Exploring the role of CSR practices in Supply Chain Management[1]

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Sommario: 1. Theoretical framework on CSR and SSCM - 2. Research framework - 3. Methodology and sampling - 4. Data analysis - 5. Conclusions - References

Abstract

The paper proposes a quantitative analysis of sustainable supply chains in Italy, within the manufacturing sector. The data collected evidence the most diffuse CSR practices, among small, medium and large enterprises in the manufacturing sector.

Keywords: CSR, Supply Chain Management, SMEs.

1. Theoretical framework on CSR and SSCM

Research works on corporate social responsibility (CSR) and sustainable supply chains management (SSCM) are generally separated in literature: CSR approach is mostly related to social issues, while supply chain works have devoted attention to environmental issues (Carbone et alii 2012). Recently the two bodies of literature have been merged, as there is a clear association between social and environmental issues and the sustainable supply chain definition (Seuring and Müller, 2008).

The role of CSR in SSCM is a critical task in the actual context, where different actors around the globe can manage the lifecycle of products. The supply chains are often highly fragmented and dispersed (Gulati et al., 2000), and this aspect raises the issue of an extended producer responsibility (Bowen et al., 2001). Following this approach, the SCM literature has been specified in different sub-fields: Logistics Social Responsibility (Carter e Jennings, 2002), Purchasing Social Responsibility (Carter e Jennings, 2004), SSCM (Teuscher et alii, 2006; Seuring 2008; Seuring 2011).

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[1] L'articolo è stato sottoposto a doppio referaggio anonimo.

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According to Seuring and Müller (2008), "Sustainable SCM is the management of material, information and capital allows as well as cooperation among companies along the supply chain while integrating goals from all three dimensions of sustainable development, i.e., economic, environmental and social, which are derived from customer and stakeholder requirements. In sustainable supply chains, environmental and social criteria need to be fulfilled by the members to remain within the supply chain, while it is expected that competitiveness would be maintained through meeting customer needs and related economic criteria".

The high density of contractual, commercial and legal relationships among all the suppliers asks the whole supply chain to be accountable for their outcome and their output, meeting the requirements of the stakeholders and the consumer market. Fashion reporting or end-of-pipe solution are no more acceptable to maintain competitiveness and to prove the traceability of the products. The type of relation required in the SSCM is a solid accountable partnership among all the suppliers (Teutscher et al. 2006), with a transparent and pluralistic approach, where suppliers act as partners, contributing to minimize risks inherent the whole supply chain (Cousin et al. 2004; Anderson e Narusm, 1984; Carter, 2000; Perrini et alii 2006; Russo e Tencati 2009; Dallocchio et alii 2010; PCN-OCSE 2014).

The paper is organized as follows: paragraph 1 provides a literature review; paragraph 2 introduces the research questions; paragraph 3 explains the methodology and describes the sample; paragraph 4 presents data analysis; paragraph 5 concludes and clarifies the limitations of the study.

2. Research framework

The present study aims at understanding how CSR is widespread and implemented in the Italian manufacturing sector, including SMEs and large enterprises. SMEs represent the majority of business in Italy, and they are often a dynamic player embedded in local communities and integrated in the value chain of large enterprises. The demand for sustainability on large companies puts under pressure also SMEs with request for traceability of products, quality of products and processes, standard compliance, management systems, workplace safety, risk assessment. For what concern CSR, SMEs have a more informal approach and less institutionalization of formal policies (Matten and Moon 2008; Russo and Tencati 2009).

Specifically we examine the following questions: What are the most common SR practices implemented by SMEs and large enterprises in the manufacturing sector referred to a sustainable management of the supply chain?

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3. Methodology and sampling

The target population of this study consists of Italian small, medium sized and large enterprises of the manufacturing sector, participating in tenders of Italian Regions in which there were a better rating in ranking calculated by a survey on SR topics[2]. The selection of the manufacturing industries has been done through the identification of the sectorial code (Ateco). The sample include the following sub-sectors: manufacturing industries (except pharma); food production; building; restoring and maintenance; mining.

The survey took place between July 2013 and September 2014. A sample of companies of different size and geographical distribution participated in the survey with the following results: from the 4204 questionnaires filled, 1308 firms have been selected as SR oriented companies. 918 out of 1308 are the questionnaires considered in our analysis, excluding errors or incomplete ones. In Tab. 1 the size of participating enterprises.

The sample include companies, totally or partially based in Italy, with cases of delocalized supply chains.

Table 1 - Survey results: size of enterprises

Micro	387	42,2%
Small	352	38,3%
Medium	139	15,1%
Large	40	4,4%
Total	918	100,0%

Source: Authors' data

The set of indicators considered are as follows:
- Supply chain
- Inclusion and social cohesion
- Payments
- Sustainability, transports and logistic
- Due diligence (OECD Guidelines), human rights, health and safety on the workplace
- Stakeholder engagement and satisfaction
- Multi-stakeholder initiatives
- Commitment to values and engagement in the value chain
- Compliance with OECD Guidelines, with a special focus on SSCM
- Sustainable innovation and partnerships among medium and small enterprises, cluster approach to SR; PPPs.

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[2] Dada collected by the interregional SR platform.

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4. Data analysis

The data analysis in the industry refers to a comparison between small, medium and large sized companies in the manufacturing sector, according to the EU definition of SMEs. This allows one to highlight major differences in the differing sized categories. This information looks upon replying to the first research question ("what CRS measures are mainly in practice, regarding the measures towards suppliers or related to a supply chain"). On the issue of sustainable management in the chains, they have been clustered into six areas of interest on the platform and consequently of particular importance are:

- the terms and conditions for suppliers, refers to the time frame for payment;
- the short supply chain and sustainability in logistics and transport;
- Due diligence regarding human rights and health and safety in the workplace;
- supplier satisfaction and multi-stakeholder initiatives;
- involving suppliers in company values and in the value chain;
- the contractual terms to maintain competitive advantage.

In the following, a description commenting on the data that has emerged is proposed.

4.1. The terms and conditions of suppliers

The payment indicators show how that mainly small and medium size firms observe the payment deadlines for suppliers, even making payments before the credit due date (respectively 31.8% and 32% of the samples); the large firms, instead, make use of more extended time frames (pre-due date payments are 23.5% of the total), which is a sign of potential negotiating power sometimes being used negatively.

4.2. The short supply chain, logistics and transport sustainability

The maintenance of the short supply chain, through the choice of "local" suppliers (with premises in the range of 70 kms from the company, as set out in the DM Political Policy on food and agriculture and forestry on 2nd March 2010), is a fundamental factor for the development of the chain which, as pointed out in the review, facilitates cohesive relationships among industries, decreasing management risks, allowing better checks and respecting socio- environmental criteria (respecting the environment, the employees, safety and human rights) and contributing to maintaining strategic management by drawing up long-term agreements and setting out shared objectives.

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From the analysis in the manufacturing sector we gather that the choice of local suppliers is more widely felt in small size and medium firms compared to the large ones, with the percentages at 40.4% in small ones, 52% in medium ones versus 35.3% for the large firms. The shortening of the supply chain is carried out by 30% of medium companies, 18% by small ones and 17.6% by large companies.

4.3. Due diligence, human rights, health and safety in the workplace

An important part of the questionnaire is referred to employees´ conditions and rights, as well as health and safety conditions in the workplace throughout the whole supply chain. Defining a policy to choose certified suppliers (e.g. those who adopt Emas, ISO14000, SA8000, Fair Trade, Ecolabel, FSC, PEFC, Impattozero) or signing ILO conventions on human rights, generally means paying a high attention at industry level. The results for this indicator show that, mainly, the large companies develop such policies (17.6%), against the 11%-12% for the small and the medium companies. The following indicator requires the company to be subjected to due diligence processes, that is, if they carry out a check on the decision making process and make risk assessment to prevent or mitigate their own impact (as required by the OCSE Guidelines); being a non-compulsory procedure, which calls for the drafting of a public document, approved by the company management, the results are not high, which is not a surprise, in any of the three sized categories: the outcomes are better for large companies (about 12% of the samples implement a due diligence procedure).

A very important result is reached by large companies (35.3%) which put in place procedures to redress negative impact on human rights, such as easy access to judicial or extrajudicial proceedings or company complaints, a practice, which instead, is generally less widespread among medium sized companies and almost non-existent in small ones.

As far as monitoring is concerned, conforming to the ethical code on behalf of their own suppliers, this is carried out with visits to suppliers, interviews with managers and workers and a particularly interesting fact emerges: 24% of medium size firms carry this out, versus 11.8% in large ones. The small companies, which often do not have voluntary instruments for this, however reach a good result, similar to large ones (9.9%). It is worthy to note that often large companies have long supply chains, which are complex or dispersed (e.g. outsourcing and relocating business in the textile industry). In long supply chains, it is very difficult to carry out checking procedures with suppliers, while in shorter chains the relationship between suppliers, producers and then distributors is more close and the compliance to instruments, such as the ethical code, is more effective.

The analysis shows that less formalised practices (ethical code compliance, without legal clauses) are more common and used than certifications, due

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diligence, organisational methods with protocols and procedures, which generally require a formalisation practice. As a result, medium sized and small companies are concretely managing suppliers (direct relationships) more than larger companies, which are keener on adopting formal practices.

4.4. Involvement and satisfaction

The monitoring of satisfaction of their own suppliers is very common, reaching to 41.2% for large size companies, 35.8% for the small ones and 32% in the case of medium sized ones. Analysing and managing supplier satisfaction is extremely useful since one gets immediate feedback. Additionally, compared to other practices, which have complex phases or require external consultants, the satisfaction checklist is an easy task.

4.5. Involving suppliers in values and in the value chain

All the indicators included in this section specifically monitor the strategic choices of companies to manage their supply chain according to a sustainable and responsible approach. To achieve this goal, there are differing instruments, which range from ethical codes, to a corporate sustainability report, to provisions for organisational models, a support initiative for suppliers (subsidising, tax relief and support to controlled/allied companies), tendering procedures according to the criteria in Green Public Procurement (GPP) and Social Public Procurement (SPP), self-disclosure in compliance to standards and certificates (Emas, SA8000). The differences between these practices consist in the financial commitment of the single company , according to the extent of the procedures needed, the complexity and the degree to involve partners and suppliers and the commitment, which the varying organisations have to make to comply to them. The results are linked to two principle frameworks: the level of formalisation and the easiness of the practice (Matten and Moon, 2008); the skill to build partnerships with suppliers, creating cohesive long-term chains (Carter 2000; Maignan et alii 2002; Dallocchio et alii 2010). From the quantitative analyses, another indicator shows the percentage of company supplier compilers who conformed to the ethical code or a human rights programme: in 11.8% of large size companies, this practice exists, versus 6% in medium companies and 2% in small ones.

To build partnerships with suppliers to pass on know-how singles out a great result for large sized companies (29.4%), followed at 18% by the medium ones and at 11.3% in the case of the small ones.

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Another indicator returns the percentages related to initiatives to build and maintain support from partners throughout the supply chain: in this analysis, a limited percentage was found in all company, with figures at around 5% for each entrepreneurial size. Also, in this case, it is highlighted that the medium size companies have reached a higher percentage than the larger companies.

4.6. Contractual terms to maintain competitive advantage

The indicators selected allow understanding which measures are mainly taken to achieve and maintain a competitive advantage. Managing relationships in the production chain can be a source of competitive advantage if the cooperation between suppliers is effective. To provide examples of advantages: the management and control of risks throughout the production chain can be reduced; the dynamics and rhythms in production can be made more sustainable in the financial, environmental and social aspects and therefore better run by all the links in the chain of the suppliers; dealing with environmental impact, the safety of workers and product quality can be better checked; the step from skills and know-how throughout the chain can be made easier (Maignan et alii 2002). Such a collaborative production chain can better guarantee the end market a series of products or services which are more responsible from the point of view of social and environmental conduct, more traceable and featuring a certain transparency in communication (Orlitzky et alii 2003; Bhattacharya and Sen 2003; Drake and Schlachter 2008).

Another indicator refers to the contractual terms which allow one to maintain competitive advantage throughout the production chain, namely to let all the suppliers contribute to achieving competitive advantage in the production chain itself, until the end market. In detail is deals with evenly defining a series of economic factors (prices, delivery dates, penalties for delay), in this manner respecting and strengthening the factors in the value chain (sustainable working hours, fair pay for workers, shared production targets and delivery dates, respecting the rights of workers' associations and trade union organisations). By filling in this indicator, the medium size companies confirmed that they exert good control in the production chain, showing 22% in total, versus 11.3% in small ones and 11.8% in large ones. Therefore, the length of the production chain turns out to be a fundamental factor to properly manage and maintain competitive advantage in the production chain.

In conclusion, with the last indicator companies are asked to define how much their production chain has evolved by setting up partnerships with small and medium firms, with the scope to expand the allied industries (by setting up PPPs, the cluster approach to CSR, etc.). In this case, it is not surprising that, the small companies are not especially involved in this type of initiative, while in medium companies the greatest involvement is confirmed (8%), followed by large companies at 5.9%.

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5. Conclusions

The paper aims to clarify the strict link between SR practices and sustainable management of supply chains (SSCM), specifically analysing the data of the manufacturing sector in Italy. The panel of companies has been selected through the platform on Social Responsibility developed by the Italian Interregional Committee, currently in use in the Italian Regions.

The quantitative analysis sheds a light on specific relationship between SMEs and large enterprises in the supply chain, and helps to identify what are the positive effects of a responsible management over the supply chain (Carter and Rogers 2008; Vurro et al. 2009).

The W question about the most practiced RS actions, confirms a well-known trend in CSR- literature, showing greater activation among large firms, rather than SMEs (Baumann-Pauli et al, 2013). In fact, SMEs tend to adopt not formalized practices, which do not require complex procedures, supported by external consultants (due diligence, reporting, certification). However, SMEs undertake forms of implicit and sunk social responsibility (Matten and Moon 2008), often not adequately communicated to stakeholders. At this regard, the data show excellent results for medium-sized enterprises, in terms of a strong preference for local suppliers. Midsized companies are particularly active in direct relationship with their suppliers, establishing personal contacts, on-site visits and finding favourable conditions tor respect contractual terms. The direct management of suppliers lead to reinforce and maintain long-term relationships.

For what concerns large companies, they are characterized by better results in terms of reporting and disclosure, thanks to the ability to transfer know-how along the supply chain and, in general, about the adoption of more formalized practices (due diligence, anti-corruption systems, certifications, etc.). On the other side, they are less conscious about aspects of direct management of the supply chain, such as the timely payment of suppliers, direct contact, the definition of feasible contractual conditions for the whole the supply chain. This approach, especially in the case of long supply chains, might lead to the risk of not sustainable supply chain and the loss of competitive advantage.

After the approval of the new European Directive about extra-financial disclosure, to be included in the financial statements and balance sheets (DIR/95/2014/EC), authors believe that a sustainable management of the supply chain might be highly useful to push large companies (and not only those who should comply with the DIR) in a wider application of CSR actions. The relevance of "involving stakeholder and suppliers" is also supported by the GRI 4 .

The limitation of the study actually consists in the period of the data collection, referred just to one year. The platform however is an ongoing project, and further development of the study are widely possible.

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