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Lee, H-Y, Kwak, D-W & Park, J-Y

Author post-print (accepted) deposited by Coventry University's Repository

Original citation & hyperlink:

Lee, H-Y, Kwak, D-W & Park, J-Y 2017, 'Corporate Social Responsibility in SMEs' Supply Chains' *Corporate Social Responsibility and Environmental Management*, vol 24, no. 6, pp. 634-647
<https://dx.doi.org/10.1002/csr.1433>

DOI 10.1002/csr.1433

ISSN 1535-3958

ESSN 1535-3966

Publisher: Wiley

This is the peer reviewed version of the following article: Lee, H-Y, Kwak, D-W & Park, J-Y 2017, 'Corporate Social Responsibility in SMEs' Supply Chains' *Corporate Social Responsibility and Environmental Management*, vol 24, no. 6, pp. 634-647, which has been published in final form at <https://dx.doi.org/10.1002/csr.1433> This article may be used for non-commercial purposes in accordance with Wiley Terms and Conditions for Self-Archiving.

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Corporate Social Responsibility in SMEs' Supply Chains

Hee-Yong Lee

Yeungnam University, South Korea

Dong-Wook Kwak

Coventry Business School, United Kingdom

Jeong-Yang Park

The University of Nottingham

Abstract

This research aims to conceptualise the dimensions of corporate social responsibility (CSR) in supply chains and then investigate the degree of importance and implementation of these CSR practices from SMEs perspectives. Also, it explores the drivers of SMEs' CSR practices based on the institutional theory and the stakeholder theory. Literature review, panel discussions as well as a large-scale questionnaire survey with SMEs were conducted for this purpose. Step-wise analyses using analytic hierarchy process, performance-importance matrix and ANOVA were used for this purpose. The results showed that SMEs tend to focus on explicit CSR practices that can be easily identified by their customers. It is also shown that stakeholder and institutional pressures were valid in the performance of CSR practices, but largely biased to customers, government and regulatory pressures. This research has value in postulating and testing dimensions of CSR which fully consider supply chain contexts with empirical survey data.

Keywords: Corporate social responsibility, institutional theory, SMEs, supply chain management, stakeholder theory

Corporate Social Responsibility in SMEs' Supply Chains

1. Introduction

The form and concept of corporate social responsibility (CSR) has become a prevalent subject in business research which led to various conceptualisations of CSR by scholars and to date, developing a widely-accepted conceptualisation of CSR is highly contested in the literature (Heikkurinen and Ketola, 2012; Crane *et al*, 2008; McWilliams *et al*, 2006; Mohr *et al*, 2001). Given the complexity of the CSR concept, it is viewed mainly from four perspectives: as a social obligation, as a stakeholder obligation, as an ethics-driven process and as a strategic managerial process (Maignan and Ferrell, 2004; Oberseder *et al*, 2013). Within these CSR perspectives, CSR research and practice lies on a paradox between a notion of voluntary basis or behaviour of social concerns in companies' operations (Vilanova *et al*, 2008) and an opposing notion of social responsibilities that is typically mandated by law (Campbell *et al*, 2012). In any cases, the awareness of corporate social responsibility by the public has been increasing, which led firms to implementing CSR practices across their supply chains.

The integration of sustainability into supply chains has drawn much attention both from practitioners and researchers with the current emphases on the triple bottom line (TBL) of economic, environmental and social concerns of business operations. However, sustainable supply chain management (SSCM) research is largely biased to economic and environmental aspects (Hall and Matos, 2010), which highlights the importance of CSR research focusing on both environmental and social impacts of the business beyond economic concerns. Research on how to integrate CSR in supply chain management (SCM) is rather limited but it is becoming a field of increasing interest, with research particularly concentrating on the CSR practices and activities of large companies in their supply chain. Within CSR-SCM research, the implementation of environmental and social standards along the supply chains (e.g. Seuring and Muller, 2008) and the risks and challenges related to implementing and complying with these environmental and social standards (e.g. Lim and Philips, 2008) have been studied. Implementing CSR principles into the supply chain can be challenging and yet, despite the increasing awareness of implementing CSR into supply chains, many firms, specifically small

and medium-sized enterprises (SMEs), struggle to see the real value of CSR practices in terms of competitive advantages across the supply chain.

One interesting finding from the extant CSR-SME research is the dimensions of CSR are often constrained to the corporate level without taking the business responsibility for supply chains into consideration. Due to the fact that the distribution of CSR complements the supply chains by linking buyers and suppliers, the focus must integrate responsibilities of and for those parties into a company's role to implement the socially responsible businesses. In addition, the scope is also limited to large companies and public authorities, neglecting SME in the sustainability debates (Achabou *et al*, 2015). Indeed, SMEs are in a weak position in supply chains and possess less resource, scope of operations and visibility compared to large and brand-owning firms, which often leads to their passive reactions to CSR practices.

Given these research gaps, this research aims to conceptualise the dimensions of CSR in supply chains and investigate the degree of implementation of these CSR practices from SMEs' perspectives. It also explores the drivers of CSR which initiate and motivate firms to adopt CSR based on the institutional theory (Kim *et al*, 2013) and the stakeholder theory (Park and Ghauri, 2015) as overarching theoretical lenses (Kim *et al*, 2013; Park and Ghauri, 2015). Under this notion, we provide a consolidated framework to investigate CSR-SCM relationships and advance the theoretical understanding of CSR in SME's supply chains. The objectives of this research are three-fold. The first is to conceptualise the dimensions of CSR in supply chains, highlighting which dimension is prioritised in the practice. The second is to demonstrate to what degree SMEs implement CSR practices. The third is to explore the drivers of SMEs' CSR practices based on the institutional theory and the stakeholder theory. We employ the empirical findings of SMEs' supply chains to illustrate this theoretical development.

The remainder of this paper is structured as follows. In the next section, we review the extant research and related theories that shed light on the dimensions and drivers of CSR in supply chain management. Then, the methodological approach of the study is explained and then the findings are presented and discussed. Finally, conclusions are drawn including implications and limitations of the study.

2. Theoretical Background

2.1. CSR in SMEs' Supply Chains

For the purpose of our paper, we take the view of CSR as a concept whereby companies go beyond and extend to the grounding CSR on a voluntary basis and integrate the greater notion of socially binding responsibilities in their business operation and in their interface with their stakeholders. Thus, our study adheres to the definition by McWilliams and Siegel (2001: 117) where they define CSR as “actions that appear to further some social good, beyond the interests of the firm and that which is required by law.” This interpretation of CSR suggests the potential dimensions of CSR practices of business operations where CSR is firmly connected to institutions of stakeholder or government involvement (Brunton *et al*, 2015; Heikkurinen and Ketola, 2012). Interfacing with stakeholders, CSR can be viewed as an imperative organisational task for firms in order to address ethical, social, environmental and economic demands (Park and Ghauri, 2015).

Extending the notion of CSR to not only being socially responsible internally within the organisation, CSR encompasses the idea of being responsible socially and environmentally throughout its supply chain (Pedersen and Andersen, 2006). Research on how to integrate CSR in SCM is rather limited but it is becoming a field of increasing interest, with research particularly concentrating on the CSR practices and activities of large corporations in their supply chain. Within CSR in supply chains, the implementation of environmental and social standards along the supply chains (e.g. Seuring and Muller, 2008) and the risks and challenges related to implementing and complying with these environmental and social standards (e.g. Lim and Philips, 2008) have been researched. Implementing CSR principles into the supply chain can be challenging and yet, despite the increasing awareness of implementing CSR into supply chains, many firms struggle to see the real value of CSR practices in terms of business profits and performance. In particular, traditional concepts of CSR cannot fully capture the social responsibilities of supply chains beyond a company. Due to the fact that the distribution of CSR complements the supply chains by linking buyers and suppliers, it is highly required to take buyers and suppliers into account for implementing sustainability with supply chains. For this reason, Carbone *et al* (2008) distinguished SC-level responsibilities from corporate-level responsibilities while incorporating both social and environmental dimensions for both levels.

However, there are just a few studies which consider the uniqueness of supply chain level responsibilities, thus conceptualisation of these aspects is not common in the literature.

With respect to the organisational size in CSR-related activities and practices, the literature tends to focus commonly on large corporations such as MNEs in developed countries (Jackson *et al.*, 2008) and neglects SMEs in the current sustainability and sustainable development debates (Bos-Brouwers, 2010). There is a clear knowledge gap in the link between CSR-SMEs (Russo and Perrini, 2010) although SMEs make up over 90 percent of the global population of corporations and offer more than half of employment in both developed and developing economies (Jamali *et al.*, 2009; Udayasankar, 2008). Consequently, SMEs produce major contributions in social and economic related activities (Udayasankar, 2008). Given their importance, this gap needs to be addressed by focusing on CSR specifically putting emphasis on SMEs. Towards a more holistic approach in CSR, there is a need for more research into SSCM specifically from a SME perspective (Ayuso *et al.*, 2013; Pedersen, 2009). Typically, SMEs often seem to possess intrinsic differences when compared with large corporations. These differences come in the form of legal structures, policies, sector, strategic orientation toward profit and institutional forms (Perrini, 2006).

Within SMEs environment, extant CSR theories and instruments suited for MNEs may not be applicable for SMEs (Bos-Brouwers, 2010). In particular, SMEs typically possess passive reactions towards CSR and sustainability partly due to insufficient financial resources and competencies as well as informal management systems compared with large corporations which put them in the weak position implementing CSR-related organisational practice (Park and Ghauri, 2015; Jenkins, 2004; McWilliams and Siegel, 2001). Typically informal nature of SMEs' management system is often seen as a hindering factor to adopt and implement CSR practices (Baumann-Pauly *et al.*, 2013). For SMEs, the commitment to CSR tends to be implicitly reflected in their internal structures and procedures with no formalised system to promote CSR practices and processes (Baumann-Pauly *et al.*, 2013). In this vein, Baumann-Pauly *et al.* (2013) indicate that large organisations seem to be better equipped at organising and implementing CSR explicitly in their formal organisational practices and procedures which allow them to interact efficiently with stakeholders when compared to SMEs. In both cases for SMEs and large organisations, the collaboration with external society plays a key driver in promoting and implementing the CSR practice (Baumann-Pauly *et al.*, 2013; Winsor, 2006).

account. Eventually they agreed that at least one supply chain dimension should be needed to capture the unique contributions of sustainable supply chain management to CSR. As a result, the framework of CSR dimensions in supply chains can be drawn as can be seen in Table 2.

(2) Relative importance of CSR dimensions

Based on this CSR framework, the relative importance of each dimensions and their practices were calculated by AHP. Four analyses were conducted using SuperDecisions software package to find out the relative weights among three CSR dimensions and among practices within a dimension. All the analyses showed the consistency indices less than the threshold value of 0.1, which means the responses were logically consistent. The results are demonstrated in Table 3 in a descending order of relative weights. Two established dimensions, Corporate Society and Corporate Environment, accounted for 80% of the importance with similar levels of weights between the two. The Ethical Supply Chain dimension, on the other hand, was perceived less important than the other two. However, it also accounted for 20% of the total importance, showing the potential to be an independent dimension that can effectively illustrate CSR in supply chains. The relative weights of CSR practices will be further discussed in Step 4.

(Insert Table 3 here)

(3) The level of CSR implementation

The level of CSR implementation was measured by the mean. The results show that consumer protection (5.3 out of 7) is the most implemented practice, which is followed by environmental products (5.01) and environmental sites (4.86). While local community (4.6), supplier assessment (4.6), health & safety (4.53) and ethical collaboration (4.52) are located in the middle of the table, labour (4.47) and material management (4.37) were selected as the least implemented practices. This finding is in line with empirical findings of Achabou *et al.* (2015) and Carbone *et al.* (2012), which showed the implementation of customer-related as well as environment-related practices was higher than that of society-related practices.

(4) Performance-Importance Matrix

To analyse the implementation level in combination with the relative importance of each CSR sub-dimension, a 2X2 matrix was generated as shown in Figure 1. All values were modified to be mean-centred. Among the CSR practices, environmental products and sites were well recognised by SMEs, and at the same time, were embedded in their CSR practices well. Consumer protection, on the other hand, was heavily implemented in the practice, but its importance was relatively low. These practices are, in common, explicit to customers, which can easily build up good social reputation.

Figure 1 illustrates the importance of practices in the corporate social dimension which was highly regarded but the implementation level was less than expected. In particular, health and safety was not appropriately addressed by SMEs despite its highest importance. This can be explained by cost issues because these practices will require immediate spending which cannot be easily decided by SMEs under financial constraints. If SMEs seek their competitiveness from cost advantages, emphases on practices for the society can be just rhetoric. On the contrary, two major environmental practices namely environmental products and environmental sites, were rated highly both in terms of importance and performance. This reflects the fact that environmental aspects have been regarded as established drivers of a firm's competitive advantage.

(Insert Figure 1 here)

In terms of the operational aspects, they are often implicit to customers which were not highly regarded by SMEs. These include supplier assessment, ethical collaboration and material management, which commonly require a certain level of strategic decisions to implement the operations. In particular, these practices are one of the prolific research agenda in the SCM disciplines which have suggested many innovative ideas, but SMEs tend to be less focused on these practices. In addition, this can be explained by power relations in the supply chain. With less power in the supply chain, SMEs may be impossible to prioritise and initiate supplier assessment, ethical collaboration as well as material management. With regards to the material management practice, SMEs they have to use enough energy and best materials, regardless of their environmental impacts, to meet the requirements of powerful customers.

(5) The impacts of CSR drivers

Given the relative weights of CSR practices and the performance of participating companies, the overall CSR level of each SME can be calculated. The highest and lowest CSR levels were 5.8 and 3.15 out of 7, which indicated that there are clear discrepancies in CSR implementation across the SMEs. Also, it meant that there should be some contingencies which create this difference. This research thus tested the impacts of contingencies from the stakeholder theory and the institutional theory on SMEs' CSR level by comparing the means of the better group and the worse group. Six factors (customers, government, suppliers, competitors, NGOs and local community) and three factors (regulatory, normative and cognitive pressures) were drawn from the theories respectively.

(Insert Table 4 here)

The ANOVA results showed that there are significant differences in CSR implementation given all these contingencies. This implies that the theories are effective even in the SMEs and the supply chain contexts. When the overall mean values are considered, customers and government from the stakeholder theory and regulatory pressures from the institutional theory showed the highest mean values.

5. Discussion and Implications

This research explored the dimensions of CSR in SMEs' supply chains, and examined how SMEs considered CSR practices by analysing their importance and performance. Based on the stakeholder theory and the institutional theory, this research also investigated the impacts of various contingencies on the level of CSR implementation. It can be concluded that SMEs tend to focus on explicit CSR practices that can be easily identified by their customers. On the contrary, operational issues hidden to their customers are not considered in SMEs' practices. Such characteristics of SMEs being as resource constraints, imbalanced power within their relationships with customers, deficiencies in CSR strategies and lack of supply chain innovation may explain this trait in SMEs' CSR. ANOVA analysis empirically showed that stakeholder and institutional pressures are valid in the performance of CSR practices. However,

the level of pressures was largely biased to customers, government and regulatory pressures, which means that SMEs tend to be more reactive rather than proactive to implement CSR practices.

In this regard, this research has its value in investigating CSR practices within supply chains specifically taking the SME perspectives, which have not been fully explored in the SCM discipline on its own merits. Also, it empirically analysed the practices and contingencies of CSR implementation using survey data and various statistical techniques, which effectively demonstrated the strong and weak areas of SMEs' CSR activities. It is applicable to other industry sectors for comparative analysis but individual environments will differ significantly. The impacts of contributing factors from institutional theory and stakeholder theory have been validated even in the SMEs' contexts. These theoretical values can be also applicable to managerial implications. The CSR dimensions and practices can be used as a check list for firms to achieve balanced CSR implementation. In addition, the CSR framework to evaluate the degree of CSR implementation can be used as an index to compare the CSR level of the SMEs.

However, this research has limitations in conducting the survey with SMEs in a single country, which may limit the degree of likely generalisability of the findings of this research. Also the findings are limited to the manufacturing firms only. Further research could explore a comparative analysis with larger firms in other environmental contexts which can highlight the unique features of SMEs' CSR practices in supply chains. Other limitations to this research include the cross-sectional nature of this research which may not offer an overall picture of the dimensions of CSR implementation process over time. Further research should employ longitudinal approach.

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Table 1: The profile of survey respondents

Position		Industry Experience		Industry	
CEO	13.8%	11-15 years	21.8%	Machinery	18.4%
Director	50.6%	16-20 years	35.6%	Apparel	17.2%
Senior Manager	35.6%	Over 20 years	42.6%	Automotive	14.9%
				Chemical	13.8%
Annual Turnover		Number of Employees		IT Equipment	4.6%
US\$ 1M-10M	3.4%	10-50	1.1%	Electronics	4.6%
US\$ 10M-50M	52.9%	51-100	32.2%	Food	2.3%
US\$ 50M-100M	43.7%	100-299	66.7%	Others	24.1%

Table 2: Dimensions of SCR in supply chains

Dimensions / Practices	Descriptions	GRI-G4 Category
<i>1. Corporate Environment Dimension</i>		
(1) Material Management	Proactive management to pursue efficient use of energy and materials and reduction of waste in production	EN1 EN3~EN7 EN23, EN30
(2) Environmental Sites	Company sites with less greenhouse gas emission, water withdrawal and pollution, hazardous waste and spills	EN8~EN10 EN15~EN21 EN22~EN26
(3) Environmental Products	Products and packages which used recycled materials and/or other materials with less environmental impacts	EN2 EN27, EN28
<i>2. Corporate Social Dimension</i>		
(1) Labour	Practices to improve diversity in labour, job equality, job standard and training opportunities	LA1~LA4 LA9~LA11 HR1~HR9
(2) Health & Safety	Occupational health and safety initiatives to reduce accidents, injury, diseases, absenteeism	LA5~LA8
(3) Local Community	Practices to increase a firm's contribution to local community and to decrease any negative impacts	SO1, SO2 SO6
<i>3. Ethical Supply Chain Dimension</i>		
(1) Supplier Assessment	Selection of new suppliers screened by environmental and social criteria; Assessment of negative environmental and social impacts from suppliers	EN32, EN33 LA14, LA15 SO9, SO10
(2) Consumer Protection	Responsibility for products to protect consumers' health and safety	PR1~PR9
(3) Ethical Collaboration	Removal of any anti-competitive behaviours using power imbalance and non-compliance of laws	SO7, SO8

Table 3: The weights of CSR dimensions

Dimensions	Weight	Practices	Weight
Corporate Society	43.84%	Health & Safety	20.64%
Corporate Environment	36.11%	Environmental Products	15.00%
Ethical Supply Chain	20.05%	Environmental Sites	13.41%
		Local Community	11.72%
		Labour	11.48%
		Consumer Protection	8.01%
		Material Management	7.70%
		Supplier Assessment	7.27%
		Ethical Collaboration	4.77%
Total	100%	Total	100%

Table 4: ANOVA results

Drivers		Mean	Upper Group		Lower Group		F-value	Sig.
			Mean	S.D	Mean	S.D		
Stakeholder Theory	Customers	5.38	5.85	0.65	4.86	0.75	41.446	***
	Government	4.8	5.34	0.73	4.36	0.73	37.987	***
	Suppliers	4.51	4.78	0.57	4.29	0.71	12.245	**
	Competitors	4.51	4.80	0.68	4.07	0.60	27.209	***
	NGOs	4.46	4.98	0.79	4.00	0.54	43.259	***
	Local Community	4.29	4.68	0.61	3.93	0.46	40.412	***
Institutional Theory	Regulatory Pressures	4.74	5.20	0.71	4.36	0.49	39.228	***
	Normative Pressures	4.39	4.83	0.77	4.00	0.54	32.277	***
	Cognitive Pressures	4.32	4.54	0.74	4.14	0.65	6.622	*

(Note : ***<0.001, **<0.01, *<0.05)