Purchasing Social Responsibility (PSR) has the potential to reduce risks and enhance supplier performance. PSR can become a more useful tool in the automotive industry by following a structured approach to assess costs and benefits from PSR investments.

**Background**

Corporate Social Responsibility (CSR) is a concept based on the notion that corporations are an integral part of society and should interact with their stakeholders beyond what is required by law. However, the boundaries of this responsibility are unclear. There is also a discussion about the potential business value in being socially responsible.

Purchasing Social Responsibility (PSR) is the purchasing function’s portion of CSR and thus deals with the company’s supply chain. PSR is getting more attention in several industries, as sourcing from low cost countries increases. Famous cases have shown that well established brands are sensitive to criticism regarding the social impact of the supply and production of their products. Brand image is the only lasting base for differentiation in the automotive marketplace. Thus, coming under scrutiny from media and getting bad publicity would be a nightmare for business managers. PSR may be a way to lower these risks and to uncover new opportunities.

**Previous Research**

Various definitions of CSR occur. Zadek\(^1\) defines CSR as “businesses taking account of their total impact on society” and Carter\(^2\) defines it as “the corporation has not only economic and legal obligations, but also certain responsibilities to society”. It can be concluded that CSR is about stakeholder interaction, that it goes beyond legislation and that it takes a long term perspective. Thus, PSR efforts involve supplier interaction about the impact of the supply chain on the society.

Numerous studies on the business case for CSR have been made to find out whether there is a positive link between social and firm performance. A study\(^3\) identified several advantages of CSR:

**Reputation Management**

Corporate reputation is considered to be especially important in the management field due to the fact that stakeholders routinely rely on the reputations of firms in making investment decisions, career decisions and product choices. Hence a firm’s reputation can substantially contribute to the profitability\(^4\). Neville et al\(^5\) suggest that “the positive relationship between corporate reputation and a

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1. Zadek, Simon (2001)
5. Neville, Bell and Mengûc (2005)
firm’s financial performance will strengthen as competitive intensity increases”.

**Risk Management**
Ethical funds, for instance, have proven to have lower risks in comparison to alternatives that disregard CSR\(^6\). CSR helps raise the awareness of people inside organizations to patterns of social change and uncovers risk related information that helps the company to work proactively in its efforts to minimize risks\(^7\).

**Access to Capital**
Investment funds that screen socially irresponsible companies from their portfolios have grown rapidly the past years. In 2004, USD 2.16 trillion or more than 10% of investments under professional management was passed through a CSR screening process\(^8\).

**Financial performance**
The aforementioned advantages generate enhanced financial performance. All studies do not concur in the matter of CSR's impact on firm performance. Possible explanations for the mixed results are that the relationship between CSR and firm performance probably is mediated by numerous variables that are difficult to isolate. An inverted U-relationship, with an optimal amount of CSR activities for profit maximization seems logical and instinctively accurate. This type of relation has been discovered in studies by among others Bowman et al., Sturdivant and Lankoski\(^9\).

**PSR**
A lot of the research on CSR is applicable on PSR as well. However, specific research and efforts regarding PSR have lagged behind other functional areas of the firm\(^10\), although purchasing managers believe that social responsibility is an important component of purchasing that will increase in importance over time\(^11\). In conducted studies some strategies and practices for successful PSR can be found. Maignan et al.\(^12\) position strategies along a scale ranging from Reactive (denying that the firm has stakeholder responsibilities) to Proactive (systematically anticipating and addressing stakeholder demands). The following practices are important in managing a proactive approach to PSR:

1. Defining social responsibility goals for purchasing functions
2. Designing organizational members in charge of PSR in the purchasing function
3. Educating suppliers and provide support
4. Monitoring suppliers internally or with third parties
5. Sanctioning suppliers if they fail to meet stated criteria
6. Communicating achievements to stakeholders
7. Receiving stakeholder feedback

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\(^6\) Van de Velde, Vermeir and Corten (2005)
\(^7\) Zadek, Simon (2001)
\(^8\) Minlam, *Socially Responsible Investing*
\(^9\) Salzman et al (2005)
\(^10\) Murphy and Poist (2002)
\(^12\) Maignan, Hillebrand and McAlister (2002)
Murphy and Poist\textsuperscript{13} found that some practices lead to higher scores in CSR-ratings:
\begin{itemize}
  \item Training and education of company personnel
  \item Hire and promote more socially responsible personnel
  \item Reject suppliers who lack social responsibility concerns
  \item Promote industry cooperative efforts
  \item Redesign logistical system components
  \item Encourage greater governmental involvement
\end{itemize}

The Study
Knowledge regarding PSR in the automotive industry was limited. Thus, the aim of the study was to gain knowledge about PSR in the car industry and to present possible improvements for automotive companies through case studies from other industries. The study was sponsored by Volvo Car Corporation. Environmental aspects were left out; hence only social aspects were covered.

Survey
A survey about PSR practices was sent out to thirteen automotive companies of which nine responded. The answers showed that all but one company had social requirements towards the supplier base. Most companies include the requirements in the purchasing terms and conditions and the social aspects covered, e.g. child labor and freedom of association, are very similar between companies. Furthermore, most companies were positive to industry cooperation regarding these issues, making the automotive industry suitable for a common social standard. However, the survey showed that resources were limited for PSR efforts in most automotive firms. Information to both purchasing personnel and to suppliers was more common than actual training, and most companies rely on purchasers to evaluate suppliers on social aspects. Only one company used third party auditing to monitor compliance to the requirements at suppliers’ sites. Sourcing from low-cost countries is increasing in the industry but still no automotive company had more than 25% of purchasing volume coming from such countries (defined as outside Western Europe, Japan and the USA).

Interviews
Follow-up interviews with four of the surveyed companies were conducted. The most frequently mentioned success factor for PSR was support from management. This showed suppliers that social issues could not be disregarded without negative effects on the business. Several respondents also pointed out that good working conditions correlate to first-class results from suppliers in terms of costs and quality. Most companies separate regions and suppliers into categories with a higher or lower risk of violations to human and labor rights, to simplify the process of monitoring and to direct resources to where they maximize results. However, PSR is relatively new to the automotive

\textsuperscript{13} Murphy and Poist (2002)
industry and social aspects in supplier reviews are new to most purchasing functions. The development is pushed by demands from some fleet customers that require a certain level of PSR to purchase cars. Merged companies show signs to have difficulties in coordinate the PSR efforts over the old company borders. Also, the centralization of purchasing functions has lead to less time spent on the field for purchasers. Today, most visits to suppliers’ sites are carried out by quality engineers.

**Other Industries**

For comparison, we interviewed PSR managers at three other companies outside the automotive industry, Bayer, IKEA and Hewlett-Packard (HP). These companies were chosen as recognized examples of good PSR management, and thus allocate more resources to PSR than automotive companies do. HP and IKEA have internal auditing groups which are locally situated close to supplier locations. Both emphasized the importance of having PSR as an integral part of the continuous business relationship with suppliers. Bayer trains purchasers enough to do the assessments, and 15-20% of the supplier evaluation consists of social aspects. The potential to get business benefits from PSR is larger in low-cost countries.

**Analysis**

The PSR strategies applied by most automotive companies can be described as Accommodative along the spectrum Reactive-Proactive, which means that stakeholders’ issues should be addressed as long as no immediate expenses can be associated. However, one company uses a proactive strategy, applying most practices mentioned by Maignan et al.\(^4\)

There are two major rationales for PSR, the risk management and the supplier performance rationale. The first one is basically to lower the risk of having outside stakeholders making “a scene”, e.g. running campaigns that harm the brand image. The other one is to get better performance out of the suppliers in terms of quality and productivity by managing social aspects. The cases we have studied explicitly together with cases in the literature indicate that they are both valid.

\[\text{Fleet Customers} \quad \text{Investors} \]
\[\text{Auto Companies} \]
\[\text{Media & NGOs} \quad \text{Unions} \]

**Figure 1:** Most influential stakeholders

The most essential stakeholder groups for PSR, excluding suppliers, are displayed in figure 1. They all refer to the risk management rationale for PSR.

\(^4\) Maignan, Hillebrand and McAlister (2002)
Conclusions and Recommendations

No company in our study had a systematic approach to assess business advantages or risks related to PSR. No risk assessment was made to evaluate risk costs associated to bad publicity, loss of sales or divestment of company shares. We propose a different view where all potential benefits and costs are accounted for in a structured decision making process.

Figure 2 shows important stakeholder groups (on the right side) which constitute a risk cost to the company. In addition to risks, operational benefits in terms of enhanced supplier performance through a PSR program should be estimated. After quantifying the risks and opportunities a particular firm is exposed to, an appropriate level of PSR expenditures can be found. As long the relation in figure 2 holds, PSR adds value to the bottom line and is hence profitable. This approach focuses on the risks and possibilities in terms of economic performance which we have found to be important.

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