study the factors that force suppliers to become socially responsible while taking into consideration the "institutional theory" as a lens. The methodology used for studying this phenomenon was an exploratory case study with inductive data analysis of the organization in the context of Pakistan. It is related to the outcome that can guide to understand, what specific factors motivate the suppliers to become socially responsible? The study also entails the ability for the society to know what factors can put pressure on suppliers to become socially responsible so that they can use these pressures to get quality products and also force suppliers to fulfill corporate social responsibility by helping the society. Since much research has been done from the buyer's perspective, while nothing has been done about the supplier's perspective so this study will give a 360-degree view of what factors drive adopting socially responsible practices. One thing is clear that institutional pressures do play a critical role in driving suppliers to become socially responsible. But the degree to which these pressures play their role varies at times. The managerial implication is that managers may better control the implementation of organizational practices for improving economic and social performance.

Keywords: Institutional Theory, Social Practices, Socially Responsible Supplier Development.

1. Introduction

Humans are the core subject and mutual stakeholders in case of environment and safety. Safety is directly connected with humans and environment may directly or indirectly affects them. These humans can take the form of employees, customers, Board of directors, buyers and suppliers. Social responsibility is a decent agenda and proposes that a body, be it an organization or individual, has a responsibility to take steps for the helping the society in general.
The aptitude of suppliers to avoid harming society and working for the betterment of the same make it socially responsible. Four types of socially responsible practices were highlighted, supplier human rights, supplier labour practices, supplier code of conduct (COC), and supplier social audits (Awaysheh, Klassen, & Management, 2010). According to William Richard Scott (1995), “Institutions are social structures that have attained a high degree of resilience. They are composed of cultural-cognitive, normative, and regulative elements that, together with associated activities and resources, provide stability and meaning to social life. Institutions are transmitted by various types of carriers, including symbolic systems, relational systems, routines, and artifacts. Institutions operate at different levels of jurisdiction, from the world system to localized interpersonal relationships. Institutions by definition connote stability but are subject to change processes, both incremental and discontinuous” (p.235).

We need to give full credit to the institutional mechanisms that affect the adoption of being socially responsible by corporations or not to be (Bühner, Rashee, Rosenstein, & Yoshikawa, 1998). The authoritative positions cause coercive isomorphic drivers i.e. these players exert pressure on smaller organizations to adopt sustainable practices derives (Glover, Champion, Daniels, & Dainty, 2014). This ‘pressure’ may result in concurrent adoption of practices by several firms (Cheng, 2010).

An important point to consider is that what are the background forces that exert pressures on organizations to adopt socially responsible supplier development practices and the application of institutional theory can be a good tool to have an in-depth study of a firm’s behavior (Yawar, Kauppi, & Management, 2018). Similarly, the role of traditional institutional pressures in adopting socially responsible supplier development practices needs to be sorted out (Yawar et al., 2018). Buying firms entail suppliers to meet social and environmental regulatory standards of local governments and thus purposely devise and employ supplier development programs to encourage supplier’s indulgence on those regulatory standards (Liu, 2018). Corporate social responsibility execution by small and medium industries is determined by customer pressure, and the outcome of customer pressure on CSR practices is moderated by dynamic capabilities (Choi, 2019).

Moreover, the buyer's perspective has been read out with regard to adopting socially responsible supplier development practices, but nothing has been done yet regarding the supplier's perspective (Yawar et al., 2018). There is a dearth of research required regarding the application of economic and social aspects of institutional theory in the context of developing country in institutionally motivated decisions and considering explicitly the role of governance in the institutionalization of practices (Yawar et al., 2018). Since, much task has been done with regard to buyers perspective and that too in the context of developed
countries, so there is enormous requirement to carry out research on factors forcing suppliers to become socially responsible and that too in the context for developing country like Pakistan, so that a comparison of forces in developed and developing countries motivating buyers and suppliers to become socially responsible can be made.

The prospective research in above mentioned areas will provide a good comparison of applicability of institutional theory and the traditional pressures in coming to know that whether same results are arrived at for both developed and developing countries or not and if the results are different then what are the factor causing differences in results. We intend to have a qualitative exploratory case study approach for researching in this regard. As far as the managerial implication is concerned, this research will help the managers to understand in a better manner that what factors influence the adoption of SRSD practices in countries like Pakistan and can make plans accordingly.

2. Literature Review

In order to have a literary grasp of supplier development in the context of socially responsible phenomenon backed by institutional theory, we present the related literature here.

2.1. Corporate Social Responsibility and Supplier Development

Corporate social responsibility(CSR) has observed a wide range of actions together with environmental management, ethical issues, and the progression of a varied workplace, protection, human rights, humanitarian aid, and society’s participation, however even though more than 30 years of investigation in this ground, no holistic pragmatic study of the meticulous scope or position of actions that are covered by CSR and the connection among principles and CSR exists(Carter & Jennings, 2004).

CSR has turn out to be a persistent theme in the business text, but has principally ignored the role of institutions (Brammer, Jackson, & Matten, 2012).

2.2. Stakeholders and Supplier Development

Cooperation with stakeholders can not only develop the social capital of owners but also make use of its authority on social capital through improved inter-organizational involving, thus resulting in project performance and captivating exterior supports for lasting expansion (Wang et al., 2019). A manufacturing firm outsources for requisite parts and services to concentrate on its core competencies with the expectation that their suppliers will provide
innovative and quality products at competitive cost (Handfield, Krause, Scannell, & Monczka, 2006).

In the wake of recent high profile corporate scandals around the globe, companies today face growing pressure from stakeholders to “do the right thing” (Brønn & Vidaver-Cohen, 2009). Firms can keep an eye on their suppliers to make sure observance to social potential, behavioral audits, or get benefits from certification provided by self-regulating third parties (Awaysheh & Klassen, 2010). Social issues and recital confine both individual-level human safety, welfare and social expansion. Thus, social practices and operational recital influence how a firm adds to the development of human latent or guard people from damage, thereby confining all aspects (Awaysheh & Klassen, 2010). Bulk clientele can exploit their trade command and manipulate their suppliers to transform their corporate policy and practice (Tickle, Laosirihongthong, Ojadi, & Adebanjo, 2013).

2.3. Institutional Pressures and Supplier Development

The choice to execute green supply chain put into practice is reliant upon intuitional pressures and downstream consumer need analysis (Hoejmose, Grosvold, & Millington, 2014). Customer pressure could effectively motivate SMEs to implement all CSR practices (Choi, Feng, Liu, Zhu, & Management, 2019). The manufacturers need to proactively connect the SDPs as they develop and also if possible change the SDPs by discovering higher ground-breaking rewards (Kumar & Routroy, 2017). Corporate governance, green practices, and practices on employees and supply chain partners are significantly moderated by Dynamic capabilities under customer pressure (Choi, Feng, Liu, Zhu, et al., 2019).

A supplier demonstrates confrontation to the use of SDPs, as often manufacturer proceed or at least alleged as manipulative and typically attempts to pull out more worth out of the profits moved (Kumar & Routroy, 2017). Another vital feature of supplier development includes supplier training and it is critical in appealing suppliers, constructing trust and developing novelty, thus enhancing suppliers’ CSR potential (Zhang, Pawar, & Bhardwaj, 2017). Indirect and direct supplier development practices are devised according to institutional pressures and supplier’s capacity gaps, respectively. Moreover, it is construed that the indirect/ direct development practices positively impact each other (Zhang et al., 2017). Economic performance acts as a precedent for social performance and supplier development as an organization practice enhances the strength of suppliers which results in economic performance and therefore increases the social recital of the suppliers (Yawar & Seuring, 2018).
Customer demands could efficiently prompt Small and medium sized industries to execute each and every one CSR practices (Choi, Feng, Liu, & Zhu, 2019). The acceptance of foremost sustainable practices necessitates a supplier’s high-quality knowledge base whereas a supplier can accept copy and stroll sustainable practices yet if it has a partial knowledge base (Liu, Zhang, & Ye, 2019). Fig 1 below provides the theoretical framework for this paper;

![Theoretical Framework](image)

Figure 1: Theoretical Framework based upon: Yawar, S. A., & Kauppi, K. (2018)

The institutional theory has identified three types of pressures that play a vital role in forcing buyers to be socially responsible (Walker & Touboulic, 2015). These pressures can play a different role considering the geography, culture, distances, supply chain tiers, dependency and circumstances (Awaysheh & Klassen, 2010). The applicability of pressures can be simultaneous or on an individual basis, which also depends upon the trust level among buyers and suppliers (Zhu & Lai, 2019) and the position itself.

Fig.1, above shows that suppliers also have to face certain pressures that may be the governance factors or isomorphism to grab a competitive position in the market. If the suppliers are working with a buyer, who is quite conscious about being socially responsible then they have to be more proactive to be socially responsible for gaining a considerable position in the buyer’s market. Usually, buyers have an upper edge and they usually dictate
the negotiation game but there are instances, where suppliers dominate the whole scenario. Like in the natural gas sector, usually buyers use their powers to get maximum out of the situation like a win-win situation but in the case of Steel line pipe suppliers, the story is turned into their favour. They were high profile and critical items suppliers with a high level of technology and huge investment-oriented industries usually dictate the terms of the contracts in the developing country context.

Extensive research work has been done with regard to the buyer’s perspective of becoming socially responsible but nothing has been done from the supplier’s perspective (Yawar & Kauppi, 2018). Some factors affect buyer to prepare their suppliers for becoming socially responsible. But what are the factors, circumstances, forces that play a role in making suppliers socially responsible? this question has to be answered. One thing is for sure that buyers’ work for enhancing the capabilities of only those suppliers, whose existence and development will directly or indirectly benefit the buyers’ business.

Sheer binding like reciprocity, collaboration, and interfacing at the business level have mediating/moderating belongings to the prescribed control-CSR practices on suppliers(Zhu & Lai, 2019). Thus, suppliers do have to face certain conditions that can be for want of economic benefits or to retain business ties, etc but since nothing in the corporate world is done without having any tangible direct or indirect benefits so, in this paper, we will be working on the lines of discovering factors that play vital role in inducing to suppliers to be socially responsible.

3. Research Methodology

A case study research methodology was used being an effectual technique of investigating the observable fact in a real time setting (Yin, 2003). Case studies prove to be handy while performing exploratory studies and responding to the "why" question of a particular phenomenon (Yin, 2003). Additionally, case studies are the significant foundation of crafting and trying theory, coupled with manifold methods of data collection give firmness and soundness to the research (Eisenhardt and Graebner,2007; Voss et al., 2002).

As is usually dealt with in a case study approach, we proceeded with an inductive data analysis, and then initiated an abductive approach as this permitted us to revisit and onward in our research stages and filter the constructs required for the current study. We were interested in investigating the factors that force suppliers to become socially responsible, so we selected the natural gas sector, for reasons that there is only one public sector company in the northern part of the country, which is monopolizing the distribution of natural gas with having more than 6 million consumers and annual sales of 446 billion rupees, although
governed by autonomous Board of directors but influenced by the Federal government of Pakistan.

More than 500 local and international suppliers are providing different sort of materials and in most of the cases since international suppliers are operating in developed countries so one way or the other they have to follow best practices, which does include socially responsible practices. While local Pakistani suppliers have to compete with international suppliers so they have to maintain certain standards to grab a major share of business in the natural gas sector. This sector is branded with several social issues like most of the gas fields are in remote and far flung areas of the country, where the masses have very poor living standards. They do not have food, medical facility, schools, infrastructure, and even clean drinking water. The areas are controlled by feudal lords, so they decide who will work on a daily wage basis in the field camps and they decide about firing such workers. The law and order situation is also poor due to an international conspiracy.

3.1. Sampling

Our concern in this study was to examine why Socially Responsible Supplier Development Practices (SRSD) are adopted by suppliers, so we targeted on one industry to take an in-depth view of the situation. As the study is sector-oriented, a purposive sampling technique was followed to gather data making sure that it got sophistication and precision in accepting the research objective (Polkinghorne, 2005). Although the company is governed by an autonomous board of directors, consisting of 13 members, but since 51 percent shares are held by the Federal Government so out of 13 members Board, 7 members are nominated by the Federal Government. The remaining 6 members are taken from renowned multinational/private sectors, which have a proven track record of corporate governance.

The governance structure is one of the implied features which decide the acceptance of supply chain practice (Vandeplas et al., 2013). Governance usually comprises of organizational configuration and administrative machinery which show concern about the stakeholder while choosing to take up firm practices across supply chains (Trienekens et al., 2012). While accepting that the governance system is not a prime concern of our loom, we admit that these are significant relative features in the acceptance of SRSD practices. Therefore, we take these as a ‘control’ variable to recognize and discover the inspiration of the firms to engage in SRSD practices in enhancing the financial and societal recital of natural Gas sector suppliers.
3.2. Data collection

The data was collected from the head office in Lahore and 18 regional offices. Since the regional Procurement officers can sign purchase orders amounting to Rs. 400,000, so the end-users, Health Safety Environment engineers and suppliers at regional levels were interviewed. While the high profile suppliers including senior management were interviewed at the head office including the CEO, General Manager (Health Safety and Environment) and Senior General Manager (Engineering Services). While international suppliers were interviewed through SKYPE software.

Semi-structured interviews were chosen as the way of data collection. This aided in investigating views and beliefs on multifaceted and perceptive concerns and presents the opportunity to look into confusing responses (Barriball and While, 1994). Feedback was required on the initial sketch of the interview checklist from fellow researchers for validity. The questions permitted suppleness to shed light on responses by querying and reshaping of questions to enhance data validity. Key informants were the owner or the chief executive officer and at times the supply chain manager of the companies.

4. Analysis and Discussion

The data collection was done in the context of institutional pressures. Convincing the argumentation of the data within reach provides the qualitative researcher the freedom to make use of it in one way or the other until the data is in his or her custody (Fink, 2000). Until the data is capable of creating new hypotheses, theories or findings, the researcher should be permitted to utilize it in numerous manners (Parry and Mauthner, 2004). In the pragmatic world, novel insight may fetch added understanding that enlarge the borders of the case (Dubois and Gadde, 2002) and conclude the outcomes.

We capture a classic interpretive method through constructivism, where we connect in thoughtful and rebuilding outcomes from the data obtained during communication with the firms. Therefore, we adopted a very inductive move to deduce a consequential understanding of the data collected and arrive at a rational finale. The unit of analysis for evaluating the SRSD practices was individual firms. Employing practicality with the obtainable literature on SRSD aided in the preliminary theoretical rebuilding of the SRSD notion.

Supplier incorporation into new product expansion is a social process and as such pretentious by a diversity of behavioral aspects (Bensaou, 1995). Firms acquire the superior level of their necessities from suppliers who previously have sky-scraping recital and do not need supplementary growth (Modi, 2007).
Collected data was analyzed through interviews, tender documents, Company's website, Minutes of the meetings of Board of Directors and correspondence with suppliers along with requisite certifications on Corporate Social responsibility were examined to arrive at the triangulation of collected data. It has been observed that since the organization is amongst the world's largest gas distribution companies in terms of the consumer base, distribution network and transmission set up, therefore the requirement for procurement is quite extensive. With more than rupees 10 billion annual procurement volume and far-reaching pressure by the masses living in remote fields for becoming socially responsible, the gas company has to adopt socially responsible practices, which in turn also demand from their suppliers to be socially responsible. Moreover, the gas company also carries international certifications for carrying out international projects, which also calls for becoming socially responsible. The extension of such certifications also demands to do business from socially responsible suppliers.

In order to avoid the establishment of suppliers cartels and to stimulate competition the firm always encourage an increase in suppliers base, so it was observed that every new supplier initially try to copy the socially responsible practices adopted by existing suppliers. It not only helps the new supplier to minimize the adoption time period but also allows them to easily create their space in the suppliers’ base. Since the company has a bunch of local and international suppliers, therefore almost all the international suppliers are following socially responsible practices owing to their origin. In case any local company has to contest international tenders, where they have to face foreign companies, which are prone to be socially responsible, these local companies have to adopt a mechanism of SRSD to compete on equal footings.

5. Conclusion and Recommendations

This paper takes institutional theory as a lens with a focus on the suppliers' perspective of becoming socially responsible. Since the suppliers operate in the same environment as the buyers so the role of institutional factors like coercive (government laws, customers' demands, organizational procedures), Mimetic (to copy the environment of competitors for ease of doing business) and normative (the norms of the country, business world or society) is one way or the other exactly the same for suppliers to adopt socially responsible practices. The pressures take different shapes that may be the buyers, government laws, any incident that forces adoption of safer practices, the merger of different economies, and joint venture with a company belonging to a developed country or following the policies of already existing successful business entrepreneur.
It was found in our study that since natural gas fields are in remote areas where masses have a miserable life so they demand for corporate social responsibility which in turn force the gas companies to procure material from such suppliers who are socially responsible so, apart from buyers, suppliers are under coercive pressure from their buyer (Gas Company) to be socially responsible. Moreover, new suppliers have to follow the rules of the game so it’s quite easy for them to copy the SRSDP already followed by existing suppliers, thus mimetic pressure also exists. Similarly, it comes in the norms of developed countries that suppliers have to follow strict criteria for following socially responsible practices, therefore even when these companies do business with Pakistani buyers, they continue with being socially responsible. Thus local companies have to follow the norms for competing in international tenders.

Although it was tried to work on the suppliers’ perspective, it is a very broad term and its certain other dimensions need to work out. For future research, a comparison can be made between developed and developing country context to see whether the role of institutional pressures is the same in both environment or otherwise. Similarly, different variables of socially responsible Supplier development practices may be explored in the future to examine the relationship between them to know, what is their role or impact on the supplier to become socially responsible. Moreover, this factor also needs to be looked into that out of the three pressures (mimetic, coercive and normative), which pressure has a greater role in inducing suppliers to become socially responsible.

References


