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## **RESPONSIBILITY IN THE SUPPLY CHAIN – LOOKING AT STANDARDS, CERTIFICATIONS AND THE ROLE OF THIRD PARTY SERVICE PROVIDERS FROM A SUPPLY CHAIN MANAGEMENT PERSPECTIVE**

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### **ABSTRACT**

This study focuses on the food and fashion retail sector and aims to analyze the role that sustainability standards and associated certification schemes play in the context of retailer's Sustainable Supply Chain Management practices. The objective is to understand whether standards replace the buyers need for an, often costly, collaborative approach to supplier relationship management. In our study we find evidence that affirms standards role in reducing corporate necessity to coordinate sustainability issues upstream the supply chain. However, this is not the case when availability of certified goods is constrained.

### **INTRODUCTION**

Many companies are today faced with requirements from salient stakeholders to address environmental and social issues that arise upstream in the supply chain. The underlying logic here is an increased association between the perceived scope of corporate responsibility and the life cycle impacts of products. However, while the principle of life cycle responsibility is simple and elegant, the exercise of such responsibility can present a significant challenge given the complexity and sheer size of the networks of organizations that may be involved in the supply chain of a retailer.

In this paper we look at sustainability standards and certification schemes from the perspective of the buying company and discuss this in relation to extant research on sustainable supply chain management (SSCM). Many early contributors in this field have argued that companies need to adopt and develop collaborative relationships with relevant suppliers, in order to exercise influence and control over sustainability performance upstream in the supply chain (Bowen, Cousins et al. 2001; Vachon and Klassen 2008). However while inter-organisational collaboration have many potential advantages, some contributors have pointed out that developing and maintaining such partnerships can be both costly and risky. The work on power relations in the supply chain (see e.g. Cox, Sanderson et al. 2001), also suggests that the situations where inter-organisational collaboration between companies is likely to be successful are limited, and dependent the specific dyadic power relation between the buyer and the supplier.



The theory of transaction costs economics (TCE) suggests that a buying organization would approach procurement ‘in a transaction cost economizing way’ (Williamson 1990, p. 13), a logic that fits nicely with influential purchasing models such as Kraljic’s purchasing portfolio (Kraljic 1983). Kraljic suggests that a collaborative relationship is only efficient when *supply risk* and *profit impact* of a purchase is high. Recently portfolio based supply chain management has been discussed also in relation to SSCM. Pagell, Wu et al.(2010) noted that SSCM does not necessarily require a collaborative approach, when sustainability standards and assurance schemes are available, but that in practice collaboration still often take place even for products where the recommended sourcing strategy would normally rather be competitive bidding than collaboration. In this paper we seek to analyze the interplay between corporate practice to exercise responsibility in the supply chain and the existence of certifications, standards and third party service providers. The analysis is based on empirical studies of SSCM practices of large retailers in the textile and food industry. The question we seek to answer is: *what role sustainability standards and associated certification schemes play in the context of retailer’s SSCM practices*. In particular, the study seeks to explore if standards replace the need for a collaborative approach to supplier relationship management.

## **MATERIALS AND/OR METHODS (WHICHEVER APPLICABLE)**

This paper is based on a combined analysis of findings from three related but separate studies. The most recent is an empirical investigation of SSCM in the food retail industry (Chkanikova 2012), a study is based on two case-studies of two major Swedish food retailers supplemented by in-depth interviews with three other large retailers recognized for active engagement into sustainable sourcing activities. The findings from this study is then analyzed in comparison with two previous studies on SSCM practices in the retail sector; one focusing on fashion (Kogg 2009) and another focusing on sourcing of sustainable fish products (Rogers 2011).

## **RESULTS**

The empirical findings indicate that there are indeed occasions where presence of third-party certification schemes removes, or reduce, the need for companies to adjust their sourcing and supply management practices. For several products the process of sourcing “sustainable” products resembles purchasing procedures for conventional products. Indeed, in the food sector it is not uncommon that retailers source the conventional and the sustainability certified products from the same supplier.

However we also identified several examples where even when certifications schemes exist, the companies still engage directly with relevant suppliers (sometimes several tiers upstream) and where practices in purchasing of sustainable products differ from how the company purchases conventional products. Typically this has been observed when the buyer perceives supply of sustainable products to be in somehow constrained along with a desire to change this situation. Constrained supply is not necessarily only related to availability in terms of volume, but also to prices of available certified goods, as well as the quality and variety (range) of certified goods. When faced with constrained supply the buyer typically assumes the task of actively seeking to motivate, and sometimes assist, the supplier to get a



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certification. Sometimes buying companies also engage in control processes that complements third party verification processes set up by the certification scheme.

Another observed phenomenon is that buyers ask for a combination of different certification schemes (e.g. double-certification of products with organic and fair-trade standards) and/or add their own criteria on top of criteria defined by an existing scheme. In the latter case an increased level of interaction between the buyer and relevant suppliers has been observed in some cases but not always. The data indicate that this is linked to buyer assessment of risk of non compliance with the additional criteria.

There are some indications that the absence of standards and certification schemes, have delayed corporate SSCM initiatives (companies deciding to wait for the development of a common standard) but when the buyer perceives a need to move forward in spite of lacking or underdeveloped certification schemes an increased level of interaction between the buyer (or service providers to the buyer) and the relevant parties in the supply chain has been observed. Interaction is then required both in order to convey the message (the sustainability objectives that the buying party want to achieve) and in order to control performance upstream. As many aspects of product sustainability can be described as a *credence good*, meaning it can't be controlled through inspection of the delivered goods, control of processes on site is very often necessary and the task of verifying compliance clearly presents a range of challenges both in the food sector and in the textile sector. Not only because of the often large and complex structure of the supply chains, but also because of the complex nature of the issues that the buyers seek to control.

## DISCUSSION

If current supply does not meet sustainability expectations or if the supply of certified goods is perceived as constrained, the buyer may need to exercise influence and control, sometimes several tiers upstream. The control process increases the need for interaction between the buyer and actors in the chain and consequently the associated transaction costs. From a business perspective the increased transaction cost must therefore be motivated either by a potential for higher earnings or a risk of financial losses associated with not taking action. In relation to the ability to exercise influence upstream the power perspective (Cox, Sanderson et al. 2001) becomes relevant both as an explanation for observed changes in the supply base as a result of SSCM programs but also as part of the explanation for corporate failure to exercise influence over sustainability practices upstream in the supply chain. Power contexts vary between different dyadic relationships and even for large retailers, relative dependencies in the supply chain are far from always rendering them a position from where they can exercise coercive power over suppliers. (Cox, Sanderson et al. 2001)

When unilateral approaches are too costly or when power contexts in the supply chain are not favorable for unilateral action, certification schemes can be seen as an important service provider that enable buyers to exercise responsibility in the supply chain. The empirical data collected in the food and the fashion retail industry suggests that that if availability of certified products satisfies the buyers demand for sustainable products, they can in effect outsource the “sustainability element” of their sourcing strategy to the certification providers. However, if the price, volumes, variety and quality of sustainable products is perceived as not satisfactory, or if the level of control performed through the certification scheme is perceived



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as non satisfactory, retailers still need to adopt their purchasing practices and typically engage into closer forms of interaction with suppliers.(Kogg 2009; Chkanikova 2012)

## CONCLUSIONS

If early contributors in the field of SSCM, who suggested that collaboration is necessary to enable companies to influence and control sustainability performance had been correct, SSCM would entail a dramatic restructuring of supply chains for many retailers. While we have seen examples of such shifts to reduce the number of suppliers and vertical integration, we have also seen a new type of change in the supply chain where rather than reducing the number of suppliers, the supply chain has been largely maintained but with the addition of SSCM service providers such as certification bodies, sustainability consultants and accredited certifiers who enable suppliers to perform in accordance with standards and the buyers to verify credence goods not through process control but through documentation.

Increased transaction cost and complex power relationships along supply chains can both be seen as barriers to SSCM, and widely accepted and adopted certification schemes can mitigate these barriers by reducing costs borne by the buyer and replacing the need for unilateral power with market power. While we have not been able to measure this empirically, in theory good standards may therefore increase the propensity of buyers to put sustainable products on their shelves.

The reality of corporate supply chains is messy and dynamic, and exercising influence and control in this type of context has been found a challenge also by very large corporate buyers. It is clear that standards play an important role in facilitating this work.

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