

Socially responsible purchasing practices and supply chain performance in the food and beverage industry

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Abstract

Companies have policy for including social aspects in purchasing, however, it is believed that some barriers would hinder this and that it does not have impact on supply chain performance. This paper identifies socially responsible purchasing practices, the main drivers and barriers facing the implementation efforts and relation to performance.

Keywords: Socially Responsible Purchasing, Ethical Purchasing, Performance Measurement.

INTRODUCTION

Responsible purchasing and supply chain performance characterize growing and important areas for research (Leire and Mont, 2010). The food and beverage industry has a unique role in increasing economic opportunity because it is common to human health and life generally. Prompted by the increasing disposable income, the food and beverage industry has been experiencing a marked change in consumption pattern (Market and Market, 2013). Also, increasing government regulations are having impact on food manufacturing industries and their business strategies (Market and Market, 2013).

Stakeholders have put a demand on companies regarding their social performance (Elci and Akpan, 2007). As a result, companies are expected to provide value for all its shareholders regarding environmental friendliness of products, employees, corruption and other issues. Consumers (77%) said that it is important for companies to be socially responsible (Survey by Landor Associates 2012). “Consumers buy products based on a combination of cost, availability, quality, maintainability and reputation factors and then hope the purchased products satisfy their expectations and requirements” (Wisner, et al., 2014).

The focal point of purchasing and supply is on sourcing for and buying the right materials, “at the right price and at the right time in order to” provide a product or service. “Effective purchasing” assists an “organisation to reduce costs, maintain quality and manage the levels of risk to its supply chain” (Business Case Studies, 2014). Organisations are expected to contribute to the development of a sustainable society by actively introducing products and services that are not only economically appealing and environmentally friendly but that advance the fulfilment of a social

need (Sarkis et al., 2010). According to Pagell and Wu (2009), “a supply chain's performance should be measured not just by profits, but also by its impact on environmental and social systems”. This can likely be achieved by having an effective supplier performance management system, good customer satisfaction and engaging with the society.

The role businesses in a contemporary society is playing is now changing. Stakeholders, such as customers, media, governments and investors makes companies engrossed in the attention they give to their actions. Organisations are therefore forced to include non-economic measures in their purchasing practices (National Agency for Public Procurement 2016). “Although many companies have some kind of policy for including social aspects in dealing with suppliers, the extent of deployment and integration of these policies differs significantly” (Murray, 2003).

This research examines social issues and how they are discoursed in the context of purchasing practices, the drivers of and barriers to the adoption and implementation of socially responsible purchasing and overall effect of the practice on supply chain performance in six food and beverage manufacturing organisations. The paper contributes to operation management by exploring supply chain performance measures and how these are affected by various responsible purchasing practices.

While previous research has mainly focused on some drivers of socially responsible purchasing, this paper focuses on both the drivers and barriers and whether these influence the supply chain performance. An explorative case study of the food and beverage industry has been performed with the objective to respond to the following questions “What are the main socially responsible purchasing practices?”, “What are the main drivers of and barriers to implementing them?” and “How does these affect their supply chain performance?”. In practice, the study should provide support for operations managers by identifying the vital success factors necessary in the purchasing and supply chain practices in relation to sustainability and the possible impeding factors to look out for.

SOCIALLY RESPONSIBLE PURCHASING

“Purchasing or procurement is the process by which companies acquire raw materials, components, products, services, or other resources from suppliers to execute their operations”. It can also be defined as the “process in which the supplier” transports products as result of customer’s request (Chopra and Meindl, 2007). According to Van Weele (2010), “sustainable purchasing is the consideration of environmental, social, ethical and economic issues in the management of an organization's external resources”. “In this way, the supply of all goods, services, capabilities and knowledge that are necessary for running, maintaining and managing the organization's primary and support activities will provide value not only to the organization but also to society and the economy”.

Socially responsible purchasing is an area that interests managers and scholars. It is significant in all aspect of supply chain which include customers, employees and suppliers (Carter 2004). In their work, Carter and Jennings (2004) established socially responsible purchasing to consist of “stand-alone activities” such as buying from “minority-owned suppliers”, environmental purchasing, safety, human rights and issues of philanthropy at supplier plants. They argue that “socially responsible purchasing activities are purchasing activities that meet the ethical and discretionary responsibilities expected by society”.

Socially responsible purchasing is believed to concentrate on “upstream life cycle stages”, production methods and conditions such as workers/human right, wages, health and safety, minorities, gender, human rights and racial equality (Lobel 2006). Carter and Jennings (2004) posit

that socially responsible purchasing can serve as a substantial source of organisational sustainable competitive advantage. They also discovered that top management leadership, employee initiatives, people-oriented organisational culture and customer pressure will lead to an increased level of purchasing social responsibility. In a related work, Salam (2009) established the significant influence of government regulations and values of employee on socially responsible purchasing. It can therefore be deduced from these authors' argument that the drivers of socially responsible purchasing activities are important in any organisation's move to improve its supply chain processes and to attain success.

DRIVERS AND BARRIERS

If supply chain management sustainability is to be integrated into the structure of organisations, it must be propelled by certain organisational forces which are termed as drivers. The drivers refer to the factors that influences companies in adopting socially responsible purchasing practices. The literature on drivers are analysed and explained under internal and external drivers theme. While there are drivers that influence organisations to adopt socially responsible purchasing practices, there are some factors that prevents organisations from adopting the socially responsible purchasing practices. They have been grouped into internal and external barriers. The table below shows the different drivers of and barriers to socially responsible purchasing based on previous research:

Table 1 – Drivers of socially responsible purchasing

| Drivers | Category | Authors |
|--|-----------------|--|
| Top management support | Internal | (Blome and Paulraj, 2013), (Hoejimose and Adrien-Kirby, 2012), (Lee, 2008), (Walker et al., 2008), (Caldwell et al., 2006). (Brown and Trevino, 2006), (Carter and Jennings, 2002). (Carter and Jennings, 2004), (Finkelstein and Hambrick, 1996). |
| Reputation | Internal | (Fombrun 2005), (Roberts, 2003) |
| Employee initiatives/commitment | Internal | (Salam 2009), (Mont and Leire, 2008), (Carter and Jennings, 2004), (Cambra-Fierro et al., 2008) (Park and Stoel, 2005), (Carter and Jennings, 2002). |
| People oriented organisational culture | Internal | (Carter and Jennings, 2004) (Cambra-Fierro et al., 2008) (Blome and Paulraj, 2013), (Carter and Jennings, 2004), (Salam 2009) |
| Organisational size | Internal | (Blome and Paulraj, 2013), (Carter and Jennings, (2004), (Salam, 2009) |
| Customer/community pressures | External | (Blome and Paulraj, 2013), (Shneider and Wallenburg, 2012), (Salam, 2009), (Worthington, 2008, 2009), (Carter and Jennings, 2004), (Cambra-Fierro et al., 2008), (Elci and Akpan, 2007), (Webb, Mohr et |

| | | |
|---|----------|---|
| | | al. 2008), (Thorsell 2008), (Minaskattepengar, 2007), (Martin and Cullen 2006), (Berns et al., 2009), (Roberts, 1996) |
| Media and NGOs (opinion formers) | External | (Worthington et al., 2008), (Winstanley et al., 2002), (Roberts, 2003), (Maignan and McAlister, 2003), (Rao and Holt, 2005).(Reuter et al., 2010) |
| Government regulations/legislation | External | (Shneider and Wallenburg, 2012), (Worthington et al. 2008), (Salam, 2009), (Delman et al. 2008, Min and Gale 2001), (Berns et al., (2009), (Elci and Akpan, 2007), (Montabon et al. 2007), (Martin and Cullen, 2006), (Preuss, 2001), (Cordano (1993) |
| Economic opportunities | Internal | (Preuss, 2001) |
| International standards - code of conduct | External | (Blome and Paulraj, 2013) |
| Suppliers | External | (Maignan and McAlister 2003), (Walker, Di Sisto et al. 2008) |

Table 2 - Barriers to socially responsible purchasing

| Barriers | Category | Authors |
|--|-----------------|---|
| Lack of top management commitment | Internal | (Mont and Leire, 2008) (Maignan, Hillebrand et al. 2002), (Akenroye T.O., 2013) |
| High cost | Internal | (Whitehouse 2006), (Maignan, Hillebrand et al. 2002). |
| lack of training and lack of information | Internal | (Mont and Leire, 2008) |
| Management style | Internal | (Welford and Frost, 2006) |
| Lack of/tough legislation | External | (Akenroye T.O. 2013), (Mont and Leire, 2008) |
| Supplier issues | External | (Welford and Frost 2006), (Vassallo, Cacciatore et al. 2008) |

EXPLORING SUPPLY CHAIN PERFORMANCE

In operations management, successful supply chain performance of organisations is becoming increasingly collaborative, therefore, the process of performance management should be associated with the company's strategy (Lohman et al., 2004; Forslund, 2014). According to Chan et al. (2003), performance measurement provides improvement in performance in the pursuance of supply chain excellence. Blome and Paulraj (2013), in their research on ethical climate and purchasing social responsibility, posit that apart from addressing the social needs of the supply chain, socially responsible purchasing can also offer significant performance benefits. Similarly, Carter and Jennings (2000) were of the opinion that higher levels of socially responsible

purchasing will directly improve supplier performance since there is commitment in the buyer-supplier relationship. This suggests that socially responsible purchasing activities are important in the company's supply chain performance.

Carter and Jennings are also of the view that direct benefits result from socially responsible purchasing activities in the form of improved lead times, efficiency and supplier quality. However, in his research into the performance metrics in supply chain management, Constangioara (2013) found the performance metrics utilisation in Romanian supply chains to enable “inter-functional” and inter-organisational integration in management” of the supply chain. He also posits that the main managerial focus in the supply chain is attaining efficiency by lowering costs while maintaining satisfied satisfaction expected by customers.

Thor (1994) proposed that performance measures should be selected in a balanced manner which should include quality, productivity and satisfaction of customers. In their work, Akyuz and Erkan (2010) are of the opinion that supply chain performance should include agility, partnership, productivity, excellence, collaboration and flexibility metrics. However, they posit that including all measures of all supply chain aspects may be a difficult task. This study aim to identify key performance measures based on literature and to make recommendations for practice based on data.

RESEARCH METHODOLOGY

This research builds on previous research and the data collected from semi-structured interviews with Nigerian food and beverage organisations regarding how they perceive incorporating social aspects into their purchasing activities and how this influence their supply chain performance. This creates a better understanding of the subject matter. For the study, pilot interview was carried out to ensure that the questions were understood and the research instrument functions well. An improvement on the questions were done and a total of 13 semi-structured interviews were conducted by one of the authors each lasting on average 45mins-1hour comprising 18 questions. Some organisations were chosen based on positive publicity that they had received in the past and recently with respect to their responsible social conduct. Other organisations were suggested by some interviewees, through what is known as the snowballing technique (Moriarty 1983). The selection was fine-tuned to represent three multinational companies and three indigenous companies.

FINDINGS

The interviews were transcribed and coding of the interview transcripts was carried out, categorising and combining the data for themes. The results below present a summary of all the responses. The description of each category have also been discussed with senior researchers. Within the organizations, several socially responsible purchasing practises were implemented such as, environmental friendliness of products, regular visits to supplier plants, integrity and transparency in procurement, competitive bidding as well as adhering to policies guiding purchasing.

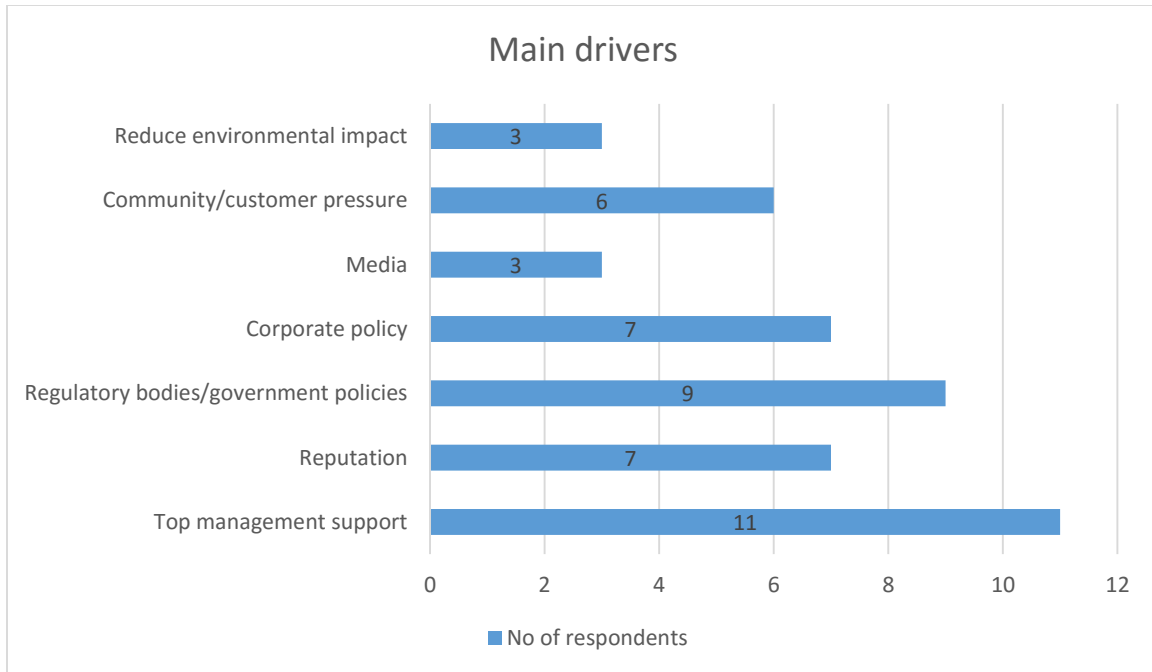


Figure 1 – Category of the main drivers of socially responsible purchasing in the organisations in relation to number of respondents

Eleven respondents affirm that top management support is an essential driving factor to the adoption and successful implementation of socially responsible purchasing. This is supported in the literature. The need to comply with policies given by regulatory bodies is also of dominant importance.

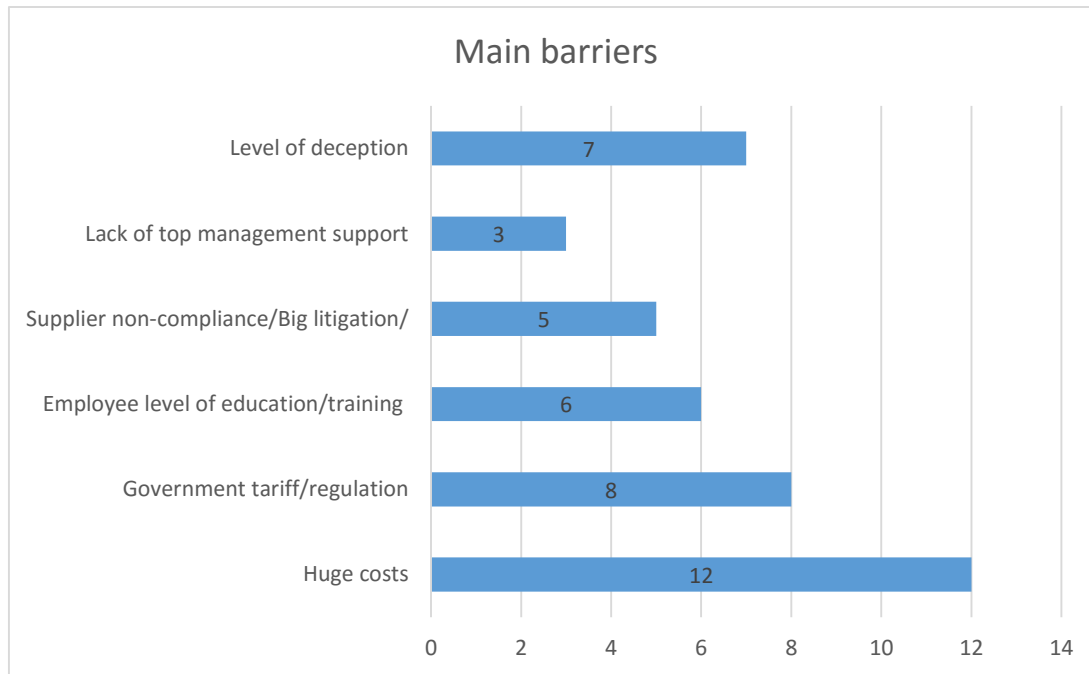


Figure 2 – Category of the main drivers of socially responsible purchasing in the organisations in relation to number of respondents

The huge costs especially, cost involved in supplier visits and audit constitute the dominating barrier. The regulatory and requirements from authorities also proves to be one of the main barriers. However, deception and not being honest due to non-compliance to rules which consequently leads to the issue of bribing government officials is not prominent in previous literature. Some respondents are of the opinion that barriers such as tough government regulations have positive influence on their practices which subsequently improves their supply chain performance. They state that regulatory authority like National Agency for Food and Drugs Administration and Control are seen as partners and not obstacles because the company is made to sit up thereby being socially responsible. Some also state that employee education does not matter in as much as they understand the organisation culture and policies. The employees are believed to be more proactive when they are also motivated by the bonus given to them from time to time.

DISCUSSION

From the study, it can be said that top management support and compliance with government regulations are the main drivers in all the organisations and these considerably improve their supply chain performance. This aligns with the findings in literature Blome and Paulraj (2013); Hoejimose and Adrien-Kirby (2012); Shneider and Wallenburg (2012) Worthington et al. (2008). The result from the study also clarifies that the huge costs involved in the bid to be socially responsible in their purchases as well as tough governmental regulation is linked to the companies not wanting to get involved, this aligned with the conclusion of (Whitehouse 2006); (Maignan, Hillebrand et al. 2002; Akenroye 2013; Mont and Leire (2008)). However, deception and not being honest due to non-compliance to rules which consequently leads to the issue of bribing government officials is not prominent in previous literature. The model developed based on the literature and findings is presented in the figure below:

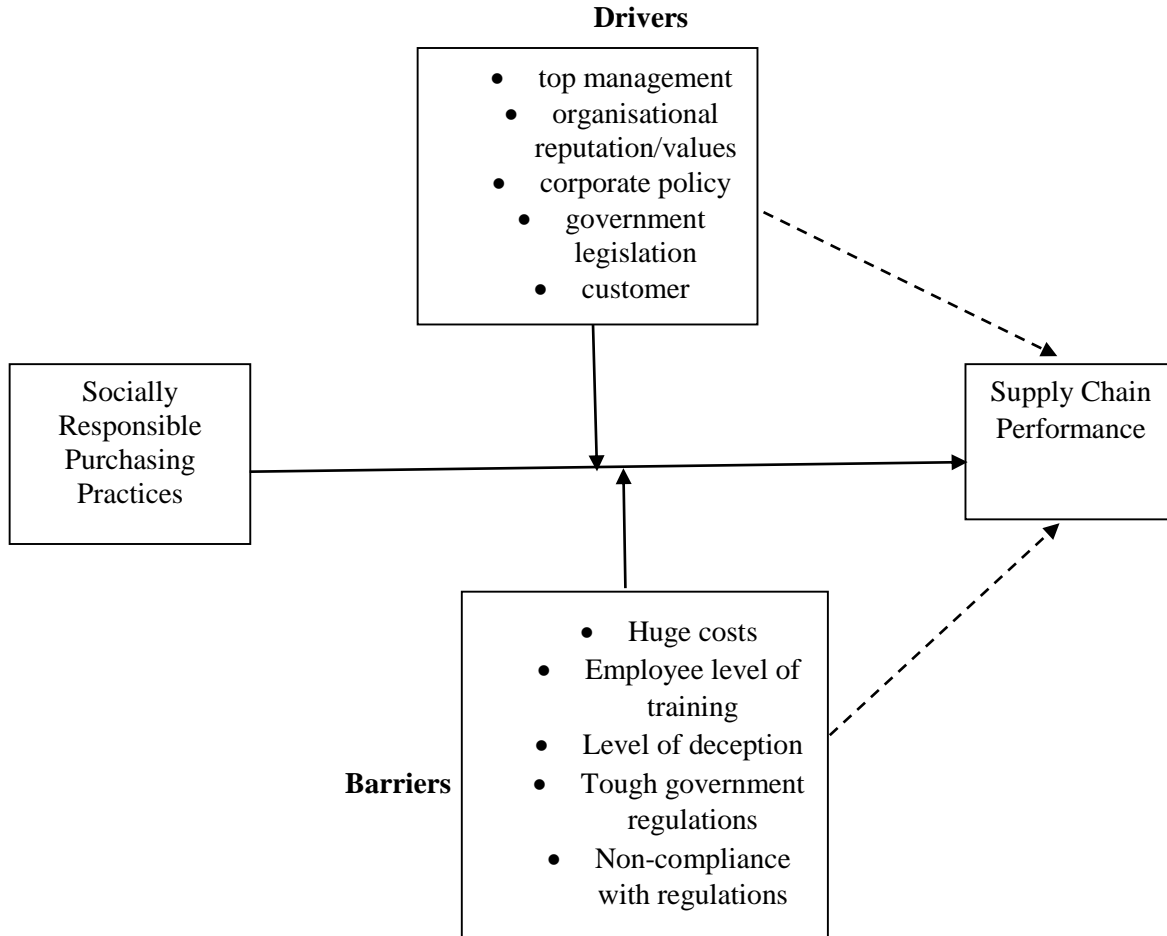


Figure 3 - Factors associated with the Impact of Socially responsible purchasing practices on supply chain performance

Source - Developed by the authors for the current study

The drivers and barriers have a significant influence on the relationship between socially responsible purchasing and supply chain performance. Some of the drivers are seen to have a significant influence on some supply chain performance measures while some of these barriers are believed to have no significant impact. These will be discussed further in subsequent study. The findings will be useful to the decision makers of industries, it will help them to ascertain the vital factors that the organisation need to improve their supply chain processes. The findings will also be beneficial to the government by helping them make decisions regarding impact of purchasing and manufacturing on the society.

CONTRIBUTION AND FUTURE RESEARCH

An explorative case study of the food and beverage industry has been performed with the objective to respond to the following questions “What are the main socially responsible purchasing practices?”, “What are the main drivers of and barriers to implementing them?” and “How does these affect their supply chain performance?”.

From literature, this paper presents an exploration into socially responsible purchasing, various drivers and barriers of its adoption and implementation and came up with the main drivers and

barriers from the semi-structured interview carried out. A model, combining theory and case study is developed. The study contributes to academia as there is better understanding of the sets of drivers and barriers and how these affect supply chain performance.

The study contributes to practice by assisting operational managers and management of the food and beverage industries to have a better foresight into the necessary element needed for their purchasing and supply chain performance and the likely impeding factors to look out for. This can also be generalised in other sectors of the economy. It is recommended that further empirical research to validate the model through the use of empirical studies should be conducted.

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