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Purchasing Social Responsibility

A conceptual study

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"It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently." -Warren Buffett

Abstract

This paper focuses on Purchasing Social Responsibility (PSR). Suppliers play an important role in the overall corporate social responsibility (CSR) efforts of the purchasing firm. The purpose of this paper is to explore potential firm performance effects from PSR, which contributes to an area of research that is limited at this point. The aim is to develop a survey instrument based on a set of formulated hypotheses and a conceptual framework. These are grounded in a literature review of core concepts within CSR, purchasing and PSR. We hypothesize how the level of PSR is determined, as well as how PSR has the potential to improve performance through acquiring intangible resources and capabilities. We discuss how PSR can improve shareholder value and what hinders implementation of the concept. Since it is outside of the scope of our paper to test the hypotheses and survey empirically, we develop and discuss some key methodological issues and how the survey is developed.

Paper type: Master thesis

Keywords: Corporate social responsibility (CSR), purchasing, purchasing social responsibility (PSR), firm performance

Preface

This thesis was written as a part of our MSc in Economics and Business Administration at the Norwegian School of Economics (NHH). It is credited with 30 ECTS.

We have experienced a growing interest in Corporate Social Responsibility, and wanted to mix this with our existing fascination for Supply Chain Management. The result is a study of Purchasing Social Responsibility, a field of research and practice we believe will grow in importance over the coming years.

Several people have helped and contributed to the inspiring process of writing our thesis. First of all, we would like to thank our supervisor Professor Stein W. Wallace at the Department of Business and Management Science for his valuable guidance throughout the whole period. We are also grateful towards Professor Arnt Buvik at Molde Specialized University in Logistics, who provided helpful input in the early phases.

Finally, we would like to show our appreciation to friends, family and each other for encouragement and motivation through the entire period.

Bergen, June 16, 2014

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1. Introduction

1.1 Background

“Capitalism is under siege….Diminished trust in business is causing political leaders to set policies that sap economic growth…Business is caught in a vicious circle….” (Porter & Kramer, 2011, pp. 2-3).

Porter and Kramer, both renowned Harvard professors, fire on all cylinders when making their case for the interdependency between firm competitiveness and healthy societies. While they may be painting capitalism excessively black, there should be no doubt that times are rapidly changing. Recessions, inequality, digital revolution and the sharing economy all face business with interesting economic and political opportunities and challenges equally.

This thesis, however, will focus on another emerging aspect of business - corporate social responsibility (CSR). More specifically, it will revolve around the engagement from the purchasing function towards CSR.

CSR is increasingly becoming a focus in business. This is made evident by the fact that the topic is catching the interest of MBA students - universities tend to evolve with the markets (Schuetze, 2013). An increasing number of executives are voicing their CSR concerns publically. “There is no business on a dead planet”, exclaims the business card of CEO Petter Stordalen (Ben-Ami, 2014). Business and market mechanisms are furthermore used to solve or alleviate social issues to a greater extent than before.

If not participating in solving social problems, the public is to an increasing extent expecting firms to act responsibly and not be detrimental to society. Considering the strong impact the society has on the firm, it makes sense to accommodate stakeholders in order to maximize long-term financial performance. Take a moment to reflect on these headlines:

- ICA suppliers exploit slave labor in production of scampi [translated (NTB, 2014)].
- Fast and Flawed Inspections of Factories Abroad [suppliers produce at uncertified factories, and simply move goods over to certified facilities to trick inspectors (Clifford & Greenhouse, 2013)].

- Labor Violations Rife At Apple Manufacturing Partners in China (Schmundt & Zand, 2013).
- Wal-Mart Suspends Supplier of Seafood [advocacy group pressed Wal-Mart for improved working conditions at suppliers' factories (Greenhouse, 2012)].
- Horsemeat scandal reveals trail of shadowy suppliers (Lichfield, et al., 2013).

These articles have commonalities. In every case, well known firms have received negative publicity when controversial incidents have occurred at their suppliers' facilities. Once a scandal breaks out, the firm that represents the supply chain is faced with most of the public wrath.

Some say that globalization is the end of geography. Modern firms furthermore tend to outsource and buy a large portion of input materials and components for their finished products from global suppliers. This development has been facilitated by the revolution in transportation and communication tools.

When purchased input represents most of the value adding production of the firm, it is obvious that suppliers will create a big part of the total environmental and societal footprint (Tate, et al., 2012). Environmental and societal impact from business will be spread out, out of total control for the firm.

A firm that wants to be perceived as being responsible is therefore also dependent on having a responsible supply chain. The firm will be held responsible for its suppliers' actions, or lack thereof. Besides playing a role in achieving cost reductions, innovation and competitive advantage, firms have lately recognized the role that the purchasing function and suppliers have in the overall CSR efforts. Firms realize how prone they are to legal and reputational liability for its suppliers' practices (Savitz & Weber, 2006).

One seemingly easy way to improve social responsibility would be to avoid purchasing from suppliers in regions with low social standards completely. However, stopping trade with such regions will not help them develop either (Wieland & Handfield, 2013). Purchasers are faced with new challenges both when selecting and working with suppliers, and ensuring that they comply with the standards of the purchasing firm.

Purchasing is a crucial, boundary-spanning position in the firm, and can play a key role in the relationship between the firm's internal functions and external stakeholders such as suppliers (Zsidisin & Siferd, 2001). It is in position to impact the responsible activities along the entire supply chain, and be a strategically important part of the firm's success (Blome & Paulraj, 2013). The concept of dealing with CSR issues in the purchasing function has been named Purchasing Social Responsibility (PSR), and is a relatively new field of both research and practice.

1.2 Research questions

There is a limited amount of research on the relationship between PSR and firm performance and benefits. Previous research on PSR has focused mainly on the cost and operational performance of the firm, while more work towards the financial and commercial outcomes has been called for (Hollos, et al., 2012).

The purpose of this study is to conceptualize whether PSR has the potential to cause performance improvements for firms, through considering social and environmental interests of its stakeholders. In order for any business concept to be accepted and legitimized it needs to make financial sense for the firm and create value for its owners. For this reason, we seek to explore what the potential financial performance effects implementing responsible purchasing may have, in addition to the more proven operational performance.

An abundance of research has been conducted on what drives PSR, and we want to find out how this can determine which level of PSR the firm assumes. We also want to assess how PSR may increase shareholder value. Furthermore there must be a reason why this concept is not fully embraced in business, and we will therefore discuss what hinders implementation and adoption of PSR.

PSR is an important and interesting research problem due to its relevance and potential. It has yet to gain the full acknowledgement it arguably deserves. Based on the above discussion, we have defined the following research questions:

RQ1: What determines the level of PSR?

RQ2: What are the performance effects of PSR?

RQ3: How can PSR contribute to create shareholder value?

RQ4: What are the barriers for PSR?

1.3 Aim and objectives

Our aim is to draw wide, theoretical connections between PSR and shareholder value, through the impact PSR can have on both the revenue and cost side. We will formulate hypotheses and a conceptual framework based on existing research in PSR and related fields to answer RQ1 and RQ2. Further, we want to develop an instrument that may be used to empirically test these at a later point. RQ3 and RQ4 are more discussion based, but also anchored in research. We introduce no hypotheses based on RQ3 and RQ4.

Our goal is not to revolutionize the research field; brilliant minds have been working on PSR for more than a decade. In addition to being used as a backbone for further research, our work may serve well as a literature review and introduction to the field of PSR, and compliment articles such as Walker et al (2012), Hoejmose & Adrien-Kirby (2012) and Schneider & Wallenburg (2012).

Carter (2005) was the first to apply the resource based view of the firm (Barney, 1991) to explain how organizational learning improves supplier performance and ultimately cost. We extend this application and use it for a broader concept of how shareholder value is created both through internal learning, growth and external reputation.

1.4 Delimitations

The focus of analysis will be a typical Western European manufacturing firm that purchases parts and material from suppliers on several tiers. For our suggested survey, a sample of Norwegian firms would be interesting if viable. Since we argue PSR has reputational effects, a focus on purchasers within B2C firms is likely a better target than B2B firms. We will focus only on what the purchasing function can contribute with towards the overall CSR of the firm.

We assume that the readers have theoretical knowledge of core business and supply chain topics at an advanced level (masters or comparable), and will therefore not explain every concept we use to shed light on PSR. We will, however, do a literature review of central topics within CSR, purchasing and PSR. Within CSR, we limit our review to discussing key terms and concepts.

When reviewing the PSR literature, we have made certain delimitations. We will not consider literature that examines service procurement. Further, public procurement has separate, limiting considerations compared to purchasing of firms, and is thus also excluded. For example, defense acquisitions needs to have repurchasing agreements that will limit the potential supplier base. We want to explore purchasing through the needs and desires of the firm's stakeholders.

Purchased input may be classified in a portfolio as routine, bottleneck, leverage or strategic depending on the degree and type of risk associated (Kraljic, 1983). We have not considered this specifically through the hypothesis development and discussion. It is mentioned when it is an important part of the conclusion in the cited literature.

It is out of the scope of this thesis to empirically test our hypotheses and survey. This important choice was made in consultation with our supervisor. Carrying out an empirical research project within the limits of a master thesis would not yield sufficient quality in order to generalize, and would thus not be of real interest and value. One option could be to conduct a more explorative study of the state of PSR in Norwegian firms, but due to the lack of anonymity and the probability of social desirability bias in interviews, we were advised not to choose this approach either.

We discuss how the conceptual framework may be operationalized and used to develop our suggested survey. Important methodological considerations are also discussed, however not exhaustively. We focus on use of measurement models, scale, sampling frame and mail survey. We will not discuss issues such as analysis and interpretation of results.

1.5 Methodology

The reviewed literature has been found through various means. We started our work by reviewing some of the core books within the fields of CSR and purchasing. Next, we identified some key PSR articles, which have been summarized (purpose, findings, methodology) and attached in appendix 1.

To further dig into the PSR literature, we utilized both a Boolean search phrase and snowball method. Our Boolean phrase can be seen in Table 1. We examined the first 250 hits in databases such as EBSCO (Business Source Complete) and Science Direct, after which the results quickly turned irrelevant. In the databases, we filtered out articles that were not from peer-reviewed journals. When finding especially relevant citations and references, we reviewed the bibliography to look for additional material.

Boolean phrase
purchasing OR procurement OR buying OR sourcing
-AND-
responsible OR ethical OR sustainable OR environmental OR social

Table 1: Boolean phrase

The focus of our thesis is to develop hypotheses and a conceptual framework by assessing the current literature in PSR and other closely related fields. We introduce no new empirical material in this study. According to de Bakker et al (2005), our research can thus be classified as conceptual. Developing a good framework is a central element in the research. It is a logically described and developed network of concepts and variables relevant to the research problem (Cavana, et al., 2001).

1.6 Structure of the paper

This paper consists of six chapters. Chapter 1 has established background, defined research questions, aims and objectives, and discussed delimitations and methodology. In chapter 2, we will review important CSR, purchasing and PSR literature related to our research questions. This literature review is used as basis for the hypotheses we discuss and develop in chapter 3.

Chapter 4 visualizes the hypotheses through a conceptual framework, and discusses shareholder value, risk management and barriers related to PSR. Chapter 5 develops the suggested survey that may be used to empirically test our hypotheses. We start the chapter by operationalizing the framework and choosing measurement models, before we discuss other methodological considerations such as scale, sampling and mail survey issues.

In chapter 6, we summarize the thesis and identify paths for further research. Due to the nature of the paper, our conclusions are cautious.

2. Literature review

This chapter reviews some important literature and concepts related to our research questions. First, we define and introduce concepts such as the triple bottom line, the business case and stakeholder management within the field of CSR. Further, we review purchasing literature and discuss the purchasing process model, the strategic role of purchasing and world class purchasing. Finally, CSR and purchasing is connected and PSR is introduced. We introduce the research field, and explore the drivers and activities identified in the literature.

2.1 Corporate Social Responsibility

Corporate Social Responsibility as an academic field is quite new, even though it has existed in practice for a long time. It has been debated extensively in every possible aspect of society, from media and the general public, to academia, to business and government, but still remains unclear. The concept of CSR is hard to define, confusing and ambiguous (Tench, et al., 2012).

Donaldson & Dunfee (1999) allege that to succeed, firms depend on help and support from the broad, powerful audience (Blowfield & Murray, 2011). Firms have always had to establish what is called the “license to operate” (Blowfield & Murray, 2011).

With growing focus on social issues, the range of CSR definitions has increased. Blowfield & Murray (2011) claims there are no single definition that embraces everything comprising CSR, from the variety of problems, guidelines, methods, and initiatives. They thus seek to explain CSR as the duties of the firm in the broader context of society, how these duties are described and negotiated, and how they are operated and organized (Blowfield & Murray, 2011).

Friedman (1970) argued that the only social obligation of the firm is to maximize profits for its shareholders, within the rules of the game. This means that the firm engages in free and open competition without deception or fraud towards customers, employees, suppliers and all other stakeholders. The owners can spend the profit as they prefer. The concept of CSR has evolved from being seen as “philanthropic” - giving a portion of the revenues back to society (such as Friedman), to being a function of the core business activities of a firm and a tool for solving societal issues (Blowfield & Murray, 2011).

Davis (1973) claims that CSR is about doing something more than rules, laws and regulation requires, making a positive impact on society (Blowfield & Murray, 2011). Kotler & Lee (2005, p. 3) define CSR as *"… a commitment to improve community well-being through discretionary business practices and contributions of corporate resources.*"

By community well-being they refer to both environmental issues and human conditions, and by discretionary they mean the voluntary effort of the firm when they make these contributions (Kotler & Lee, 2005). The European Commission defines CSR as *"… a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis"* (Blowfield & Murray, 2011, p. 8).

The definitions focus on various aspects of CSR. What they have in common is the idea that firms have an obligation to do good deeds for the community.

Furthermore, Tate et al (2010) argue that CSR and sustainability are related concepts that often are used interchangeably. The Brundtland Commission famously defined sustainable development as *"… development that meets the needs of the present without compromising the ability of future generations to meet their own needs"* (United Nations, 1987). Both CSR and sustainability are attempts to enhance what is called the firm's triple bottom line (Thornton, et al., 2013).

2.1.1 Triple bottom line

The idea of the triple bottom line is that an organization should be measured by social and environmental terms in addition to its financial performance. "Profit, people and planet" has been used as alternatives to "financial, social and environmental" criteria. Stakeholders have varying interests, and in order for the firm to succeed over time, stakeholder interests must be satisfied (Kotler & Lee, 2005).

Due to increased stakeholders focus on the triple bottom line, it is important for organizations to pay attention to stakeholders and utilize measures that cover the three aspects (Norman & MacDonald, 2003). The motivation for firms to do so is to prove its role as a good corporate citizen, which is expected to improve reputation and thus profits, and avoiding the opposite by not engaging in these efforts (Tench, et al., 2012).

2.1.2 Carroll's pyramid of corporate responsibility

Carroll's (1979) categorization of corporate responsibilities is arguably the most common framework explaining the different aspects of social responsibility. The model highlights four types of responsibility; economic, legal, ethical, and philanthropic, as seen in Figure 1.

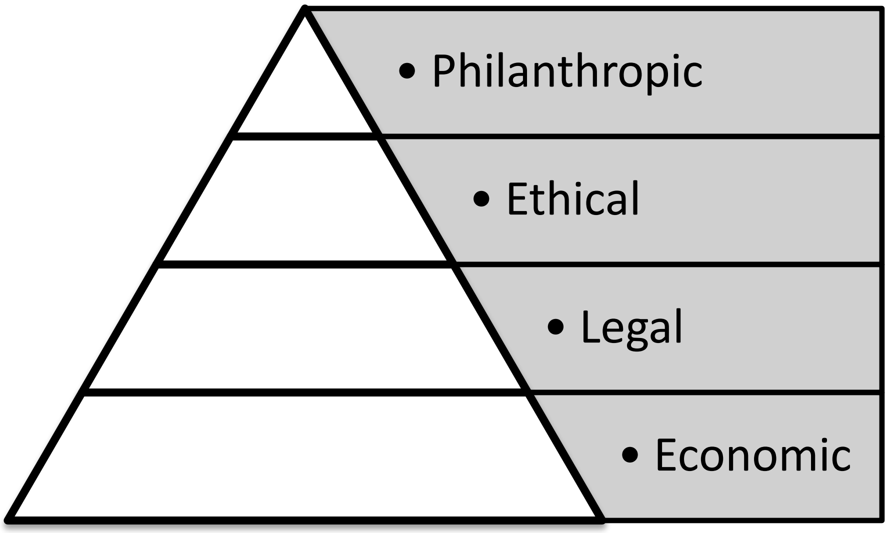

Figure 1: Corporate Responsibility (Blowfield & Murray, 2011)

Economic responsibility means being profitable while being responsible for producing goods/services that society demands at a profit. Legal responsibility means obeying the law and obligations to fulfill economic mission within the boundaries of the law. Ethical responsibility means doing "the right thing". The firm can also have ethical expectations, i.e. acts that are necessary to maintain its license to operate. The last point is philanthropic responsibility, which is about supporting sustainable development in the community. These are voluntary acts that the firm can engage in, that may not even be expected by society (Blowfield & Murray, 2011).

2.1.3 The business case for CSR

A business case is intended to demonstrate why and how a firm can embrace a concept. As CSR's importance as a component in the core business activities grows, proving the business case for CSR is furthermore a larger goal for both practitioners and academics in order to gain understanding and acceptance of the concept: *"Demonstrating a positive correlation* *between corporate responsibility and business performance is seen as giving social and environmental issues legitimacy in the world of mainstream business"* (Blowfield & Murray, 2011, p. 151). Legitimization increases the probability that CSR is adopted by the firm (Blowfield & Murray, 2011). Carroll & Shabana (2010, p. 102) notes that *"only when firms are able to pursue CSR activities with the support of their stakeholders can there be a market for virtue and a business case for CSR"*.

Based on reports, cases and analyses from the consulting firm SustainAbility in collaboration with the UN Environmental Program, Blowfield and Murray (2011) present a matrix with the relationships between CSR activities and firm performance as seen in Figure 2. A brief explanation of activities and performance measures is listed in Table 2.

Activities of CSR	Business performance measures
1. The influence of ethics, values and principles on a firm's actions	1. Shareholder value – stock price and dividends
2. Accountability and transparency with regards to the firm's responsibility	2. Revenue potential due to market share, new markets and pricing
3. Overall commitment and performance regarding the triple bottom line of a firm	3. Operational efficiency – cost-effectiveness in process of turning input to output
4. Eco-efficiency in the business processes and products of a firm	4. Access to capital (both equity and debt capital)
5. Environmental product focus (life cycle assessment)	5. Customer attraction and retention
6. Social and economic community development enabled by firm resources and support	6. Brand value and reputation
7. Human rights compliance	7. Human capital – attracting, developing and retaining a skilled workforce
8. High-quality work environment (health, safety, work-life balance)	8. Risk management – short and long term
9. Business stakeholder involvement (i.e. suppliers, partners, contractors, shareholders)	9. Innovation in products, services and business models
10. External stakeholder engagement regarding CSR	10. License to operate – maintaining acceptance from stakeholders

Table 2: CSR activities and performance measures

The matrix in Figure 2 shows a strong positive impact in 21 out of the 100 combinations of CSR activities and business performance measures. Most notably, the activities of having eco-efficient business processes, complying with human rights principles and having good working conditions have the greatest impact on firm performance according to the matrix.

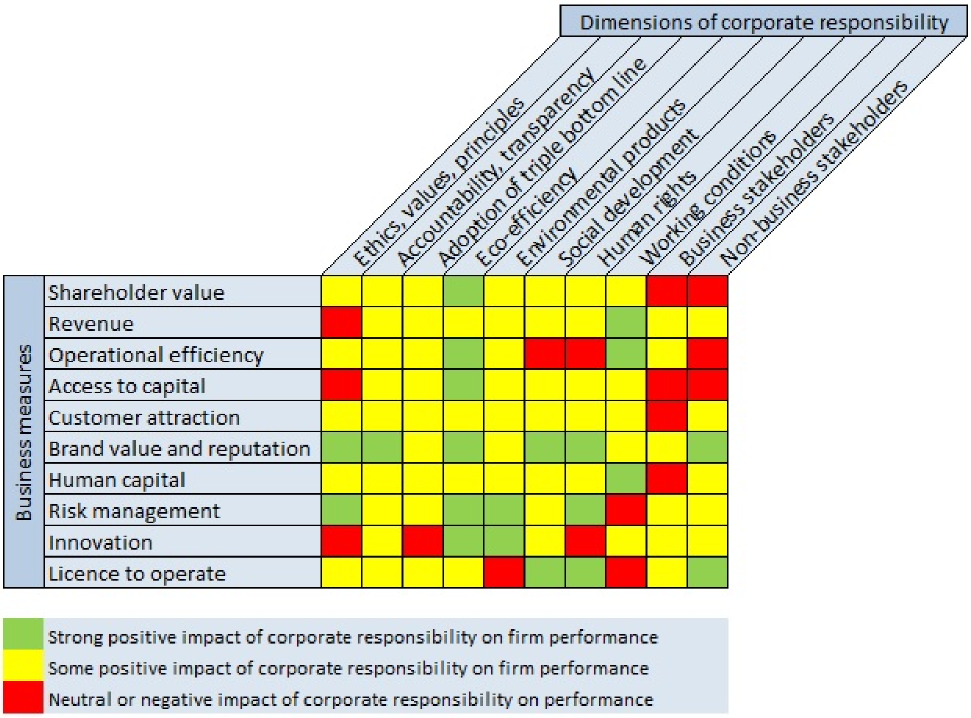

Figure 2: Impact of corporate responsibility on firm performance (Blowfield & Murray, 2011)

Rao & Holt (2005) found that greening the different phases of the supply chain may lead to an integrated supply chain, which ultimately increases competitiveness and economic performance. The study of Lee et al (2013) suggests that buying firms could benefit financially from having their suppliers adopt employee rights protection, even though Lee et al (2013) acknowledges the lacking proof of a causal relationship.

CSR seem to have the greatest potential impact on the brand value, reputation and risk management of a firm. Carroll & Shabana (2010) lend empirical support to this, and identify strengthened legitimacy and reputation as one of four rationales for the business case of CSR; aside from synergistic value creation, competitive advantage, cost and risk reduction.

Synergistic value creation is created by finding, linking and incorporating interests of various stakeholders types (Crane, et al., 2008).Competitive advantage can be built by improving firm reputation and legitimacy through exploiting CSR (Crane, et al., 2008).

In a cost and risk reduction perspective, Crane et al (2008) argues that there is an optimal level of social and environmental performance, after which the firm will accumulate more costs than necessary and reduce its profitability. McWilliams and Siegel (2001) concluded that the firm would only perform to the level of responsibility that is demanded in order to maximize profits.

It seems that CSR potentially impacts intangible rather than tangible measures more. CSR can be seen through a narrow view in which CSR is justified if it leads to improved financial performance, or in a broader view in which indirect performance enhancement also justifies CSR activities:

> "*the broad view of the business case for CSR enables the firm to enhance its competitive advantage and create win–win relationships with its stakeholders, in addition to realizing gains from cost and risk reduction and legitimacy and reputation benefits, which are realized through the narrow view*" (Carroll & Shabana, 2010, p. 101).

However, the business case has its limitations. It can be hard to measure and compare the data needed to provide a business case for CSR (Blowfield & Murray, 2011). Mintzberg (1983) also found claims of an infinite positive relationship between CSR and economic performance to be wrong, indicating that CSR initiatives only pay off to a certain point (Carroll & Shabana, 2010). Customers do not always have the possibility to support firms involved in CSR initiatives due to their lack of influence. Thus, CSR activities are not always honored, and the policies for the business case for CSR is breached (Valor, 2008) (Carroll & Shabana, 2010). Studies on financial performance from CSR are generally inconsistent.

2.1.4 Stakeholder theory

R. Edward Freeman (1984) defines stakeholders as those who affect or are affected by a firm, or have the possibility to do it in the future. The stakeholder theory assumes that the purpose of the firm is to create and distribute value to several stakeholders (Freeman, 1984). To achieve this, the firm must have support from and cooperation with the same stakeholders. If the firm wants to sustain in the long run, it needs to fulfill its most important responsibility, which is to create value for its stakeholders (Minoja, 2012).

One aspect of stakeholder management is identification. This can be achieved through a stakeholder map as seen in Figure 3. External stakeholders can be media, community, competitors, governments, etc., while internal stakeholders are management, team members, owners etc. Some stakeholders such as customers and suppliers will have a less obvious classification depending on how directly they are influenced by the firm. One differing categorization may be organizational stakeholders, in which Maignan et al (2002) place shareholders, customers, employees and suppliers.

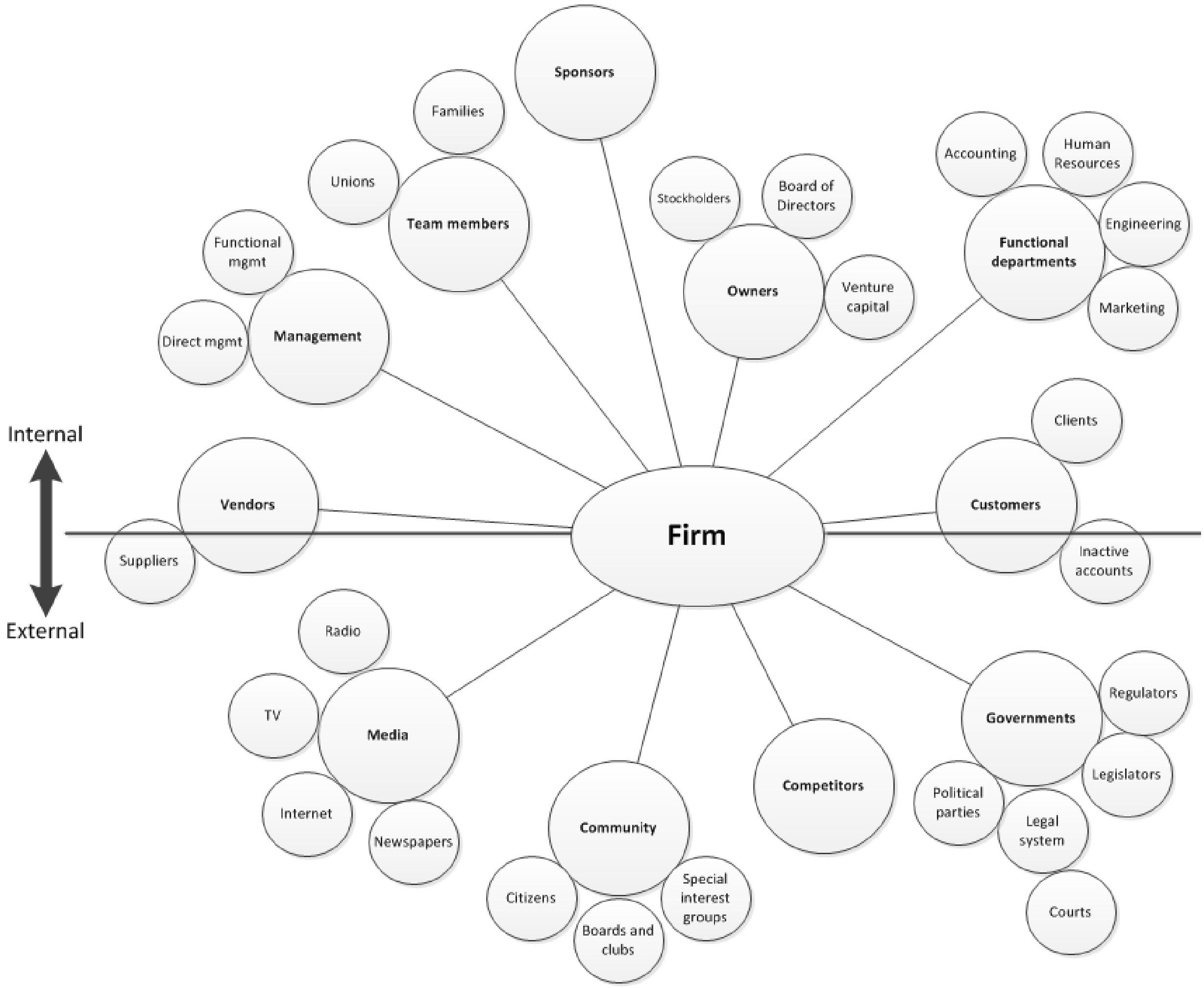

Figure 3: Freeman's generic stakeholder map (Pedersen, 2014)

The identified stakeholders must be analyzed to assess their relevance. Mitchell et al (1997) developed a framework for stakeholder classification as seen in Figure 4. The dimensions of the model are explained as follows:

- Power can be used to affect the relationship between the firm and their stakeholders, for example in situations where stakeholder and firm are mutually dependent on each other, where stakeholder is dependent on the firm, or where the firm is dependent on the stakeholder.

- Legitimacy means conformity to the law and to the rules. Examples of legitimacy are situations where firms and stakeholders use contracts to bind together, or where stakeholders or firms have a requirement on the other part.
- Urgency consists of two factors; time sensitivity and criticality. Time sensitivity implies the importance of not being delayed, while criticality considers the importance of both relationship and requirements between the firm and its stakeholders (Mitchell, et al., 1997).

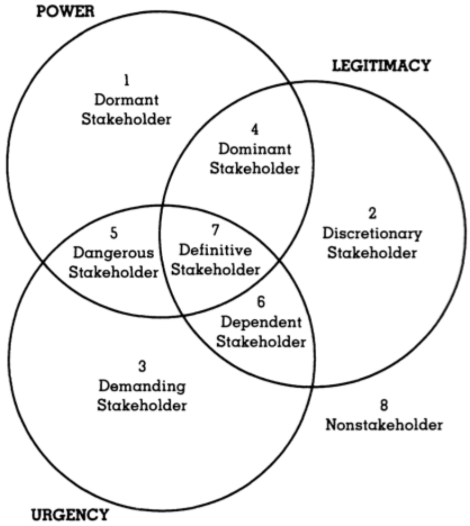

Figure 4: Attributes of stakeholders (Mitchell et al., 1997)

Such classification makes it easier to prioritize. Latent stakeholders have only one of the characteristics and are given low priority. Expectant stakeholders have two of the characteristics, and thus need more attention. Definitive stakeholders have all the characteristics and are given high attention (Mitchell, et al., 1997).

Within latent stakeholders, dormant stakeholders are powerful and can be seen as potential threats. Discretionary stakeholders are legitimate and can be important since other stakeholders like the media can see them as weak. Demanding stakeholders are urgent, but do not have power nor legitimacy (Mitchell, et al., 1997).

Expectant stakeholders can also be categorized into three groups. Dominant stakeholders are powerful and legitimate, but do not have any urgent requirements. Dangerous stakeholders are powerful and have urgent requirements, but no legitimacy. Dependent stakeholders are legitimate and have urgent requirements, but suffer from lack of power (Mitchell, et al., 1997).

Definitive stakeholders have all the attributes, and require high priority by the firm. All expectant stakeholders have the ability to become definitive stakeholder by gaining the last characteristic (Mitchell, et al., 1997).

Another way to categorize might be on a power-interest diagram as seen in Figure 5. In this grid, players are managed closely while the crowd is monitored for changes. The subjects need to be kept satisfied and the context setters informed.

Stakeholder management is concerned with achieving satisfactory levels of performance for all major groups of stakeholders. According to Preston & Sapienza (1990), this focus seems to be fairly common among major corporations in the US. They find that, although their results were preliminary, managers do not risk sacrificing their important stakeholders for conventional growth and profit goals, and that these factors were closely linked. Adequate stakeholder management is crucial for long-term economic performance.

Other aspects of stakeholder management include stakeholder communication and engagement, i.e. involving stakeholders in the decisions that influence them, and keeping them informed through formal or informal channels.

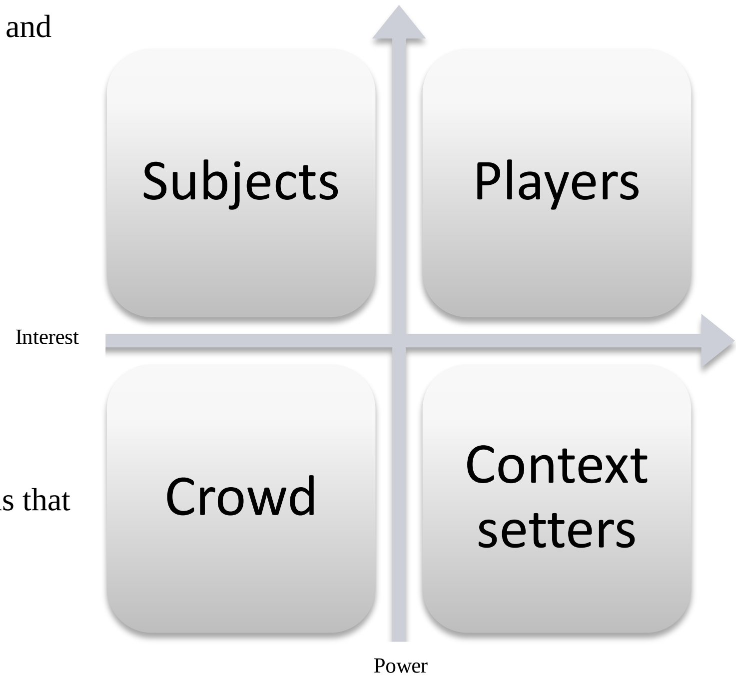

Figure 5: Stakeholder power-interest grid (Ackermann & Eden, 2011)

2.2 Purchasing

The literature defines purchasing in a number of ways, and terms and concepts are used differently between authors. The following definition acknowledges the strategic importance of purchasing:

> *"The process undertaken by the organizational unit that, either as a function or as a part of an integrated supply chain, is responsible for procuring or assisting users to procure, in the most efficient manner, required supplies at the right time, quality, quantity and price and the management of suppliers, thereby contributing to the competitive advantage of the enterprise and the achievements of its corporate strategy."* (Lysons & Farrington, 2012, p. 9)

Organizational purchasing and consumer buying behavior both seeks to satisfy needs. Whereas the consumer seeks satisfaction of needs in terms of Maslow's hierarchy, the organization buys inputs in order to keep its production running. According to van Weele (2010), organizational buying is generally characterized by larger order sizes, better product and market knowledge, and a rational decision making process. There are often complex interactions and negotiations, depending on the type of product, and price inelasticity (van Weele, 2010).

Variables that will affect the purchasing process include the characteristics and strategic importance of the product, the sums of money involved, and the degree of risk and market characteristics (van Weele, 2010).

2.2.1 Purchasing process model

Figure 6 illustrates the typical main activities of the purchasing function, and their interrelation. Determining the purchasing specifications means estimating and setting the quantity and quality of the goods and services that are needed. This is followed by supplier selection, i.e. finding the best suppliers and establishing procedures and routines that enables the organization to make the right decisions.

Under the contracting stage, negotiations are prepared and conducted. Successful negotiations and agreements are formalized through written contracts. Ordering means placing an order with the chosen supplier, and/or to establish routines for ordering and handling of purchases. Expediting refers to establishing of expediting routines, troubleshooting, field expediting and acceptance testing. Follow-up and evaluation includes activities such as documentation of experience with individual suppliers, following up on warranty claims and penalty clauses etc. (van Weele, 2010).

Figure 6: Purchasing process model (van Weele, 2010)

2.2.2 The strategic role of purchasing

The strategic importance of purchasing is evident given how purchasing has been defined. From traditionally being deemed merely an operational function, the understanding of the strategic role and importance of purchasing has gained increased attention lately. Suppliers represent a potential source for competitive advantage. According to van Weele (2010), the emergence of globalized markets, significant improvements in information technology and transportation along with cut-throat competition has fundamentally changed the reality for Western European firms. In addition, resource scarcity, political turbulence and government intervention in supply markets affect supply and demand patterns (Kraljic, 1983).

Rapid changes in product life cycles and technologies along with a number of popular management concepts like business process re-engineering, benchmarking and lean manufacturing has lead firms to focus on selective growth through enhancing their core activities. Non-core activities and business functions are furthermore outsourced to a large extent to outside suppliers (van Weele, 2010).

Most large firms furthermore engage in international sourcing from low cost countries, but often fail, and experience what Horn et al (2013) calls the “ugly twin” of costs: moving production back to domestic suppliers at a higher cost.

Purchasing can have a significant influence on the business and can lead to success in numerous ways. By reducing net working capital employed by the firm and cutting direct material costs, purchasing can lead to increased return on net assets. Improved logistics and quality at supplier plants can lead to reduced working capital. The biggest part of cost of goods sold tends to come from purchased materials and services. Purchasing leads to success by improving sales margins through significant cost saving (van Weele, 2010).

2.2.3 World class purchasing

Due to continuous changes, world class purchasing does not have a well-defined definition. However, Guinipero (2000, p. 5) suggested this:

> *"The world-class purchaser is an individual who visualizes and approaches his or her job from a strategic perspective in dealing with the supplier firm-purchaser firm-customer linkage. This individual continually embraces and leverages his or her skills and knowledge of critical supply chain activities to provide value in meeting corporate and customer objectives."*

Lyson & Farrington (2012) renders the Center for Advanced Purchasing Studies, who identified some characteristics of world class purchasing. We have summarized these in Table 3.

World class purchasing	World class suppliers	World class supplier management
• Commitment to quality management, just in time and cycle time reduction • Long-range strategic plans integrated with the corporate strategy • Supplier, network, partnership and alliance relationships, segmented into strategic, preferred and "arm's length" relations • Strategic cost management and performance measurements • Learning, training and professional development • Service excellence • Corporate social responsibility • Management and leadership	Continuous improvement Technology and innovation Adaptability	Providing suppliers with specifications of purchaser's expectations regarding products and services, and agreeing on performance measuring. Recognition of outstanding supplier performance through long-term contracts and sharing the benefits of performance that enhances the purchasing firm's competitiveness.

Table 3: Characteristics of world class purchasing and supplier management (Lysons & Farrington, 2012)

2.3 The role of purchasing in CSR

Purchasing's involvement with the firm's corporate responsibility efforts has been coined Purchasing Social Responsibility, PSR (Carter & Jennings, 2004). Yet others call it Socially Responsible Buying or Purchasing, SRB/SRP (Drumwright, 1994; Maignan, et al., 2002) or Socially and Environmentally Responsible Procurement, SERP (Hoejmose & Adrien-Kirby, 2012). The research field is relatively new, with a large fraction of related papers published within the 21st century (Hoejmose & Adrien-Kirby, 2012). An article written by Drumwright (1994) is among the earliest contributions to the field.

A problem discussed by Maignan et al. (2002) was that purchasing professionals were unaware of how they could embrace the growing expectations of social responsibility from their customers. Since then, focus has largely been to establish the research field by defining the concept, dimensions and drivers that comprise PSR.

The PSR concept was mainly pioneered by Craig R. Carter in collaboration with various researchers, and has since been extended by others. A large fraction of the recent PSR articles have been published in the Journal of Supply Chain Management, which is considered a *"hallmark in the academic field of operations and supply chain management"* (Van Weele & Van Raaij, 2014, p. 56), as well as other highly touted journals.

Walker et al (2012, p. 201) states that *“there have been an increasing number of special issues on […] sustainable purchasing and supply in recent years”,* and further that *“sustainable procurement is a burgeoning and current research topic, that reflects the zeitgeist of practitioner concerns.”* They forecast a continuing increase in number of articles on PSR.

PSR has been defined as *“purchasing activities that meet the ethical and discretionary responsibilities expected by society”* (Carter & Jennings, 2004, p. 151). Sustainable purchasing can be defined as *“…the pursuit of sustainable development objectives through the purchasing and supply process”* (Walker, et al., 2008, p. 201). Adding to this definition, it is about *“managing all aspects of the upstream component of the supply chain to maximize triple bottom line performance”* (Pagell, et al., 2010, p. 58).

Schneider & Wallenburg (2012) considers a firm to have sustainable sourcing only if economic, social and environmental aspects are considered in the sourcing process. This follows the definition of Socially Responsible Buying offered by Maignan et al (2002, p. 642): *“the inclusion in purchasing decisions of the social issues advocated by organizational stakeholders”.* Maignan et al (2002) sees four main categories of stakeholders: regulatory, community, media and organizational.

On the other hand, environmental purchasing has been defined as *“the set of purchasing policies held, actions taken, and relationships formed in response to concerns associated with the natural environment* (Zsidisin & Siferd, 2001, p. 69). Such concerns include various activities of acquiring raw materials: selecting, evaluating and developing suppliers and their operations, as well as distribution, packaging, recycling, reuse, resource reduction and disposal of the firm’s products (Zsidisin & Siferd, 2001).

In order to implement PSR, it needs to be internalized in the purchasing firm. Codes of conduct must be defined, communicated and monitored with the supplier. Further, the firm must have consistent supplier selection criteria, align its purchasing strategies with supplier relationships and share the cost of compliance with the supplier in order to motivate to responsibility (Lau, 2011). Mont & Leire (2009) suggested that some designated members of the firm should be responsible for developing and implementing PSR in the supply chain.

2.3.1 Drivers of PSR

Traditionally, firms have almost exclusively focused on economic value when choosing suppliers (Monczka, et al., 2009). Due to studies indicating a positive relationship between sustainability and firm benefits, this has started to change in recent years (Giunipero, et al., 2012). The literature discusses several factors that drive alignment of purchasing decisions with firm CSR strategy. The most important internal and external drivers are presented next.

Internal

People-oriented organizational culture

Organizational culture can be defined as *"a pattern of shared basic assumptions that a group has learned as it solved its problems of external adaptation and internal integration"* (Schein, 2006, p. 4). These patterns are considered effective, and taught or passed on to new members of the group as the expected way to behave.

In an organization, culture and subcultures play a role in guiding working relationships and behavior. Carter & Jennings (2004) thinks of people-orientation as being fair, supportive and keeping the welfare of others in minds. A people-oriented culture that support and leads to values such as justice and the wish to be a better corporate citizen has been found to have significant impact on the level of PSR (Carter & Jennings, 2004).

Such an organizational culture affects how people interact with each other and within the firm on a daily basis (Carter & Jennings, 2004). Maignan & McAlister (2003) conclude similarly. They argue that organizational norms (i.e. describing corporate manners), which are affected by the organizational culture, is one of the drivers of PSR.

Top management leadership

Top managers are accountable for the firm's activities. They have the possibility to affect implementation of PSR directly and indirectly through the people oriented organizational culture of the firm (i.e. Carter & Jennings, 2004; Hoejmose & Adrien-Kirby, 2012). Taking initiative and requiring and assisting PSR activities can cause a direct impact. Indirect impact through the organizational culture can be made by setting a good example with their own actions, which in turn can shape a people oriented culture that simplifies and inspires employees to adopt a more social and environmental mindset. This can in turn lead to better PSR performance (Carter & Jennings, 2004).

A survey conducted by Yen & Yen (2012) lends empirical support to the findings of Carter & Jennings (2004). They found that top managers were the main drivers of implementing environmental purchasing standards, influencing both directly and through driving green supplier cooperation. Goebel et al (2012) conducted a survey-based analysis of purchasing managers in German firms, and found both environmental and social supplier selection to be positively related to ethical behavior of top management. This means that purchasing managers will tend to behave more ethically if their top managers do (Goebel, et al., 2012).

A survey of UK SME managers found that values were more important than external rewards, and that managers were the main drivers of CSR (Baden, et al., 2009). Top management plays a key role in influencing and encouraging social and environmental practices in the firm (Giunipero, et al., 2012). However, Meehan & Bryde (2011) only found it to be a neutral driver with a score of 3.56 out of 5 in a UK survey of sustainable purchasing practices.

An extreme example of a top management's sustainability initiative can be found in the outdoor clothing firm Patagonia. Instead of pushing sales, their CEO once encouraged customers to buy less products, and rather fix old products than buying new ones (Stevenson, 2012).

Employee initiatives

Employees can affect and be a driver of PSR in the firm (Hoejmose & Adrien-Kirby, 2012). Through a case study, Drumwright (1994) found employee initiative to be the main driver of environmental purchasing. The initiating factor leading to environmentally conscious purchasing was found to be a deep, personal commitment from what she called the policy entrepreneurs within an organization. Policy entrepreneurs were explained as employees that strive to put issues they have a personal connection and knowledge about towards to the corporate agenda. In cases with no immediate competitive advantage connected to socially responsible buying efforts, the policy entrepreneurs were identified as a key influence (Drumwright, 1994).

The importance of personal commitment and initiatives is supported by Carter & Jennings (2004). Their results indicate a positive relationship between environmental purchasing and middle management initiatives. They also found individual values of employees to be positively related to employee initiatives, for example when they take initiative on their own and in situations where they are responsible for PSR actions. Thus, an executive with corresponding values and beliefs should be chosen to lead implementation of PSR initiatives. However, they did not find individual values of purchasing and PSR to be significant (Carter & Jennings, 2004).

One of the respondents was cited by Carter & Jennings (2004, pp. 154,155) stating that *"I just wanted to start it because I felt a personal responsibility. It was just the right thing to do."* Other purchasing managers said that it allowed them to *"go home and sleep at night"*. This was also found to be the case for SMEs in the UK. The motivation to act responsibly was anchored in the personal views and perceptions within the firm (Baden, et al., 2009).

Meehan & Bryde (2011) found such moral and ethical motivation to be the strongest driver with a score of 3.98 out of 5. On the contrary, use of external rewards and punishments for not meeting requirements can cause motivation crowding out (Baden, et al., 2009).

External

Customer pressure

Through interviews with supply chain managers, Carter & Jennings (2004) found a relationship between customers' requirements for responsible products and PSR. Customers may care about attributes such as safety, environmental impact and origin of products among others, and it is thus important that purchasers are aware of needs and desires and act accordingly (Carter & Jennings, 2004).

During the 1990s, a culture of environmentally aware customers started to stand out. Consumers increasingly started to care about environmental and social issues and started to believe in their ability to make an impact (i.e. Carter & Jennings, 2004; Giunipero, et al., 2012). A number of studies have found that customers have a major impact on environmental and social issues related to purchasing (i.e. Min & Galle, 2001; Carter & Jennings, 2004; Beske, et al., 2008; Worthington, 2009).

Customers furthermore tend to boycott firms and products that fail to meet social and environmental requirements (Beske, et al., 2008; Lau, 2011). Demands from customers regarding firms' use of recyclable materials for their products, production of easily reused products etc., can contribute to directly impact firms PSR (Carter, et al., 1998; Carter & Jennings, 2004). However, such influence are found to be more significant outside the US and Europe (Giunipero, et al., 2012).

Firms that choose not to engage in CSR cause the risk of being excluded from the supply chain (Baden, et al., 2009). Most of the SMEs in the study of Baden et al (2009) were faced with CSR requirements from their customers; 60 % had health and safety requirements, 43 % had environmental requirements while 16 % had to commit socially in their communities.

Larger firms face more public visibility, making corporate reputation more important. More visibility can drive PSR through increased consumer pressure (Koplin, et al., 2006). However, consumers' knowledge of environmental and social aspects can be limited, with typical focus on recycling and reverse logistics (Meehan & Bryde, 2011).

Nevertheless, not all customers are concerned about sustainability, and especially when they have to pay extra for it (Schneider & Wallenburg, 2012). Meehan & Bryde (2011) find customer pressure to be one of the weakest drivers of PSR, with a score of 2.81 out of 5.

Stakeholder reputation

In a study of seven firms, thorough in-depth interviews and corporate reports, Hoejmose et al (2014) finds corporate reputation to be positively related to, and the biggest driver of responsible supply chain management. Firms' fear of hurt reputation from not meeting its customers' demands, negative press coverage and consumer boycotts make it a powerful driver since it has the power to significantly affect the financial situation of the firm (Maignan & McAlister, 2003). Responsibility is thus seen as a tool to protect the reputation, while it may also be used to improve reputation (Hoejmose, et al., 2014). Reputation was found to be as strong driver of PSR as internal motivation with a score of 3.98 by Meehan & Bryde (2011).

Some of the critic of CSR is related to the term greenwash. Greenwash means that firms use their marketing department to promote themselves as environmentally and socially conscious, instead of actually being responsible. Especially large firms tend to exercise these kinds of actions. However, SMEs do not tend to follow the bigger firms' steps, probably because of their lack of resources (Baden, et al., 2009).

Government regulations and legislation

Government regulations and legislation are found to be drivers of PSR (Min & Galle, 2001; Schneider & Wallenburg, 2012; Guinipero et al, 2012). Worthington et al (2007) found it to be the main driver of diversity purchasing initiatives, while Carter et al (2000) found it to be the second most important driver of future concerns related to environmental purchasing.

However, Carter & Jennings (2004) did not find significant evidence of regulations driving PSR, but states that it can be used as a minimum level of legal requirement. Non-compliance with regulations will thus mean penalties. It is more useful than voluntary initiatives as the former tend to attract free-riders among other issues (Baden, et al., 2009). Meehan & Bryde (2011) gave current and expected legislation and regulation scores of 3.57 and 3.61, respectively, indicating that their respondents expect increased regulations in the future.

Non-government organizations

Pressure from non-government organizations (NGO) is a driver of PSR (Hoejmose & Adrien-Kirby, 2012), but only a significant one when it affects managers, clients, rivals and suppliers to implement it, or when it affects the government to regulate more rigorously (Schneider & Wallenburg, 2012). A lot of pressure is put on firms with bad social policies when producing and sourcing in developing countries (Beske, et al., 2008).

NGOs can inform the general public about unethical firm behavior. For example, Greenpeace campaigned against Nestlé for using palm oil in their products. The campaign caught the attention of media, customers etc. and changed Nestlé's production processes (Schneider & Wallenburg, 2012).

2.3.2 Activities of PSR

Purchasing will have an impact mainly in three areas of CSR – the environmental and social operations, input (material and human) and resource utilization at the supplier stages (Porter & Kramer, 2006). Porter and Kramer (2006) argue that no firm can solve every societal problem or let alone afford to do so. They advocate seeking CSR issues that intersect with the core business of the firm, while leaving the rest to firms in other industries, NGOs or government institutions in better position to solve them. This forms the basis of *Creating Shared Value* (Porter & Kramer, 2011), a highly contested article on leveraging CSR (i.e. Crane, et al., 2014).

We will focus on the four core activities of PSR defined in Table 4.

Environmental	Diversity	Human rights & safety	Philanthropy
The supplier should be seeking to reduce its emissions and environmental footprint related to product, processes, production and logistics (Tate, et al., 2012).	The firm should use a range of suppliers including minority or women owned businesses, and make sure that the suppliers promote equal opportunity practices (Carter, 2005).	Suppliers must give their workers a decent wage in addition to a safe working environment, and follow the basic principles of human rights and ethics (Bedey, et al., 2008).	Working with suppliers that incorporate a social issue in their business, such as training and employing people with special needs in order to include them in the workforce (Bedey, et al., 2008).

Table 4: Definitions of PSR activities

The PSR activities can be further categorized in a broader sense through environmental and social purchasing as seen in Figure 7. The latter category consists of diversity, human rights and safety and philanthropy. We consider issues of human rights and safety as one activity, since both are related to the suppliers' work environment. Ethics and financial responsibility as identified by Lau (2011) are important dimensions even though we have chosen not to discuss them directly.

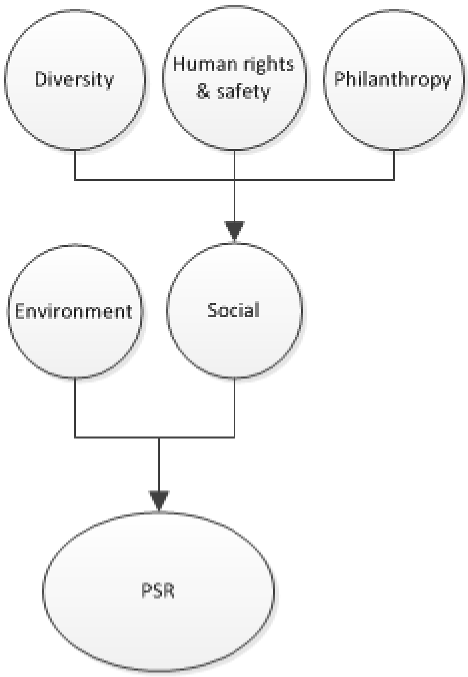

Figure 7: Activities of PSR

We consider ethics as underlying in the core activities. Issues of ethics will generally be addressed in the firm's code of conduct, and should cover purchasing related ethical dilemmas such as bribery, corruption, gift giving, reciprocity and preferential treatment (Lau, 2011). These are all perceived differently between cultures. They represent a relevant risk to all firms, as made evident by recent corruption scandals in major Norwegian firms (ie. Hovland, 2014; Reuters, 2014). The fact that it also occurs in large (state owned) firms in a country that take great pride in its democratic values proves that it is indeed a problem. Millington et al (2005) discusses supplier relationship dilemmas with an emphasis on *guanxi*[1] networks in China, but downplays the link between gift giving as a tool of networking, and corruption.

The financial aspect is fundamental to any activities, and is thus not considered as a separate dimension. Any action of importance that the firm is considering will depend on being financially viable. If the risk of losing money is big, there will likely be no PSR.

Carter & Jennings (2004) finds that failure in one PSR activity may harm the firm's overall CSR reputation. The dimensions should thus be managed and promoted with an equally strategic focus, and experiences from one PSR activity can often be applied to the other areas as well (Carter & Jennings, 2004). This can be illustrated by Wal-Mart, who has routinely come under fire for violating worker rights and obstructing unionizing, even though they have made great strides in enhancing environmental practices. For example, they have improved logistics and operational efficiency in order to save money.

Carter & Rogers (2008) suggests utilizing the value chain framework of Porter (1985) to visualize and assess which of the activities that may have the greatest economic impact through the entire supply chain. Purchasing relates to this in the sense that it is a supporting activity in the value chain.

Environmental purchasing

Environmental concerns are a source of potential competitive advantage for modern firms. Ellram & Birou (1995) suggests that one way of contributing to PSR is through environmental initiatives by the purchasing function (Carter, 2005).

Purchasing is positioned to play an important role in influencing environmental practices through supplier selection and management (Tate, et al., 2012). Instead of focusing solely on internal operations, the firm could have bigger impact on reducing the environmental footprint through supplier development. The firm must become aware and assume accountability for the impact its supplier has on the entire supply chain and products (Tate, et al., 2012).

[1] Guanxi: "A Chinese term meaning "networks" or "connections," understood to be a network of relationships designed to provide support and cooperation among the parties involved in doing business." (http://www.investopedia.com/terms/g/guanxi.asp; April 30, 2014)

This could be done by designing management information systems and supplier assessment procedures, which consider the environmental performance of suppliers and improvements over time (Green, et al., 1996). Zsidisin & Siferd (2001) argued that proactive management would reduce the risk of negative events such as environmental damage that harm plant, animal or human life.

Firms can implement criteria such as material use, waste, recycling, pollution and energy consumption related to production (Miemczyk, et al., 2012). The purchasers could urge suppliers directly to engage in environmental initiatives like improving design for disassembly, reuse and recycling (Carter & Rogers, 2008), and involvement with hazardous materials (Zsidisin & Hendrick, 1998).

Environmental practices must be financially sustainable, so that both the firm and the supplier are able to make a profit selling attractive and competitively priced products. They must also be socially sustainable, so that no damage is done to the firm’s reputation (Tate, et al., 2012).

Min & Galle (2001) found that firms with a large purchasing volume tend to be more involved in green purchasing, which makes sense from an economy of scale standpoint. The degree to which the firm took general environmental regulatory compliance seriously was also an important factor for involvement in their study.

Social purchasing

Diversity

The main purchasing concern regarding diversity is to buy from minority or women owned suppliers. Supplier diversity may be defined as

> *“being concerned with initiatives that specifically aim to increase the number of ethnic minority-owned businesses (EMBs) that supply goods and services to public, private and/or voluntary sector organisations, either directly or as part of a wider emphasis on small enterprises”* (Worthington, 2009, p. 47)

Carter & Jennings (2004) argues that the extent of such purchases often are linked to inclusion of purchasing criteria in the performance evaluation of purchasing managers, derived from top management initiatives and policies. The motivation for addressing diversity may be either based on social concerns or in order to stimulate a potential consumer market, such as a minority group.

According to Worthington et al (2007), it is debatable how far firms actually have sought to gain a competitive advantage through diversity initiatives. They find evidence that supplier diversity originated in, and is an important consideration for US firms. This does not mean it could be a source for competitive advantage – empirical evidence across various industries, sectors and nations by Worthington (2009) shows that organizational value created from supplier diversity is inconclusive. This supports the claim by Worthington et al (2007) that such initiatives are unlikely to ever lead to competitive advantage.

Supplier diversity is regardless starting to gain traction in the UK and Europe, despite trends of supply chain rationalization with fewer, but bigger suppliers (Worthington, 2009). A case can be made for implementing the diversity criteria in purchasing based on demography. Worthington et al (2007) found that supplier diversity programs were traditionally pushed by US government legislation in the 70s, whereas it now is pulled by democracy and has become a business case. By business case, they consider any important benefit derived from supplier diversity initiatives, i.e. service delivery, stakeholder relations, best value or intangible gains in competitive advantage.

The viability of such a business case in Europe was contested by Shah & Ram (2006), who found the context of legislation and demography as important underlying factors, speaking in disfavor for a European diversity business case. The culture of equal opportunity rather than equal outcome, coupled with a lower share of minorities in the UK population where found to be important reasons for less widespread adoption than in other markets (Shah & Ram, 2006). In her master thesis, Gaarenstroom (2013) argued that the importance of diversity was less important in a European context than American, more specifically assessing PSR in the Netherlands.

Regardless, the impact of diversity tends to be long-term, and is often followed by problems of cultural and ethnical kind such as dissatisfaction, turnover, conflicts and communications breakdown in the collaboration (Worthington, 2009).

Human rights & safety

A number of issues come to mind when thinking about human rights and safety. Carter & Jennings (2004) mention that whether or not workers are paid a living wage and if the factory working conditions are acceptable or not should be considered during the supplier selection. Further, use of child labor, compliance with legal requirements and working hours should be considered (Bedey, et al., 2008). Such requirements are often addressed in the firm’s code of conduct, just like issues of ethics as mentioned earlier.

The clothing and apparel industry has been under a lot of criticism for their sourcing. Industry giants have been criticized for using sweatshops with poor working conditions, long hours, low wages and child labor. Lacking safety regulations have led to human tragedy on numerous occasions (Bajaj, 2013).

Philanthropy

Philanthropy is voluntary acts the firm engages in, and is not expected by the society to the same extent as its other activities. Purchasing relates to philanthropy in the sense that the purchasing department can buy from firms that focus on a philanthropic business, creating training and employment for people with special needs etc. (Bedey, et al., 2008).

However, through exploratory interviews to initiate their research, Carter & Jennings (2004) suggested that generic philanthropic engagements such as volunteering at charities are the main philanthropic contribution from the purchasing function.

A success story, although not completely relevant in all cases, is the Norwegian IT consulting firm Unicus. By employing people with various degrees of Aspergers Disorder to test and quality control IT systems, they have combined a business need with alleviation of a social issue. People with Aspergers Disorder tend to be left out of the working stock and be a cost for society. Due to their attention to detail, they have been a valuable asset consulting several major Norwegian firms at competing terms (Aftenposten.no, 2011).

Such solutions provide benefits for firms, the people employed and the society, and have also been adopted by firms like SAP and Freddie Mac (Wang, 2014). The Norwegian clothing manufacturer Stormberg has a policy of hiring 25 % of their working stock from groups of people who have had trouble getting and keeping a job (Norli, 2014).

3. Hypothesis development

A firm striving towards calling its purchasing efforts ‘world class’ must take into account how the purchasing function can contribute from a CSR standpoint, i.e. PSR. Since a large part of the end product will be sourced, suppliers will also impact a large fraction of the total CSR performance the firm engages in through its supply chain. The firm and the purchasing function must find, develop and improve relationships with suppliers to comply with the standards of the firm.

Purchasing as a function has the potential to improve sales margins through significant cost savings. The biggest part of the cost of sold goods will tend to come from purchased materials. Since suppliers have a great impact on both cost and CSR, it can represent a significant source of competitive advantage for the purchasing firm.

As far as the authors are aware, no research on the business case for PSR has been published thus far. Based on our literature review, this chapter develops several related hypotheses. We start by discussing and hypothesizing how the level of PSR is affected by external stakeholder pressure and the firm’s responsiveness to what happens outside its organization. Further, we argue how PSR can increase financial and operational performance through increased learning and reputation respectively.

3.1 External stakeholder pressure and PSR

Through the literature review, we have seen that external stakeholders such as customers, communities, government and non-government organizations may drive PSR. According to the stakeholder theory, the purpose of the firm is value creation and distribution (Freeman, 1984). Stakeholders must be managed in the best possible manner given the amount of power they have towards the firm and how legit and urgent their claims are. This means that all important stakeholders should be kept at least satisfied in order for the firm to perform economically in the long term.

Even though owners (and shareholders) are defined as internal stakeholders, they may be thought of as external stakeholders to the purchasing function. While owners have a legitimate interest in the performance of the purchasing function, it has little direct influence over the actions made. The purchasing function mainly answers to the senior management, and have a responsibility towards both customers and suppliers.

Powerful external stakeholders can push the firm to cave into demands and desires for how the firm should act. For example, customers can boycott firms that fail to meet social and/or environmental requirements and standards, and the government can push legislation and regulation that force the firm to adapt.

Depending on the nature of the demands, the firm may be pressured to increase its level of PSR. For example, if stakeholders demand that the firm engages in general philanthropic causes and improves its internal working conditions, the purchasing function is probably not the best instance to address such problems. Issues that comprise the way the firm deals with its suppliers, i.e. several steps of the purchasing process in Figure 6 such as selection and contracting, are in the hands of the purchasing function to deal with. This is consistent with how PSR has been defined.

Further, it is likely that the nature of the firm will play a role in how much external stakeholder pressure the purchasing function could be faced with. For example, business-to-consumers (B2C) firms are likely to be subject to more public pressure than business-to-business (B2B) firms (Mont & Leire, 2009). B2B customers may change its specification, and work with the firm as its supplier, while B2C customers have limited direct influence on their own. For this reason, B2C customers need to voice their opinion in a more public domain. If they are able to cooperate with other customers or external stakeholders such as media, interest groups etc., their power and influence towards the firm increases (Maignan, et al., 2002).

Large firms are also more likely to be faced with pressure from groups of external stakeholders than smaller firms (Koplin, et al., 2006). This is the case for publically traded firms too (Mont & Leire, 2009). Firms that purchase a large fraction of materials and components that are part of the end product will also naturally have more stakeholder demands that relate to the purchasing function.

We have argued that there should be a connection between how much external stakeholder pressure the purchasing function is faced with and the level of PSR it engages in. This leads to our first hypothesis:

H1: There is a positive relationship between the level of external stakeholder pressure and the level of PSR

This relationship will likely be affected to some extent by how well the firm foresees and is able and willing to meet the demands. This is discussed next.

3.2 Firm responsiveness and PSR

We have discussed how PSR can be driven by internal factors such as management, employees and the organizational culture. These will likely impact how responsive the purchasing function will be towards PSR.

A classification of PSR strategies can be seen in Figure 8. A firm with a reactive PSR strategy will deny existence and responsibility for stakeholder issues, while it can be defensive by indirectly accepting that stakeholder issues exist, without further addressing them. Accommodative PSR means that the firm addresses stakeholder demands as long as the demands don't alter current processes and routines (Maignan, et al., 2002).

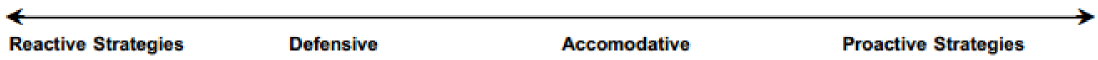

Figure 8: PSR strategies (Maignan, et al., 2002)

Being proactive means to *"[…] intend to produce a good result or avoid a problem, rather than waiting until there is a problem"* (Cambridge Dictionary, 2014). In a PSR perspective, this relates to systematically anticipating, mapping out and addressing stakeholder demands (Maignan, et al., 2002), rather than being reactive and responding to what is happening outside the firm.

According to Maignan et al (2002), proactive PSR is characterized by the efforts undergone to establish measures, goals and accountability for PSR. It also relates to the ability of the purchasing function to educate, monitor and sanction suppliers while maintaining two-way communication of achievements and feedback.

Firms will often have a reactive approach initially when being faced with external pressure for the first time, while developing a more preventive and proactive strategy as time pass (Mont & Leire, 2009).

Building on the range of PSR strategies in Figure 8, a reactive firm with a high level of external stakeholder pressure will not have a high level of PSR implemented since it denies the role it has both for the actions of its suppliers, and to the responsibility it has towards the external stakeholders that pressures it in the first place. This implies that the effect external stakeholder pressure will have on PSR will depend on proactivity. In other words, responsiveness will moderate the impact of external stakeholder pressure.

H2: The effect of external stakeholder pressure on the level of PSR is stronger for a proactive firm than for a reactive firm

Seen differently, a firm with low external stakeholder pressure is unlikely to have implemented PSR, unless it expects pressure for responsibility to build in the future. It can be proactive by foreseeing and acting in advance of being faced with added expectations and regulations. A high level of PSR can be a result of the culture, values and leadership within the firm, and be independent of the pressure from external stakeholders. This implies that proactivity alone can lead to PSR.

If there is no external stakeholder pressure and no internal drive for PSR, no PSR is obviously the likely result. If there is high external stakeholder pressure and the firm is proactive, a high level of PSR is likely to be implemented. This could even have a reinforcing effect, i.e. that the internal drive of the purchasing function leads to even higher levels of PSR than what is demanded by external stakeholders.

H3: There is a positive relationship between the level of proactivity and the level of PSR in the firm

Figure 9 illustrates the steps thus far.

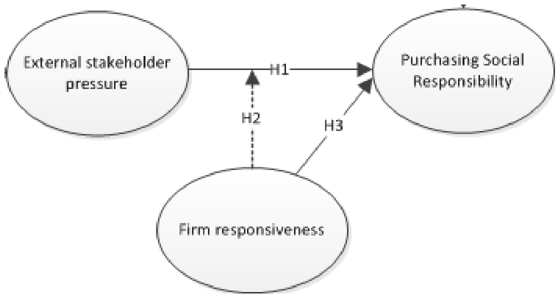

Figure 9: Stakeholder pressure and firm responsiveness

3.3 PSR and firm performance

In the resource based view of the firm, internal, intangible capabilities are fundamental in creating competitive advantage and performance. Capabilities in the firm that are valuable, rare and hard to imitate can lead to sustainable competitive advantage if the firm is organized to leverage it (Barney, 1991). Cravens & Oliver (2006) argues that employees and corporate reputation can be such unique resources or capabilities, and lead to enhanced firm performance.

We suggest four broad categories of performance from implementing PSR; learning & growth, operations, reputation and revenue. These are based on the CSR business performance measures from Blowfield & Murray (2011) and the criteria for world class purchasing from Lysons & Farrington (2012).

Within each category, we suggest the set of performance measures highlighted in Table 5. These will be applied later when discussing how we suggest empirical testing of our hypotheses.

Learning & growth	Operational performance	Reputation	Revenue performance
• Attracting, developing and retaining human capital • Innovation and value creation	• Quality of purchased products and supplier operations • Operational efficiency • Cost reductions	• Quality in product • Brand value, reputation, customer attraction	• Revenues • Sales growth • Market share

Table 5: Performance measures

Besides considering strictly responsibility related concepts, the purchaser should naturally keep in mind the traditional criterion such as cost, quality, delivery and other related to these.

3.3.1 Learning & growth

The learning & growth perspective relates to human capital and the capability of the firm and its supplier base to keep improving, innovating and creating value through its employees. Human capital means the knowledge and ability of the individual that allows for changes in action and economic growth. Among the characteristics of world class purchasing is having learning, training and professional development to enhance the human capital of the purchasing department. Stakeholders directly concerned with this will mainly be employees, unions, management and owners.

A mechanism of implementing PSR could be that the firm replaces some of the extrinsic motivation (compensation in the form of wage, bonus and benefits) with increased intrinsic value for the employee (i.e. a sense of value for the work in itself) (Vaiman, et al., 2012). Hoejmose et al (2014) argues that having a responsible supply chain can give employees a feeling of pride and ownership in working for a firm that embraces social responsibility and the environment. This may help the firm develop internal values that are harder to copy for competitors than tangible factors such as a lucrative compensation scheme.

For example, a respondent in the study of Hoejmose et al (2014) was quoted stating that responsibility had become a part of the firm's DNA which made it an attractive place to work. It had become more than a place to go to get paid. The firm was perceived a leader in responsible practices, and thus became an attractive employer.

An important part of human capital is attracting talents. Having responsible practices can attract good employees, among other benefits (de Villiers, et al., 2011; Hoejmose, et al., 2014; Amaeshi, et al., 2008). It has been reported that firms are increasingly looking to CSR as an important part of recruiting and retaining high-quality international talent (Vaiman, et al., 2012).

If this applies to the purchasing function in isolation, one would think that the most talented purchasing professionals would seek towards firms that embrace its role as impact makers in the supply chain. Lau (2011) offers partial support for this notion by stating that, among other benefits, PSR may have a direct influence on the firm's ability to attract and retain employees. The ability of the firm to attract highly skilled employees may be seen as a resource in the sense that it is hard to imitate.

Monczka et al (2009, p. 757) stated that *"attracting, developing and retaining supply management talent will become a key differentiator for success"*. The emerging strategic role of purchasing requires skills and capabilities of new kinds. On one hand, they must be able to analyze supply market dynamics and supply options and risks, while developing value acquisition strategies that integrates and supports overall strategies. On the other hand, they must be able to manage and nurture supplier relationships and be leaders of both cross-functional and cross-organizational teams on a global scale (Monczka, et al., 2009). Having the best purchasers is thus important, not only to reduce supply risk but to leverage the strategic potential of purchasing.

Since it has been suggested that both PSR and CSR can be a recruitment tool for general employees, it could be worth investigating whether the application of PSR practices may help attracting the brightest purchasing and supply management brains.

Due to the key, boundary-spanning role of the purchaser, one would think that having talented employees in this function could lead to innovation in the supply relationship. Skilled purchasers could more effectively work with the suppliers and act as a link between the internal functions of the firm and the suppliers, facilitating innovation in the supplier relationship.

People make changes, and having the brightest minds plays an important role for any firm. There has been significant support found for the role of human capital as a catalyst for innovation (Dakhli & De Clercq, 2004). If responsible practices such as PSR could be applied as a fundament for keeping the best candidates, it also has the potential to be a source of learning, growth and innovation through having a skilled workforce.

Carter (2005) found that firms with high levels of PSR tend to have higher levels of organizational learning than their competitors. Such firms often have organizational cultures with entrepreneurialism and free-flowing decision making (Carter, 2005), supplementing the evidence that employee initiatives can drive PSR.

Østergaard et al (2011) found a positive relationship between innovation and employee diversity in terms of education and gender, but no significant effect in terms of ethnicity. Nestlé claims their diversity suppliers are potential sources for innovation, as they have a hard time competing on operating efficiency directly (Parker, 2009). Firms such as Biogen (2014) claim the same. These links are however, more dubious and not empirically proved.

We have made a case that PSR could be a source of learning, growth and innovation through enhanced human capital. Based on this discussion, we formulate the following hypothesis:

H4: There is a positive relationship between PSR and learning & growth in the firm

Learning & growth is part of having world class purchasing and supplier management as outlined by Lysons & Farrington (2012), and a fundamental driver of operational performance in the firm and the supply chain as discussed next.

3.3.2 Operational performance

Operational performance is concerned with what the firm and its supply chain must excel at, such as committing to principles of just-in-time, cycle time reductions and quality management along with strategic cost management. World class suppliers will be focused on continuous improvement, innovation, technology and adaptability with the purchasing firm. This perspective thus constitutes the cost side of our model. An important factor is to find the right supplier, and collaborate to create mutual benefits. The purchaser plays an important role as the link between purchasing firm and the supplier base.

The main concern in the supply chain will be achieving operational efficiency to reduce the cost of production, while maintaining the desired level of responsibility and quality. In order to facilitate this, the firm must provide its suppliers with product specification, and agree on how performance should be measured and compensated. For example, excellent performance by the supplier could lead to longer term contracts, providing stability in the relationship. Other benefits contributing to the purchasing firm’s competitiveness should also be shared.

Intuitively, the cost of having suppliers comply with human rights and safety standards would increase the cost of production just like one would think environmental purchasing would. The combination of increased transaction and material costs and initial investment in equipment should provide a compelling case to write off environmental activities as cost efficient to both the firm and the supplier. Providing their employees with higher wages (or at least a living wage), better (or acceptable) conditions and the chance for employees to contribute in their communities should be expensive and also make a good case for turning PSR down.

However, Klassen and Vereecke (2012) found that when implementing standards and practices dealing with social issues such as human safety in the supply chain, higher costs were a short-term result. Although in an experimental sense, their data indicated an emerging, significant competitive advantage over the longer term.

Further, Lau (2011) observed Chinese suppliers re-organizing and streamlining their operations under the guidance of the purchasing firm. The purchaser plays a natural role in guiding suppliers to better solutions. In addition, Lau (2011) found that working hours and overtime was reduced to comply with the purchasing firm’s codes of conduct. These efforts increased productivity, reduced problems with quality and product defects, and overall reduced the cost of production at the supplier level.

Green et al (1996) found that suppliers could be stimulated to innovate from seeing environmental signals in the purchasing policies of the firm. This innovation could be either on their own or in collaboration with the buying firm, implying that the purchasing department would be involved.

In a more general sense, Flammer (2013) found that CSR programs may improve operating performance by improving labor productivity from increased employee satisfaction. McMurray et al (2014) found in their study of Malaysian organizations that a significant opportunity to implement sustainable purchasing lies in the health and safety aspect.

Through more efficient production processes, there could be long-term benefits of implementing environmental activities both for the firm and the suppliers. Hollos et al (2012) argue that purchasers should insist that their suppliers adopt green production methods and eliminate toxic materials, chemicals and CO2 for improved operational performance. They argue that purchasers who consider operating costs can purchase environmentally while at the same time achieve savings for their firms.

More efficient use of input materials and parts may potentially reduce the cost of sold goods significantly. Carter & Easton (2011) found that environmental purchasing and logistics lead to improved margins through cost reductions (Reuter, et al., 2012). This is supported by Lau (2011) and Hollos et al (2012). Examples of initiatives that can be pursued are decreasing water usage, waste, pollution, production spill over, packaging materials and increasing energy efficiency (Hollos, et al., 2012; Lau, 2011; Carter, et al., 2000). Such efforts could further improve the margin because the supplier is able to charge a lower price to the buying firm (Klassen & McLaughlin, 1996) referred by Carter et al (2000).

An environmental focus can have a positive impact on both product flexibility and quality (Zhu, et al., 2005, cited in Hoejmose & Adrien-Kirby, 2012), further emphasizing the possibility of improved operational performance.

All of the improvements in operational performance will likely be a result of learning about processes and methods and re-framing them. Carter (2005) found that the relationship between PSR and cost reductions in the operations was mediated by organizational learning. Organizational learning was found to improve supplier performance, and ultimately reduce costs for the purchasing firm. Inspired by this, and in an effort to provide a link between human capital and supply chain performance, the following hypothesis is worth investigating.

H5: Learning & growth mediates the negative relationship between PSR and operational performance

Note that this hypothesis is similar to Carter (2005), who tested it in a North American setting. The hypothesis has been replicated and applied in other research too. It would be interesting to test it among European and maybe Norwegian purchasers as well, as the differing cultures would likely lead to different results.

3.3.3 Reputation

The reputation perspective relates to how the firm is perceived outside of its own organization, and facilitates the revenue side of our model. This will be an important factor that decides the financial potential of the firm. Important factors to consider here is the appropriate management of public relations and marketing. The true PSR efforts the firm engages in must be appropriately communicated, without being considered deceptive.

It is crucial to maintain good relationships with external stakeholders - customers, the government, regulators, NGOs, activist groups, unions, media and the broader communities in which the firm operate in. External stakeholders will put pressure on the firm and impact its reputation if it acts irresponsibly. Reputation is the result of leadership and effort by every individual in the firm. Having a good reputation is invaluable, and can be seen as a resource on its own that is impossible to imitate by the competitors.

Reputation can hardly be bought. Reflecting back to the early quote by Warren Buffett in this paper, it takes time to establish and a moment to ruin reputation. With this in mind, it is obvious why firms should be concerned about building and retaining reputation. The firm will often be held publically accountable for its suppliers' business practices, and PSR will thus be one of the tools in its toolbox to achieve a good reputation, or at least minimize the risk of ruining it.

Hoejmose et al (2014) found that fear of harmed reputation is a strong driver of responsible supply chain practices. Negative media attention and press coverage could lead to customer actions hurting the financial situation of the firm (Hoejmose, et al., 2014). Responsibility is thus a tool to protect the firm's reputation among stakeholders, and to stay competitive in the market. They found that it was more strongly linked to retaining than improving reputation, which implies it could be a tool for risk mitigation.

This is in line with the findings of Fiksel et al (2004), stating that environmental purchasing can reduce risk of damaged reputation and build brand value (Hoejmose & Adrien-Kirby, 2012). Environmental and social standards also have a positive signalling effect towards customers (Beske, et al., 2008).

Other research has concluded that environmental purchasing improve reputation among stakeholders (Amaeshi, et al., 2008) and that it can be a tool to both improve and retain brand value by mitigating the risk of negative reputation in case a controversy occurs (Roberts, 2003). This can in turn make the firm more attractive among customers and suppliers (Hoejmose, et al., 2014; Min and Galle, 1997). Through his case study, Lau (2011) observed how a firm that focused on PSR improved its brand, reputation and customer loyalty. Worthington (2009) found that supplier diversity initiatives could improve corporate reputation.

In a cross-industrial Chinese context, Lee et al (2013) found that when the purchasing firm adopts employee rights protection, the supplier is likely to follow. The results of their empirical testing indicated that improved corporate reputation for the purchasing firm came as a result.

Whether PSR works as a tool for improving or retaining reputation has been concluded differently in the literature. What should leave little doubt is that it has the potential to positively influence reputation. Based on this discussion, we formulate the following hypothesis:

H6: There is a positive relationship between PSR and reputation

The relationship between reputation and revenue performance is discussed next.

3.3.4 Revenue performance

Any major action by the firm will take into account the potential it has to improve the financial situation. In this perspective, one of the main motivations to implement responsible purchasing criteria will be to improve the firm’s financial performance through increased revenue (Maignan, et al., 2002; Tate, et al., 2012). Customer pressure and corporate reputation has already been identified as important external drivers of PSR.

According to Cox (2003), one of the reasons why firms should embrace supplier diversity as a strategic priority is the potential of sales growth through enhanced public relations (Worthington, 2009). This could be interpreted as a reason for supplier diversity in larger firms. Worthington et al (2007) found that small businesses could stimulate the local economy and create a larger customer base by including supplier businesses owned by people with a minority background etc. This suggests that the value of supplier diversity may vary with the size of the firm.

Carter et al (2000) surveyed 437 respondents from the B2C manufacturing industry and found a positive relationship between environmental purchasing and net income. This supports the findings of Min and Galle (1997), indicating that environmental purchasing can enhance the public image of the firm and further financial performance. Being a market leader and role model in responsible purchasing may help the firm stand out and thus help improve financial performance (Hoejmose, et al., 2014). According to Guinipero et al (2012), eco-oriented firms perform better in the marketplace. Economic opportunities can drive the responsibility assumed by the firm (Giunipero, et al., 2012).

Thornton et al (2013) empirically investigated whether the firm would benefit financially from having implemented socially responsible supplier selection criteria, i.e. selecting suppliers that embrace sustainability and CSR in their operations. They found positive associations with three financial indicators – sales revenue, sales growth and market share. This was particularly evident with multinational firms sourcing from emerging markets

The study of Lee et al (2013) found that firms who exercised employee rights protection improved their financial performance through improved corporate reputation. When the firm introduced employee rights protection, its suppliers did too, and both improved their financial performance as a result of better customer satisfaction. They also avoid negative consequences of not complying with legal employment requirements (Lee, et al., 2013).

According to Klassen and McLaughlin (1996), increased revenues can be gained if the customer values environmentally friendly products. Unless the customer is aware of the sustainability of the end product and the processes it has been through during production, the firm will not be able to charge a premium or increase quantity of sales, thus revenue impact will likely be minimal. Lau (2011) observed how a Hong Kong firm was able to charge a premium after implementing PSR, especially on the environmental side.

Park & Stoel (2005, p. 245) states that it is *"important to communicate with the public about the organization's social performance"*. The right type and amount of marketing is important. If the customer perceives the marketing to be "too glossy" or too much, it might be counterproductive and lose its potential. Greenwashing is such a problem.

The strategic role of the purchaser relates to this in the sense of being a cross-functional and cross-organizational communicator. The efforts and results of PSR must be communicated both internally, to those who are the face of the firm and have a position to impact external reputation as well as owners and management, and to suppliers who needs to be motivated to keep buying into the concept. The purchaser's role might furthermore be increasingly part of identifying and engaging stakeholders. Other than traditionally dealing with suppliers, they may be required to communicate with experts and NGOs to bridge interests, resources and legitimacy in the supply chain (Crespin-Mazet & Dontenwill, 2012).

Overall, we have made a case through existing research that there could indeed be a revenue potential stemming from responsible purchasing. While we find poor or no evidence or even research on the impact from some of the social PSR activities on revenues, there seems to be clear revenue potential from environmental purchasing. Additional research on the connection between PSR and revenue performance is needed. This leads us to the seventh and final hypothesis:

H7: Reputation mediates the positive relationship between PSR and revenue performance

4. Conceptual framework and discussion

The hypotheses presented in chapter 3, and the relationship between them, can be seen in Figure 10. We have argued that firm responsiveness both alone and through moderating the level of external stakeholder pressure will determine the level of PSR. PSR can lead to improved operational performance through learning & growth, as well as revenue performance through improved reputation.

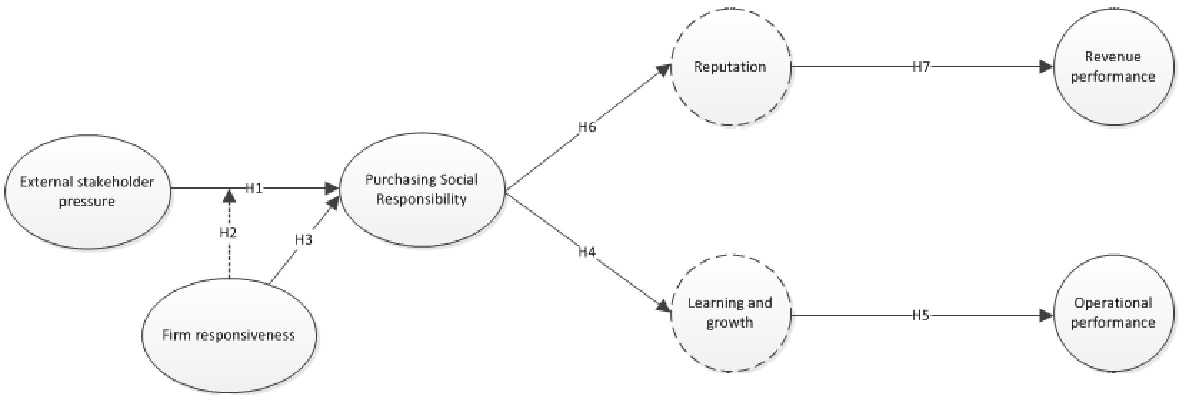

Figure 10: Conceptual framework

The following discussion will assess how PSR can contribute to create shareholder value, and be used as risk management. We conclude the chapter with a discussion of what obstructs a widespread adoption of the concept.

4.1 Shareholder value through stakeholder management

Shareholders are concerned with the future returns the firm is expected to give. This will naturally be a function of the revenue and cost side in the framework. In order to create sustainable shareholder value, interests of all stakeholders mentioned earlier in this model need to be considered. The firm can be pressured by external stakeholders to adopt a higher level of PSR, but the level will be determined by how the firm reacts. If the firm is proactive, a high level of PSR can be the result even without external stakeholder pressure. In order to accommodate shareholders, the firm considers the needs of its most important stakeholders along the way, such as suppliers, employees and customers.

Shareholder value is also related to share price and dividends. Flammer (2013) found empirical evidence of causality between CSR and stock performance, indicating that shareholder value is indeed positively affected. The stock market reaction was a 0.92 % increase after CSR proposals were put on shareholder vote and the decision was close (Flammer, 2013).

Whether or not purchasing responsibility has the same potential to increase these stock metrics directly does not seem to be evident. As far as the authors are aware, no research has been done on the direct connection between PSR and shareholder value.

For investors and owners with a long-term view, there should be value in having a responsible supply chain. In the long run, mitigation of risk will increase the potential of steady, sustainable growth. If the firm purchases from suppliers who pollute, spill waste or have horrible working environments, the firm may be held accountable by stakeholders consequently damaging the stock value and revenue potential. Shareholders with a short-term interest in the firm will likely be opposed to implementing responsible standards since investment costs will reduce short-term profitability.

The hypothesized improvement in learning and ultimately ability and probability to innovate adds another benefit. It should also be valuable for long-term shareholders to have invested in a firm that is ahead of environmental and social regulation. A proactive approach could create first-mover advantages and cost reductions that will be hard to imitate for competitors (Carter, et al., 2000), and be an added advantage in the event of tightened regulation (Thornton, et al., 2013).

Such a first-mover advantage could for example be to develop the purchasing function’s ability to work with and develop the supplier in a sustainable fashion. It could also be a hedge against future regulation. The Norwegian grocery wholesaling group Norgesgruppen recently tried to achieve this. Through an open letter to the Minister of the Climate and Environment, they urged an introduction of stricter environmental regulation and taxation (DN.no, 2014). They have previously invested heavily in more energy efficient operations and environmental practices, and naturally want to leverage this. By applying such pressure, Norgesgruppen can gain publicity through stakeholders such as media, NGOs and customers and reinforce the impact it has. When regulation is tightened, Norgesgruppen may be a technological leader in its field, and it might be hard to imitate this capability.

A similar first-mover advantage may be possible from social purchasing. For example, clothing manufacturing firms are facing constant pressure for their use of socially irresponsible practices in developing countries. This sparked debate on the op-ed pages of the New York Times last year, after Disney withdrew from sourcing in Bangladesh following a garment factory disaster that killed 400 workers (New York Times, 2013). Rather than pulling out and further damaging the workers, they could have engaged in efforts to improve the social working conditions and be a part of the solution.

There could be first-mover advantages related to reputation just like we have suggested internally in the supply chain. For example, the firm could diversify itself by adopting PSR, particularly if their competitors are seen as less responsible. The success of this will likely depend on the industry, consumer preferences and demand.

The question is whether such first-mover advantages would actually be the case. Instead, there could be second-mover advantages if the cost of technology is lowered and competitors can adopt it more easily and better. If so, competitors will be able to benefit from the efforts undertaken by the pioneering firm.

The most important determinant of shareholder value will arguably be how profitable the firm is. The purchasing function will have the opportunity to impact operating income directly and improve the sales margin. Significant cost savings have been discussed as the main potential of purchasing by van Weele (2010), but through PSR we have argued that the revenue side could be improved as well through improved reputation. The operating income of the firm equals the revenue minus operating expenses including cost of sold goods, cost of administration/sales and depreciation/appreciation.

We have already discussed how PSR hypothetically could improve reputation and brand value. This could increase attraction among both consumers and suppliers, and further improve the financial performance of the firm if the firm is able to capitalize on the resource. Strategic marketing and public relations are likely to be needed to extract the revenue potential. Returning to the example of Norgesgruppen, their open letter was a tool to attract attention to their cause. The openness reinforced the pressure and magnitude of the efforts since media brought additional attention from external stakeholders to the issue.

On the cost side, we have discussed how the firm and its suppliers may hypothetically improve operational performance and cost through PSR. Cost of goods sold tends to come largely from purchased input since firms specialize and trade with each other. It has been argued that PSR activities are likely to incur added cost in the short term, but be a benefit on a longer term.

The impact on operating income will naturally depend on several variables. These could be the amount of funds spent on research & development and advertising, how differentiated the product is, how much consumers earns and are willing to pay, and which state the labor market is in. Further, the stage of the industry life cycle may impact how successful PSR will be.

McWilliams & Siegel (2001) found that a certain level of responsibility found with cost-benefit analysis would be profit maximizing and at the same time cover the demand for CSR from multiple stakeholders. According to them, the firm should provide exactly the level of CSR that makes the corresponding increase in revenue equal the additional costs of providing CSR, in order to meet the demand of both shareholders and other stakeholders.

4.1.1 PSR as risk management

One of the main arguments for CSR and PSR has been the potential of risk reduction, to avoid being faced with controversies. Managing risk is fundamental to a firm's success. The firm must be aware of, analyze and make a decision regarding uncertainties in its surroundings. Risk management deals with assessing potential risks and finding a way to mitigate or accept the risk as part of doing business. Kytle and Ruggie (2005) present a three-step aggregation of the risk management process:

1. Establish a causal relationship between a risk/threat and an undesired outcome
2. Identify the business element that are exposed to the risk
3. Take action to eliminate or reduce the identified risk factor

First, the firm must assess the risks it is faced with regarding its suppliers – in our case the focus will be on PSR issues. There is always a risk that the firm is held accountable for the lack of environmental and social responsibility of the supplier. For example, the supplier could be harming the environment by spilling toxic waste or exploiting the society by using sweat shops. These are recent examples were Apple (Xiaoping, 2011) and H&M (Siegle, 2012) respectively have come under fire for their suppliers' lack of responsible practices. This could potentially have a negative impact on brand and reputation, and further the financial performance of the firm.

Adoption of relevant standards could reduce financial, environmental and social risk in the supply chain (Beske, et al., 2008; Lau, 2011). For example, ISO14000 and SA8000 are environmental and social standards, respectively. Several frameworks such as the UN Global Compact and the Global Sullivan Principles cover both. ISO9000 deals with operating procedures, and could be a tool to reduce financial risk. However, standards have weaknesses and often lack accuracy. Using codes of conduct can tailor requirements to the firm's needs, and is widely used as an alternative to standards (Beske, et al., 2008).

To minimize risk, a minimum level of PSR should be applied depending on the level and type of stakeholder pressure. We have mentioned Wal-Mart as an example of a firm that has faced criticism despite taking great strides within one of the PSR activities, since it has been neglecting other activities. While a firm cannot solve every issue in the community and broader society, it can leverage PSR activities that fit with its business model (Porter & Kramer, 2006), while maintaining a minimum level of engagement in other areas. However, Carter & Jennings (2004) argued that PSR activities should be handled equally strategic, speaking against our suggestion.

4.2 Barriers

The hypothesis development and discussion thus far has had a very positive view. It is unlikely that the suggested performance effects will always be the result; otherwise every firm would adopt the concept. For example, Mont & Leire (2009) found that most Swedish firms have yet to implement PSR, and those who do tend to be large, international firms with more at stake.

Several factors can hinder implementation and adoption of PSR. For example, managers may lack the knowledge about the potential of PSR, and be unable to capitalize on it (de Villiers, et al., 2011). In a constantly changing environment, the purchasing manager needs to acquire new knowledge and information on sustainable development (Crespin-Mazet & Dontenwill, 2012). Lack of power and trust in the supplier relationship may further obstacle PSR (Preuss, 2001; Cramer, 2008).

With global purchasing, continents and countries have varying standards, regulations, beliefs and institutions regarding sustainability. This brings unique challenges, and suppliers may be hesitant to work with a demanding firm unless it is an important customer (Cramer, 2008; Koplin, et al., 2006). What is considered to be in line with PSR may differ depending on how developed the country is (Winstanley, et al., 2002).

Actually monitoring compliance is a complicated issue both logistically and in a cost perspective. Cramer (2008) suggests that the supplier should get certified, and add the cost to the product price. Certification will often lead to more loyal customers for the supplier. A lack of accurate and comparable data can hinder PSR (Crespin-Mazet & Dontenwill, 2012). Sufficient reporting is necessary for transparency, which is necessary for stakeholder acceptance (Cramer, 2008). However, neither certification nor reporting is a guarantee for compliance.

Lau (2011) found that environment, human rights and safety were more focused on than diversity. In his study, he also observed that suppliers were concerned about being required to comply with several sets of standards regarding human rights and safety from their customers. The combination of demand for price and codes of conduct squeezed the margins of the suppliers. Further, he identified that the cost of compliance and miscommunication with suppliers and their workers hindered successful PSR.

Organizational culture, age, religion, education and size of the firm influence the purchaser’s view on ethical behavior (Razzaque & Hwee, 2002; Cambra-Fierro, et al., 2008) and represents additional barriers. Other factors may include turnover in the firm, changes in the macro environment as well as the ability and quality in forecasting.

Arguably the most significant barrier will be the cost of implementation. Adding new and environmentally friendly policies and methods for purchasing would, at least in the short term, increase transaction costs to the firm. One variable that affect the purchasing process is the degree to which the purchased product affects the existing routines and procedures in the organization. New procedures mean less efficient purchasing processes, as the purchaser must familiarize with the new criteria and apply them to the process. For example, new criteria must be implemented into contracts and expediting routines, and they must be tested for acceptance. This increased transaction cost could return to normal as the new practices settle.

A perhaps more important cost factor to consider is the initial investments that often are needed to achieve sustainability (Min & Galle, 1997). Investments in infrastructure may face the firm, and more problematically the often financially weaker suppliers with capital expenses and costs they cannot easily handle. The investment cost is often a particular problem in firms with less than 500 employees (Min & Galle, 2001). Several studies indicate that lack of financial capacity is the main barrier to implement PSR practices (i.e. Lau, 2011, McMurray, et al., 2014), and will face the firm with a disadvantage compared to less responsible competitors (Carter, et al., 2000).

Besides, purchasing “green” materials and parts for assembly is likely more expensive than conventional items. Koplin et al (2006) and Nidomolu et al (2009) finds that compliance with environmental standards will increase the overall production costs of the firm and lead to no short-term benefits (Giunipero, et al., 2012). Green materials tend to raise the overall cost of a product (Koplin, et al., 2006).

A general characteristic of organizational purchasing as opposed to consumer purchasing is that the former is less price elastic than the latter. It takes smaller relative fluctuations in price for a consumer to seek alternatives than for the purchasing firm, as it is generally cheaper and less painful for a consumer to change its preference. The cost of changing suppliers is often significant. The firm needs to alter its processes to accommodate new input parts, negotiate new contracts and agreements and generally establish the logistics, routines and procedures of the cooperation as illustrated in the purchasing process model in Figure 6.

This is supported by Mosgaard et al (2013), who found that purchasers generally will depend on the existing suppliers’ selection of non-product related items such as paper and light bulbs (i.e. routine products). Even if products are eco-labeled, the total cost of changing supplier will exceed the perceived benefit. This was magnified by the notion that environmentally friendly products are more expensive and of lower quality than conventional alternatives (Mosgaard, et al., 2013). However, there could be bigger advantages for strategically purchased products.

In order for PSR to gain legitimacy, its activities must also be able to have a positive impact on the methods through which both the firm and the individual purchaser is measured. Goebel at al (2012) debates the purchaser’s trade-off between getting the best price and finding a supplier that respect responsible standards. Purchasers are often incentivized based on cost performance rather than responsibility (Goebel, et al., 2012), which is an obvious obstacle for PSR. Weaver et al (1999, p. 44) states that *“commitment to ethics can easily be lost in an environment in which managers are expected to deliver increasing returns to shareholders”* (Goebel, et al., 2012).

Even though total impact on the triple bottom line may be positive from implementing responsible purchasing practices, the investment and implementation cost in the short run is likely to affect the management’s decision making. This is problematic due to the profit-maximizing environment and shareholder scrutiny large firms are faced with when being publicly traded, in addition to cut-throat competition with low margins.

One of the main stakeholders of the firm will always be the owners or shareholders, who hold a financial interest in the value of the firm. Since they provide capital, they may easily be considered as a definite stakeholder by the management, and if they expect the management to deliver high earnings on the expense of responsibility, this will be a barrier.

When shareholder value is a major concern for the firm, business stakeholders like suppliers could be negatively affected as indicated in the business case for CSR in Figure 2 on page 11. This is likely to be the case with PSR as well. When the firm is highly focused on squeezing margins to maximize its short-term stock price and dividend potential, suppliers will suffer and especially if the purchasing firm has bargaining power. This will turn into a cycle were profit-maximizing focus is spread in the supply chain.

Under this premise, the importance for the firm to know and classify its shareholders’ role is significant if it seeks to pursue responsible purchasing practices. In order to gain acceptance for PSR practices, the purchasing department needs to have top management on board. This could be problematic as shareholders have the power to influence and control the decision making of the board of directors, who directs important business decisions and oversees the future of the firm. Without the approval of the top management, it is unlikely that PSR implementation is possible unless some other factor drives the decision, i.e. a “grassroots movement” within the firm, government legislation etc.

Some shareholders may also have power to influence the firm to cave into their desires by exerting public pressure. This type of shareholders may be thought of as investor activists who has a short-term financial interest, and needs to be handled accordingly. On the other hand, many investors will have a high public profile and thus be cautious about investing in irresponsible firms. They may have public image and goodwill in mind besides short-term profit.

Apple CEO Tim Cook did an unorthodox maneuver when he responded to climate change skeptic investors' concerns about responsible practices. Apple had invested in renewable energy and stopped purchasing raw materials that fueled war and human rights abuses regardless of the added initial cost. Cook told critical shareholders to dump Apple stocks if they were opposed to such commitment. Besides striving to maintain long-term integrity of the firm, he would also do what he considered the "right" thing to do, not only considering the bottom line of his firm (Shankleman, 2014).

Such shareholder treatment is probably not ideal, even though the business case for CSR in Figure 2 indicates that environmental practices paradoxically could have an impact on shareholder value. Additionally, Mont & Leire (2009) found that shareholders of publically traded firms often do care about responsibility.

What may be achieved is discouraging the short-term investors while encouraging longer term investors who are positive towards embracing sustainable practices, and thus gain acceptance among shareholders. Accurate and honest communication from the CEO and the board regarding beliefs in responsible business practices may be a way to attract the shareholders that values such stability over short-term profit.

According to Eisenhardt (1989), the differing goals and risk preferences of shareholders and management may lead to problems (de Villiers, et al., 2011). De Villiers (2011) argues that the long-term nature of investments in environmental performance strategies will be unacceptable to risk averse managers. Risk averse managers will focus on short-term initiatives to maximize financial and reputational benefits, rather than making big investments with longer term benefits (de Villiers, et al., 2011).

This lack of motivation to commit on long-term initiatives is problematic. Purchasing could impact the general CSR performance of the firm if it overcame the dilemma of differing short and long-term strategic goals. Further, the purchasing function must develop the processes and capabilities needed, and an entrepreneurial culture will help the purchasing function change quickly (Crespin-Mazet & Dontenwill, 2012). Humans respond to incentives, which could be a first step towards PSR.

5. Survey development

This chapter describes the philosophy of which the attached survey (appendix 2) is developed. We underline that we do not actually test or pre-test the survey or use it to gather data for analysis, in line with the delimitations we have set. Our goal is to develop a survey that may be used later, and discuss some methodological issues that may arise. First, we operationalize the framework from chapter 4 and explain the use of measuring models. Next, we introduce the scales and discuss the sampling frame, before ultimately discussing general mail survey considerations.

5.1 The survey

In order to test the working hypotheses developed in chapter 3, we suggest conducting a cross-sectional survey in which data is only gathered once (Cavana, et al., 2001). It should be cross-industrial, i.e. cover a range of industries in order to be able to generalize.

Our survey consist of five parts; control variables, external stakeholder pressure, purchasing social responsibility, firm performance and firm responsiveness. A total of 42 questions is asked to measure the level of PSR and its potential performance effects. Since our school offers licenses to Qualtrics, we would develop our survey in that tool and distribute it via e-mail with the built in solutions.

The survey utilizes several indicators for each of the constructs that was conceptualized in Figure 10. Each indicator is measured by a number of questions. Most of the questions are replicating or adapting previous works such as Carter & Jennings (2004), Carter (2005), Maignan et al (2002) and Thornton et al (2013) in order to get reliable and valid measures and provide a rigorous instrument for data collection.

When replicating a survey, we ensure that the measures have been tested previously and that they should be of sufficient quality as long as they are consistent with what we need to assess. It also gives a better basis for comparing data, for example if studies are conducted in different cultural settings.

In order to ensure reliability and face and content validity of the survey instrument, we underline the necessity of a pre-test. Cavana et al (2001) argues that the pre-test should either be conducted among a sample of 4 to 10 times as many pilot respondents as there is questions in the survey, or else the results should only be deemed indicative. However, we suggest a smaller scale testing, in which a number of respondents from the survey population are cognitively interviewed. The goal is to assess how questions are perceived and comprehended, and if the respondents have the necessary knowledge to answer them accurately (Brace, 2008).

5.2 Operationalization of framework

The framework presented in Figure 10 is abstract in its current form. It can be operationalized by translating the various dimensions (concepts) such as external stakeholder pressure and PSR into observable and measurable indicators (Cavana, et al., 2001). The operationalization seen in Figure 11 is used as basis for our suggested survey.

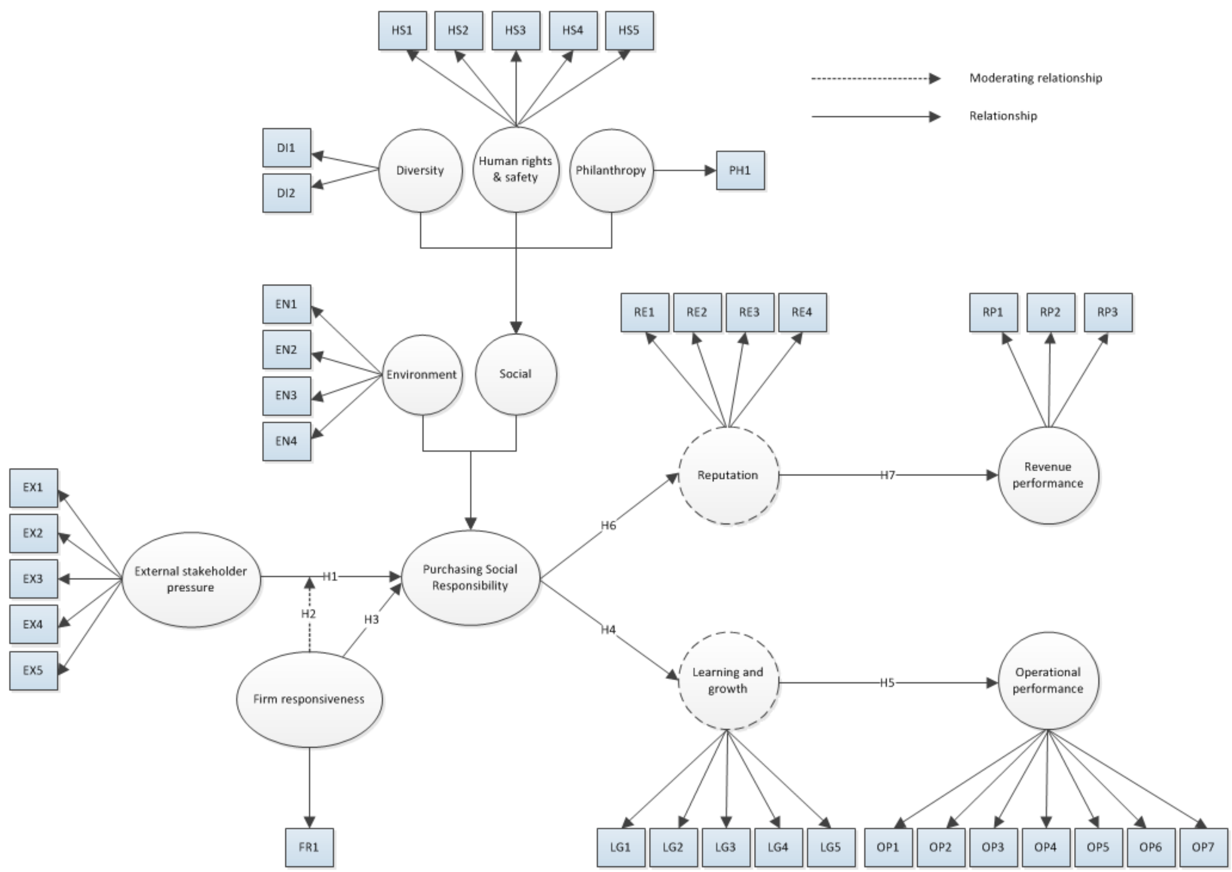

Figure 11: Operationalization of framework

The dimensions are unobservable constructs, also known as latent variables. It is impossible to observe the level of external stakeholder pressure, PSR or environmental purchasing in a firm. They can however be quantified through measures or indicators, such as an empirical score collected through a survey (Freeze & Raschke, 2007).

The following discussion identifies the needed indicators to make the dimensions observable. In an effort to avoid repeating much of the previous discussion, we refer back to the relevant figure, table or chapter instead.

In order to understand which indicators can be used to measure the construct of external stakeholder pressure, we reflect back on the stakeholder identification map in Figure 3. The main categories of stakeholders are customers, governments, competitors, the community and media. By using these categories, it is easier to understand how the strength of external stakeholder pressure could be determined. A consideration should be made whether or not to include owners as an external stakeholder, as discussed under hypothesis 1.

The strength of the indicators could be determined by asking respondents to rate to which extent the firm is being pressured by each group individually. One problem with this approach is that it would be highly subjective and perhaps hard to measure. For example, the respondents could interpret the question as a relative ranking between the indicators, rather than an absolute ranking. Further, each respondent would probably have its own opinion of what is ‘a great extent’, and what is ‘a moderate extent’. A pre-test is necessary to ensure well formulated questions.

The next concept that needs to be measured is the strength of PSR. The dimensions of the construct have already been discussed; environmental and social (diversity, human rights & safety and philanthropy) purchasing. Definitions of the activities can be found in Table 4 on page 25.

Carter & Jennings (2004) operationalized the PSR dimensions in their study, and it has later been replicated by Carter (2005) among other researchers and studies. It would make sense to replicate them in this study too, however slightly altered due to differing definitions.

Under the environmental purchasing activities, it would be necessary to assess indicators whether the firm engages in life-cycle analyses and efforts to lessen the environmental burden through product and packaging. This follows the definitions introduced in Table 4.

Further, diversity indicators should include whether the firm engages in purchasing from minority or women-owned business suppliers. In a Western European business environment, this could be irrelevant compared to a North American (Shah & Ram, 2006; Gaarenstroom, 2013), but it is worth investigating regardless.

We have combined the categories of human rights and safety, and have thus combined the indicators of Carter & Jennings (2004) too. Considering our definition, the indicators fit our study. It includes safety both at the suppliers' facilities and during freight to the purchasing firm. Further, it assesses whether the purchasing firm controls the suppliers' working environments and compliance with human rights and decency.

Our understanding of philanthropy within the purchasing function varies compared to Carter & Jennings (2004), and thus we have chosen to incorporate our own indicator instead of replicating due to lack of an existing scale. Carter & Jennings (2004) uses indicators for voluntary work and donations from the purchasing department, whereas we think of purchasing's philanthropic engagement more as business development of supplier firms that engages in training and employment of people with special needs (Bedey, et al., 2008).

When it comes to operationalizing learning & growth and operational performance as a result of PSR, it makes sense to replicate Carter (2005). He incorporates indicators on internal learning about internal and external customers as well as production processes. In addition, we have chosen to include indicators of how PSR has resulted in better ability to attract talented employees as well as to innovate. This is in line with how we have defined performance in Table 5. The measures of operational performance include supplier quality, logistics and efficiency as well as cost.

To the best of our knowledge, no prior research has been done on the reputation effects from PSR. Hence, we have no previously tested set of indicators to rely on. Based on the metrics introduced in Table 5, we suggest testing how PSR has improved product quality, reputation, brand value and ability to attract customers.

Similarly, we find little research on how PSR affects revenue streams and financial performance. However, Thornton et al (2013) suggested using increased revenues, sales growth and market share as indicators, which we have replicated in our survey.

In order to assess the firms' level of responsiveness, we have adapted the levels of PSR strategies presented by Maignan et al (2002). The original can be found in Figure 8.

5.2.1 Measurement models

Choice of measurement model for constructs is an important methodological consideration. Applying the wrong model for measuring weakens the constructs' content validity, displays the relationships incorrectly and lowers the value of the research (Coltman, et al., 2008). There is two ways to model a construct, namely reflective or formative. Coltman et al (2008) describes some important differences that we have summarized in Table 6.

	Reflective	Formative
Nature of construct	Construct exists independent of measures	Construct depends upon a constructivist, operationalist or instrumentalist interpretation by researcher
Direction of causality	From construct to indicator. Change in construct causes change in indicator.	From indicator to construct. Change in indicator causes change in construct.
Characteristics of indicators	Change in variable precedes change in indicator. Indicators share a theme and are interchangeable.	Adding or removing an indicator may change the conceptual domain of the construct.

Table 6: Reflective and formative measurement models (Coltman, et al., 2008)

All constructs in this study are first order and reflective, except PSR. In our view, PSR is a second order formative construct as explained below. Carter & Jennings (2004) argue PSR is a second order construct consisting of five reflecting dimensions. These dimensions are likely correlated, meaning that they will all change similarly given a change in the construct. According to Carter & Jennings (2004), the dimensions should thus be managed with an equally strategic focus. A change in the level of PSR (construct) will cause a change in the dimensions (indicators).

This definition of the construct varies from our view. In our discussion of PSR as risk management, we argued that a firm should focus on the dimensions that coincide with its core business, while maintaining a minimum level of all the other dimensions in order to reduce risk and create competitive advantage. This means that if the firm can benefit from adopting a dimension such as diversity purchasing, it should seek to implement this dimension while maintaining the remaining environmental and social dimensions at adequate levels. Changes in the dimensions will cause changes in PSR, i.e. the opposite of what Carter and Jennings (2004) argues.

In our study, PSR is thus assumed to be a formative construct of four dimensions. However, the indicators of the PSR dimensions are reflective; a change in the dimensions will be reflected in a change in the correlated indicators.

Based on this description, PSR is a multidimensional construct. The construct of PSR leads to a number of dimensions as discussed, which are all unobservable. The sum of these unobservable dimensions determines the overall strength of PSR, and can thus be classified as an aggregate, multidimensional construct within Law et al's (1998) taxonomy.

5.3 Scale

We suggest a 7-point Likert scale to measure most of the constructs. The Likert scale presents respondents with a number of attitude dimensions for which they are asked to state their agreement or disagreement and the strength (Brace, 2008). Our scale is anchored by "to a very great extent" (7) and "not at all" (1). We have included an option for "not applicable" (N/A), so that respondents can choose not to answer an irrelevant question.

Such a scale, except the N/A option, has already been used by Carter (2005), and is the main reason why we suggest it. Scores may be better suited for comparison, and could potentially tell something about the differing national and regional cultures and attitudes. In addition, 7 point scales are found to be easier to use, more accurate and a better reflection of the respondents' real evaluations than 5-point scales (Finstad, 2010).

This scale is used for all constructs except firm reactiveness (FR). For the construct of firm reactiveness, we have adapted Maignan et al's (2002) PSR strategies to fit as a scale. We have included three more items; neutral, somewhat defensive and somewhat accommodative. These gives more options than the existing reactive, defensive, accommodative and proactive, and fits better with the 7 point scale that is applied on other indicators.

Important considerations include order effect, acquiescence, central tendency and pattern answering (Brace, 2008). Respondents often bias towards the left side of the scale, and agree rather than disagree. We thus suggest going from 1 at the left hand side to 7 at the right. Further, respondents tend to be reluctant towards extreme answers, and often fall into a pattern when answering the survey (Brace, 2008).

5.4 Sampling frame and key informant issues

The unit of analysis for the survey is the purchasing department. The constructs in our survey are measured at an individual level, and thus we assume that the individuals responding will represent the perspective of their purchasing departments. The population will thus be purchasing managers as a representative of the firm.

We suggest targeting a sample of at least 1000 random purchasing managers of manufacturing B2C firms as respondents for the survey. They should be well positioned to influence the level of PSR, since they represent a link between internal and external stakeholders (Zsidisin & Siferd, 2001; Carter & Jennings, 2004). The choice of manufacturing firms coincides with our delimitation to leave out service firms, as they tend to have a lesser degree of social and environmental responsibility. Further, if we had executed this survey we would likely focus on a narrow geographic area such as Norway.

Since we focus in part on reputational and financial effects of PSR, a focus on B2C firms would likely be better suited for our study. B2B firms have more long-term and personal relations, whereas B2C firms are much more affected by the reputational effects of their business. This focus could be too narrow in such a small market as Norway.

One way of getting access to respondents could be a co-operation with a relevant interest group or trade union. For example, co-operating with The Norwegian Association of Purchasing and Logistics (NIMA) could give access to contact information of thousands of members. Otherwise, use of company databases such as Proff or Regnskapsdata could potentially be useful. Hopefully, this would give large enough sample of Norwegian purchasing managers in order to get enough responses and be able to generalize.

In order to determine which responses to include in the analysis, a set of control variables are suggested. First of all, it is necessary to determine whether the respondent has the necessary experience and knowledge to give accurate and correct answers to the survey. This has been done by controlling how many years the respondent has been involved with, and how much time he/she has spent with the purchasing function.

Further, we have included questions on the size of the firm. The size of the firm could impact its level of PSR involvement. For example, a firm with low relative bargaining power compared to its supplier is likely to have less PSR than a firm with high power (Preuss, 2001).

Lastly, a question on how many percentage of a typical product is sourced from suppliers is included since a firm who produces a large fraction within its own facilities will be less concerned with supplier responsibility, and more with its own general CSR performance.

The respondents are asked to quantify each of the control variables. This enables a filtering of extreme responses, and to assess whether the respondents are key informants. A problem with this is that the respondents could feel that its anonymity is compromised and the answers would be skewed as a result.

5.5 Mail survey considerations

We suggest reaching out to respondents via e-mail. This approach has several benefits such as low cost for both distribution and execution, potential of reaching a high number of respondents, and anonymity in an effort to reduce social desirability bias (Blumberg, et al., 2011). Since we are targeting managers, e-mail survey could make it easier to reach them, and give them the option to postpone response until it fits with their schedule (Blumberg, et al., 2011). It is impossible to control who actually responds, but this is sought to be mitigated with a number of control questions.

Weaknesses of the method include the type and information that can be extracted (Blumberg, et al., 2011). We use closed questions, which means only what is included in the survey will be answered, and the respondents have no room to elaborate or explain. An open question for comments and feedback could be included. Further, we emphasize the importance of avoiding leading questions.

In addition, respondents are likely to reject a survey that is lengthy and yields no personal benefit (Blumberg, et al., 2011). It is a goal for us to minimize the psychological cost while offering the best possible rewards for completing the survey. Thus, the survey is kept short, and the respondents are offered access to the results and a copy of the report if wanted. Considerations of design and layout of questions may also increase the response rate.

Low response rate is a common problem with mail surveys. Those who are particularly interested in the topic will tend to answer more frequently than others, i.e. a non-response error (Blumberg, et al., 2011). Automated reminders to those who did not respond after a given time could reduce this issue.

We suggest attaching a cover letter, which serves several purposes. First of all, it assures the respondent of full anonymity. Further, it discloses all involved parts such as school (Norwegian School of Economics in our case), advisors, research partners and sponsors. It should also introduce the topic and give explanations and directions needed to complete the survey and provide as accurate information as possible.

6. Summary and concluding remarks

Globalization has enabled firms to purchase from global suppliers. Suppliers furthermore play a big role in the overall CSR efforts of the purchasing firm. Based on a review of the general CSR and purchasing concepts and more specific PSR literature, we have formulated a number of hypotheses and a conceptual framework that shows how PSR may enhance firm performance. We have developed a survey that shows how we would test our hypotheses empirically. However, testing is out of the scope of this paper, so we discuss some important methodological issues that could arise if we actually attempted to gather the needed information with our survey instrument.

We argue that the level of PSR is mainly determined by how responsive the firm is regarding responsibility. Responsiveness is claimed to have a moderating effect on the impact external stakeholder pressure will have towards PSR. This means that even though there is high pressure for PSR related matters from external stakeholders, the firm is unlikely to adopt the concept unless it is responsive.

The construct of PSR consists of the dimensions environment, diversity, human rights & safety and philanthropy. These dimensions are measured by one or several questions in our survey to determine the level of PSR in the firm.

In our framework, PSR leads to firm performance through the intangible resources and capabilities it potentially creates. Through increasing learning & growth in the firm, PSR indirectly improves the operational performance of the firm and its suppliers. Human capital and entrepreneurial culture spur innovation. Being able to learn and understand processes and re-framing them is important in a rapidly changing business environment. The firm may increase its revenue potential from reputation effects of PSR. This would be more likely in a B2C than B2B setting, since the former is more reputational than the latter, which is more relational.

We discuss several ways PSR can contribute to shareholder value. Improved financial and operational performance is an obvious contribution if it is demonstrated empirically. This is enabled through acquiring intangible resources which represents added value. Further, there could be first-mover advantages from pioneering PSR in a market or industry. If assuming a minimum level of each PSR activity, the concept could work as a tool for risk management.

The positively oriented discussion of performance effects from PSR is contrasted with an assessment of the barriers to adoption. The main barriers for PSR include the cost of implementation and the conflict between short and long term interests.

6.1 Future research

An obvious lane for further research would be to conclude the work started in this paper. Our suggested survey could be critically assessed and pre-tested to check its relevance and applicability. After a thorough pre-test, a final survey could be distributed according to the considerations discussed. We have suggested that Norway would be an interesting market to research, and with the right sponsors and partners we would likely have done this study ourselves. Within the limits of our master thesis, we were advised not to attempt an empirical investigation.

Like other researchers such as Hollos et al (2012), we suggest further exploring the commercial aspects of PSR. Few articles other than Thornton et al (2013) present any evidence of increased sales and revenues from PSR. Further, as can be seen in our key articles abstract in appendix 2, a lot of focus in the research field thus far has been to develop theory, which is also necessary in the future. However, more empirical evidence is needed in order to increase the acceptance and attention of the research field.

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Appendix 1. Key articles

Source	Purpose	Key findings	Method
Beske, et al. (2008)	Evaluate implementation of environmental and social standards in the German car industry.	Environmental standards, particularly ISO 14001, are widely used. Social standards are not – social dimensions of sustainability have not been implemented to the same extent thus far.	Survey among 378 first-tier suppliers of Volkswagen AG.
Carter (2005)	Examine how PSR affects firm's costs.	Finds not direct relationship between PSR and cost. PSR leads to improved supplier performance and reduced costs through the mediating variable of organizational learning.	Survey methodology and structural equation modeling. Implements the resource based view of the firm.
Carter & Jennings (2004)	Identify the activities and drivers of PSR.	Develops and defines the concept of PSR. Activities of PSR: the environment, diversity, human rights, philanthropy, safety. Drivers of PSR: people oriented organizational culture, top management leadership, individual values of purchasing employees, employee initiatives.	Literature review of CSR and purchasing and supply management. Tests hypotheses through a mail questionnaire sent to purchasers in over 1000 US B2C firms.
Guinipero, et al. (2012)	Identify drivers and barriers currently facing P/SM sustainability implementation efforts.	Purchasing and supply management sustainability efforts are driven by top management initiatives and government regulations, while investment costs and economic uncertainty are barriers to P/SM. Defines supply management sustainability (SSM) and its components.	Literature review of the sustainability literature. Multi-method approach consisting of review, Delphi analysis with panel of 21 P/SM executives, interviews with 19 additional P/SM executives.
Hoejmose & Adrien-Kirby (2012)	Examine research in the field of socially and environmentally responsible procurement (SERP).	Finds that SERP literature is at a critical point in its development. Warns that researchers should be aware of the shortcomings and potential defragmented areas in the literature. This is especially important in order for the field to become an established and prominent part of the management literature.	Literature review 2000-2010. Incorporates both quantitative and qualitative techniques in a comprehensive, systematic analysis.
Lau (2011)	Examine empirically how a multinational buying office implements social responsibility and codes of conduct in purchasing activities in Hong Kong and Pearl River Delta region.	Finds that environment, ethics, health and safety, and human rights are more important than diversity, community, and financial responsibility for PSR practices in the HK/PRD region. PSR benefits include reduced operating costs, enhanced brand image and reputation, increased sales and customer loyalty, increased productivity and quality, increased ability to attract and retain employees and risk management. Challenges include cost of compliance, communication with uneducated workers, conflicts among different standards.	Reports a case study. The case study covered the experiences of three sourcing projects of a multinational buying office that had implemented PSR with success.
Maignan, et al. (2002)	Shed light on the nature of PSR and suggest how firms can implement CSR criteria in purchasing decisions.	Assesses PSR strategies and practice. Argues that selection of PSR strategy is based on a trade-off between costs and the underlying motivations. Presents a framework for PSR implementation.	Case studies and theory development. Practitioner focused paper.

Reuter, et al. (2012)	Investigate how purchasing managers react to the influence of specific stakeholder groups when it comes to supplier selection decisions.	Significant positive impact of public orientation and negative impact of shareholder and customer orientation on the sustainability prevalence in supplier selection. Shareholder orientation drives cost prevalence in supplier selection. Customer orientation does not drive cost focus.	Empirical study with German multinationals. A telephone interview guided 71 respondents through an online questionnaire.
Tate, et al. (2012)	Explore current environmental purchasing literature and supplier management in order to understand current activities, suggest research.	Most of the environmental purchasing literature is not grounded in theory. Due to the relatively early stage the research field is in, there is a significant opportunity to develop theory and influence practitioner behavior. Research is just starting to appear in major business journals.	Literature review and analysis of corporate reports. Content analyses.
Thornton, et al. (2013)	Investigate to which extent socially responsible supplier selection is linked to customer firms' financial performance in three important economic regions.	Firms that consider PSR aspects during the supplier selection process enjoy financial performance advantages versus rivals, however with different outcomes depending on region. Firms doing business in developing countries should implement PSR as a hedge against future changes.	Exploratory, empirical study. Collects and analyzes a dataset of 479 manufacturing, retail and service firms in the US, China, and United Arab Emirates.
Worthington, et al. (2007)	Examine the context within which supplier diversity programs have emerged in US and UK.	Firms chose to develop supplier diversity initiatives swayed by legislation/public policy, financial opportunities, stakeholder expectation and ethical influences. Reveals socio-political differences between the US and UK as drivers of supplier diversity.	Case-study approach. Literature review to guide primary data collection. Data collection included research in US and UK firms, mainly interviews.
Worthington (2009)	Report on a cross-national study of large firms engaged in supplier diversity purchasing.	Ethnic minority purchasing programs have the potential to provide benefits in four main areas: firm performance, building stakeholder relationships, contributing to strategic objectives and responding to a changing external environment.	Explorative approach. Literature review, semi-structured interviews, supplemented by review of corporate material and information.
Zsidisin & Siferd (2001)	Examine environmental research in the SCM literature to establish a framework.	Proposes a new definition for environmental purchasing and SCM. Identifies purchasing as a key activity in the supply chain. Foresees that transaction cost analysis and other research topics will be embedded in environmental purchasing literature in the near future.	Literature review. Presents a framework for theory development.

Appendix 2. Survey

We think of Purchasing Social Responsibility (PSR) as purchasing activities that meet the social and environmental responsibilities that are expected by society. When answering this survey, please consider the situation of your purchasing department. Answer as many questions as accurate as possible. We assure full anonymity. In addition to contributing to valuable research, we offer first hand access to the results and conclusions of this study. If interested, please note an e-mail address for this in the last column. Any feedback or comments may also be noted here. This will be handled separately from the survey response and in no way be connected.

The following scale is used for categories EX, EN, DI, HS, PH, LG, OP, RE, RP: 7 = to a very great extent; 6 = to a great extent; 5 = to a fairly great extent; 4 = to a moderate extent; 3 = to a small extent; 2 = to a very small extent; 1 = not at all; N/A = not applicable. A separate scale is introduced for FR.

Survey

Construct	Category	Questions	Source
Control variables		Please quantify the following: How many years have you been active in the purchasing department of your current firm? How many percentage of your time are you involved in the purchasing function? How many employees does your firm have at the moment? How much revenue (million NOK) does the firm generate annually? How many percentage of a typical product is sourced?	Own
External stakeholder pressure	(EX 1-5)	To which extent is the firm pressured by the following external stakeholder groups on PSR related matters? … customers … governments … competitors … the community … media	Freeman (1984),

Purchasing Social Responsibility	Environmental (EN 1-4)	Currently, our purchasing function … uses a life-cycle analysis to evaluate the environmental friendliness of products and packaging … participates in the design of products for disassembly … asks suppliers to commit to recycling or reuse … reduces packaging material	Carter & Jennings (2004)
	Diversity (DI 1-2)	Currently, our purchasing function … purchases from minority/women-owned business enterprise suppliers … has a formal minority/women-owned business enterprise supplier purchase program	Carter & Jennings (2004)
	Human rights & safety (HS 1-5)	Currently, our purchasing function … ensures the suppliers' locations are operated in a safe manner … ensures the safe, incoming movement of product to our facilities … visits suppliers' plants to ensure that they are not using sweatshop labor … ensures that suppliers comply with child labor laws … asks suppliers to pay "a living wage" greater than a country's or region's minimum wage	Carter & Jennings (2004)
	Philanthropy (PH 1)	Currently, our purchasing function … utilizes suppliers that are philanthropic, i.e. it creates training and employment for people with special needs	Own
Firm performance	Learning & growth (LG 1-5)	As a result of undertaking responsible purchasing … our purchasing function has attracted more talented employees … we have learned more about our own production processes … we have learned more about our internal customers … we have learned more about our external customers … we have seen innovation in our supplier relationships	Adapted from Carter (2005)
	Operational performance (OP 1-7)	As a result of undertaking responsible purchasing … we have been able to obtain products from suppliers that are of higher quality … we have been able to obtain products of suppliers with shorter lead time … suppliers have done their job more efficiently	Adapted from Carter (2005)

		… production costs have been reduced … we have lowered the cost of purchased materials … labor costs have decreased … total costs have been reduced	
	Reputation (RE 1-4)	As a result of undertaking responsible purchasing … our firm has improved its ability to attract customers … our firm has improved its reputation … our firm has improved its brand value … our firm has improved product quality	Own and Thornton, et al. (2013)
	Revenue performance (RP 1-3)	As a result of undertaking responsible purchasing … our firm has improved its revenues … our firm has experienced sales growth … our firm has improved its market share	Thornton, et al. (2013)
Firm responsiveness	(FR 1)	My firm’s response to corporate responsibility can be classified as… (choose **one** option, see definitions below) … reactive … defensive … somewhat defensive … neutral … somewhat accommodative … accommodative … proactive … (not applicable) **Definitions:** **Reactive:** denies existence and responsibility for stakeholder issues **Defensive**: indirectly accepts that stakeholder issues exist, without further addressing them **Accommodative**: addresses stakeholder demands as long as the demands don’t alter current processes **Proactive**: systematically anticipates, maps out and addresses stakeholder demands	Adapted from Maignan, et al. (2002)