PURCHASING SOCIAL RESPONSIBILITY IN THE AUTOMOTIVE INDUSTRY
- An Explorative Study

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Preface
This master's thesis is the final part of the Master of Science program in Industrial Management and Engineering at Lund University. Volvo Car Corporation in Gothenburg, Sweden, commissioned and sponsored the thesis. However, information from all participating automotive companies has been treated confidentially throughout the project and in this report.

Many people have helped us finalize this report and we would like to show our gratitude. We would like to especially thank Catharina Ström at Volvo Car Corporation for her support and commitment in spite of her busy schedule. Everth Larsson, our tutor at Lund University, has provided valuable guidelines and insights.

We would also like to thank all other people who provided information and shared their knowledge and experiences with us. This applies both to people within Volvo Car Corporation and other participating automotive companies. Finally, we would like to send a special thanks to Bonnie Nixon Gardiner at Hewlett-Packard, Lars-Göran Peterson at IKEA and Herwig Priewasser at Bayer AG, for your valuable time.

In hindsight we can say it has been an interesting experience dealing with a comparatively unexplored subject such as Purchasing Social Responsibility (PSR). Unfortunately, PSR is currently not an important part of business management literature. We are convinced that this is a topic that will climb upwards on the agenda over the coming years.

We hope this thesis fulfills its purpose and can help automotive companies in their work with Purchasing Social Responsibility.

Lund, Sweden
February 2006

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Abstract

Background
Branding has become the most important base for differentiation in the automotive marketplace. Due to increased competition and price sensitivity, the proportion of purchased goods from suppliers located in low cost countries has increased and is expected to further increase. This brings about certain risks that can harm the brand image. Corporations are under increasing scrutiny by media and other influential groups. If human and labor rights are not upheld in the supply chain, the bad publicity it causes can have a very negative effect on the value of the brand.

Problem and Aim
Research and efforts regarding Purchasing Social Responsibility (PSR) in the automotive industry have fallen behind other industries. PSR is the purchasing function’s portion of a corporation’s social responsibility and thus deals with the company’s supply chain. The aim of this study is to gain knowledge about PSR in the car industry and to present possible improvements for automotive companies through case studies from other industries.

Results
The results from this study show that most automotive companies have the PSR requirements towards suppliers in their purchasing terms and conditions. The requirements are similar among the companies, making the automotive industry suitable for a common social standard. There are significant differences between the companies in terms of resources allocated for assessing the degree of compliance to the requirements. Only one company shows signs of true pro-activeness in the field of PSR although there is a forward momentum in the industry as a whole.

To launch and maintain an effective PSR program top management support is a key factor. Successful PSR programs are incorporated in normal business operations and a continuous dialogue is established with the suppliers. Moreover, companies with extensive experience of PSR claim that it results in improved supplier performance in terms of enhanced quality and better supplier relations.

A systematic approach, to assess the value of PSR for individual companies, was lacking. No company had quantitatively estimated the threats and opportunities related to PSR. In general, companies with a PSR program in place had reacted to bad publicity by launching their respective PSR program after an incident. These companies tended to have more capital intensive programs compared to companies working more pro-actively. Media and NGO’s, Fleet Customers, Investors and Unions were identified as the most powerful external stakeholders. These stakeholders were perceived to constitute significant brand and reputation risks. We suggest a methodology where each of these groups represents a risk cost to the automotive company. Along with benefits of a PSR program, an estimation of an appropriate level of PSR expenditures can be done. This approach focuses on the risks and possibilities in terms of economic performance which we have found to be important.
Sammanfattning

Bakgrund
Varumärkenas betydelse för att differentiera olika bilar på marknaden har ökat. Samtidigt köps allt mer av komponenterna in från lågkostnadsländer, p.g.a. ökat konkurrens- och kostnadstryck. Detta medför risker som kan skada varumärket. Företag granskas allt hårdare av media och andra inflytelserika grupper. Om mänskliga och arbetsrättsliga rättigheter kränks i leverantörsledet kan dålig publicitet leda till stora skador på en biltillverkares varumärke och rykte.

Problem och syfte
Forskning och åtgärder inom området Purchasing Social Responsibility (PSR) i bilindustrin ligger efter andra industrier. PSR är inköpsfunktionens del i ett företags sociala ansvarstagande. Syftet med denna uppsatsen är därför att kartlägga PSR i bilindustrin och att presentera möjliga förbättringar genom att studera fall från andra industrier.

Resultat
Resultaten från studien visar att de flesta bilföretag anger de sociala kraven gentemot sina leverantörer i köpavtalet. Kravställningarna är liknande och bilindustrin är därför väl lämpad för en gemensamt överenskommnen social standard. Det finns betydande skillnader i de resurser som avsätts för PSR i de olika företagen. Endast ett företag kan sägas vara riktigt proaktivt gällande PSR, men det finns trots det ett ökat antal åtgärder från flertalet biltillverkare.

För att starta och bibehålla ett effektivt PSR-program är stöd från företagsledningen en central faktor. Framgångsrika PSR-program är integrerade i de normala affärsrutinerna och man upprätthåller en kontinuerlig dialog med leverantörerna. Dessutom betonar företag med betydande erfarenhet av PSR att det leder till bättre resultat från leverantörerna i form av ökad kvalitet och förbättrade leverantörsrelationer.

Det saknades ett systematiskt tillvägagångssätt hos de studerade företagen för att bedöma det verkliga värdet av PSR. Inget företag hade kvantifierat de hot och möjligheter som finns med PSR. I regel hade de företag som implementerat PSR-program reagerat efter incidenter i leverantörsledet. Dessa företag tenderade till att ha mer kapitalintensiva PSR-program än de som jobbade mer proaktivt. Media och opinionsbildande organisationer, företagskunder, investerare och fackföreningar identifierades som de mest betydelsefulla intressenterna. Dessa uppfattades som potentiella riskfaktorer för varumärkets värde. Vi föreslår en metod att uppskatta kostnader och möjligheter med PSR där var och en av dessa grupper representerar en riskkostnad. Tillsammans med de fördelar som finns gällande bättre leverantörsresultat kan en lämplig nivå för de resurser varje företag bör avsätta för PSR tas fram. Detta arbetssätt fokuserar på de ekonomiska konsekvenserna, vilket vi har funnit vara av stor betydelse.
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1. Introduction

In this chapter the background, scope and aim of the thesis will be described. We will provide reading guidelines that are intended to give the reader an overview of the report and to help him/her select relevant sections.

The study was done at Lund University and sponsored by Volvo Car Corporation (Volvo Cars). The intention has been to provide recommendations that can assist automotive companies on a general basis, although some specific recommendations were given to Volvo Cars during internal presentations. However, we must stress the fact that information from other automotive companies collected through surveys and interviews, has been kept anonymous according to the agreements we made with those companies.

1.1 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. Nevertheless, CSR is developing in many ways, similarly to how environmental issues have developed over the last twenty years, with increasing interest from business and community leaders.

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. Famous cases have shown that well established brands are sensitive to criticism regarding the social impact of the supply and production of their products. Globalization of production networks and increased competition has made brand image 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.

1.2 The Automotive Industry

The automotive industry is one of the biggest industrial complexes of our time. Over the last 100 years, the industry has gone from small scale production to about 60 million cars produced yearly. The impact on local communities and countries' economies are large in many places, with millions of people employed. However, the impact goes far beyond Detroit, Munich, Gothenburg and other cities dominated by automotive businesses. About three quarters of the production value in a modern car is added by independent suppliers, located in every corner of the world. Like in other industries, the share of components manufactured, but also numbers of cars sold, is gradually growing in new and emerging markets.

The industry is still an important facilitator for technological and process innovation, yet extremely mature. The amplified competition and the economies of scale have laid the foundation for some of the world's largest corporations within the auto making
business. With a few exceptions, mergers and acquisitions have created multi-brand organizations. This leads to a paradox where the importance of brand image is growing in the marketplace. At the same time, car manufacturers must cut development, purchasing and production costs by sharing power-trains, engines, electronics and other components across brands, through so called common platforms.

1.3 Problem Definition
No comprehensive study about PSR in the automotive industry has been made. Still, companies in the industry are aware of its growing importance, especially from cases in other industries. Thus, there is a lack of knowledge about PSR in general, and about what automotive companies are accomplishing in their respective supply chains in terms of PSR efforts.

1.4 Aim
The aim of this thesis is to gain knowledge about PSR that can be used and applied by automotive companies. This includes general knowledge about PSR, as well as understanding of how auto makers are implementing and upholding social requirements towards their suppliers. The focus will be put on human & labor rights and health & safety. Finally, general recommendations for automotive companies will be outlined. The purpose can be summarized as answering the following questions:

• What supplier codes of conduct are in place at the present and how are they implemented?
• How do the different car manufacturers work with PSR and what processes are in place?
• How do leading companies in other industries work with PSR?
• How can auto manufacturers improve their process?

1.5 Scope and Delimitations
The major European, American and Asian car manufacturers are the primary establishments to be targeted, both for information gathering and recommendations. Companies in other industries will primarily be selected based on recognition of their performance regarding PSR. Industries with similar characteristics as the automotive industry would be preferred.

The topic of the study will be PSR, i.e. the purchasing function’s role in CSR with respect to its position as the company’s link to suppliers. Human & labor rights and health & safety are focus areas with regard to social issues. Environmental aspects will be left out as they have been thoroughly covered in other studies.

1.6 Target Audience
The main audience for this thesis comprises two groups. The primary group is industry professionals working with PSR most likely in the automotive industry. The other group is students who would like to gain an insight into this topic.
1.7 Reading Guidelines
We have chosen a traditional disposition for this report. In chapter 2 we outline the research method and chapter 3 explains important terms and definitions that are used throughout the report. In the following three chapters (chapter 4-6) we summarize some key research previously conducted in the field of purchasing, CSR and firm performance and finally CSR in the context of purchasing.

In chapter 7, the empirical data gathered during the project is presented and later in chapter 8 we analyze the data in accordance with the theory presented in earlier chapters. In chapter 9, the reader can find our conclusions and recommendations.

Readers not familiar with the CSR concept are advised to read chapter 3. All readers are recommended to read chapter 4 to 6 given that the analysis and conclusions are to a large extent based on the theories presented in these chapters. However, industry professionals are likely to find the most interesting material in chapter 7 to 9.

In this report efforts in the field of Corporate Social Responsibility in the purchasing function of firms will be referred to as Purchasing Social Responsibility. The close ties between the terms and the fact that we sometimes use them interchangeably may in some cases cause confusion for the reader.
2. Methodology

In this chapter possible research methods and our selected method will be discussed. Problems that arose during the course of the study and how we handled them are described.

Knowledge acquired in science differs from other knowledge in one fundamental aspect. It is systematically obtained and reviewed with methods that the reader can follow, and if needed, repeat to verify the results. In this section we will describe different methodologies but also what methods we have used for this study. Due to the difficulties we had to get information from several automotive companies, the methodology has evolved during our work. For instance, we initially thought we would be able to find people knowledgeable and willing to be interviewed in most companies. Instead, we changed our approach to a survey with follow-up interviews with only a handful of the car manufacturers.

2.1 The Relationship Theory – Reality

Since theory is supposed to describe reality there is a difference in where to start off, in theory or reality. Deductive approaches begin in a theory and try to prove or challenge that theory through empirical observations in reality. This is the most common approach in natural sciences with an extensive system of well-proven theories. Deductive studies tend to be stable and resistant to personal bias, as the research starts off in well-established theories.

On the other hand, an inductive approach begins in reality and intends to extend empirical observations into theories. This method is more suitable for social sciences where a theory is not a rigid truth, but rather an understanding of how concepts interrelate. The risk of going in the wrong direction is higher than in a deductive approach, due to bias in the selected empirical material.

Abductive approaches combine both deductive and inductive research. The study begins with an empirical examination of a specific case. From these evidences, a working theory or hypothesis is created and tested against new empirical observations. The analysis of this material refines the working theory into a final theory or conclusion. The main risk in an abductive study is that the perceptions and views of the researcher affect the likelihood of accepting the working hypothesis.¹

2.2 Perspectives of Knowledge

To start with, the researcher must decide what kind of knowledge should be created. There are two schools of art in this aspect, the explanatory and the hermeneutic school. The explanatory school emphasizes that social sciences can be explained in similar ways like the natural sciences, with cause and effect relations between well defined objects. Science is a way to unravel and disclose those relations. An example could be to use statistics to explain human behavior, such as buying patterns of consumers. On

¹ Patel and Davidson (2003)
the other side is the *hermeneutic* school, saying that there is a big difference in explaining nature and understanding culture. Understanding culture is not about simplifying a far too complex world, but to get the whole picture with all aspects included. Therefore, no conclusions can be drawn from an individual case, as no common rules or explanations apply.\(^1\)

### 2.3 Prior Knowledge

When prior knowledge is very limited an *explorative* study is preferred. It can be interpreted as similar to the colonial expeditions, collecting new and broad information in a highly uncertain environment. Very few assumptions are made beforehand and the purpose is to collect as much information as possible. To succeed in an explorative study, creativity and the use of different approaches are important keys. The researcher need to have an open mind and be able to change the direction of the study as it develops.

A *descriptive* study is conducted when prior knowledge is structured into simple models and frameworks. However, knowledge is not thorough enough to reach definite conclusions. Instead, specific areas are investigated in depth, answering the question "how". Predictions into future or conclusions about other areas can usually not be drawn from a descriptive study. Information gathering must be structured and it is common to use one technique only to get empiric data.

The next level of ambition would be to explain why certain things are as they are, which is referred to as an *explanative* study. This should not be mixed up with the explanatory perspective of knowledge described earlier. If the explanations are solid it may be possible to give recommendations on how to act in the future. Such studies are called *normative* and can give optional recommendations based on different circumstances.

If knowledge is extensive and if solid theories and assumptions about interrelations are in place beforehand, these assumptions can be formulated into a hypothesis and tested versus its contradiction. Such a study is called *hypothesis testing*. For example, "if car makers buy parts from socially responsible suppliers, revenues will increase" can be a hypothesis in our area of study. Information must be very accurate in order to accept or reject the hypothesis, and the risk of having other aspects, not explicitly mentioned in the hypothesis, affecting the outcome must be taken into serious consideration. In our example, revenues may increase due to an economic up-turn.\(^2\)

### 2.4 Data and Analysis

Another dimension in selecting an appropriate method is what kind of data is gathered and how it is analyzed. The endpoints of this spectrum are most often referred to as *quantitative* and *qualitative* information and analysis. Quantitative research gathers information through measuring data relative to pre-set scales, and uses statistical analysis to reach conclusions. However, the data does not have to be numerical. A quantitative study answers specific questions such as "Where?" or "What is the relation between…?" with a certain probability. On the other hand, *qualitative* research is conducted through personal interviews or secondary sources, gathering non-quantifiable

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1. Arbnor and Bjerke (1994)
information. Analysis is verbal and is supposed to gain understanding instead of explicit answers.1

A qualitative analysis can be performed in a number of ways. A common approach is to begin in an applicable theory or model and consider the empirical information in a logical way according to that model. If no plausible model exists, an object's Strengths, Weaknesses, Opportunities and Threats can be used in a SWOT analysis. It is preferred but not very likely in practice that the selection of analysis method does not impact the outcome of the analysis.

2.5 Selected Research Method

The overall scientific approach in this study can best be described as an abductive approach. As a study commissioned by Volvo Car Corporation we began with the knowledge within its purchasing organization to formulate research questions and aim. From literature studies we selected a theoretical framework based upon purchasing theory as well as theories on Corporate Social Responsibility (CSR) and Purchasing Social Responsibility (PSR). This framework in conjunction with the aim, lead us to specific questions to ask in a questionnaire. This questionnaire was sent out to thirteen automotive companies of which nine responded. In parallel to designing and sending out the survey, we researched publicly available information, about CSR in general and PSR in particular, for all automotive companies. Since this information was available for anyone, it became a separate part of the study, where company names were disclosed, both in empirical material and analysis.

The answers from the survey were guiding for follow-up interviews with four of the responding companies, although we tried to get interviews with all companies that answered the survey. Also, for comparison, we interviewed PSR managers at three other companies outside the automotive industry, Bayer, IKEA and Hewlett-Packard. These companies were chosen because they had been working successfully with PSR programs for several years.

Based on the theoretical framework and the empirical information gathered, we analyzed the material following a structured approach based on our different empirical sources. We started by comparing the different automotive companies' publicly available information regarding PSR. As responses in the questionnaire and follow-up interviews were kept anonymous, the analysis of public information was the only one where company names could be mentioned. After this analysis we looked at the automotive companies using the primary information from surveys and interviews. We examined similarities and differences between the firms and between theory and industry practice. Bayer, IKEA and Hewlett-Packard was taken into the analysis using the interview material from these companies, both for reflection upon theory and comparison to the automotive industry. For a graphical description of the research method, see figure 1.

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1 Patel and Davidson (2003)
Since our background is in engineering we have used an explanatory view of knowledge. Comparing different companies, and extending conclusions and lessons learned from one case to another, have been vital parts in our work.

Knowledge about PSR in the automotive industry was very scarce before the beginning of this study. Exploring and describing this area was a primary aim of the study. The reader should see the information and the results herein taking this limited prior knowledge into consideration. However, the three areas CSR, purchasing and the automotive industry have been investigated separately and in groups of two in previous research, see figure 2.
Therefore, the methodology has been explorative, descriptive, explanatory and normative in different phases of the study. We began by exploring and describing PSR in the automotive industry, and continued by explaining why PSR could grow in importance and what the main drivers of PSR are. Finally, we gave recommendations for automotive companies.

2.6 Reliability and Validity

Two important concepts in research theory are reliability and validity. Good data collection is reliable, i.e. the information is accurate and the people answering the questions are comfortable and knowledgeable with the studied area. However, data can be accurate but not related to the aim and purpose of the study. For example, accurate data about numbers of cars produced can be interesting, but may have nothing to do with working conditions in the producer's supply chain. Thus, reliability is not enough, but questions, data and analysis must be valid, i.e. connected to the intent and aim of the study.¹

The validity of our study was enhanced by a continuous dialogue with our tutor at Volvo Car Corporation, Catharina Ström, and our academic tutor at Lund University, Everth Larsson. Also, members of the so called Corporate Citizenship Council (CC Council) at Volvo Car Corporation were given the opportunity to give feedback on the progress along the way. Several members of the CC Council were used to pre-test the questionnaire, and focus areas for follow-up interviews were decided upon during a council meeting. However, since responses from other automotive companies in the survey and interviews were anonymous, we never shared information regarding which company answered what during CC Council meetings.

To make sure the demand for reliability was fulfilled we conducted a pre-test of the survey before it was sent to different car manufacturers. Several people were asked to answer the questions, while we observed their behavior, their difficulties and

¹ Thurén, Torsten (1996)
interpretations of the questions. The questionnaire was revised after each pre-test interview. To further enhance the reliability, we detached a few companies from our analysis of the responses, due to low reliability expressed by the respondent or interpreted in the answers. Low amount of working hours devoted to CSR issues and "wrong" business function were the two most important criteria.

2.7 Benchmarking

In the beginning of our work with this thesis we referred to it as a benchmarking study. However, along the way we realized that a complete benchmarking in a scientific sense requires much more prior knowledge than was the case for PSR in the automotive industry. Thus, we will shortly describe what benchmarking is and how much of that process we can expect to have fulfilled in our research.

Benchmarking can be done in a number of ways depending on the situation and the business being studied. Internal, competitive and functional benchmarking studies are possible. McNair & Liebfried\(^1\) point out the importance of an iterative process with three recurring steps, measurement, analysis and change, see figure 3.

Typically, a benchmarking study starts off in measurement, followed by a thorough analysis and finally implementation of the conclusions like organizational or process changes. In our case, PSR, key performance drivers could not be identified because of lack of prior knowledge. Furthermore, no definition of performance exists in this area. Thus, in a strictly scientific sense our explorative and descriptive study cannot be referred to as a benchmarking study, although some of the components were included, such as identifying external organizations and gathering of internal and external information. However, we hope that the results and conclusions from our work will

\(^{1}\) Andreassen, Mette Aagaard (2005)
form a basis for future company or academia run research going deeper into PSR in the automotive industry.
3. Terms and Definitions

This chapter introduces the reader to the topic of Corporate Social Responsibility and provides an overview of the practical application in terms of standards and guidelines used by different organizations.

3.1 Common Terms

3.1.1 Sustainability

Sustainability has to do with survival in the long run, being able to overcome short term downturns and problems by building resources and capabilities. It requires that organizations are proactive in anticipating, assessing and handling risks and opportunities. Historically this has been restricted to financial risks and opportunities only, but research and evidence have shown that companies which take a broader perspective are better at finding the keys to success. One example of this is The Balanced Scorecard\(^1\), which takes financial as well as non-financial measures into account. However, The Balanced Scorecard doesn't take the perspective of outside stakeholders except for the customer and shareholder views. The Sustainability concept adds on respect for social and environmental issues to build a triad: Social, Environmental and Economic performance\(^2\). Social is about the quality of people's lives, Environmental about protection and conservation of our natural resources and Economic about the creation of material wealth. The term Triple Bottom Line is commonly used to describe this threefold approach to sustainability, see figure 4.

![Figure 4: Sustainability as a triad](image)

The interrelation between the three components of sustainability is up for discussion. Many view it as an inevitable trade-off between different interests, where more of one component must imply less of another. Zadek\(^3\) suggests that economics could be thought of as being about means rather than ends, see figure 5, i.e. we are only interested in economics as long as it in turn generates social and environmental outcomes.

\(^{1}\) Johnson and Scholes (2002)  
\(^{2}\) Zadek, Simon (2001)  
\(^{3}\) Zadek, Simon (2001)
Many companies today publish reports of non-financial performance in one way or another (in addition to the ordinary annual reports). These are most often called Sustainability Reports as this label is promoted by the Global Reporting Initiative\(^1\), but other titles frequently occur. Some companies have special Environmental Reports, where social aspects are left out. Also, many of the Sustainability Reports leave out the financial perspective, as it is presented in the ordinary annual reports. However, this separation of "hard" and "soft" issues may slow down the process to understand the multi-bottom-line approach that sustainability is all about. One report may be sent to Wall Street and another to Non Governmental Organizations (NGOs).

### 3.1.2 Corporate Citizenship and Corporate Social Responsibility

Corporate Citizenship (CC), Corporate Social Responsibility (CSR) and the shorter Corporate Responsibility usually have the same meaning. It can be interpreted as the social aspect of the broader Sustainability concept. Some organizations have chosen to use CC as their label for social issues, which emphasizes the company as a part of (as a citizen in) the community. The most common label in academic research is CSR, and we will therefore use this concept throughout this thesis.

### 3.1.3 Different Perspectives of CSR

According to Maignan and McAlister\(^2\) there are three perspectives on CSR. CSR can be seen as a Stakeholder Obligation as inside and outside stakeholders put pressure on the corporation to act in a certain way. Otherwise the business might lose its legitimacy and right to operate. The second view is CSR as a Moral Duty. Regardless of the benefits created by satisfying the stakeholders, the business can act morally following their own norms and ethical principles. Thus, an assumption for this view on CSR is that businesses have norms and principles beyond legal shareholder responsibilities. Further, CSR can be interpreted as a Managerial Practice, a process put in place to manage social duties. This view focuses on the day-to-day application of ethical standards and obligations.

### 3.1.4 Definitions of CSR

There is an extensive range of different definitions of CSR, and we will shortly present a few of them:

*Corporate Citizenship is about businesses taking account of their total impact on society and the natural environment. [...] Corporate Citizenship implies a strategy that*

\(^1\) Global Reporting Initiative, http://www.globalreporting.org

\(^2\) Maignan and McAlister (2003)
moves from short-term transaction towards relationships that seek to capture stakeholders' loyalty by ever-more surgical interventions that align profitable opportunities with their social identities and underlying values.
Simon Zadek

It is about being aware of all risks and opportunities, including those concerning social, ethical and environmental responsibility. [...] It is a good way to prevent negative surprises and create new opportunities.
My-Linh Ngo, Henderson Global Investors

Corporate Social Responsibility is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life.
World Business Council for Sustainable Development (WBCSD)

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.
Craig R Carter

The stakeholders define what CSR is. Therefore it is about taking care of all relations to internal and external stakeholders. The best way to nourish and sustain stakeholder relations is through a continuous dialogue.
Andreas Follér, Volvo Car Corporation

The definitions vary, but it seems to be clear that CSR is about stakeholder interaction, that it goes beyond legislation and that it takes a long term perspective. Our working definition for CSR in this thesis is therefore:

Clarifying and avoiding risks as well as uncovering and pursuing opportunities by taking responsibility beyond legislation regarding the corporation's direct and indirect social impact.

Our definition emphasizes the application of CSR in management by highlighting risks and opportunities as incentives for active work with CSR. However, it is easy to argue for a definition from an ethical viewpoint, disregarding the need for clear business incentives. Every person should act morally correct and CSR would then be a corporate extension of the responsibility we all should take. Since we would like to see the results of our work being applied within the automotive industry, we have chosen a more management oriented definition.

In many of the definitions above, both from industry and the academia include environmental concerns in the CSR concept. However, we will not bring these issues into our definition of CSR. The rationale is that most companies are well on their way taking environmental aspects into corporate decision making, and we want to keep the

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1 Zadek, Simon (2001)
2 SKF Evolution Magazine (2005)
4 Carter, CR (2000)
5 Follér, Andreas, Corporate Citizenship Manager, Volvo Car Corporation
definition of Sustainability as Social, Environmental and Economic performance. Furthermore, a study on the carmakers environmental requirements was done by Wixe\textsuperscript{1}.

3.1.5 Components of CSR
Since there are several different definitions of CSR there are also different opinions about which components lie within. A multitude of components can be found in various academic articles. Van de Velde, Vermeir and Corten\textsuperscript{2} take a stakeholder view when they suggest Human Resources, Environment, Customers & Suppliers, Community & Society and Corporate Governance as components of CSR. However, this list of very broad issues is not very applicable in breaking down the concept for analysis. Carter and Jennings\textsuperscript{3} mention Charitable and Philanthropic Donations, Community Considerations, Gender, Racial and Religious Diversity, Workplace Safety, Human Rights and the Environment. Carter adds Working and Living Conditions of Employees in another article\textsuperscript{4}. Obviously, almost any action taken by a corporation will influence the society in one way or another, and will therefore be a part of the total social performance. However, we will limit the dimensions of CSR in this thesis to include:

- Human rights
- Freedom of association and the right to collective bargaining
- Working conditions, including bonded and child labor
- Workplace health & safety
- Gender and racial diversity and discrimination

These components were chosen because they are the most relevant when it comes to tangible and clear requirements towards suppliers. Also, they are included in most international conventions, guidelines and standards, which is the topic of next section.

3.2. Guidelines and Standards for CSR
Most guidelines and standards for CSR are non-certifiable, which means that there is no monitoring of compliance. Instead, these standards are based on commitment. A few exceptions exist, such as the SA8000 standard.

3.2.1 UN Global Compact
In 1999, the UN Secretary-General Kofi Annan invited the business community to join a voluntary initiative to promote CSR, the UN Global Compact\textsuperscript{5}. Historically the UN, as a coalition of nations, has been working almost exclusively with governments and governmental organizations. Therefore, the UN Global Compact was a turning point in the methods used by the UN. At the same time it can be interpreted as an acceptance of the fact that international business has grown to become a powerful force in the global arena, somewhere more powerful than public authorities and political institutions. Business has become the main route for creation of economic and financial wealth\textsuperscript{6}.

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\textsuperscript{1} Wixe, Johanna (2005)  
\textsuperscript{2} Van de Velde, Vermeir and Corten (2005)  
\textsuperscript{3} Carter, CR and Jennings, MM (2004)  
\textsuperscript{4} Carter, CR (2005)  
\textsuperscript{5} UN Global Compact, http://www.unglobalcompact.org  
\textsuperscript{6} Zadek, Simon (2001)
And as the influence of corporations grow, developing sustainable and responsible practices and tools will grow even more important. To embrace responsible business, instead of excluding corporations from the public debate leading to more decisions being made in closed boardroom meetings, may well be a viable path to building a more sustainable society.

The foundation of the Global Compact is ten principles on Human Rights, Labor Standards, the Environment and Anti-Corruption:

**Human Rights**
- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: make sure that they are not complicit in human rights abuses.

**Labor Standards**
- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labor;
- Principle 5: the effective abolition of child labor; and
- Principle 6: the elimination of discrimination in respect of employment and occupation.

**Environment**
- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies

**Anti-Corruption**
- Principle 10: Businesses should work against all forms of corruption, including extortion and bribery.

The initiative calls for collective action by companies, UN agencies, labor organizations and civil society, but is not a standard or a set of rules or policies. The intention is to make the ten principles a natural part of businesses' strategies and operations through Policy Dialogues, Networks and Learning opportunities. In 2005 more than 2000 companies had joined the Global Compact.

Although the UN Global Compact may be a good way to raise awareness and put pressure on business to incorporate CSR into strategies and operations, voices have been raised against the initiative. The critic also applies to other non-certifiable and non-legislative standards and can be summarized as¹:

1) The partnerships makes business look "clean" to the public. At the same time corporations can abuse human rights and regulations away from the limelight.

¹ Zadek, Simon (2001)
2) Less regulatory pressure from governments as the business community seems to be "self-regulating".

3) Gives legitimacy to the current approach to globalization, and harms a constructive debate around the effects of global corporate activity.

3.2.2 Global Sullivan Principles

Leon H. Sullivan, a priest and human rights advocate, was invited to join the board of General Motors in 1971. His strong engagement in the anti-apartheid movement lead to formulation of the Sullivan Principles for American companies operating in South Africa. By 1984 more than a hundred companies had adopted the principles. After the fall of apartheid, he was requested by business leaders to expand the principles into the Global Sullivan Principles in 1999. "The Global Sullivan Principles are intended to be strong in aspiration yet flexible and relevant to all types of industries and cultures." They are not to replace other codes of conduct but to work in conjunction with them. However, the principles are not for certification and the endorsement process is as simple as filling out the company details online.

The principles involve commitment to promote the following issues:

- Universal human rights
- Equal opportunity for employees
- Freedom of Association
- Compensation to meet basic needs
- Safe and healthy workplaces
- Protection of the environment
- Fair competition
- Quality of life in local communities
- Application of these Principles with whom the company does business
- Transparent implementation of these Principles through public information

3.2.3 ISO26000

The International Standards Organization ISO has started to develop a business standard for Social Responsibility, ISO26000. The standard will not be used for certification but will rather be "a guidance document, and not a specification document intended for conformity assessment". Since all decisions within the ISO must be based on consensus between all parties, a broad range of opinions from business, governments, labor-, consumer- and non-governmental organizations will affect the final outcome. The release date has been set to fourth quarter 2008.

3.2.4 SA8000

The certifiable SA8000 standard for human and worker rights is developed by the organization Socially Accountability International (SAI) and is compatible with already established standards for quality (ISO9000) and environmental issues.

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Its requirements are based on the International Labor Organization (ILO) standards and UN Human Rights Conventions. The standard includes definitions of company, supplier, child labor etc and sets specific requirements regarding the following issues:

- Child Labor
- Forced Labor
- Health and Safety
- Freedom of Association & the Right to Collective Bargaining
- Discrimination
- Disciplinary Practices
- Working Hours
- Remuneration (Wages) and
- Management Systems

The auditing of companies is done by so called Certification Bodies. They get accredited by the SAI in order to monitor the compliance by companies, which seek to get verification of their CSR efforts through the standard. The benefits for companies are described by the SAI as better reputation, employee retention, supply chain performance and company values put into action. In order to attract more than already "good" companies, there is a pathway to certification with a time-limit of three years, called the Corporate Involvement Program (CIP). Under the CIP companies can evaluate, implement and report progress, hopefully leading to a later certification.

From less than a hundred certified facilities worldwide in 1999, the number has grown to 655 in the first quarter of 2005, employing a total of 430,000 people in 44 different countries. Italy, China, India and Brazil, in descending order, account for about 70%. A quarter of the facilities are in the apparel and textile industries.

3.2.5 AA1000

The AA1000 framework was launched in November 1999 by the Institute of Social and Ethical AccountAbility\(^1\). The purpose is to provide tools for better accountability and performance of companies by increasing quality in social and ethical accounting, auditing and reporting. The organization even calls for new professions in Social Accountants and Auditors. AA1000 is not a standard for certification. It is built upon best practice examples from leading businesses and is supposed to help clarify what good practices in social accountability and performance measurement are. Furthermore, it is not a checklist of minimum requirements (as is the case of the SA8000) but focuses on the overall strategy and the processes of the company. Stakeholder engagement and processes for improvement is at the core of the AA1000 framework.

3.2.6 Codes of Conduct

Codes of conduct are means to express and implement social responsibility within firms or industry sectors. A growing number of companies are introducing codes of conduct that address fundamental human, labor and environmental rights. Codes can be adopted as internal management tools to "state the values and ethical standards their business subscribe to, influence the practices of their global business partners" but also as a way

\(^1\) Institute of Social and Ethical AccountAbility, http://www.accountability.org.uk
to inform their stakeholders\footnote{European Commission, \textit{ABC of the main instruments of CSR}}. Additionally, the adoption and implementation of codes of conduct tend to bring about other business advantages such as improvement in the relationship with business partners, the promotion of good governance and legal compliance in countries of operations, and increased quality and productivity as a result of a healthier work climate. In general stakeholder pressure and interaction is the primary factor leading to the development of relatively strict corporate codes\footnote{Kolk and Van Tulder (2002)}.

There are various categories of codes including\footnote{European Commission, \textit{ABC of the main instruments of CSR}}:

- "Company codes" adopted unilaterally by companies;
- "Trade associations" or "sector specific codes" adopted by a group of companies in a particular industry (e.g. the electronic industry);
- International and European codes negotiated by the "social partners" (e.g. European codes in the sectors of trade, textiles, wood and sugar, and framework agreements negotiated between multinational companies and international labor organizations);
- "Multi-stakeholder codes" adopted as a result of joint initiatives by companies, trade unions and NGOs (e.g. Ethical Trading Initiative base code);
- "Model codes" developed by trade unions, NGOs or other organizations, that serve as a benchmark of reference for the development of a company code (e.g. the ICTU basic code, Amnesty International human rights principles for companies);
- "Inter-governmental codes" negotiated within international organizations (e.g. OECD "Guidelines for multinational enterprises", the ILO "Tripartite declaration of principles concerning multinational enterprises and social policy").

These codes can address a number of issues including working conditions, human and labor rights, bribery and corruption and environmental standards. Especially multinational companies in the apparel, shoe, retail, food, beverages and extractive sectors tend to have implemented codes of conduct. Levi Strauss was the first company to develop a code of conduct that put labor and ethics in the context of international supplier relations\footnote{Kolk and Van Tulder (2002)}.

A question that arises is how far down the supply chain the code should apply. Should the company take responsibility for the entire supply chain, down to the providers of raw material? It is very complex and expensive to monitor the entire subcontracting chain in today's global economy. It can be argued that this is the price to pay and that the companies so far have escaped to pay the full price. It should be added that such a burden most likely would affect the final consumer prices as well.

3.2.7 Comparison and Critics of CSR Standards

AA1000 and SA8000 should not be seen as competing standards. Instead the AA1000 framework is intended to work together with, and underpin more specified standards (like the SA8000 for working conditions, ISO standards for quality etc). They both
apply to all kinds of organizations, may that be businesses or authorities, small or large. A similarity is also that they both require management to define a policy and that this policy is put into place in the management system. However, differences between the two are that AA1000 prescribes procedural steps, but SA8000 also prescribes specific minimum requirements. Also, stakeholder engagement on all fronts are vital in the AA1000, but is lower prioritized in SA8000 and mainly directed towards employees and employee organizations\(^1\).

The SA8000 standard has been criticized of being too narrow in its scope, focusing mainly on labor matters. The well defined requirements could also lead to a compliance focused management, doing nothing to go over and beyond what is required by the standard. To its defense, processes for continued improvement after certification must be in place for compliance, although there is no ladder to climb in terms of the requirement level. The specific requirements have also received negative critic, e.g. the strict maximum amount of working hours. Migrant workers often want to work more hours being away from their families, and accumulate the salary for longer holidays. On the other hand, frameworks like the AA1000, Global Sullivan Principles and the developing ISO26000, can be criticized of being too vague. Targets and measures are important in order to draw management attention to CSR factors\(^2\).

\(^1\) Det Norske Veritas, *Can one give a Human Rights compliant label to a company?*

\(^2\) Det Norske Veritas, *Can one give a Human Rights compliant label to a company?*
4. Purchasing

This chapter gives a quick picture of the role and the responsibilities of the purchasing function. It is not a full description of purchasing theory. The focus is on trends in the automotive industry and the relation between CSR and purchasing.

4.1 Definition of Purchasing

There is no universal definition of what purchasing is and what it consists of. Van Weele\(^1\) defines purchasing as "Obtaining from external sources all goods, services, capabilities and knowledge which are necessary for running, maintaining and managing the company's primary and support activities at the most favorable conditions." This definition refers to the value chain model by Porter\(^2\), where the company's activities are divided into primary and supporting activities. Porter's description of purchasing as a supporting activity can be questioned in a modern industrial environment, where the value added by manufacturing companies is decreasing. Thus, the importance of supplier interaction and the purchasing function is growing. In the automotive industry purchased goods accounted for 60-80% of Costs of Goods Sold in 1996. A more likely number for car manufacturers today would be 70-85% according to different car makers' websites.

4.2 Supplier Involvement

The more important role of the purchasing function cannot only be derived to the increasing division of tasks between companies as expressed by more outsourcing and lower value added. Product development is becoming a task for the whole supply chain, involving both suppliers and sub-suppliers. The bidding process, where the best suppliers are chosen, is not merely followed by delivery of products, which used to be the case. Instead, the suppliers are engaged at a very early stage, developing parts of the final product. According to Van Weele, studies have shown that cost savings from early supplier involvement can be up to 10% of the price, even for a low degree of design complexity or product uniqueness.

4.3 Responsibilities of the Purchasing Function

In any organization some major responsibilities of the purchasing function can be identified\(^3\):

1. Contribution to the continuity of the company's primary activities. If the purchasing function cannot fulfill the responsibility of supplying manufacturing, engineering and other functions with products and services, these other functions may start to buy themselves, leading to less optimal processes and higher costs. Thus, this can be seen as the primary task for purchasing.

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\(^{1}\) Van Weele, Arjan (2002)
\(^{2}\) Johnson and Scholes (2002)
\(^{3}\) Van Weele, Arjan (2002)
2. **Control and reduction of all purchasing-related costs.** Purchasers should consider the price, but in the end it is the Total Cost of Ownership (TCO) that matters. This also includes costs for handling products, quality related costs for production shut-downs, customer complaints etc. Regarding CSR, lost revenues caused by bad publicity relating to incidents in the supply chain could be derived to the purchasing function of a company. Hence, managing CSR in the supply chain to lower this risk should be a purchasing responsibility. To assess the TCO, quality issues are vital. Consumers are demanding products with very few or no errors. When flaws are identified by the customer external quality costs occur, such as handling complaints and loss of "goodwill". However, some errors are discovered before the product is delivered. Correction and prevention of such errors, as well as minimization of the consequences, incur internal quality costs. As mentioned above, the purchasing function has a responsibility to minimize these costs, taking into consideration costs far beyond just price and terms of delivery.

3. **Reduction of the company's risk exposure in relation to its supplier markets.** Companies should try not to be too dependent on individual suppliers. The risk of being out-managed by powerful suppliers should be taken into consideration by purchasing managers.

4. **Contribution to product and process innovation.** Product and process development require capital, knowledge and other resources. If these resources are shared along the value chain it is likely that all parties will benefit. This should also apply to CSR knowledge and capabilities. Supplier collaboration, monitoring and training are becoming increasingly important with more integrated product and process development along the supply chain.

### 4.4 Purchasing in the Automotive Industry

Some trends that apply specifically to purchasing in the automotive industry have been identified by the authors along the way with this thesis, as we have been talking and listening to people within the industry:

- **Globalization of the purchasing process.** Today, products can be sourced from any corner of the world. Transportation and communication networks are global. This makes it possible to make use of the differences in labor and production costs, thus source from the countries and regions with the lowest costs. This trend started off in the more labor intensive industries, such as textile, apparel and furniture production. In the automotive industry this trend is not mainly about switching suppliers, but putting pressure on current suppliers to move their production facilities.

- **Centralized purchasing functions.** The car manufacturers have grown significantly in size over the last ten years, primarily through acquisitions and mergers. The administrative part of the purchasing function is something that can be centralized quite easily to get lower overhead costs and other synergetic effects. Other advantages are larger volumes and fewer suppliers.

- **Multi-brand purchasing organizations.** A consequence of the many mergers and acquisitions is that most car makers today have multiple brands in their
portfolio. The most common strategy is to have purchasing and manufacturing as common functions for all brands to get the synergetic effects mentioned before. However, brands are usually marketed separately towards customers. Balancing distinguished brand strategies on the market side and synergies internally is a very challenging task for many automotive companies.

- **Larger and same suppliers for all car makers.** Because of the fundamental economics of scale, and the general standardization of cars and components, the largest suppliers in the industry are getting bigger and market their products to all car manufacturers. Thus, some suppliers are getting very powerful, possibly changing the balance of power between suppliers and buyers.
5. CSR and Firm Performance

In this chapter previous research about the business effects of CSR will be discussed. Several areas where CSR could have a positive or negative effect are identified. Stakeholders’ impact on companies is explained in the context of the Nike case.

Since the beginning of the CSR-debate there have been extensive discussions to seek incentives for organizations to engage in socially responsible activities. The case has evolved from being a costly, sometimes undesired set of actions, to a reluctant capitulation to social and governmental pressure, and finally to a necessity for conducting profitable long-term business. Others have argued that social responsibility is the function of governments. Nobel Prize winner Milton Friedman claimed that a company’s foremost responsibility was to maximize its profits in total disregard of social conditions as long as it committed to public legislation. He also argued that if an action taken by a company results in a situation where the company can raise its profit and at the same time improves social conditions, it should not be given the label “social responsibility”. Social responsibility must according to Friedman thus have a cost to the firm and its shareholders or else it is just a component of a strategy of value maximization.

Notwithstanding the research is still inconclusive in this area, although most studies conclude that the higher social performance brings about improved profitability depending on what measures of financial performance are used. Many researchers claim that CSR expenditure is in the short run a cost but in a longer perspective an investment to gain competitive advantage and business success.

5.1 The Business Case for CSR

The six commonly recognized benefits of incorporating CSR values in business will be discussed below. These were highlighted in a report by the consulting firm Arthur D Little.

5.1.1 Reputation Management

Reputation management has gradually become more important since the relationships between companies and their stakeholders have become more evident and transparent. Scholars identify the role of reputation as the most important construct for the study of SP (social performance) and FP (financial performance). Corporate reputation is considered to be especially important in the management field due to the fact that the 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.

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1 Neville, Bell and Mengüç (2005)
3 Aqueveque, C (2005)
Corporate/brand reputation has been defined as “a set of attributes ascribed to a firm, inferred from the firm's past action”. Herbig and Milewicz\(^1\) pointed out that corporations have numerous reputations such as price, product quality, innovativeness, management quality or a global reputation.

In a saturated and very competitive automotive industry, brand image has become a principal success factor. Neville et al\(^2\) suggest that “the positive relationship between corporate reputation and a firm’s financial performance will strengthen as competitive intensity increases”. Major players in the automotive industry have in the past decade merged and produced cars with a large amount of common parts resulting in a market climate where brand image has become the base for differentiation. The intangible nature of corporate reputation and its complexity makes it difficult to trade, imitate, hence reputation can contribute significantly to performance differences among organizations\(^3\).

The World Economic Forum conducted a study in 2003 that reveals the emphasis business leaders put on corporate reputation. The study involved about 10% of the 1500 participants from the world’s 1000 leading companies\(^4\). Roughly 80% of the participants considered their companies to be global and about half were operating in the following four business sectors; retail and consumer goods, professional services, IT and electronics and banking. The results illustrate the top concerns of today’s business leaders. The emphasis on corporate brand image was highlighted by the following findings:

- A majority of members believe 40% or more of their company’s market capitalization is represented by brand/reputation.
- Members also believe that economics/markets and competitors represent the biggest threats to a corporation’s brand.
- Most (92%) perceive brand reputation as important to their corporation’s strategy.
- The three types of stakeholders that members are most likely to perceive as having the greatest influence on corporate reputation/integrity are senior management, customers, and employees.

Only product/service quality is considered to be more important to overall corporate success. Thus, according to this study corporate reputation has greater long-term financial significance than such long-established measures as historical stock performance, profitability, market share and return on investment.

Mahoney and Thorne\(^5\) point out that it is the past and current actions of a firm that determine its actual and future reputation. They ascribe the reality that far from all managers consider CSR in their strategy agendas to the fact that many executives’ focus on immediate (short-term) performance due to their short term incentives structures. In their study they conclude that short term focus on the executives’ compensation packages induce less managerial focus on CSR that typically generate earnings in the long run.

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\(^1\) Weigelt et al. (1988)
\(^2\) Neville, Bell and Mengüç (2005)
\(^3\) Aqueveque, C (2005)
\(^5\) Mahoney and Thorne (2005)
5.1.2 Risk Management
All corporate activities constitute a varying degree of risk engagement. Socially responsible procedures reduce the overall risks and preventable losses. Minimizing project risks is an everyday task in all businesses. Risk management has enduring impact on the company’s value and social involvement helps diminishing a variety of threats. Ethical funds, for instance, have proven to have lower risks in comparison to alternatives that disregard CSR. 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.

5.1.3 Employee Satisfaction
Employee satisfaction has in numerous studies and case studies shown to be strongly correlated to productivity. A broad employee focus and a good reputation also help attracting and maintaining a more skilled and competent work force.

5.1.4 Innovation and Learning
Innovation and learning is in today’s business environment crucial for survival. Facts show that prosperous companies use innovation and learning to turn social and environmental limitations and pressures into market opportunities.

5.1.5 Access to Capital
As expressed above CSR decreases the total risk factor in the company and is important for the long-term market value. Investors, banks, public lenders and private equity lenders take this into account when determining a company’s access to capital. Without capital it is difficult to take advantage of market opportunities. 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. These funds are shifting from a negative screening approach, where the least socially responsible companies are excluded to a positive screening. This may imply a general shift in the attitude of stakeholders to a more active approach. Another study showed that investors are willing to pay a premium for companies that manage their stakeholder relations and act in a responsible way in their interactions with their shareholders, clients and suppliers. Figure 6 shows a Swedish advertisement for a socially responsible equity fund.

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1 Van de Velde, Vermeir and Corten (2005)
2 Zadek, Simon (2001)
3 Zadek, Simon (2001)
4 Minlam, Socially Responsible Investing
5 Van de Velde, Vermeir and Corten (2005)
6 KPA Pension, http://www.kpa.se
The aforementioned advantages generate enhanced financial performance. It should be noted that 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. Furthermore, industry effects are in some studies not accounted for and in most cases a relatively short time horizon, typically six to twelve months, is used in the studies.

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. Deviations from the corporate optimum are claimed to be associated with lower levels of financial performance. This non-linear relationship, along with flaws in the methodology and other factors mentioned above, might also give a partial explanation to why the results diverge when researchers examine the relationship between financial performance and social performance.

Many researchers claim that socially responsible firms in the long run build lasting and risk reducing relationships with their stakeholders. These relationships allow them to gain competitive advantage and thereby improve fiscal results and shareholder value. A contradictory view is that CSR activities constitute excessive costs that put the firm in disadvantage in relation to other firms with lower amounts of CSR expenditures. The involvement of third party interests would according to this theory sub-optimize the shareholders' interest resulting in decreased stock market performance. Vance conducted a study that supports this view. His work was based on surveys that ranked firms on their perceived level of social responsibility. He found a negative correlation between social performance and stock market performance during a twelve month period.

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1 Carter, CR (2005)
2 Salzman et al (2005)
Alexander and Buchholz based their research on the same surveys that ranked corporations on their social performance, but found no significant relation between the variables.

There are more recent studies that have failed to find either a positive or a negative link between FP and SP. Diltz and Sauer investigated the performance differences between socially responsible investments and traditional investments and found that there were no statistically significant differences. Kneader et al. came to the same conclusion; however they found that socially responsible funds have lower risk compared to traditional funds. A risk averse investor, i.e. most investors, would therefore prefer the socially responsible investment.

Studies that support a positive relation between financial performance and social involvement include a 1992 UCLA survey based on 188 companies that showed that “companies that increased their community involvement were more likely to show an improved financial performance over a two year time period”.4

As discussed in earlier chapters, CSR is a broad multi dimensional concept. Several researchers have investigated the relation between the specific dimensions of CSR and financial performance.

A 1995 Vanderbilt University analysis found that in eight out of ten cases low-polluting companies financially outperformed their dirtier competitors. Derwall et al.2 came to the same conclusion in their study. And the US General Accounting office reports that employee stock option plans and participatory management schemes hike productivity an average of 52%.

Orlitzky et al.4 concluded that the relationship between financial performance and the isolated impact of separate CSR factors is strongest for the social dimensions. For the environmental aspects they came to the same conclusion but to a lesser degree. Orlitzky also found that measures of corporate social performance reputation were more highly correlated with FP than other measures. Their findings were supported by Van de Velde et al.6 who found that companies that “consider their needs and demands” of their suppliers and have a “flexible and transparent attitude” towards them have a significant growth exposure. This would also suggest that investors would be ready to pay a premium for them. Overall they found that companies with a high sustainability rating, scoring particularly high on dimensions such as supplier relations, significantly outperformed companies with a low sustainability rating. Little & Little found that companies with stronger reputations for social responsibility have marginally higher price to earnings ratios.

In summary a majority of studies we examined seem to report socially responsible companies outperforming their counterparts. It should however be noted that the results

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2 Derwall et al. (2003)
3 Daviss (1999)
4 Orlitzky et al. (2003)
5 Neville, Bell and Mengüç (2005)
6 Van de Velde, Vermeir and Corten (2005)
7 Neville, Bell and Mengüç (2005)
are often not statistically significant, probably due to short time horizons in some of the cases, and as noted earlier several studies seem to have considerable shortcomings. As expected it appears some aspects of CSR, such as social features and supplier relations, contribute more to firm performance than other aspects. However, “doing well” can’t guarantee financial success based on the results of these studies, just as being less responsible does not guarantee financial disaster.

As a rule there are two motivations for companies to use CSR for strategic purposes. It can be used to avoid “doing bad” so that subsequent consequences are avoided or it can be used as a bona fide strategic tool. The available literatures seem to concur in the first case, but the results are more diverse in the second case. Abnormal negative stock returns have often been traced following a socially irresponsible event. It seems to be that irresponsible behavior gets punished in the stock market; however the linkage between responsible endeavors and abnormal positive stock return is not as clear. At least no immediate positive response from the stock market should be expected.

5.2 Stakeholder Management

The question, “To whom does corporate social performance make a difference” unavoidably involves stakeholders and not only stockholders. Many scholars claim that stakeholder theory holds the potential for establishing a clear positive relation between corporate social performance (CSP) and financial performance (FP). Stakeholder has been defined in many ways in literature. Some typical definitions are given below:

Any group or individual who can affect or is affected by the achievements of the organization’s achievements
Freeman, 1984

All parties who will be affected by or will affect the organization’s strategy
Nutt et al., 1992

Any person group or organization that can place a claim on the organization’s attention, resources, or output, or is affected by he output
Bryson, 1995

People or small groups with the power to respond to, negotiate with, and change the strategic future of the organization
Eden and Ackerman, 1998

1 Wood and Jones (2004)
2 Neville, Bell and Mengüç (2005)
3 Bryson, JM (2004)
Those individuals or groups who depend on the organization to fulfill their own goals and on whom, in return, the organization depends
Johnson and Scholes, 2002

Different stakeholder theories can be found in the literature, however the differences are merely based on what non-shareholder groups to include as stakeholders. Examples of such individuals or groups usually comprise shareholders, consumers, employees, business partners, governments, media, local communities and the natural environment. These stakeholders can be grouped into four main categories, according to Henriques and Sadorsky¹:

- **Regulatory stakeholders** including local and national governments, professional organizations, and competitors.
- **Community stakeholders** including environmental and human rights groups, consumer advocates, and other potential activists.
- **Media stakeholders**.
- **Organizational stakeholders** including customers, employees, shareholders, and suppliers.

More importantly, stakeholders that advocate social issues can be found both within and outside the firm. Although the focus of this report will be on suppliers, it is often community and media stakeholders and other stakeholders within the organization that stipulate the social responsibility demands relating to suppliers.

For the purpose of this thesis we have chosen, in conjunction with the definition by Eden and Ackerman², to only include groups and people who can directly affect the organization’s future, consequently absent this power and they can not be defined as stakeholders.

Stakeholder identification and management has become increasingly important due the rise of internet and a generally more interconnected world. The media today is also much more sophisticated and more efficient than ever before, especially television has made once abstract subjects such as global warming and employee policies personal to consumers. The pressure groups, for instance, are using this more freethinking media to get their message through and force the companies to move in their direction of social change³.

The FP of the company is, as maintained by the stakeholder theory, strongly dependent on a trustworthy relation between the firm and its stakeholders that provides the company with access to scarce resources to operate efficiently. The relationship between the company and customers for instance provides the organization with financial returns while governments provide infrastructure and other services. If any primary stakeholder group perceives that it is being mistreated, it may withdraw its support and its services resulting in a decreased level of resources for the company⁴. Stakeholders have thus the power to sanction and punish firms that are operating in a manner that is not consistent with their core values and expectations; it is hence the

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¹ Maignan, Hillebrand and McAllister (2002)
² Bryson, JM (2004)
³ Lekunze, Ransom
⁴ Bryson, JM (2004)
stakeholders who dictate what is valuable. This power relation brings about a situation where stakeholders are able to indirectly change or reinforce either positive or negative behaviors. If resources are withdrawn from the company, the impact on the firm performance will be negative, jeopardizing the long term survival of the company. In chapter three we raised the issue of sustainability. If key stakeholders are valuing or are expected to value environmental and social issues in the future, the above examples illustrate that social and environmental sustainability are preconditions to economical sustainability.

When stakeholders identify themselves with the perceived characteristics of an organization they will align their resources with the company. Neville et al.\textsuperscript{1} exemplify this through “employees identifying with their employing organization will be more likely to socially interact within the organization, exhibit organizational citizenship behavior and be competitive towards those outside the organization”. Another example may be consumers who cease to purchase a certain brand’s products due to the treatment of suppliers' employees, as in the case of Nike, see figure 7.

\begin{figure}[!h]
\centering
\includegraphics[width=0.5\textwidth]{BOYCOTT_NIKE.png}
\caption{NGO's and other organizations mobilized against Nike after the scandal.}
\end{figure}

In mid-1990s Nike was accused of contracting suppliers using child labor. A rapid development followed where several independent NGO's put Nike's sweatshops under the loop and found several other inhumane working conditions in the factories. Initially, Nike responded by claiming it could not be held accountable for what other companies did, because Nike itself was not in the business of producing shoes. Later Nike complied but was accused of treating its efforts as a public relation issue rather than human rights. Due to the negative press Nike's brand image was tarnished and as a result sales dropped. We will get back to Nike's reaction to the negative press.

The identification process is consequently heavily dependent on the reputation of the company and reinforces the importance of reputation management discussed earlier in this paper. It should be added that corporations have a different reputation with each of the stakeholder groups and that the stakeholder expectations on individual firms are dynamic and changes over time. This implies that a proactive approach, as opposed to a reactive approach, is necessary for managing an enduringly positive corporate reputation. In a proactive approach to reputation management, stakeholders are continuously informed about the organizational actions to improve perceptions of performance whereas in a reactive approach, communication channels are opened to handle negative information targeting the company.

\textsuperscript{1} Neville, Bell and Mengüc (2005)
Stakeholders have different levels of power in relation to the firm. Firms get more dependent and vulnerable when stakeholder power increases, hence resources need to be allocated according to the respective stakeholder groups’ power and demands. Often the demands of all stakeholders do not need to be entirely satisfied. In general scholars seem to agree that at a minimum, the key stakeholders’ need to be taken into account. Some examples of surveys conducted to uncover stakeholder expectations include:

Blue-Ribbon study group, the Canadian Democracy and Corporate Accountability Commissions conducted studies to address a growing public concern for corporate responsibility toward the society after several scandals and frauds. Some of the results are given below:

- 74% of shareholders agree with the statement: “Executives have a responsibility to take into account the impact their decisions have on local employees, local communities and the country as well as making profits”
- 72% of the Canadians accept the legitimacy of corporations and their right to make a profit but who also want companies to accept a broader responsibility that extends beyond profit maximization.
- Only 36% agreed that their pension fund should be in “companies that make the highest profits and give the fund the highest return on investment. Almost half of already retired persons, the group most at risk, preferred the pension funds be invested in socially responsible companies even at the cost of somewhat smaller pension checks.
- 80% of Canadians are in favor of establishing corporate responsibility standards and requiring companies to report what they are doing to meet them.
- 51% believe that Canada should pursue an international agreement for enforceable corporate accountability standards but set such standards itself if other countries don’t join in.

In a questionnaire survey during 1995-1997, 540 managers express the extent of stakeholder involvement in their respective companies and its importance. The results show that companies, in general, are aware of the importance of stakeholder involvement but many fail to systematically assess stakeholder needs in their businesses and often lack a follow up process:

- A total of 86 percent of the sample say their company “strives to cooperate with important stakeholders.”
- A total of 85 percent claim “the company's primary goal is to serve the interests of important stakeholders, including making money for investors.”
- Only 54 percent use a formal system to evaluate how well stakeholders are served.
- Only 48 percent include stakeholders on the corporate board.
- A total of 64 percent favor “participative leadership”.
- A total of 72 percent practice “consensual decision making”.

Practices relating to two primary stakeholders - employees and customers - were also examined in more detail and indicate that employees do not appear to be closely involved, while customers are more strongly supported:

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1 Barlas, Dowsett, Williams and Verschoor (2002)
2 Halal (2000)
• A total of 45 percent provide workers access to all company information.
• A total of 45 percent conduct periodic employee attitude surveys.
• A total of 69 percent of managers ask for the views of their clients.
• A total of 73 percent provide useful information rather than exaggerated claims.
• A total of 69 percent conduct client satisfaction surveys.

Other studies have shown that 44% of the British public believe it is very important that a company shows a high degree of social responsibility when they buy the company’s product and that 58% of the general public across Europe feel that industry and commerce do not currently pay enough attention to their social and environmental responsibilities. In 1998, 28% of the British public believed that when buying a company’s product it was very important that the company showed a high degree of social responsibility; by 2002 this had raised to 44%. 86% of consumers have a more positive image of a company that is seen to be doing something to make the world a better place and a company’s responsibilities to society, environmental and labor practices are all seen by the public across 20 countries as more important than its economic contribution.1

1 Arthur D Little (2003)
6. Social Responsibility and Purchasing

This chapter describes the intersection of the topics in chapter four and five, Purchasing Social Responsibility (PSR). Research in this area together with successful practices and strategies to manage PSR is discussed.

The purchasing department has an influential role in upholding CSR practices within firms and can thereby affect a firm’s reputation. The purchasing department is in the beginning of the value chain and frequently interacts with upstream channel members. It also spans the boundary between the firm's internal functions and its external stakeholders and thereby plays an important role in successful partnerships and strategic alliances.

Merely about 25% of the materials and components used in modern cars are manufactured by auto makers, the remaining 75% are purchased from suppliers. What’s equally important is that a number of these suppliers are situated in low-cost countries such as India, China and Thailand where perceptions of what constitute unethical behavior may differ due to variances in business practices, managerial attitudes and cultural mores. Reputation management within multinational companies is consequently not limited to the actions taken directly by the firm. According to our definition of stakeholders, key stakeholders define what unethical behavior in buyer-supplier relations constitute. When suppliers operate in a manner that is not in compliance with the core values of the main stakeholders of a firm it represents a risk for the company.

In spite of this, it seems that research and efforts in the purchasing discipline in this area have lagged behind other functional areas of the firm, although purchasing managers believe that social responsibility is an important component of purchasing that will increase in importance over time. An examination of the articles published in the Journal of Business Ethics during 1999 and 2000 revealed thirteen accounting articles, twenty-three marketing articles and only one purchasing article. Murphy and Poist concluded in their study that at present purchasing plays a more prominent role in the implementation of CSR policies than in the formulation of policies.

CSR within the purchasing function of firms has many labels in literature; Purchasing Social Responsibility (PSR), Logistics Social Responsibility, Social Responsible Logistics and Social Responsible Buying. We have chosen to use the label PSR in this report.

6.1 Purchasing Social Responsibility

In the broader context of sustainability, environmental matters have been heavily considered in the purchasing discipline. From a social perspective some of the activities overlap with the general CSR of a firm. By including social issues advocated by the organizational stakeholders in the purchasing decisions, Purchasing Social

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1 Carter, CR and Jennings, MM (2004)
2 Murphy and Poist (2002)
3 Carter, CR and Jennings, MM (2004)
4 Murphy and Poist (2002)
Responsibility (PSR) attempts to “take into account the public consequences of organizational buying or bring about positive social change through organizational buying behavior”\(^5\). PSR can be defined as the inclusion in the purchasing decisions of the social issues advocated by organizational stakeholders\(^1\). Figure 8 shows how the interaction between organizational and stakeholder norms may affect or dictate the firm buying behavior.

It follows that PSR efforts attempt to minimize the firm negative impacts and maximize the potentially positive consequences of organizational buying on society. As we mentioned earlier, taking all social issues in consideration is not feasible due to the limited resources at disposal within firms. Taking into account specific stakeholder demands brought to attention by clearly identifiable stakeholder groups is often sufficient.

Some examples illustrating how firms can be pressured by different stakeholder groups to become more socially responsible when it comes to buying are given in table 1\(^2\).

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\(^1\) Maignan, Hillebrand and McAlister (2002)

\(^2\) Maignan, Hillebrand and McAlister (2002)
6.2 Dimensions of PSR

At the purchasing level of the organization a number of CSR categories are discussed, including environment, ethics, diversity, human rights/labor, health/safety and philanthropy/community.

6.2.1 Environment

Environmental aspects have been thoroughly discussed by scholars and considered in organizations’ buying practices for a long time. Most multinational corporations have set environmental objectives in the purchasing department. The environmental aspects of firm purchasing fall, as pointed out earlier, outside the framework of this thesis.

6.2.2 Ethics

Ethical issues in buyer-supplier relations have been studied from the perspective of purchasing management. Recent empirical studies indicated that there are two dimensions of purchasing ethics; deceitful practices and subtle practices. An example of a deceitful practice is when purchasers use obscure contract terms to gain advantage over the supplier. When purchasers show favoritism in selecting suppliers exemplify a subtle practice. Carter and Jennings conducted a study that concluded that ethics is not a dimension of Purchasing Social Responsibility but rather falls under the lower, more

<table>
<thead>
<tr>
<th><strong>Employees</strong></th>
<th>Employees of garment suppliers in Saipan regrouped themselves and launched legal actions against large US apparel manufacturers in the mid-1990s in protest against harmful working conditions. They also contacted the media that helped advocating their cause.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Consumers</strong></td>
<td>Consumers demonstrated outside of Eddie Bauer's stores to protest against alleged human rights abuses perpetrated by one of the firm’s suppliers in 1998. These protests received much media attention.</td>
</tr>
<tr>
<td><strong>Investors</strong></td>
<td>Ethical investment funds such as Franklin Research claim that they withdraw their investments from firms that do not include human rights in their purchasing policies.</td>
</tr>
<tr>
<td><strong>Governments</strong></td>
<td>The US government introduced the Bonded Child Labor Elimination Act of 1997, a law banning the import of goods made with bonded child labor.</td>
</tr>
<tr>
<td><strong>NGOs</strong></td>
<td>Hong Kong’s Asia Monitor Resource Center, a human-rights organization, published reports in 1999 on the working conditions at Disney’s suppliers. The report was then echoed in the US press.</td>
</tr>
<tr>
<td><strong>The media</strong></td>
<td>In 1994, an episode of the US TV show ‘Eye to Eye’ nailed Adidas for child labor practices. This triggered the company to become a leader in changing labor practices industry-wide.</td>
</tr>
</tbody>
</table>

Table 1: Examples of stakeholder actions in favor of PSR
fundamental level of Corporate Social Responsibility\textsuperscript{1}. Others claim that ethics is not a part of Corporate Social Responsibility which is not required but expected of businesses\textsuperscript{2}.

6.2.3 Diversity

Diversity issues in purchasing mostly involve buying from women/minority owned suppliers. These issues seem at first hand mostly to be put into practice by American companies operating in USA where important minority customer segments drive the selection of minority owned suppliers. Diversity issues will not be discussed in this thesis.

6.2.4 Human and Labor Rights

Human and labor right issues focus on only dealing with suppliers that meet recognized standards such as the Universal Declaration of Human Rights, the Ethical Trading Initiative (ETI) and the Electronic Industry Code Of Conduct\textsuperscript{3}. The objective is to eliminate child labor, forced labor and other inhumane working conditions from the supply chain. Also, the suppliers should pay a living wage to their employees.

6.2.5 Health and Safety

These topics revolve around ensuring the suppliers' facilities are operated in a safe manner. Recognized management systems such as OHSAS 18001 and ILO Guidelines on Occupational Safety and Health can be used as benchmarks to ensure acceptable conditions\textsuperscript{4}.

6.2.6 Philanthropy and Community

The dimension of philanthropy and community mirrors the equivalent dimension of CSR.

Human/labor rights and Health/safety are the dimensions most relevant to this study and these are the dimensions referred to in this report when PSR is mentioned. These aspects have grown in importance due to increased consumer awareness and augmented regulatory scrutiny\textsuperscript{5}.

\textsuperscript{1} Carter, CR and Jennings, MM (2004)
\textsuperscript{2} Carter, CR (2000)
\textsuperscript{3} EICC, Electronic Industry Code of Conduct, http://www.eicc.info
\textsuperscript{4} EICC, Electronic Industry Code of Conduct, http://www.eicc.info
\textsuperscript{5} Carter, CR and Jennings, MM (2004)
6.3 Practices and Strategies for Managing PSR

Murphy and Poist\(^1\) studied what practices are most commonly used for managing PSR issues. These were in descending order:

1) Establishing codes of conduct
2) Training and education of company personnel\(^*\)
3) Publicize social responsibility efforts/accomplishments
4) Hire and promote more socially responsible personnel\(^*\)
5) Reject suppliers who lack social responsibility concerns\(^*\)
6) Promote industry cooperative efforts\(^*\)
7) Redesign logistical system components for greater social responsibility\(^*\)
8) Conduct social responsibility audits
9) Encourage greater governmental involvement/regulation of social responsibility issues\(^*\)
10) Use outside or third parties to manage social responsibility issues

(Practices where a statistical significance was found to sustainability ratings are marked with an asterisk)

Logistics managers, in the same study, consider establishing codes of conduct, training and education of personnel and hiring and promoting more responsible personnel to be the most effective practices for managing social responsibility issues. What is equally interesting is that more than a quarter of the respondents claim that they plan to promote industry cooperative efforts in the future, implying that cooperation, in this area, between competitors could be more effective than each firm working individually. Poist and Murphy found statistical significance between six of the ten practices and firm sustainability ratings. Put differently, firms with high CSR-ratings tend to utilize these strategies to a greater extent. In general their study showed that firms that utilize a comprehensive set of PSR practices tend to score higher on the CSR-ratings. However, there seems to be a misfit between the practices commonly implemented and the effectiveness of these practices. Establishing codes of conducts for instance was used by 86\% of the companies in the study and was also perceived to be a very effective practice by the respondents, but there was no statistical significance found between this practice and CSR-ratings. Conversely, firms redesigning logistical system components for greater social responsibility scored particularly high on CSR-ratings, but this practice was perceived to be no more than the fourth most effective practice by the respondents and the seventh most commonly utilized.

PSR strategies can according to Maignan et al.\(^2\) be positioned along a scale ranging from reactive to proactive strategies. Table 2 defines these types and illustrates how PSR strategies are likely to evolve over time, by exemplifying how Nike was put under pressure from stakeholders.

\(^1\) Murphy and Poist (2002)
\(^2\) Maignan, Hillebrand and McAlister (2002)
Reactive Strategies | Defensive strategies | Accommodative strategies | Proactive strategies
--- | --- | --- | ---
Denying the relevance of any stakeholder issue to the organization; denying that the firm has stakeholder responsibilities. | Implicitly acknowledging the existence of stakeholder issues, but avoiding to address these issues. | Addressing stakeholder issues as long as they do not impair established organizational processes and financial performance. | Systematically anticipating, surveying, and addressing stakeholder demands.

When Nike was first accused of dealing with suppliers that used child labor in the mid-1990s, the company claimed that it was not in the business of manufacturing shoes, and that it could therefore not be blamed for the practices of East-Asian manufacturers.

Following media criticism, Nike publicized a report claiming that the employees of its Indonesian and Vietnamese suppliers were living quite well. The veracity of this report was tarnished by contradictory evidence produced by local activists.

Next, Nike started introducing workers’ rights and environmental guidelines for its suppliers. Yet, company representatives kept on explaining that any additional social responsibility initiative would damage the competitive position and long-term survival of the firm.

In the late 1990s, Nike designed a suppliers’ auditing process which invited student representatives along with other activities to visit manufacturing plants and provide recommendations for better practice.

<table>
<thead>
<tr>
<th>Table 2: PSR strategies according to Maignan et al.</th>
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<tbody>
<tr>
<td>1. Defining social responsibility goals for purchasing functions</td>
</tr>
<tr>
<td>2. Designing organizational members in charge of PSR in the purchasing function</td>
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<tr>
<td>3. Educating suppliers and provide support</td>
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<tr>
<td>4. Monitoring suppliers internally or with third parties</td>
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<tr>
<td>5. Sanctioning suppliers if they fail to meet stated criteria</td>
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<tr>
<td>6. Communicating achievements to stakeholders</td>
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<tr>
<td>7. Receiving stakeholder feedback</td>
</tr>
</tbody>
</table>

According to the same authors the following practices are important in managing a proactive approach to PSR:

Most of these criterias are identical or similar to the ones stated by Murphy et al.. Although a proactive stance seem to be desirable, far from all firms adopt these criterias. The reason may be, as pointed out in the CSR chapter, the lack of resources to gather information and top management concern. Firms need to determine how proactive their strategy should be and select the PSR activities they should develop.

Although monitoring and auditing of suppliers are mentioned by both Maignan et al and Murphy and Poist, there has been a lot of criticism of this thesis. Blackburn describes how audits are inefficient against poor working conditions. Supervision and monitoring itself cannot create the necessary understanding. Instead, results are achieved by working closely with employees and factory managers, explaining and discussing standards in a clear way.

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1 Blackburn, A (2004)
6.4 PSR - the Business Case

The research between firm purchasing behavior and firm performance has not been as extensive as in the case of the broader area of CSR. PSR however according to our definition can be put under social dimensions of CSR, which we saw earlier, had the strongest link to firm performance. Furthermore, by taking a proactive stance, cost may in the long term be reduced by managing governmental regulations, which may create barriers and first-mover advantages that are difficult to imitate.

Carter\(^1\) found indirect, positive relationships between PSR and firm performance, see figure 9. PSR was found to be positively related to the mediating variable organizational learning and sequentially, organizational learning is positively related to supplier performance. Supplier performance in turn is positively related to cost reduction that leads to improved financial performance. Hence firms that engage in PSR activities are not guarantied improved financial performance, they must learn from these experiences in order to improve supplier performance and thereby reducing their own costs. PSR is hence not only an activity to undertake to improve relations with external stakeholders. It can also lead to significant performance improvements.

Carter and Jennings\(^2\) also showed that firms that are highly involved with PSR tend to have a people-oriented organizational culture which is fair and supportive. This form of organizational culture has in several studies shown to contribute to organizational learning and productivity. This study also suggested that PSR can positively influence relationships with suppliers. Aside from a people oriented organizational culture, Carter and Jennings identified top management leadership, employee initiatives and customer pressure as key facilitators of PSR activities.

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\(^1\) Carter, CR (2005)
\(^2\) Carter, CR and Jennings, MM (2002)
7. Empirical Information

In this chapter information collected through research, surveys and interviews is presented. Automotive companies and three companies from other industries have been targeted.

7.1 Publicly Available Information

In this section, we present information about car makers' PSR (Purchasing Social Responsibility) from publicly available sources. Company websites and sustainability reports are the main ways for companies to reach external stakeholders with this information. The reader should notice that most sustainability reports are available online, and we refer to these for further information. Also, please notice that in this chapter we use the companies' real names. However, in the following two chapters, car makers are referred to as Company A, B, C etc, due to the agreement to treat respondents, survey answers and interview material confidentially.

Generally, sustainability reports are separated from regular annual reports that cover financial statements. For groups consisting of several brands, usually only one sustainability report is issued. However, Volvo Cars, which is a part of Ford Motor Company, issues one on its own. The reports cover social and environmental issues with a few exceptions, among them Honda and Hyundai, which only mention the environmental aspect. Thus, we have not included these companies in this chapter's descriptions. During this review only information directly referring to the definition of PSR in this report will be summarized.

The requirements that car makers put on their suppliers are generally very similar. Most companies include the following issues in their contracts or codes of conduct:

- No Forced labor: Condemns all forms of compulsory or bonded labor
- No Child labor: Elimination of child labor
- Equal opportunities: No discrimination, unless national law provides for selection based on specific criteria (applies mainly to the U.S.)
- Freedom of association and collective bargaining: The right to form, and negotiate through, unions
- Health and work safety: Occupational risk prevention
- Working hours and salaries: At least legislated minimum wage

For a more thorough description of car makers requirements, see results of our survey in chapter 7.2.

It needs to be added that the summary below, in many cases, lacks details. Interested readers are referred to each car manufacturer’s sustainability report for more comprehensive information regarding auto manufacturers PSR programs and practices.
7.1.1 DaimlerChrysler
DaimlerChrysler's passenger car brands include Maybach, Mercedes-Benz, Chrysler, Jeep, Dodge and Smart. The company employs 384,723 people and produces 4 million cars per annum.

DaimlerChrysler is a member of the U.N. Global Compact and expresses a will to “show the human face of globalization”. To evaluate supplier performance the company uses an “Extended Balanced Scorecard”, measuring cost, technology, quality and logistics, identified as the four main value drivers. In addition to the value drivers, DaimlerChrysler utilizes three conduct-related aspects, communication, commitment and integrity. The company expects the suppliers to implement these aspects in their relationships to their own sub-suppliers.

The conduct-related aspects derive from the “Corporate Social Responsibility Principles”, signed by executives and employee representatives in July 2003. Compliance to the principles is expected from all business partners, including suppliers. However, there is no stated commitment to inform the suppliers of the principles or follow up on compliance to the principles.

7.1.2 Renault-Nissan Alliance
The Renault-Nissan Alliance is the forth largest car manufacturer worldwide with a total of 5.5 million cars sold in 2004. The two companies are intertwined since 1999 through cross-shareholding and own 50% each in Renault-Nissan b. v. where strategic management for joint operations (Purchasing and Information Services) is situated. The common Purchasing function made 70% of the alliance's purchases in 2004. However, extensive cooperation is also found in manufacturing and distribution.

On its website, the Renault group expresses its intent to include social criteria in its supplier choices and performance reviews over the next few years. However, communication, guidelines and recommendations are the tools used by the company today. Renault, which signed up to the U.N. Global Compact in 2001, asked its suppliers to join the initiative in 2003. In 2004, the joint Renault-Nissan Purchasing function set out standards to some 750 suppliers, accounting for 80% of purchasing volumes. The main standard was the "Renault Group Employees' Fundamental Rights Declaration", of which the suppliers were informed and urged to adhere to.

The declaration was presented together with the International Metalworkers' Federation in October 2004, and states that "social responsibility is the key to long-term success".

7.1.3 PSA Peugeot Citroën
The PSA Peugeot Citroën Group, with 207,200 employees worldwide, manufactured 3.4 million cars in 2004. The two brands were merged into one company in 1976 but are still marketed as two differentiated car marques. PSA also cooperates with several other

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1 DaimlerChrysler, http://www.daimlerchrysler.com/sustainability
carmakers, e.g. with a joint Toyota/PSA assembly plant in Czech Republic and development agreement with Fiat.

PSA has two lines of improvement for sustainable development in its supply chain:
- Increase dialogue with suppliers: Involve suppliers to raise awareness.
- Monitor supplier performance in sustainable development issues: Make sure that suppliers are committed to social and environmental responsibility.

Increased dialogue is intended to promote long-term supplier relations and spread awareness of the importance of sustainable development. The message is communicated through management statements and at supplier conferences. So far the purchasing division has sent out a mail-shot in 2003 to promote the U.N. Global Compact, which is signed by PSA. Also, the PSA website states that sustainable development was included in the terms and conditions towards tier-one suppliers in 2004.

The monitoring initiative should eventually lead to a defined method of inspection used by purchasing personnel. The main objective is risk reduction through improved supplier selection and evaluation. At year end 2004, risk mapping of some tier-one suppliers was finished. Principles and methods are to be applied across the supplier base in 2006-2007.

7.1.4 BMW Group

The BMW Group manufactures and markets the BMW, MINI and Rolls-Royce brands, targeting premium segments of the automobile market. The total volume in 2004 was 1.2 million cars, where BMW accounted for slightly more than 1 million. The present brand and company structure has been in place since 2000, when Rover and MG were sold. The group has 3,000 service providers and suppliers worldwide, of which 970 are core suppliers.

In 2001 the BMW Group joined the U.N. Global. The "Value-oriented Human Resources Policy" states that "Social standards for suppliers and business partners are a basis for doing business". The U.N. Global Compact principles were included in the purchasing terms and conditions in 2003 as mandatory social guidelines. Suppliers are also required to observe the conventions of the International Labor Organization (ILO). Although the conditions are legally binding, BMW prefers a cooperative approach where the social standards should be seen as supplier development.

To measure social and other performance, existing and new suppliers are evaluated about once a year by the purchasing department. A supplier self-assessment is done in advance to work as a basis for the evaluation, which takes the following aspects into consideration:
- Product and production related issues
- Environmental protection
- Social standards

A survey of some 900 suppliers was conducted in 2003 to monitor supplier quality. It showed that three-quarters of volume is purchased from companies with explicitly

1 BMW Group, http://www.bmwgroup.com/sustainability
stated social standards. Also, 90 % has environmental and quality management systems in place. In early 2005 a Supplier Database for sustainability information about potential and existing suppliers was set up. The database enables purchasers to see if a certain supplier adheres to social principles before purchasing decisions are made. Since the summer of 2005 existing suppliers can also update their own information in the database to keep it up to date.

7.1.5 Volkswagen Group
The Volkswagen Group\(^1\), the largest car maker in Europe, employed 340,000 people and sold 5 million cars in 2004. The group markets several brands in the Audi brand group (Audi, SEAT and Lamborghini), Volkswagen brand group (Volkswagen, Skoda, Bentley and Bugatti) and Commercial vehicles. The Volkswagen Group has a supplier base of more than 5,500 suppliers and service providers connected to an electronic B2B supplier platform. Most of the € 50 billion purchasing volume is handled via internet.

The Volkswagen Group is a member of the U.N. Global Compact and is encouraging "socially compatible business attitudes amongst its suppliers". Also, the company's Sustainability website emphasizes the importance of a globalization movement that isn't based on exploitation. However, the company has no specific supplier criteria regarding social responsibility. In its "Declaration on social rights and industrial relations" Volkswagen supports and encourages business partners to adopt similar policies to their own operations, but suppliers are not informed as this is an internal policy letter. The declaration will be the framework for future developments of supplier requirements and touches upon Rights to association, Discrimination, Labor rights and Health & Safety.

The goal for future enhancements of the company's PSR is to make use of its size and supplier relations to more actively promote social development in its supply chain. A project has been carried out by the Purchasing function in cooperation with the University of Oldenburg, to integrate environmental and social criteria into the purchasing process. The outcome will be elaborated in an integrated project with the ILO and the deadline to have the criteria in place is set to 2008. The B2B platform will work as an essential communication tool for assessment of suppliers.

7.1.6 Fiat Group
Fiat Auto\(^2\) operates internationally under four brands; Fiat, Lancia, Alfa Romeo and Fiat Veicoli Commercially.

Fiat has a code of conduct that outlines the group’s business conduct policies, employee relations, external relationships and health, safety & environment issues.

The group selects suppliers on the basis of quality, innovation, costs and services. In addition to conventional supplier evaluation aspect, suppliers are selected "in accordance with appropriate, objective methods taking into account the values outlined by the code". The supplier contracts refer to the principles in the code of conduct.

\(^1\) Volkswagen Group, http://www.volkswagen-sustainability.com  
\(^2\) Fiat Group, http://www.fiat.com
A unit in the Purchasing department, Group Purchasing Coordination (GPC), has the responsibility of monitoring operations and promoting synergy effects. GPC’s responsibility regarding CSR requirements versus the supplier base is not explained in the report. It is not clarified what strategies Fiat implements to ensure compliance to the code of conduct.

7.1.7 Toyota

Toyota\(^1\) is the second largest auto manufacturer in the world with 7.5 million vehicles manufactured 2004. Toyota entered the European market in the early sixties and today has eight manufacturing plants in Europe with approximately 55,000 employees. Toyota also markets products under its high-end brand Lexus.

Toyota has seven guiding principles communicated to its subsidiaries. None of the principles directly refer to human rights or working conditions. Instead the focus is on Environmental and business ethics in supplier relations.

Kyohokai and Eihokai are two voluntary supplier organizations that function as a knowledge sharing networks to promote inter-organizational learning. Through these networks, CSR issues are occasionally treated in events such as seminars and other voluntary activities. Members seem to be exclusively Japanese suppliers; hence tier-1 suppliers in low-cost countries do not seem to be involved in this process.

No information is available in the Toyota Social report regarding what processes Toyota implements in upholding CSR in the supply chain.

7.1.8 Ford Motor Company

Ford Motor Company\(^2\) (Ford) is the third largest car manufacturer in the world with a turnover of USD 140 billion and 325,000 employees. In addition to Ford the company's brands include Jaguar, Volvo, Mazda, Land Rover, Aston Martin, Lincoln and Mercury.

Ford has a considerable part of its sustainability report devoted to CSR issues in the supply chain. A short outline of information relating to PSR in the Ford Sustainability Report will be presented below. This summary does not fully represent Ford's strategies in this area.

Ford cooperates with third party organizations to develop its policy toward the suppliers and also to receive feedback on its performance. Ford encourages its Tier one suppliers to communicate the expectations further down the supply chain. Ford has a person in charge of PSR in the Purchasing department who directly reports to the Senior Vice President of Global Purchasing.

The Ford Code of Basic Working Conditions was introduced in 2003 and is based on several international standards, including amongst others, the Universal Declaration of Human Rights, the UN global Compact and the Global Sullivan Principles. Several third parties have reviewed the code. Suppliers are encouraged to implement the same

\(^1\) Toyota Motor Corporation, http://www.toyota.co.jp/en
or similar codes of conduct in their own operations. Specific working condition requirements are stated in the supplier contractual agreement, covering child labor, forced labor and physical disciplinary abuse.

To assess the level of compliance with the code, Ford has conducted more than 100 pilot third party assessments in China and Mexico on existing and prospective suppliers. In total, Ford has identified seventeen high-risk countries for future expansion of the program. The assessment process in China consists of a self-administered questionnaire and a quality inspection. Prospective suppliers that advance to the next level undergo a third party assessment. If needed the supplier needs to prepare and agree to a corrective action plan and make the necessary changes. The process for existing suppliers is identical to the procedure described above, except for the initial screening questions.

In addition, Ford has conducted several pilot third party assessments of its own plants to evaluate compliance with the code of basic working conditions. The goal is to, in cooperation with Business for Social Responsibility, develop a scoring system to quantitatively measure supplier CSR performance.

The result from the assessments has been used to develop a more efficient supplier training (in China and Mexico), which seems to be the principal strategy in Ford’s PSR efforts. The training consists of workshops, in cooperation with third parties such as Automotive Industry Action Group and other non-profit organizations, targeting plant managers. The aim is to provide the managers with sufficient knowledge so they can assess the working condition in their respective plants and perform necessary corrective actions themselves. The long term plan is to combine audits/assessments and training. The focus the coming years will be on expanding this approach with suppliers in Russia, Romania, India, Turkey, Argentina and other identified high-risk countries. Ford acknowledges that customs, laws and cultures are different in each country; hence the approach needs to be tailored for each market.

### 7.1.9 Volvo Car Corporation

Since 1999 Volvo Car Corporation (Volvo Cars) is fully owned by Ford Motor Company. Along with Jaguar, Aston Martin and Land Rover, Volvo is part of Ford's Premier Auto Group. Volvo Cars is a relatively small auto producer with 456,000 cars sold during 2004.

Volvo Cars’ policies and approach to CSR issues in the supply chain are to a large extent governed by Ford policies; however Volvo Cars does take some initiatives on its own.

Aside from Ford audits, Volvo Cars has conducted six audits in Malaysia and Thailand. The company has also an established supplier forum in Thailand with about six seminars annually. CSR topics are occasionally treated in these meetings. The focus on Thailand is a result of Volvo Cars having a production plant in this region.

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2 Volvo Car Corporation, http://www.volvocars.com
In the Volvo Cars Corporate Citizenship report a stakeholder dialogue concerning PSR, with 12 participating suppliers, is mentioned as well as a graduate thesis in the subject. UN Global Compact and the Ford Motor Company Code of Basic Working Conditions are central elements in Volvo Cars’ policy formulation. The contractual terms for Volvo Cars suppliers are identical to the Ford Terms and Conditions.

7.1.10 General Motors

General Motors\(^1\) (GM) is the world's largest car manufacturer with nearly nine million sold cars, 2004. It has manufacturing operations in 32 countries and markets its products under eleven brands. GM purchases goods and services from more than 25,000 suppliers amounting USD 105 billion. GM also has purchasing collaboration with Suzuki Motor Corp. and Isuzu Motors Ltd.

GM has a worldwide purchasing policy and employee guidelines that communicate the CSR-requirements toward the supplier base. The worldwide purchasing policy, a part of the supplier contracts, requires suppliers' to comply with local regulations in countries of destination. In the case of human rights, GM has signed up to the Global Sullivan Principles and encourages its suppliers to also sign up to the principles or similar social responsibility principles. The principles serve as guidelines for conduct.

Compliance with the code is assessed through an electronic self-assessment survey completed by the suppliers. Suppliers are also responsible for assessing their subcontractors' compliance with the requirements. The PSR evaluation has been incorporated as a part of an overall risk assessment model. Internally the responsibility of upholding the policies and principles in the supply chain lies with local GM management representatives.

7.2 Survey

To compare different car manufacturers’ requirements and procedures regarding PSR, we decided to send out a survey. Although the websites and public reports provided information, it was not sufficient to understand what the companies were achieving in this area, and what can be viewed as good PSR management. In sustainability and CSR reports, the role of the purchasing function is often given little attention.

Our first approach to find appropriate respondents for the survey was to target purchasers in the automotive industry. However, it soon became apparent that the typical purchaser has very little knowledge about PSR issues. Because there is no universal title for this function (PSR is mainly an academic term), we found that the obvious target of respondents should be "someone working with Sustainability or CSR, preferably in the Purchasing function".

In total we received nine completed questionnaires from different automotive companies. Four companies did not return the questionnaire, making the total number of surveys sent out to thirteen. Seven respondents worked directly with Social Responsibility in their respective firms and could hence be considered to provide reliable information. Five held various positions in the purchasing department, and two

\(^1\) General Motors Corporation, http://www.gm.com
were located on a corporate level dealing with communication regarding CSR. The two remaining respondents (company H and I in the tables below) held positions in other functions or stated uncertainty regarding the answers given. The answers from these respondents should be viewed as indications only. Furthermore they will not be taken into consideration in the analysis.

The aim of the survey was to get comparable information for different car makers. It was also a way to gather facts for follow up interviews. Questions involved background information and what processes were employed at the moment in the PSR area. The in-depth content of procedures and practices was left to the follow up interviews. The questionnaire, including preface and instructions, can be found in Appendix 1.

7.2.1 Results from the Survey

All responding companies, except Company G, have requirements regarding CSR towards their supplier base (Question nr 4 in the survey). Also, they use CSR as a criterion in their evaluation of suppliers (Question nr 5). Furthermore, more or less homogeneous answers were received regarding how far down the supply chain these issues are communicated (Question nr 9). All companies but Company G communicate their CSR requirements to Tier 1 (direct) suppliers. A few, Company C, D, E and H, also state that they demand or ask their Tier 1 suppliers to communicate it further down the supply chain.

The results from the remaining questions of most interest for this report are found in the tables below.

*Question nr 2*) Estimate the proportion of your company's purchasing volume coming from production facilities located in low-cost countries (i.e. countries outside Western Europe, Japan and the USA).

<table>
<thead>
<tr>
<th>Company</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
<th>I</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 5 %</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6-15 %</td>
<td>X X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16-25 %</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; 25 %</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Don't know</td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 3: Answers to survey question nr 2

*Question nr 5*) Are the CSR-requirements part of your company's:

<table>
<thead>
<tr>
<th>Company</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
<th>I</th>
</tr>
</thead>
<tbody>
<tr>
<td>Terms and conditions</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other documents, namely:</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1) Company A Code of Conduct</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2) Supplier performance review</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3) Environmental Purchasing guidelines</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4) CSR Principles</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 4: Answers to survey question nr 5
**Question nr 6** Are the CSR-requirements:

<table>
<thead>
<tr>
<th>Company</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
<th>I</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mandatory (signed by the supplier)</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>A Guideline/Policy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Don't know</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 5: Answers to survey question nr 6

**Question nr 7** Which of the following aspects do your company's CSR-requirements include?

<table>
<thead>
<tr>
<th>Company</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
<th>I</th>
</tr>
</thead>
<tbody>
<tr>
<td>Child labor</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair compensation</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forced labor</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Freedom of association</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collective bargaining</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Harassment and discrimination</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Healthy and Safe working environment</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Working hours</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bribery</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 6: Answers to survey question nr 7

**Question nr 8** By what means are the CSR-requirements communicated?

<table>
<thead>
<tr>
<th>Company</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
<th>I</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qualification process for new suppliers</td>
<td>X</td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Information to suppliers</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Information to purchasing personnel</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Training of suppliers</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training of purchasing personnel</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1) CSR aspects will be added to the existing supplier evaluation process

Table 7: Answers to survey question nr 8

**Question nr 10** Has it occurred that a potential supplier performing well on all other relevant aspects, such as price, quality, service and product development capabilities, has been rejected because of CSR short comings in its production facilities or supply chain?

<table>
<thead>
<tr>
<th>Company</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
<th>I</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>X</td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not rejected, but improvement needed</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Don't know</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 8: Answers to survey question nr 10
**Question nr 11**) Does your company have an audit process in place for managing the CSR-requirements?
**Question nr 12**) Is there a follow-up process for the audit? (Applies to the first four alternatives only.)

<table>
<thead>
<tr>
<th>Company</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
<th>I</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes, third party audits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes, separate internal auditing function</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes, assessment by purchasers</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes, self assessment by supplier</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>We don't have an audit process</td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Don't know</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>

1) Planning to begin auditing in 2006

**Table 9:** Answers to survey question nr 11 and 12

**Question nr 14**) Does your company currently promote, or plan to promote, industry cooperative efforts regarding CSR?

<table>
<thead>
<tr>
<th>Company</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
<th>I</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
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<tr>
<td>No</td>
<td></td>
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<td></td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Don't know</td>
<td>X</td>
<td>X</td>
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<td></td>
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</tr>
</tbody>
</table>

**Table 10:** Answers to survey question nr 14

### 7.3 Interviews

Among the nine companies completing the questionnaires, respondents from four companies (B, C, D and F) agreed to participate in a follow-up interview. The aim of these interviews was to get a deeper understanding of the companies' PSR activities and experiences. Moreover, the purpose was to assess whether there are business benefits associated to PSR efforts.

#### 7.3.1 Company B

The PSR work in this company started 2004 as a strategy to avoid bad publicity similar to what some actors in the retail and apparel industry had experienced. According to the respondent, pressure from NGO's and fleet customers has been limited and did not initiate the PSR program.

**Training**

The first step was to put CSR elements in the supplier contracts with a focus on human rights. A letter was sent to all suppliers informing about the new binding requirements and also encouraging them to endorse non-certifiable standards, like UN Global Compact or Global Sullivan Principles. Buyers within the organization have been notified of the new contractual requirements as a part of their formal training. Hence, it has been integrated in the overall training of purchasers. The company is also collaborating with other auto companies on supplier training in the area of working conditions and human rights. This project is being coordinated by a third party.
Process
A part of the supplier evaluation model has been assigned to assess the level of compliance to the new requirements in the contract. Thus, CSR has been added to factors purchasers typically evaluate in their supplier choice.

In general the Public Relations department has been responsible for formulating the overall PSR policies. One person is responsible for coordinating the work in the purchasing department and purchasers are assigned the task of monitoring, as described above. As a part of the normal purchasing process, a subset of the results from the assessments and surveys is reviewed every quarter by an advisory group. The new PSR policies and requirements have on the whole been integrated in the business operations. However, additional funding has not been allocated. Affected employees have instead assumed added responsibility. Despite of this, purchasers have been cooperative, the respondent stated. Moreover, the new policies have not caused a push-back from the suppliers. Getting the company management on board has been essential to focus on collaboration internally, as well as with suppliers.

Lessons Learned
The key in their efforts has been top-management support and effective communication. Without the assistance of top management this would not have been possible. The respondent points out that this matter is new to the automotive industry and it takes time to get the right processes instituted. The company is still gathering data and plans to develop a measurement system in the future.

7.3.2 Company C
The company started to work with CSR in an organized and structured way after an initiative from top management the year of 2000. It was decided to publish a sustainability report and each department had to identify its focus areas. In the purchasing department quality, environment and social responsibility were identified. Working conditions in the supply chain increasingly get more attention, due to amplified sourcing from new and emerging markets.

Organization
The company has its purchasing function integrated with several partner companies, thus they work together with PSR as well. Resources for both environmental and social issues are shared on a global basis. People from the purchasing departments at all partner companies join in on conference calls about every six weeks. These meetings are for discussion of various sustainability issues and alignment of the partner companies' efforts.

Training
General awareness of CSR and the company's values are communicated through the Company Philosophy. Training in CSR is offered to all employees. The individual purchaser, together with his or her supervisor, yearly does a competence gap analysis to find out what kind of training is necessary. Like with other subjects, CSR should be reviewed in this analysis and a training session attended if needed. Throughout 2006, several such training sessions are planned and offered to purchasing employees.
Process
The company's overall PSR approach is centered on training and education of suppliers. Inspections and controls cannot guarantee compliance to CSR requirements. Suppliers' understanding is vital. The company has an evaluation process for new suppliers, which contains financial, quality, production, logistics, human resources and environmental aspects. In an updated version there is increased focus on social aspects.

Most visits to suppliers are carried out by quality engineers who mainly examine production process quality. Plant managers usually listen very closely to these engineers as company C is an important customer for most suppliers. A certain supplier can be visited from once a year up to two times a month depending on the track record. Nowadays, the inspections do not regularly involve social aspects, but with the updated evaluation process they will start to be taken into account. Yet, the quality engineers are not trained more than any other purchasing staff, although the tendency is that engineers spend more time on the field and purchasers less time.

Lessons learned
Company C has only received a few inquiries from fleet customers demanding documentation of the company's PSR efforts. However, the respondent highlights the fact that environmental variables had little weight in the customers' decision making until just a couple of years ago. Rapidly it became a key factor. PSR could grow in significance for customer buying behavior in a similar way if it took hold.

7.3.3 Company D
The PSR work in this company started recently following inquires from fleet customers about the company's PSR policies. Last year in total 20 fleet customers asked for information regarding PSR. Fleet customers have also started to put PSR conditions into contracts. Initially it was only environmental conditions, but lately demands of social character are being added. Because of the globalization effects, with increased sourcing from low-cost countries, the respondent believes the social aspects of sustainability are becoming increasingly important. For instance, labor unions have demanded that suppliers' employees should have the right to free association as well.

The initial objective, business wise, is to limit the risk of bad publicity that can potentially harm the brand image. Especially NGO's are identified as stakeholders with the power to harm the brand as the company wants to avoid the "NIKE-effect". In the long run, the company views PSR as a tool to create new business opportunities from the customer side. However, the company also believes that PSR improves supplier performance by enhancing quality and productivity. The best performing suppliers today in terms of quality, price and logistics are those who respect human and labor rights.

Process
The supplier evaluation model of this particular company consists of three steps. In the first step suppliers need to enter a so called supplier panel, by making a formal commitment signed by the board of directors. The commitment includes three basic requirements relating to child labor, forced labor and health and working conditions. In the second step a pre-visit questionnaire is sent to the supplier along with technical specifications. The third step consists of a follow-up performance review, where action
plans are formulated if the supplier is not fully complying with the requirements. Other aspects inspected include quality, logistics and technical capabilities.

During 2006 the aim is to have all existing and new suppliers signing the mentioned formal commitment. Audits will begin in 2007. To begin with, purchasers and quality staff will perform the supplier inspections in most countries. Later on, NGO's and other third-parties will be participating during the inspections in high-risk countries. The company feels that the content of its policies as they are formulated today is acceptable and have formulated a three year plan including budget specifications. The main focus in 2006 will be to educate purchasers and inform suppliers. Internal audits are planned to begin in 2007 (100 inspections planned for 2007 and 250 for 2008). Approximately 80% of the budget assigned for PSR is allocated for inspections and audits, the remaining 20% for training and education of company personnel.

Training
A mandatory training of all purchasers will start in February and March 2006 with a 30 minute session with the goal to introduce the purchasers to the topic and inform about the new policies with regard to PSR. Each department will also have separate sessions for additional questions. No third parties will be involved in this initial step.

Lessons Learned
The company is cooperating with another car maker in order to put similar requirements on the suppliers. The cooperation is not formal today but the aim is to perform reviews of common suppliers, especially in low-cost countries like India, together in the future, to reduce both suppliers' and the car makers' costs.

The main difficulty in the company's PSR work has been that purchasers previously have not included social aspects in evaluating supplier performance. Recent mergers in, and globalization of, the car industry has made costs, quality and logistics the prominent factors purchasers are thought to focus on. Also, work loads for purchasers have increased over the last years. Thus, adding further responsibilities to the purchaser’s traditional duties is a big obstacle in implementing new PSR policies. Another concern is due to a recent merger with another car manufacturer. Procedures and policies must be the same in both companies. The task to involve environmental aspects is accomplished, but the PSR coordination is progressing slowly between the two companies. Furthermore, the heterogeneity of the supplier base in terms of geography, size and cultural differences has made the task even harder to accomplish. A critical key that the respondent believes will make it possible to overcome these hurdles, is management support. The head of the purchasing department has clearly stated his support for the initiative, pushing purchasers and others to embrace the change in buying policies. The respondent has been working fulltime in this new position as PSR manager for one and a half year.

7.3.4 Company F
Five years ago a stakeholder summit, initiated by the company senior management, was held where the company invited external stakeholders, such as NGO's and investors to discuss future sustainability challenges facing the automotive industry. The two most crucial areas identified were climate change and human rights.
Organization
To develop capabilities regarding human rights, a new sustainability function in the purchasing department was founded. Today it consists of seven people working fulltime. The majority of this group's work is devoted to social aspects, with the remainder focused on environmental issues.

The respondent describes the company's PSR work as being proactive in its nature. No major public scandal in the company's supply chain has served as a catalyst in this case. Instead the initiative has come from top management, via purchasing management, to the PSR group. Management support has been a vital ingredient in order to get access to resources, and to put pressure on suppliers in cases of critical non-compliance to the company's requirements. In one case, a supplier manager had to discuss social issues in a three-party meeting, together with the respondent and a commercial purchasing executive. This meeting clarified the potential business impacts of non-compliance to social standards.

Process
The first step for new suppliers is a visit by an engineer or buyer evaluating product and production quality. A small part of the visit is devoted to working conditions at the facility. These inspectors are no experts in the social area; the intention is to raise awareness of PSR issues. The next step consists of a self-assessment by the supplier, followed by a third party audit by professional auditors. If no major shortcomings are discovered during the audit and if the supplier is cooperative in agreeing to a plan of corrective action, the supplier is approved.

The described process applies for all suppliers exporting from China. Suppliers in other countries are selected to enter the above described process as the program is expanded to other high-risk countries.

Training
Purchasers dealing with suppliers in high-risk countries are prioritized and are usually required to attend a more extensive training of 1.5 hours. However, other purchasers are expected to attend a training session to raise awareness, often as a part of staff meetings and department meetings. The respondent expresses a difference in reception of the training, with younger purchasers showing more interest. In general, there is a resistance to PSR among many purchasers, partly because employee performance reviews are based more on cost performance. As pointed out earlier, purchasers are not expected to perform inspections. Instead, their role is to act as intermediaries between suppliers and the PSR group in cases of disagreement. They are also instructed to keep their eyes open during supplier visits. A small "reference-list" is distributed among purchasers with critical matters to look for at supplier plants. The respondent believes experts are needed to conduct thorough reviews.

At least one manager from each supplier, situated in high-risk countries, is required to attend a full-day training session. The managers are required to develop a work plan to cascade the training to their own employees and sub-suppliers. Follow-up of this requirement will soon be implemented for suppliers considered to comprise higher risk. The training is conducted by a third party organization and is funded by the suppliers.
Lessons Learned
Specific demands from end customers for cars produced under fair working conditions are very limited. Generally, in the auto industry marketplace, climate change is dominating the sustainability agenda. However, the company has started to receive questions from fleet customers (i.e. corporations and governmental organizations) regarding PSR. Geographically, the interest is higher in Europe, but it will take some time before it will significantly affect buying decisions.

According to the respondent, investors are putting car makers under increasing scrutiny about how they manage their supply chain. With socially responsible mutual funds and other financing sources requiring good social performance, PSR is getting increasingly important for the balance sheet.

Several operational advantages correlate to good social conditions in manufacturing facilities. The respondent believes that the quality aspect is directly connected to health & safety management. Furthermore, lower employee turnover decreases training and recruiting costs that further brings stability to the supply chain. In countries such as China, where skilled labor is becoming a scarce resource, retaining employees is a critical management area. The company will start to measure economical costs and benefits of PSR in the near future.

Although operational benefits exist, the ability to manage a crisis in case of negative publicity is sometimes a more obvious rationale for PSR. Managers who doubt the more direct benefits can usually be persuaded about the importance of PSR, using the brand protection rationale. Building PSR capabilities can take considerable time, and an early adopter will always be more prepared to protect the brand-image.

The company’s experiences have shown that in countries where labor unions have a strong position and are independent from the local governments, working conditions and human rights are usually upheld, although exceptions do exist. In countries such as China and Mexico where unions are often strongly intertwined with governmental authorities, unionization does not necessarily correlate with good working conditions.

A critical success factor has been commitment from top management. Even during tough economical periods, resources have been provided to the purchasing sustainability group. Organizational culture is also important to achieve results in PSR, by involving all employees on different levels.

According to the respondent, the industry must work together to achieve significant results. Suppliers are sometimes being overwhelmed with surveys and on-site visits targeting the same things over and over, but from different buyers. The costs and workload could be reduced by a joint industry effort.

7.4 Best Practices in Other Industries
To establish an understanding of how leading companies in other sectors have organized their work in PSR, three companies, Bayer, IKEA and Hewlett-Packard, in diverse industries were targeted for in-depth interviews. These companies were selected because they were mentioned as good examples by several people and articles, such as recommendations from our tutor. Therefore they may not be the best companies in
terms of similarities with the automotive companies. Mr. Lars-Göran Peterson from IKEA was interviewed in person while interviews with Mr. Herwig Priewasser from Bayer and Mrs. Bonnie Tyler from Hewlett-Packard were conducted by phone.

7.4.1 Bayer

Bayer\(^1\) is a global Germany based chemical company, working with Health Care, Nutrition and Innovative Materials. It employs more than 90,000 people in all five continents. The Bayer supply chain consists of more than 25,000 suppliers and half a million raw materials, products and services.

**Social Responsibility in Bayer's Supply Chain**

Bayer was one of the about 50 founding companies of the U.N. Global Compact in 1999, thus expressly supports the goals and principles of the initiative. In order to extend the principles into its supply chain, it introduced a program called SUPREME (Supplier Relationship Management) in 2003.

SUPREME is a supplier evaluation tool where both Social and Environmental variables are included. Social aspects make up 15-20 \% of the total score. However, it is viewed and was initiated as a business driven tool, used to find the best suppliers and determine which ones should get more volume. Bayer believes there is a correlation between scoring high on Social and Environmental measures, and business success.

All suppliers are not being evaluated in the SUPREME program. Instead, suppliers are prioritized based on volume, with the major suppliers first. In terms of geography, it started with suppliers primarily in Germany and the US (where the major suppliers are located) in 2003. Today suppliers in developing countries have been evaluated as well. According to Mr. Herwig Priewasser, who is responsible for training and support to purchasers in sustainability issues, it has been more successful in driving business value in developing countries (e.g. India, China). The evaluation is usually made once per year, but as stated before, volume is the determining factor for importance and intensity. Goals for the SUPREME program depend on material group, but the overall goal is to evaluate 80 \% of purchasing volumes, i.e. not 80 \% of suppliers.

No social aspects are included in the terms and conditions (except for a few countries, e.g. India). Instead the idea is that business incentives should drive social improvements among suppliers (the higher SUPREME score, the more business). The suppliers have to take action accordingly to improve their score.

The key people in the SUPREME process are the purchasers, who do the assessment and visit the suppliers together with other professions, such as quality engineers. The teams usually consist of people from regional purchasing offices. To support them in their work Mr. Priewasser conducts a full day training session with them before they get involved in the SUPREME process. During the start-up of the whole program in 2003, consultants were brought in to design the process, to create momentum in the organization and to avoid mistakes. However, there is no recurring involvement from external parties.

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\(^1\) Bayer AG, http://www.sd.bayer.com
According to Mr. Priewasser, the advantages of implementing SUPREME have been quite clear, although no explicit economic costs or benefits have been calculated. Communication between purchasers and suppliers is much more clear and transparent, with suppliers knowing what should be improved instead of guessing. The process still needs to be easier for purchasers with less paper-work, and that is the main focus of improvement at the moment.

7.4.2 IKEA
IKEA is a global home furnishing retail chain based in Sweden/The Netherlands. The company employs 90,000 people worldwide with more than three quarters of the staff working in the stores serving 410 million visitors per year. Purchasing is organized into a strategic purchasing function in Sweden, and operative purchasing in Trading Service Offices in 32 countries. The largest volumes are purchased from China (18 %), Poland (12 %), Sweden (9 %), Italy (7 %) and Germany (6 %).

Social Responsibility in IKEA's Supply Chain
In 1994 IKEA was accused of dealing with suppliers who used child labor at their production sites. This marked the beginning of IKEA's efforts in PSR, that started with several requirements in a number of documents. The first step was to include mandatory requirements against the use of child labor. However, the level of compliance was not verified through follow-ups at this stage. In 2000 the requirements had been extended to other areas and it was decided to bundle all into one document, IWAY (The IKEA Way on Purchasing Home Furnishing Products). An internal group, IKEA Compliance and Monitoring Group, was assigned working with communicating requirements to suppliers, training of company personnel and compliance reviews at suppliers' production sites.

The IWAY document is a part of the contractual agreements with suppliers. It contains minimum requirements on both Environmental Issues and Social & Working Conditions. IKEA believes that gathering all activities and documents in one cohesive process makes the task of managing it less difficult. In addition to minimum requirements on direct suppliers (tier 1), these must communicate the IWAY standards to their own suppliers (tier 2).

Organization of PSR at IKEA
More than 200 IKEA employees are involved in the IWAY process, although most of them don’t work full time with these issues. According to Lars-Göran Peterson at IKEA Supply Chain, it is important that all people within the organization are aware of IWAY and understand why they must work with it in their own role. Experts must be there to manage the work and carry out specific tasks, but everyday communication with suppliers must reflect the IKEA thinking about PSR, written down in the IWAY document.

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1 Priewasser, Herwig, Procurement and Transport, Bayer AG
2 IKEA Group, http://www.ikea-group.ikea.com
The overall responsibility of the IWAY process is with the IKEA Compliance and Monitoring Group, see figure 10. Its role is to formulate guidelines and requirements, to ensure all local offices interpret the requirements in a similar way, and that the audit sessions (Internal Control in figure 10) are carried out according to guidelines. The group reports to the IWAY Council, the executive body, consisting of the CEO and other senior managers. At the 46 Trading Service Offices, see figure 11, is where the monitoring, control and local communication regarding IWAY is carried out. Trained internal auditors work full time with suppliers to implement the IWAY standards. Also, engineers inspecting supplier sites with regard to technical, quality, environmental and logistical capabilities (TQE) ask questions relating to IWAY. Data about each supplier is put into a database, to follow up on any corrective actions needed.

In addition to in-house personnel, IKEA uses independent third party auditors (such as PriceWaterHouseCoopers, KPMG etc) to assess IKEA's efforts with PSR, but also to conduct supplier inspections. The interviewing of supplier personnel by third party auditors is important to gain insights into suppliers' operations.

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1 Unicef, Child Labour Resource Guide
Training
All company personnel and especially purchasers are trained about the IKEA philosophy and how it is communicated through the IWAY standards. To further enhance knowledge, NGO's are often involved in local projects. Purchasing personnel can participate in supplier inspections together with in-house experts or external auditors to get a better understanding of the work in the field.

The IWAY thinking
It is important to stress that IWAY is not seen as a separate process for monitoring and control only, but should be an integrated part in the business partnership between IKEA and its suppliers. The role of purchasers in IWAY is to inform suppliers and discuss these issues with them on an ongoing basis, although they don't carry out the inspections. The challenge is to change the attitudes and views of opposing supplier managers, as well as their employees. If there is no understanding of why working conditions are important, inspections will hurt the relationship, creating irritation and anger. A good example was in Russia where IKEA brought a local physician to inform supplier employees about the negative effects of loud noise. This is the reason why IKEA manages the PSR locally, with a global unit for process quality. Understanding of local cultures and languages is critical in order to achieve results in changing the attitudes towards social and environmental issues. According to Lars-Göran Peterson, it is not about IKEA teaching its suppliers what to do. Instead, both parties will learn and develop their abilities, and it is in the dialogue and mutual understanding of why social responsibility is important that significant results can be achieved.

Lessons learned from IWAY
An important approach in implementing IWAY has been to involve as many employees as possible in the PSR efforts. The overall plan has been to integrate IWAY in the general business and not have specialist in a separate function as part of a parallel, isolated process. Mr. Peterson draws parallels to the early work with quality management in the organization. The success of these efforts lies, as in the case of quality management, in making it a "part of the business".

In the beginning, IWAY was seen only as a risk-minimizing project to protect the IKEA brand image. Today many other benefits can be seen, such as fewer claims and less waste due to better quality. Also, resistance to IWAY, which was strong in some cases,
has decreased over the years. The support for IWAY is now strong among suppliers, unveiled in supplier surveys.

Timelines and projections of progress have been changed along the way. The original idea was to move forward faster than turned out to be possible. Thus, an important lesson is that PSR efforts do take a lot of time. Furthermore, no significant difference has been discovered between small and large suppliers in terms of compliance and willingness to adapt to IWAY. Lars-Göran Peterson believes the commitment and attitude of senior management is more important than size, location or cultural background of suppliers. However, cultural differences have been the main problem in implementing IWAY, says Lars-Göran. A Swedish purchaser and a Chinese manufacturer may have totally different views of the same thing. Here, one must realize the differences, respect the counter part's view, and try to understand that view in order to solve the problem, instead of just canceling contracts and create conflict¹.

7.4.3 Hewlett-Packard
Hewlett-Packard² (HP) produces and markets computers, printers and other electronic products to consumers, businesses and public institutions in 170 countries. In 2005, the company employed 151,000 people world-wide.

Social and Environmental Responsibility (SER) at HP
Early on, the founders of HP imposed strong values in the company culture. The HP environmental program dates back to the 70's, and taking care of employees has always been a concern within the company. In the beginning of the 90's, HP started to outsource its production rapidly to domestic and foreign suppliers. HP employees were discouraged with the working conditions at some of the suppliers' plants, and brought to senior management's attention that something had to be done. The discussion was intensified after a documentary shown in 1999, where the methods of a labor agency to a 3rd tier supplier of HP was questioned. In the documentary, HP boxes could be seen in the factory, and it was identified as a potential brand risk with cases from the apparel industry in mind. These cases revealed that media's focus is rarely on suppliers, but rather on the more well-known buying companies with strong brand names.

HP started to benchmark other industries and companies, e.g. McDonald's, Disney and Nike. Their codes of conduct, standards and processes were examined. HP also looked into how they handled cases with bad publicity and how they responded to criticism. The benchmark lead to several conclusions (see below), and the next step was to plan what actions and resources were needed to reach tangible results. Funds were granted for the launch of the SER program in 2001, and a comprehensive set of tools were developed. Other companies in the electronics industry developed their own codes of conduct, and HP suggested the industry should come together, although they were fierce competitors. In 2004, the common industry code was agreed upon by eight electronic companies and launched in October of that year. Today, common codes and tools are used by 30 companies. The interested reader is referred to the EICC website³ for further information.

¹ Peterson, Lars-Göran, Supply Chain Management, IKEA
² Hewlett-Packard, http://www.hp.com
**Organization**

The department for SER acts as a global supporting function and develops the metrics, the codes, designs the audits, and communicates with internal and external stakeholders. Bonnie Nixon is a Global Program Manager and spends most of her time training auditors and purchasing personnel. Internal SER auditing teams are organized locally in different geographic areas. Purchasers and purchasing managers have to go through at least four one-hour training sessions, where they learn about SER, the HP process for SER in its supply chain and how to take it into consideration in the quarterly supplier reviews. 20% of the review, thus also the score, is made up of SER aspects. Furthermore, purchasers are measured themselves on how they have implemented SER into the buying and sourcing process.

**Process**

The Electronic Industry Code of Conduct (EICC) has a common model for assessing and working with suppliers in CSR including environmental matters. The model is called Supplier Engagement Model, emphasizing the intention to engage and involve suppliers in the work, not just monitoring and controlling them. The model is made up of four phases, see figure 121.

*The first phase's* most important element is a thorough risk assessment, to prioritize what suppliers should be targeted. It is based on several variables including: Location of production units (high/low risk countries), Labor intensity, New or existing supplier, Prior negative publicity, ISO certification, Chemical exposure and whether the products are manufactured under the HP brand or not.

In *the second phase* suppliers must complete a 54 pages self-assessment questionnaire. The aim of the assessment is to help the supplier gain understanding of why these issues are just as important as quality and costs, and that SER will help improve these traditional aspects as well. HP does follow up the questionnaire if answers are not acceptable. It is a valuable exercise that functions as the first detailed dialogue and communicates the requirements. EICC is building an on-line database where suppliers can submit their self-assessment questionnaires to multiple customers, e.g. HP, Dell and IBM. However, the customers will not be able to see what other companies the questionnaire was submitted to.

*The third phase* is a confirmation of commitment and understanding, through an audit followed by a corrective action plan. The audit is carried out by an internal professional HP auditing team.

*The last phase* comprises improvement according to the action plans and reporting to internal and external stakeholders. Also, data is collected and analyzed for follow-up on improvement. Proactive suppliers receive recognition of their work through awards.

Third party auditors are not used in the model itself. However, HP does use them for feedback on the elements of the model (training modules, processes etc) ad to receive external verification of the auditing process at each location to ensure an even standard is maintained at each location.

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1 EICC, Electronic Industry Code of Conduct, http://www.eicc.info
Benefits and costs

Although a lot of resources are needed to run the SER program (e.g. about 50 internal auditors), the benefits are obvious according to Bonnie Nixon. HP is a firm believer that if people are treated well, if they are educated and trained, they will become better employees doing a better job. This lowers costs associated with quality problems, accidents, retaining and hiring people and increases productivity. The most efficient plants are no "hiring and firing machines" with high employee turn-over.

Lessons learned

From the initial benchmark of other companies and industries, Bonnie Nixon identified five key aspects to consider for a successful implementation of the SER program:

1. The industry had to harmonize around a common code of conduct. At the time, the situation was chaotic, with suppliers being required to follow one code for every customer.
2. Monitoring and auditing was not enough. Many companies had been auditing for a long time with no or very little improvements made. The focus had to be on changing attitudes and the management system to get lasting results.
3. Local presence was essential to understand the culture and communicate more effectively with suppliers. The program could not be managed solely out of an HP office in the US.
4. Tools and processes had to be industry-wide. Harmonizing around a code was not sufficient, unless common tools and procedures were agreed upon as well.
5. Suppliers had to be involved as partners. Continuous communication and training was lacking in many CSR programs. Suppliers had to get into the program with a long term commitment to building capacity and understanding.
During the work with the SER program, Bonnie Nixon has also discovered some other issues of importance. The results from third party audits may in some cases vary. This could be due to lack of experience among some auditors. Therefore, it's important to assess the competence and experience of third party auditors before engaging them. Furthermore, metrics are essential to track improvement and development regarding SER. Also, measurements enhance communication between the different parties in the process. 

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1 Nixon Gardiner, Bonnie, Global Program Manager, Supply Chain Social & Environmental Responsibility, Hewlett-Packard
8. Analysis

In this chapter the collected information is both compared and analyzed based on the theoretical framework in chapter four to six. The analysis is structured the same way in all subsections to help the reader follow our thinking.

The publicly available information and the information from primary sources (survey and interviews) will be treated separately. In the public section company names will be used. However, since this part has mainly served as an introduction, there is no communication or reporting theory to reflect upon in this part of the thesis. We will just briefly give our view on the companies’ reporting about PSR (Purchasing Social Responsibility). Instead, the focus will be on the analysis of our primary sources, where we will make room for in depth comparison of companies and theoretical frameworks.

8.1 Analysis of Publicly Available Information

In general, supply chain issues do not make up a substantial part of automotive companies’ sustainability reports. Therefore, it can be hard to find information, especially for readers with little experience from reading such material. Also, a consequence could be that it is perceived as less important than other areas, such as philanthropy and community outreach. Even within the supply chain issues it can be hard to find information on social aspects (PSR) explicitly, because many reports are to a large extent dominated by environmental aspects. This reflects the fact that the environmental discourse has a longer history and more important and powerful advocate groups.

Many of the automotive companies have codes of conduct or policies for internal use, with a clause urging all business partners to adopt similar codes or policies. Most of these codes are based on the UN global compact, the UN declaration of human rights and the International Labor Organization's (ILO) conventions. Thereby there are many similarities between them. However, the urging for suppliers (and others) to adopt similar codes can not be viewed as enough to manage PSR. Explicit codes directed to suppliers must be developed together with tools and procedures for follow up. Another concern with general company wide codes is the interpretation of such codes or policies. In some cases (e.g. Toyota) the codes are vaguely formulated and could be interpreted in diverge ways depending on the reader.

One interesting tendency we noticed was that individual cases are often given disproportionally heavy weight in the overall description of the firm's PSR activities. This way of presenting makes it difficult for the reader to comprehend the firms overall implementation and level of progress. The main cause is likely a lack of systems and strategies for PSR, thus there is nothing to report than individual cases. Readers who want to gain insight should study several sustainability reports, preferably from different industries and countries, to understand how to interpret the information. Opinions and verifications from 3rd parties such as Non-Governmental Organizations (NGO) firmly enhance the reliability and seriousness. However, we saw very few examples of stated collaborations and testimonials in the automotive companies' reports.
Finally, Asian auto makers generally provide less information accounting for PSR activities than companies based in Europe or America. The best example in the automotive business is Ford Motor Company, which has a relatively transparent and comprehensive description of its policies and procedures.

8.2 Analysis of Primary Data

8.2.1 The Automotive Industry

Our primary data for automotive companies came from questionnaires and interviews. These provided information about the automotive industry that would not have been available in public sources. To get reliable information it was decided to keep answers and respondents anonymous in the report. We will start with some general comments on the answers we received, and then go into detail with three areas, Policies and Requirements, Processes and Organization, and Lessons learned.

All automotive companies we surveyed have started sourcing from low-cost countries, although no company buys more than 25% from such countries. As mentioned in the purchasing theory section, this is a strong trend in a lot of industries. From what we have learned during this thesis and by looking at other industries, it is very likely that the trend will continue and the feeling we have is that the speed is increasing. Toyota’s and other foreign car makers’ strategies in the US, with assembly plants located there to take the edge off the “buy American” slogan, show that we have a long way to go before final assembly is outsourced. Instead, the pressure will be on suppliers to move their facilities to low-cost countries. Thus, PSR will become gradually more important as the social risks increase in the supply chain. Of course, there does not necessarily have to be higher risk of violations against human & labor rights in a low-cost country. However, it is a valid assumption supported by answers we received from several companies. Based on the responsibility for purchasing, according to Van Weele, to lower the total cost of ownership, PSR will probably get more attention over the coming years.

This forward movement for PSR is also supported in the survey, as companies A and D do not have any kind of audit process today, but will start during the year of 2006. Also, company G, which was the only one without any requirements, stated a coming initiative in e-mail communication with us. However, one of the most prominent overall patterns is that very limited resources are allocated to PSR in the car industry. This became very evident during our efforts to get in contact with people within the automotive companies knowledgeable about PSR. It was more rule than the exception to get directed to either public affairs/communications or the environmental department.

Policies and Requirements

Generally, requirements are included in the terms and conditions of purchase. As this is a legally binding document it is possible to take legal action, or protect the company from potential lawsuits from the suppliers. Only company F stated that it has rejected a supplier based on bad social performance, although this correlates to one of the good practices by Maingnan et al, to sanction suppliers if they fail to meet criteria. Yet, the advantage of being hard on non-compliance should not be overestimated. A general answer and advice from the interviewed companies was to have a dialogue with the
supplier. If it is not understood why PSR is important, resistance will be high and results poor.

The content of the requirements are very similar between the car makers, although not identical. As explained in the analysis of public information, most companies in all industries use international conventions to formulate their policies. Many automotive companies plan to cooperate with other players in the industry, which could result in further harmonization of the requirements. There are four motivations for why such an industry wide effort would be successful.

- Similar requirements, according to the survey
- Many companies are willing to participate, according to the survey
- Support in the literature, as Murphy and Poist showed in their study that promoting industry cooperative efforts had positive effect on CSR ratings
- The successful case from the electronics industry, which we have described in the section about Hewlett-Packard.

Processes and Organization
Training is an important part of implementing any program. In our survey responses we can see that it is more common with the weaker information of company personnel and suppliers, than to conduct actual training. Training and education of company personnel is utilized only by four companies. We also know from the interviews that regular training sessions for purchasing personnel is 30-60 min in the cases where training occurs. This supports the hypothesis that resources for PSR are very limited. In general, strategies requiring significant resources are scarcely utilized by car companies. Interestingly, companies D and E have social aspects in their qualification processes for suppliers without training of purchasing personnel. Moreover company E states that purchasers make assessments of supplier plants without prior training, which could be a misinterpretation of our questions in the questionnaire. However, company D indicated in the interview that a 30 minute awareness session was being planned for the beginning of 2006.

In the terms of reactive-proactive strategies, as explained by Maignan et al, most companies would likely fall into the accommodative PSR strategy block. A common attitude appears to be that stakeholders’ issues should be addressed as long as no immediate expenses can be associated. There also seems to be a concern among some companies that PSR can act as a disturbance to the internal purchasing processes and the business relationships with suppliers. This internal resistance, especially among managers, will be a crucial hurdle to overcome, for PSR advocates within the companies. In the two companies, D and F, with the most proactive strategies, support from management was very evident.

The only case of a real proactive stance we have found in the automotive industry is company F. The practices described by Maignan et al indicating a proactive strategy are all employed by this company. There are organizational members in charge of PSR and suppliers are educated and monitored. The future goals of the program are clear, and there is a dialogue with stakeholders to receive feedback and input. However, the company relies totally on 3rd party auditors for monitoring, which can easily make the auditing too detached from the regular purchasing operations. Also company D and A are moving in a proactive direction, with new initiatives during the year of 2006. It should be noted that there is a bias in the amount of information we have received from
different companies, as only companies B, C, D and F were interviewed. A summary of the level of pro-activeness among automotive companies are displayed in table 11.

<table>
<thead>
<tr>
<th>Reactive Strategies</th>
<th>Defensive Strategies</th>
<th>Accommodative Strategies</th>
<th>Proactive Strategies</th>
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Table 11: Automotive companies along Maignan et al's scale of proactiveness

Lessons Learned
The most frequently mentioned key success factor was support from top management and from purchasing managers. Successful PSR as a grass root guerilla movement is therefore a major misinterpretation. Instead, a structured process supported by management both in terms of resources and verbal support is the way to go. Both companies D and F described the ignition of their PSR programs as being a mix of outside pressure and internal management initiative. More proactive companies have a stronger support from management, thus can stay on top of things and easier anticipate changes in the perception of outside stakeholders. As our research shows signs of an increasing interest in PSR among automotive companies as well as among stakeholder groups, proactive strategies will likely continue to stay in front of “the big wave” when preferences amongst customers and others change.

It should be noted that more proactive companies mention both risk management and improved supplier performance as motivations for PSR. Brand management is apparently the more easily understood rationale in the very competitive car marketplace. Yet, enhanced supplier results via lower employee turnover, more motivated personnel and thus better quality is a hard proven but important justification for PSR. Also, it correlates with the findings by Carter that PSR indirectly affects supplier performance via organizational learning.

The most essential stakeholder groups for PSR, excluding suppliers, have been identified to be the following in descending order, see figure 13. They all refer to the risk management rationale for PSR.

- **Media and Non-Governmental Organizations.** Brand management is at the heart of every PSR program. Many interviewees had famous cases, such as Nike where the brand was hit very hard, on their minds.

- **Fleet Customers.** Several companies stated that fleet customers, i.e. corporations and governmental organizations buying large quantities of vehicles, had sent inquires regarding how PSR was managed. This is not likely to be an order winner in the customers’ decision process but a qualifier for buying cars from a particular car manufacturer.

- **Investors.** Only company F mentioned investors as an influential stakeholder to push for PSR. This company has the longest gone PSR program in the industry.
This indicates that certain advantages of PSR are not noticed until comprehensive knowledge is acquired in this area.

- **Unions.** Surprisingly, no more than company D pointed out auto worker unions as an important stakeholder group lobbying for PSR. This is astonishing as worker unions are strong in the car industry both in Europe and North America.

![Stakeholders diagram](image)

**Figure 13:** Stakeholders with a large impact on automotive companies regarding PSR

### 8.2.2 Best Practices in Other Industries

From other industries we looked at the cases of IKEA, Hewlett-Packard and Bayer. Since information was collected through interviews only, no survey results are available. We will begin with some general comments on the three companies PSR programs, and then go into detail with the same three areas as for the automotive companies, Policies and Requirements, Processes and Organization, and Lessons learned.

These three firms allocate a significant amount of time and money to PSR, especially HP and IKEA. For example, HP has about 50 internal professional auditors, and IKEA involve more than 200 people in their PSR program, although not all on a full time basis. Other similarities between the two are that incidents in their respective supply chains were drivers to speed up the implementation of PSR. Thus the brand management rationale was the most evident in the start up phase. However, for Bayer it seems to be a question of finding the best suppliers only. The interviewee did not mention the effect on stakeholders situated forward in the value chain, such as customers or media.

**Policies and Requirements**

The companies have applied different tactics on how to set up its social requirements towards suppliers. IKEA has a very well documented policy (IWAY) as an attachment to the terms and definitions, as Bayer on the other hand is not including it in the ordinary purchasing agreement. HP has chosen to go beyond its own borders by introducing an industry wide code of conduct, which has been embraced by many other
large players in the electronics industry. Thus, it does not seem to be very crucial what form the requirements take. In the study by Murphy and Poist a majority of companies had codes in place, but no significant correlation to higher CSR ratings was found for this group. Codes and policies are themselves not powerful tools unless they are communicated and implemented.

**Processes and Organization**
For both HP and IKEA, respondents emphasize the need for management involvement and that PSR should be a part of the ordinary business relationship with the suppliers. Moreover, CSR in general and PSR in the purchasing function must be aligned with company values and a supporting organizational culture. There is also a pattern in all practices for PSR mentioned by Murphy and Poist with a statistically significant relation to CSR ratings, in that they all involve management or the corporate culture. “Training and educating” and “Hiring and promoting” is important for building an organizational culture. Furthermore, the other practices demand a commitment from senior managers. E.g. “Promote industry cooperative efforts” must involve top management to reach tangible results. This was also the case for HP, which undertook the task to harmonize the PSR codes and tools in the electronics industry. Thus, results from PSR may not only have to do with financial resources allocated, but can be implemented very “cheaply” if it is rooted in the values of the organization. The implementation of a successful PSR program is thereby, in many cases, dependent on a cultural change in the organization. Such cultural changes can sometimes be easier to facilitate in a crisis situation, when the resistance to change is being lowered. An incident in the supply chain, with public attention in media, could be such a crisis situation when cultural change is possible.

A consequence is that PSR programs are not suitable for outsourcing, because as with company culture, PSR cannot be bought from an external party. Both HP and IKEA use an internal auditing function, kept as an in-house competency. Furthermore, all channels to the suppliers, including purchasers, quality engineers and internal auditors, are involved in upholding the dialogue with the suppliers. This reflects the philosophy that PSR should be a part of the business partnership between the buyer and the supplier. Bayer also pointed out that their relationship with suppliers had increased in transparency as a result of the PSR activities.

**Lessons Learned**
All three companies identified operational benefits in terms of improved supplier performance as a result of PSR. Bayer illustrates this by mainly selecting suppliers for their PSR assessment based on volume. Moreover, efforts in low-cost countries clearly had the most positive outcome on supplier performance according to the respondent at Bayer. Since the risk in terms of an incident run by media or other stakeholders is also generally higher in low-cost countries, there is a clear motive to focus PSR programs on these regions. Another geographic aspect is that both HP and IKEA pointed out that audit functions should be geographically dispersed. Being familiar with the local culture and customs of the country simplifies communication with the suppliers.

**8.2.3 Comparison between Industries**
There are noticeable differences in the amount of resources spent on PSR in different industries. There are mainly three possible reasons. One is the difference in capital and
labor intensity in the production. IKEA for example, with home furnishing products, have relatively high labor intensity among their suppliers. Thus, working conditions have a bigger impact on product quality and it is more likely to get under scrutiny from media and customers. Bayer on the other hand, with very capital intensive suppliers in the chemical industry, spends less on PSR. Another reason could be that some industries just have not been “hit” yet by a media or consumer storm. In the automotive industry it is obvious that private customers do not think in terms of the social impact in the supply chain of cars. However, some fleet customers have started to put PSR demands on auto makers as a condition for purchase. The third possible reason is that we deliberately chose best practices companies in other industries than the automotive. Therefore it is likely that at least part of the big difference is due to a bias in the selection of companies to compare.

Centralization of purchasing in the automotive industry significantly impacts the potential to implement efficient PSR programs. For education of purchasers and inter-organizational learning it is an advantage. Yet, it is a disadvantage not to have the local presence in many supplying countries. Both HP and IKEA identify understanding of local or regional culture and language as essential for a good dialogue. Car makers could off-set this disadvantage by focusing more of their internal PSR training and education on quality inspection engineers or other personnel that are still kept decentralized.

Policies and Requirements
We will not go into further detail in the analysis with how requirements are formulated in different industries.

Processes and Organization
Only three automotive companies use self-assessments by suppliers as a tool. Self-assessments are often criticized for having no effect on actual behavior as it is up to the supplier to evaluate. But as pointed out by HP, these are vital in communicating requirements to suppliers and engaging the supplier in the process. They also help to establishing an understanding of why these issues are important. It is true however, that it is vital to follow up on self assessments in order obtain a continuous two-way communication. If it is treated as “just another document” sent out to suppliers it will not have any considerable effect.

Auto makers tend to rely on assessments by purchasers, who may not be trained enough or may not have the time for a thorough assessment. Only the most proactive car maker uses professional personnel by hiring third party auditors. Still, HP and IKEA use third parties mainly to calibrate their different in-house auditing teams and to get an outside opinion of their entire PSR programs. The decision to have auditing as an in-house competency also supports PSR as a part of the organizational culture.

Lessons Learned
An important lesson is that there are two major rationales for PSR, the risk management rationale and the supplier performance rationale. The first one is basically to lower the risk of having outside stakeholders making “a scene”, running campaigns that harm the brand image or divest the company’s shares. 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 explicitly studied in this thesis together with the cases in the literature
indicate that they are both valid. However, more research needs to be done to evaluate the financial costs and benefits of both rationales and we will come back to this in our recommendations.

From the material, we can see a trend in the order of which the two rationales are taken into consideration by decision makers. Prior to the start of a PSR program, the risk management rationale is dominating. This was evident both in industries where no major incident has not yet happened, such as the automotive industry, but also in industries hit by media or other stakeholders. However, after implementing and running a PSR program for some time, the motivation changes and become twofold. The supplier performance rationale is discovered which increases the internal support from management and personnel. The fact that no company we interviewed had tried to assess their PSR program’s explicit financial impact was rather stunning, and also supports the thesis that PSR is mainly seen as a defensive strategy, until the opportunities are uncovered.
9. Conclusions and Recommendations

In this chapter we present the most important conclusions from the analysis and possible improvements for automotive companies in their work with PSR. Topics for a possible follow up research project are also described.

9.1 Perspective on Sustainability and CSR

We believe CSR should be viewed as a business tool. This is not to say that ethical aspects should have no weight. However, CSR is an investment like any other that companies should expect to benefit from. We claim that Friedman is essentially right in his stance that a company's foremost responsibility is to be profitable. However, for the same level of economic performance companies should maximize social performance. Furthermore, since evidence is strong about the positive business effects of CSR, companies should actively search for social investments with financial benefits, which according to us is the essence of CSR.

The attitude that there are clear tradeoffs between economic and social performance have laid the foundation for a misinterpretation that CSR equals donations and philanthropy. In the donation view social performance automatically implies less economic resources at hand, which works on a personal level where performance is not measured in economic terms. However, in a business setting this thinking is dangerous, because programs viewed as donations will eventually have to be abandoned due to competitive pressure. The focus is on the costs of those CSR programs, not on the financial benefits and reduction of risk they might bring about. Instead, we propose a perspective of sustainability where social and environmental performance are seen as potential drivers of economic performance, see figure 14. The socially responsible firms acknowledge those drivers and transform social issues into competitive advantages.

![Figure 14: Social and environmental performance as drivers of economic performance](image)

9.2 Recommendations for Automotive Companies

PSR is a rather new concept to the automotive industry compared to other industries, e.g. apparel and furnishing. In the sustainability triad (economic, social and environmental), the focus is mainly on environmental matters with climate change on the top of the agenda. The auto companies are in different phases regarding PSR, with varying ambitions that may constitute a hinder in the potential development of an industry-wide social standard.
9.2.1 Operational Recommendations

Although automotive companies typically have centralized purchasing functions, each brand within these multi-brand organizations usually has a separate purchasing department which hinders communication regarding PSR, as numerous brands may have common suppliers. This brings about a situation where purchasing organizations have asymmetric amount of information at disposal about their common suppliers, which causes confusion and ineffectiveness. Increased cooperation would lower the internal barriers and make it easier to identify particular high-risk suppliers that should receive additional monitoring. An example of more transparent interaction would be to have color codes to illustrate the level of risk associated with each supplier. A straightforward way of facilitating increased cooperation is to have a shared database with result of audits and assessments, according to figure 15.

![Database & Communication Diagram](image)

**Figure 15:** A shared database to enhance communication and identify high-risk suppliers

As mentioned in the analysis, third party audits may not be the best way to go about monitoring suppliers. Also, it is very expensive. Instead, PSR assessments should be a part of traditional supplier performance evaluations that all automotive companies have already in one way or another. The continuous follow up of such performance evaluations are mostly done by quality inspection engineers and not by purchasers who has the commercial responsibility. Hence, PSR training and education should be focused on these engineers.

9.2.2 Strategic Recommendations

No company in our study has a systematic approach to assess business advantages or risks related to PSR. No risk assessment is made to evaluate risk costs associated to bad publicity, loss of sales or divestment of company shares. Companies in the premium segment, targeting middle or high income customers who are likely more politically aware, should in general be more concerned about PSR issues. The same also applies for auto companies having major multi national companies and governmental institutions as important clients, because they are particularly careful with their own brand images.

A common attitude in automotive companies appears to be that stakeholder issues regarding PSR should only be addressed as long as no initial investment is required. We propose a different view where all potential benefits and costs are accounted for in a structured decision making process. Instead of waiting for a “bad moon rising”,

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companies should work proactively quantifying key stakeholders’ demands by estimating a risk cost for each key stakeholder group. The figure below 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 16 holds, PSR adds value to the bottom line and is hence profitable.

\[ \text{Operational Benefits} + \text{Risk Cost} \geq \text{PSR Expenditures} \]

**Figure 16:** Risks and opportunities of PSR

A number of company functions and departments would need to be involved for quantifying the risks and benefits. This raises awareness in the company, and creates a sense of crisis that could play an important role in effective implementation of PSR according to our research.

The actual calculations of risk costs should be straightforward and easy to understand. Basic scenario analysis with a few possible scenarios with assigned probabilities would be favorable. The total risk cost is then calculated as the sum of the costs in each scenario multiplied by the assigned probabilities. It can be argued that such an analysis is very volatile and the estimate highly dependant on assumptions, which is true. However, the purpose of such an analysis is not to find a correct cost estimate. Instead, the aim is to change the view of PSR from reactive to proactive, from the donation view to the business view, investigating and discussing the business implications in an uncomplicated way. The simplicity makes it possible to discuss and change made assumptions and scenarios instantly during management meetings, preferably in a simple spreadsheet. Thus, the organization gets aligned around the decision and participating managers are empowered with the understanding and the numbers for successful implementation.
The assumption that there is an optimal level of PSR expenditures, see figure 17, is based on the theory explaining why researchers obtain diverge results when examining the relation between financial performance and social performance. It simply says that there is no linear relation to find, but an inverted U-shape relationship with an optimal amount of PSR expenditures. Our research shows that many companies that have come under scrutiny and have had to react quickly to external pressure have very capital intensive programs today. These may not be optimal in a financial perspective. If automotive companies systematically assess and find an appropriate level of PSR expenditures for profitability, the perspective of sustainability will shift in accordance to our proposed perspective in figure 14.

9.3 Further Research

We suggest that further research focus on the business implications of PSR programs. This study has not gone far enough into the detail with the effects in terms of lower business risk on one hand, neither operational benefits by enhanced supplier performance on the other. There are indications that there is a compelling business case for PSR. Still, this study has not confirmed that relation, but provided a base for testing of the hypothesis that PSR can give substantial business advantage.

**Figure 17:** An optimal level of PSR expenditures
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Appendix 1
Research Questionnaire, Lund University
- Corporate Social Responsibility (CSR) in Automotive Supply Chains

Estimated time: 10-15 minutes

Dear Sir or Madame

We are conducting a research study on how automakers work with social issues in their supply chains, i.e. their Corporate Social Responsibility (CSR) requirements versus the supplier base. The study is part of a research project at Lund University, Sweden. We have found no previous research benchmarking this area in the automotive industry. CSR in supply chains can address a number of issues including working conditions, human & labor rights and in some cases environmental standards. However, the focus of this report is on working conditions and human & labor rights and not on environmental standards!

The Purchasing department has an influential role in upholding CSR practices within the supplier base and can thereby impact a company's reputation and image. Also, carmakers are under increasing scrutiny by media and other influential groups. However, it seems that research and efforts regarding CSR in automotive supply chains have fallen behind other industries, such as the clothing or electronic industry.

The aim of this questionnaire is to find out what processes car manufacturers have in place to uphold working conditions and human & labor rights in the supplier base. The outcome of the study will be a framework for establishing best practices within the automotive industry.

We will provide a copy of the final report in due time. All respondents will be treated anonymously in the report, including both personal and company names.

The questionnaire consists of 17 multiple choice questions. Please check/tick the boxes, or in some cases fill in the text form fields or use the drop down menus. Before starting, please save the document in "My Documents" or a similar folder using the "Save as" function. Please change the name of the document by adding your initials to the document name. After completion, please return the saved document to sender as an email attachment latest 5th of December.

Thank you very much for your participation!

Shwan Haghandish
Per Ingelgard
Lund University, Sweden

Please note that error messages may turn up on your screen while completing the questionnaire.
These messages can be ignored!
1) In what countries or geographic areas are the production sites of your company's suppliers established?

- Western Europe
- Eastern Europe and Russia
- USA
- Africa
- Mexico
- South America
- China
- Japan
- India
- Other parts of Asia
- Don’t know

2) Please estimate the proportion of your company's purchasing volume coming from production facilities located in low-cost countries (i.e. countries outside Western Europe, Japan and the USA)

- < 5 %
- 6-15 %
- 16-25 %
- > 25 %
- Don’t know

3) Does your company have Corporate Social Responsibility (CSR) issues (not environmental issues) as criteria in its supplier evaluation process?

- Yes
- No
- We have no supplier evaluation model
- Don’t know

   Comments:

4) Does your company have any CSR-requirements towards its suppliers (e.g. a supplier code of conduct, as a part of the terms and conditions, or other document/policy) in place today? If the answer is "no", please skip to question 13.

- Yes
- No
- Don’t know

   Comments:

5) Are the CSR-requirements part of your company's

- Terms and conditions
- Other document(s), namely
- Don’t know
6) Are the CSR-requirements
- [ ] Mandatory (signed by the supplier)
- [ ] A Guideline/Policy
- [ ] Don’t know
Comments:

7) Which of the following aspects do your company's CSR-requirements include;
- [ ] Child labor, specify minimum working age: Please click for options
- [ ] Fair compensation/wages
- [ ] Forced labor
- [ ] Freedom of association (e.g. the right to join worker unions)
- [ ] Collective bargaining (the right to negotiate through unions)
- [ ] Harassment and discrimination of employees
- [ ] Healthy and safe working environment
- [ ] Working hours
- [ ] Bribery (governmental officials or business partners)
- [ ] Other aspects such as:

8) By what means are the CSR-requirements communicated?
- [ ] Qualification process for new suppliers
- [ ] Information to suppliers
- [ ] Information to company personnel (purchasers/buyers)
- [ ] Training of suppliers
- [ ] Training of company personnel (purchasers/buyers)
- [ ] By other means such as
- [ ] Don’t know

9) How far down the supply chain are the CSR-requirements communicated?
- [ ] To tier 1 (direct suppliers)
- [ ] To tier 2 (suppliers of direct suppliers)
- [ ] Further down the supply chain
- [ ] Don’t know
Comments:

10) Has it occurred that a potential supplier performing well on all other relevant aspects, such as price, quality, service and product development capabilities, has been rejected because of CSR shortcomings in its production facilities or supply chain?
- [ ] Yes
- [ ] Not rejected, but required to improve in order to maintain business contract
- [ ] No
- [ ] Don’t know
11) Does your company have an audit process in place for managing the CSR-requirements?
- Yes, third party audits
- Yes, separate internal auditing function
- Yes, assessment by purchasers at suppliers sites
- Yes, self assessment by supplier
- We don’t have an audit process in place

12) Is there a follow-up process for the audit?
- Yes
- No

13) Are your company's CSR efforts and accomplishments in the supply chain publicized in a public report (e.g. sustainability or annual report)?
- Yes, in the following document(s)
- No
- Don’t know

14) Does your company currently promote, or plan to promote, industry cooperative efforts regarding CSR?
- Yes
- No
- Don’t know

15) Please state what position you hold in the company.

Business unit: Department: Title:

16) Please estimate the share of your time devoted to CSR-related issues.

Please click for options

17) What Business unit/Department/Title in your company is responsible for CSR issues in the supply chain? (i.e. Who would be the one most suitable for answering the questions in this questionnaire?)

Business unit: Department: Title:

Comments: