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**Revisiting the Role of Code of Conduct in Compliance with CSR
Demands in the Supply Chain Management of Electronics
Business**

Master thesis

Programme “Managing People, Knowledge and Change”

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Abstract

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Five key words: Corporate Social Responsibility, Supply Chain Management, Code of Conduct, compliance, monitoring

Purpose: The purpose of this study is to understand how codes of conduct function within the context of supply chain of electronic industry.

Methodology: This is a qualitative research and a case study is our research approach. Qualitative interviews and analysis of codes of conduct are used to explore how the company manages the CSR concept in its supply chain. Thereafter, an interpretative analysis of the case within the theoretical framework follows.

Theoretical perspectives: The research is based on theories about the CSR concept, supply chain management, ethical sourcing and codes of conduct. The action model for implementation of CSR is developed and it serves as a base for analysis.

Empirical foundation: Primary data contains the published Code of Conduct of Sony Ericsson, its parent companies and the supplier, the qualitative interviews with managers of Sony Ericsson and its supplier. Moreover, it contains all the related materials on the official websites of these companies.

Conclusions: The codes of conducts could be perceived differently within different contexts. Therefore, cultural and legal issues should be considered while formulating, implementing codes of conduct or assessing the compliance. The development of codes of conduct is an on-going process, thus the end of responsibility is ambiguous and also in a constant development process. Though, each company can define its own standards and own ends of responsibility within the context of ethical sourcing.

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Abbreviations

CR	Corporate Responsibility
CSR	Corporate Social Responsibility
CSR2	Corporate Social Responsiveness
ILO	International Labour Organization
MNC	Multinational Corporation
MNE	Multinational Enterprise
MSI	Multi-stakeholder Initiative
NGO	Non-governmental organization
OECD	Organisation for Economic Co-operation and Development
PSR	Purchasing Social Responsibility
UN	United Nations
UNCTC	United Nations Centre on Transnational Corporations

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Chapter 1

Introduction

1.1. Background

Nowadays corporations are under the radar of governments, consumers, NGOs, and media in order to be good world citizens and to be responsible for the society and environment that their operations affect and to take into consideration the sustainability of the globe. Due to raising public awareness about corporate social responsibility (CSR) more and more companies practice it by implementing various CSR activities in their daily activities. For example:

The England branch of KPMG, a well-known accounting firm, allowed its employees to work two hours a month of their paid-for time for the community. The company afterwards realised a business case of these activities in form of increasing involvement and productivity of the employees and the media focus. Then they decided to expand the programme from two hours to half day a month and it is about 40,000 donated hours a year. (The Economist, 2008a)

Many companies like to be the first in providing an innovative approach to CSR practice similar to the way that they do when they want to be the first movers to a new market. For example, Coca-Cola in cooperation with the global environmental organization WWF participate in a project to conserve seven major fresh water basins, at the same time it is working with Greenpeace to eliminate carbon emissions from coolers and vending machines (The Economist, 2008a). Knowing that water is vital for everyone and is crucial for their business, Coca-Cola participated in projects for water conservation. By doing this, it is at the same time improving its brand image. A similar shifting approach has been implemented by IBM. 95 percent of IBM philanthropic giving in 1993 was in cash, but nowadays it makes up only about 35 percent. They are contributing in long-term projects (The Economist, 2008a).

The world is becoming global and what is happening in one part of the world might have an impact on its business performance somewhere else. Understanding this, companies are re-defining their CSR concept by thinking globally and not only locally. For example, 60 percent

of IBM philanthropic donations nowadays are global while a decade ago it was almost all spent locally in the USA (The Economist, 2008a). For practitioners CSR is not any more just philanthropy, but it is a risk management. During the last two decades corporations have faced serious scandals, customer boycotts and even lawsuits because of misconduct in the developing countries where they have production plants or outsourced suppliers. Sweatshop or child labour at some clothes producers, spills and explosions incidents of oil business, and collusion of the mining business with corrupt governments are some of the misconduct that corporations has been blamed and even judged for. One of the first of these cases was the scandal about working conditions in Nike's supplier's factories, mainly in Indonesia:

A story broadcast on CBS in 1993 said that workers were paid nineteen cents an hour and were only permitted to leave the company's barracks on Sunday. Nike's initial response was that the company could not be accountable for the actions of independent contractors. Although Nike did draft a code of conduct and memorandum of understanding that addressed working conditions at its suppliers' factories, critics continued to complain that there was little credible evidence that conditions had improved. (Vogel, 2006: 77-78)

After a few other similar cases, companies are forced by stakeholders to accept their responsibility for their supply chains. One of the last scandals about misconduct was a series of corruption cases at Siemens that is under the investigation of German and the US public authorities. "It is claimed two former executives made payments to win contracts for gas turbines from Italian utility Enel between 1999 and 2002" (BBC News, 13-03-2007). In this case, the company had even various internal and external policies regarding ethical behaviour, though it did not safeguard it from misconduct.

1.2. Problems related to CSR within a supply chain

The CSR industry believes that a broader understanding of the world in which companies operate is necessary to manage these risks better (The Economist, 2008b). "Much of the work we do is to get big incumbents to recognise a different future," says John Elkington of a consultancy firm SustainAbility (cited in the Economist, 2008b). When Coca-cola invests in preserving a basin, aviation industry in reducing Carbon Dioxide emissions, Tetra Pack in reducing waste is this the view of a different future?

Academics have also tried to answer the question how to manage a supply chain responsibly during the last twenty years. According to Cramer (2008: 396), a socially responsible supply chain depends on a number of factors. Firstly, CSR depends on the diversity of the chain in which the company operates. Next, the extent of the ambition to reach certain performance standards is important. In addition, the complexity of the chain and the power of the company in that chain are both influential. In this study we add one more factor and it is what responsibility means to the company and its suppliers, because it is hard to reach any good result if there is a difference in understanding of the concept.

Furthermore, the importance of diversity of the chain depends on the industry. High diversity of suppliers is common for textile and shoe producers, but it is not so common in the mining or electronic industry. The more diversified the supply chain is, the more diversity in CSR consideration. This is because in each specific branch there are specific problems that should be considered. Our research builds a case study about the electronic industry where all activities are pretty similar and diversity issues do not play such an important role.

A very serious issue is how far and how wide one company's responsibility is within a supply chain. For many years, issues related to workplace safety, "no child labour", no discrimination by age, gender, race etcetera, were seen as internal matters within a company.

In recent years, however, companies are being held accountable for the actions of their suppliers in the eyes of their customers, governments, special interests groups, and the media. Buyers are expected to penetrate their suppliers and hold them accountable to meeting the same standards as their internal operations. The use of suppliers from far away country or other continent is no excuse for violations (Stephan C. Rogers in Burt. et. al, 2003:71).

But in many industries, including the electronic industry, there are few levels of suppliers. However, the question remains then where in the supply chain the responsibility of a particular company ends? Does it end with the contractual relations or should the company be responsible for throughout the whole supply chain? As the company meets the pressure from various stakeholders, to who should it be responsible? Is the company perceived as irresponsible if it does not meet demands of all stakeholders?

If it is so hard to define the end of the responsibility, then the questions might be on how the company can guarantee that the supply chain is safeguarded and the product is produced in a responsible way. Nowadays, companies mainly use codes of conduct or some other international standards to guarantee that product is produced in a responsible way. However, the inclusion of regulations regarding CSR in the contract does not necessarily mean that they will be fulfilled.

First of all, there are cultural and other local context depended issues that influence the understanding of CSR. For example in the West, working overtime is perceived as a burden, but maybe for an immigrant employee, who has moved to another country to earn money, overtime work is a blessing. The employee can work more and earn more. Therefore the requirements for CSR that are developed in one part of the world could be inappropriate or hard to understand in another part. The approach to ensure compliance with regulation as such can also be understood differently. In one country the regulation is a must, but in another country all possible ways might be considered on how to escape or overcome regulations.

Secondly, the responsibility is an intangible asset therefore it is hard to enforce and monitor it. For example, a company like Nike has contractors that involve about 800,000 workers (The Economist, 2008a). Even though the company can set standards for their suppliers, it is not so easy to enforce those standards. From a supplier perspective, if it has various buyers and each comes with its own standards, then whose standards should the supplier follow?

The monitoring the compliance with CSR requirements is even harder, because it is unclear who can do it and what the optimum criteria are as well as on how the results should be used later. The companies usually do auditing to monitor the compliance and it is particularly difficult in the developing and emerging economies like India and China. There are many ways how suppliers might go around such standards and it is rather difficult to control unscrupulous suppliers since they may cheat, not show the real records, not paid overtime for the workers, or subcontract work to companies that escape scrutiny. Different stakeholders have different demands regarding audit and its results. Which persons or organizations can do the best audit to ensure trust among all stakeholders? Should the results be published or should they be confidential and used just for follow up activities?

The enforcement of standards and monitoring the compliance with them raises the question about who should pay for it. Is it responsibly of the Western company to ask for compliance without sharing the costs for it?

Behaving more responsibly may help suppliers in developing countries maintain their contracts with Western firms, but it does not permit them to charge higher prices. While non-compliance may reduce their sales, compliance does not necessarily increase them. Adding to this tension is that while the costs of compliance are born primarily by developing country producers, the benefits accrue primarily to Western firms (Vogel, 2006: 95).

More and more demands are appearing regarding responsibility in the supply chain. How can a company manage its responsibility throughout the supply chain? This leads to the aim of our study.

1.3. Aim of the study

The aim of this thesis is to show the role of CSR in the supply chain management within the electronic industry.

1.4. Research question

The main research question is how codes of conduct function within the context of supply chain of the electronic industry?

There are two sub-questions that we will answer in this paper:

1. How do companies ensure the compliance with the codes of conduct?
2. Does the responsibility end within the scope of the codes of conduct?

1.5. Method

This research is based on a case study of the electronic company Sony Ericsson. Through qualitative interviews and analysis of the codes of conduct of the company, its parents and suppliers' companies, we explore how the company manages the CSR concept in its supply chain. We are using an interpretative analysis of the case and applying the action model of implementation of CSR, developed in the theoretical framework. We analyse a particular

environment and do not tend to generalize it to any supply network. Our purpose is to discover and discuss some untouched areas within our topic.

1.6. Structure of the thesis

This thesis consists of an introduction, four chapters and conclusions. In this first chapter we highlight the importance of the concept of CSR within current organizational practice and scrutinize the implementation of the concept within a supply chain management. Research question and sub-questions are also defined.

The second chapter is the methodology one. In this chapter, we explain the method we have chosen and our argumentation for making this choice. Moreover, we discuss the different constraints we met during the research process of our thesis from the planning part to the end. At the end of the chapter we clarify the limitations of the study and we discuss issues related to validity and generalizability.

In the third chapter we build a theoretical framework for our thesis. There we explain our understanding of the CSR concept and put it in the context of a supply chain. The integration of CSR and supply chain management leads to the new concept of ethical sourcing and particularly, we focus on the codes of conduct as the most wide spread form of ethical sourcing. At the end of the chapter we propose the action model of how to look at the development and the role of codes of conduct within ethical sourcing. This model is used for analysis of our empirical material. The theoretical framework will be used to answer our research question and sub-questions.

The fourth chapter contains a case of Sony Ericsson that is built on the empirical material we have collected through the interviews and related material. We describe the development of the code of conduct in the company.

In the fifth chapter we analyse the most interesting issues mentioned in the case within the framework of literature. We discuss some untouched areas related to our topic, question the assumptions expressed in the case and we add some new thoughts for a future academic discussion.

In the conclusion we present our most central findings. We also give some suggestions for the future academic discussion and suggestion for practitioners and conclude our thesis.

Chapter 2

Methodology

2.1. Introduction

In this chapter, we describe the method we have applied while conducting our interviews and collecting our data. Moreover, we explain the reason why we have chosen this method and the constraints we have faced while conducting this study.

Initially, we wanted to write about CSR but we were not sure about the specific topic. Therefore we spent time exploring different areas of research within CSR and looked for potential companies that are practicing CSR. This search aimed to provide us with an understanding about the CSR theories and potential research question. In our search for a potential company for an empirical research, Sony Ericsson attracted our attention because it is a relatively new company built on knowledge and expertise of two “old” companies. In an open dialogue with the company about CSR issues, we identified our target to be in the frame of CSR within Supply Chain Management in the field of the electronic industry. After the collection of empirical material, we reformulated the research question again and reoriented our attention to the supplier code of conduct because the company highlighted on what they considered “outstanding innovations” and their role as “first movers” in development of codes of conduct. We study the Code of Conduct, with the support of theoretical material and interviews to depict the way of seeing the reality described by the managers responsible for CSR.

2.2. Case Study

The intentions to conduct a case study as a research strategy is an attempt aiming at understanding the dynamics present within single settings (Eisenhardt, 1989). The research is based on a case study of Sony-Ericsson emphasizing the principles of CSR as core principles embedded (or intended to be embedded) in their supply chain management. Since we consider the reality as socially constructed, we build our claims on a case study. The case study is one of the efficient means in describing the realities we met during the collection of data. Stating that the reality is socially constructed we acknowledge that reality is relative and that each person perceives and understands it in our own way. Thus, there are issues that might have

influenced our research question and perspective. Such issues include, among others, the language, the pre-understanding of us as researchers, the dependence of empirical data on interpretation, and theory (Alvesson and Sköldbörg, 2000: 1).

Merriam (1994) promotes the case study as a desirable research tool. Moreover, she claims that a case study is particularly suitable for specific situations where the possibility to examine a topic in depth and detail exists and where one can address a certain problem area. We choose a case study as our research approach in order to focus on a particular company and its way of seeing the CSR practice within supply chain management. The empirical material challenges the existing materials about CSR issues and shows new perspectives about codes of conduct.

Our research is based on a case study of a multinational company that has its business area in the field of mobile phones. Moreover, it is based on the fact that this industry is at an early stage within CSR. The industry has not yet experienced any serious public criticism or scandals regarding CSR. Furthermore, there has not been much research about CSR practices in this company. The company which we study perceives the CSR concept via the Codes of Conducts. Moreover, the field of research is yearning for research endeavours within the Codes of Conducts and CSR. That's why we consider this topic an interesting area for research. It contains several questions that could be valid for deeper academic studies.

The case study is based on interviews with two managers of Sony Ericsson; in addition to a representative of the company "Alfa" that is one of the suppliers of Sony Ericsson. We also base it on codes of conduct of Ericsson, Sony, Sony Ericsson and Alfa. Sony Ericsson is presented by Mats Pellbäck – Scharp who is the head of Corporate Sustainability department and Tommy Lundström who is a CSR coordinator. Alfa is represented by Jan Pin who is the vice president of Quality and Environment department in the company. We have given the company the name "Alfa" and the manager the name "Jan Pin" because the supplier preferred to be anonymous.

We followed an interpretative approach in analysis. Interpretative analysis gives the possibility to combine various sources like interview material, codes of conduct, web-page material, for a rich and substantive analysis. The interpretative analysis has two main analytical lines in this study. The first line is an analysis of the textual context of the Code of

Conducts used by Sony-Ericsson. The second line is an analysis of the empirical material collected from the conducted qualitative interviews about the operational context of the code of conducts. Following both lines, our aim is to synchronize both the textual context and the operational context of the code in order to understand the consequences of implementing it within the supply chain. This approach is our analytical infrastructure in introducing our interpretations reflexively considering a holistic view towards the code of conducts related to our case study.

Our analysis of the qualitative interviews focuses on the implementation of the code of conduct and the contextualization of its practices. We are analyzing the practice considering the consequences of the implementation of the code within the operational context assuming that different readers might perceive similar texts differently (Fairclough, 1995b, p. 15-16; and Van Dijk, 1996). Moreover, in our analysis we take the historical development of the code into consideration. Thus, we are viewing the discourse from a historical perspective in order to show how it has developed and what has influenced the development. Our analysis is an attempt to reflect upon the pieces of our findings within empirical material and theoretical literature and present issues that might influence the understanding of the role of codes of conduct.

An interpretive research implicitly assumes that researcher(s) conducting a research study will have a unique interpretation of the results (cf. Labianca et al, 2000). This research is a combination of three views (three researchers) on the world. To conduct a study together is in itself a challenging task due to differences in cultural and educational backgrounds. However, we consider this kind of differences in understanding of the topic an advantage rather than a disadvantage since this assisted us in having richer discussions and analysis. We believe that the fact that we are three master students contributing to this thesis has made our analysis more objective and less biased in interpreting the data and understanding the theoretical material than if all would have been done by only one student.

2.3. Primary data

Our primary data contains the published Code of Conduct of the company, its parent companies and the supplier. Moreover, it contains all the related materials on the official websites of these companies. It also contains the conducted interviews.

The code of conduct defines the scope of company's perception of the ethical and responsible supply chain. The information available about the company on other web sites is used to gain a better understanding of CSR context within the company. Moreover, we looked at the public version of Code of Conducts developed by other companies in the same field. Additional to that, we screened other companies' Codes of Conducts that Sony Ericsson has used in developing its CSR concept development. Such companies include Sony, Ericsson, H&M, and IKEA.

As mentioned earlier, we conducted four interviews with top level managers responsible for CSR in Sony Ericsson and its supplier. Since interviews are an important source of case study information (Yin, 2003, p.89), we conducted those interviews and did not only depend on the available public materials about the codes of conduct in these companies.

2.3.1. Qualitative interviews

Qualitative interviews have the aim to engage in the problem in depth. We have used focused type of interviews as they give freedom to the interviewer and interviewee during the interview. According to Yin (2003, p.90), in the focused type of interview the respondent is interviewed for about one hour while the interview remain open-ended following a certain set of questions derived from the case-study protocol. Before the interviews took place, we prepared for a semi-structured interview with an interview guide to touch upon all areas. In the beginning, we preferred semi-structured interviews to structured or opened interviews because the structured restricts the interviewee to explore his/her ideas. In the beginning we thought that the opened interview was hard to apply in our situation because of the time limitation we had to conduct them (1 hour each) due to the busy schedule of the managers. However, during the interviews we realized that the interview time is enough to engage in a more informal and open conversation. We still managed to ask the questions we had prepared, but also to go deeper in some areas that we found interesting or controversial.

We conducted two face to face interviews. In addition to that, we conducted one phone interview with the supplier because he is located in China. All interviews were recorded. We also agreed with the interviewees about the possibility for follow up questions and we were allowed to contact them later if questions would arise. We later had a follow up phone interview with one of managers of Sony Ericsson. The interviewees also answered our follow up questions through email. They also provided us with the contact address of their suppliers.

Thus, we got in touch with one of their suppliers. The supplier is a Finish company operating in China and the representative of the supplier is of Finish nationality.

2.4. Secondary data

We have used secondary data to get the background knowledge about the CSR concept and to formulate theoretical frame work of our research. We have used secondary date to reflect upon assumptions mentioned in our primary data. The secondary data collected for our research are based on books, articles from Lund University's electronic database, newspapers, other publications and Internet based information relevant to our research topic.

2.5. Validity and reliability

While analysing the role of code of conducts in implementing CSR in the supply chain, it is highly important to be aware of the methodological concerns that could decrease the validity and reliability of the study. Validity concerns whether or not the study clearly gains access to the experiences of those in the research setting (Easterby-Smith et al, 2002). Even though our research was approved by the company, we tried to give a minimum amount of information on our area of interest to the interviewees to avoid influencing their answers. The interviewees could have had a clear motivation for modifying their answers in order to suit the interest of the company they are representing. We considered these issues while planning the interview.

In our interviews, interviewees construct their reality about CSR and codes of conduct and described it using particular language, highlighting particular issues of importance for them due to probably unknown reasons to us. Therefore, we tried to get in-depth knowledge of the interviewees' experiences and attitudes through frequently using follow up questions. While conducting the interviews, we asked the interviewees to explain some of what they said in more details to get the intended meanings. That is crucial to construct internal validity for the qualitative data provided to us (Eisenhardt, 1989). This consideration relates as well to the reliability that refers to the transparency in how sense was made from the raw data (Easterby-Smith et al, 2002).

Another constraint is the fact that we had a lower amount of interviews than we wished to conduct and that none of us had in-depth understanding of the company's work with CSR prior to conducting the study. This was a reason why we also modified our research question slightly after having conducted the interviews. Prior to the interviews, we were interested in

analysing where the responsibility within the supply chain management of the electronic industry ends. However, after having conducted the interviews we modified it to focus mainly on role of code of conduct in implementing CSR in the supply chain of the electronic industry because this appeared to be more academically challenging research focus for us.

Another issue that we considered before conducting the interviews was the fact that we are not able to conduct the interviews in the mother tongue of the interviewees. We are not native English speakers and neither are they. Language barriers, in addition to intercultural differences could have increased the risk of misunderstanding or misinterpretations and thereby lowered the validity. However, due to our and the interviewees' proficiency level in English, we did not experience any problem in communication and discussion during the interviews.

2.6. Conclusion

We use a case study approach to investigate our research questions. Focus type of interviews are chosen to get primary data for analysis. Also companies' codes of conduct are used as primary data. Books, articles, other relevant sources serve as the secondary data for getting the background information about the topic and writing a theoretical framework. Interpretive analysis is used to discuss the empirical material and theoretical framework throughout the thesis.

Chapter 3

Theoretical Framework

3.1. Introduction

In the theoretical framework we start with the discussion of the two base concepts of our thesis, i.e. the concept of CSR and the supply chain management. Then we narrow and at the same time deepen our perspective integrating both concepts within more marginal concept called ethical sourcing. Further, we explore codes of conduct as the widest spread ethical sourcing initiative. At the end, we present the model that shows the codes of conduct development process within the context of ethical sourcing. We will base our case study and analysis on this model.

3.2. The development of the CSR concept

The academic debate about CSR started in the 20th century. However, business has been contributing to the philanthropic goals of the society much before that. Kolk and Welters (1999: 148) mention two general principles as the roots of the modern concept of social responsibility: the charity principle and the steward principle. The charity principle is based on the idea that more fortunate people within society should take care of the less fortunate ones. According to the second principle, corporate managers who run privately owned companies are stewards or trustees that should be able to act in the general interest rather than just serving their shareholders. Such aspects as religious and political motives have always been among the reasons why the corporate ownership does it.

The major development of the CSR concept started in the beginning of the 1950s. Carroll (1999) claims that at that time the research about the Corporate Responsibility (CR) has focused mainly on how business contributes to the growth and development of the society. Bowen (1953, cited in Maignan, 2001) was the first researcher to write about the concept of CR. Carroll (1999) tries to explain why the concept was not defined as such before Bowen did it. He thinks that this is because the impact of business on the society at that time started

being more pronounced than before, due to agriculture being the main source of income until then.

In the 1970s, the CSR concept focused more on pragmatic issues such as a socially responsible performance and policies to ensure the performance. Heald (1970, cited in Carroll, 1999: 273) highlights that the “*meaning of the concept of social responsibility for businessmen must finally be sought in the actual policies with which they were associated*”. Sethi (1975, cited in Carroll, 1999: 279) distinguishes in corporate behaviour three elements: social obligation, corporate social responsibility and social responsiveness. According to Sethi “*Social responsibility implies improving corporate behaviour up to a level where it is congruent with the prevailing norms, values, and expectations of performance.*” (Sethi, cited in Carroll, 1999: 279). Social responsiveness ensures that corporate behaviour fits to social needs. In 1979, Carroll (1999: 283-284) states that social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has on organizations at a given point in time. Until this time, economic element has not been perceived as a part of CSR. He also claims that although it is perceived that business has economic nature by itself, society expects from business to produce the goods and services it wants and sell them with profits.

In the 1980s, the corporate social performance idea was developed further by Wartick and Cochran. They recast three aspects – corporate social responsibility, corporate social responsiveness and social issues into a framework of principles, processes and policies (Carroll, 1999: 286). The stakeholders’ theory was introduced giving a fast forward push into the development of the concept afterwards. Freeman (1984) defines stakeholders as any group or an individual who can affect or is affected by the achievement of the organization’s objectives. He distinguishes between primary and secondary stakeholders. Primary stakeholders (investors, suppliers, employees, customers, and local community members) should be thought of in any activity the company performs. Voluntary organizations, media, government, NGOs, are secondary stakeholders (ibid). Recently, the environment is regarded as a stakeholder. The stakeholder approach has been developed as a response to Friedman’s (1970) statement that shareholders interests should be prioritized over all the others. Critics of Friedman have stated that a shareholder approach is considered normative and it does not really take into consideration that firms must obey the national and international regulations (Mares, 2006). The Brundtland Report of the UN states that it is of common interest of

business to encourage sustainable development for everyone. The UN Brundtland Commission (1987:5) defines sustainable development as *“the development that meets the needs of the present without compromising the ability of future generations to meet their own needs”*.

During the last two decades, the CSR concept has been having its boom. Watts (1999:12) relates this to several factors. He claims that one of them is due *“to the triumph of worldwide neoliberalism compelling the opening of markets and facilitating global flows of capital”*. Moreover, he claims that the corporation outsourcing to “emerging markets” with less developed economy and poor labour regulations have pushed *“the rise of global human rights movements, powered by multinational agencies, governments, and NGOs”*.

In the 1990s Carroll (1999: 298) revised his definition of CSR. According to him *“the CSR firm should strive to make a profit, obey the law, be ethical and be a good corporate citizen”*. The last element refers to philanthropic activities mentioned by him previously. He highlights that all elements should be fulfilled at all times. Our perception is similar to Carroll’s definition. We see CSR as a comprehensive concept where ethical behaviour is part of business practices. According to us, the strength of Carroll’s definition is a depiction of CSR as an integrated system of all four elements. None of them could be excluded. It is not one CSR policy or the code of ethics, but it is the way of looking on things and on processes. However, the weakness of Carroll’s approach is that he gives a philosophical perspective and does not elaborate on the practical matters.

Frederick (1994) raised more pragmatic questions regarding CSR due to unsolved issues of institutionalization. He highlights on the conceptualized notions of CSR in business and society scholarship, the betwixt development of the concept from being philosophical-ethical concept to be an action-oriented managerial concept. He claims that the first philosophical-ethical concept of corporate social responsibility (CSR1) is corporations’ obligatory endeavours to achieve social betterment. Moreover, he claims that the second action-oriented concept which is the corporate social responsiveness (CSR2) explained as the corporations’ endeavours in responding to the social pressures. Frederick (1994: 155) sees CSR2 as

A philosophy in favour of a managerial approach that focuses on practical aspects in the surrounding environment. The advocates of a CSR2 approach stress a process or system

orientation to social pressures, along with anticipatory scanning procedures to detect emerging problems. (...) CSR2 looks to an institutionalized company policy for its successful implementation.

From our perspective, Frederick's approach significantly complements Carroll's definition. He puts Carroll's way of seeing things in an organizational and particularly a managerial framework putting a philosophical notion into a system approach. Though, Carroll in his definition highlights that CSR concept is not just the company's perception about CSR, but also the society's expectation on the company. Frederick shapes CSR from managerial perspective, thus systemic approach to society's expectations is missing to define our perception of CSR. We add stakeholder theory to our frame of references as it involves groups that affect and are affected by company's activities. Finally, we see CSR as a combination of CSR2 or Corporate Social Responsiveness, Carroll's definition of four elements and the stakeholder's theory. *According to us, CSR is an integrated process system of socio-economic, legal, ethical and philanthropic responsibilities that are based on managers and stakeholders interaction.*

In the next section, we will explain the concept of a supply chain management as a specific environment where CSR operates.

3.3. Supply chain management

In the first part of this section, we depict the evolution of the supply chain management to understand which functions it involves and who the main actors of the chain are. In the second part we integrate the CSR concept within a supply chain and explain the idea of ethical sourcing.

3.3.1 Development of the supply chain management

The origin of the supply chain is purchasing. Page (2003, cited in Burt. et. al, 2003:23) writes:

Inscribed clay tablets from 13th Century BC days of the Phoenician traders refer to persons serving as "purchasing agents". The Holy Bible, in the Book of Deuteronomy, provides instructions for buyers in the honest use of weights and measures. Ancient

purchase orders, written on parchment scrolls in the days of Julius Caesar, call for delivery amphorae of wine, honey and oil.

Though, only during the past two centuries has purchasing been addressed in trade books and textbooks (Burt. et. al, 2003:25).

The broader view of purchasing is the materials management concept that appeared by the mid-1950s. Materials management usually involve inventory control, production control, subcontracting, storage, purchasing-procurement, transportation and salvage (Pinkerton R.L cited in Burt. et. al, 2003: xxxii). With the invention of computers, the incoming materials and outgoing goods are viewed as a system called “Integrated Procurement System”. After 1960s, such concepts as Japanese “Just-In-Time” production, supply and Total Quality Management, logistics or Integrated Distribution Systems have appeared. The latest advancement developed by Burt, Donald and Starling (2003:6) in their book *World Class Supply Management*SM see supply management as:

a philosophy that reflects those actions and values responsible for continuous improvement of the design, development and management processes of an organization’s supply system, with the objective of improving its profitability and ensuring its survival, as well as the profitability and survival of its customers and suppliers.

Purchasing has become a complex and integrated system from raw materials to the end user.

Nowadays purchasing has become a norm and has to be proactive and strategic and move from „exchange” thinking (purchasing order to purchasing order) to a long – term relationship. MNEs tend to base their purchasing on a long term relationships with fewer suppliers based on trust or a „win-win” negotiation philosophy that ensures the sharing of confidential information. (Burt, Dobler, Starling, 2003, xxxvi)

It can be viewed as a supply risk management. It helps companies to avoid reputation risks of wrongdoings in its supply chain and to benefit from cost saving or product/market differentiation (Roberts, 2003: 163). Khemani (2007: 67) sees that commodity-price fluctuations and supply disruption have been the traditionally two top-of-mind risk concerns

for supply management people. Nowadays, however, due to expanded responsibilities for global sourcing, professionals are increasingly required to manage risk in terms of brand, reputation, and ethical sourcing.

We agree with the authors above and additionally argue that nowadays due to social pressure, companies must be accountable not just for their own but as well all its supply chain's behaviour. This assumption refers to our understanding of CSR that it should be integrated in all activities and the company should be responsible and interact with its stakeholders. All major companies have to find ways to ensure that they understand and are able to guarantee the compliance with socially responsible requirements.

The question how to integrate CSR requirements within the supply chain will be discussed in the next section.

3.3.2. Ethical sourcing

Carter and Jennings (2004) has examined the relationship between CSR and a supply chain management. Their understanding of CSR is based on Carroll's definition as well. Their findings are that purchasing staff perceives such stand alone issues as environmental purchasing, sourcing from minority business enterprise suppliers, philanthropy and community, human rights and safety as integrated issues. Carter and Jennings (2004) also claim that these integrated issues involve purchasing into CSR, and they call a new concept purchasing social responsibility (PSR). PSR includes the characteristics of CSR. However, besides CSR it also covers the broad field of support and coordination activities with other groups for socially responsible conduct in the company's relationship with suppliers. We agree with the authors' approach to integrate all different aspects within one framework of purchasing social responsibility. However, their elaboration regarding practical matters of application CSR is limited to a distinct role of purchasing manager within PSR. Therefore, this approach is not fully sufficient for a CSR2 approach that we follow. It is more oriented to values and tries to define the scope of CSR for a supply chain. We argue in this thesis that a process or system – approach is necessary.

Ethical sourcing initiatives are often promoted as the solution to managing supply network's sustainability issues (Roberts, 2003: 160). Fombrun (2005) mentions informal prizes,

voluntary guidelines, formal accreditation and regulation, and institutional framework as forms of ethical sourcing that stimulate companies to evolve more sophisticated selection, implementation and reporting of their CSR-related activities. Blowfield (2000: 193) claims that *“the heart of ethical sourcing is the use of codes of conduct in managing the supply chain”*.

Ethical sourcing is also perceived as a distinct step on the road to sustainability, a half-way point between the technology-based quick-fix solutions of companies to environmental problems and the fundamental changes in business practice required for sustainability (Welford, 1995, cited in Blowfield, 2000: 191). These fundamental changes are based on the triple bottom line approach described by Elikington (1998). Such approach requires business to be responsible delivering social and environmental well-being additional to financial value not only to shareholders but to a diverse range of stakeholders including employees, communities, customers and wider society.

Ethical sourcing and particularly its focus on codes of conduct is the most appropriate concept for our thesis that targets codes of conduct. Its base – triple bottom line – supports our perception of CSR as an integrated and process system of economic, legal, ethical and philanthropic responsibilities. Despite that ethical sourcing focus more on sustainability, we believe that we can use this concept in our thesis because we perceive CSR as a company’s way to sustainability. Other authors have supported the idea to use codes of conduct in managing the supply chain in a socially responsible manner. Mamic (2004: 40) claims that *“the development of codes of conduct forms part of a range of initiatives that firms adopt in implementing their CSR objectives”* and Kolk et. al (1999: 149) sees them as indicators of socially responsible business. In this thesis, we use the term ethical sourcing as the integrated system of CSR and a supply chain management. Further we explore the most known initiative of ethical sourcing, i.e. codes of conduct.

3.4. Codes of conduct

Mamic (2004: 35-36) claims that *“codes of conduct are voluntary initiatives undertaken by the private sector to address a variety of operational and social issues”*. They do not have a fixed definition as they include a broad array of goals, formulations and benchmarks that address a wide range of issues. Some of these issues are relations between MNEs in the world

market, labour matters, environmental standards etc. It is highly conceivable that codes adopted by companies are not only for the sake of their own ethical behaviour but in essence meant to influence other social actors: regulators, customers, communities, suppliers and contractors, competitors or shareholders (Kolk et. al., 1999: 151-152). In our thesis we analyse how the codes are adopted to influence suppliers and contractors.

Further in this section, we shortly look on the evolution and typology of codes in order to explore the current tendencies in academic literature regarding codes of conduct and to define for the reader and ourselves what codes do focus on in the thesis. Afterwards, we continue with the three action stages of the code institutionalization and within each of them we discuss problems that purchasing practitioners meet while implementing CSR within a supply chain.

3.4.1. Development of codes of conduct

In 1937, the International Chamber of Commerce created the first formal corporate code of conduct to restrict competition between companies and to help prevent competition from damaging the environment or society (Mamic, 2004: 36). During that time, the companies' activities were locally based and the impact of the code was intended to the local environment and society.

In 1970s, in the development of the CSR concept did corporate social performance and policies to ensure the performance appear. Additionally, international organizations such as the International Labour Organization (ILO, in 1977), the United Nations Centre on Transnational Corporations (UNCTC, 1978) and the Organisation for Economic Co-operation and Development (OECD, 1976) almost simultaneously tried to design international codes of conduct. But the lack of international consensus about the function, wording, and potential sanctions against non-compliant firms in particular, weakened the original intention to make the codes mandatory (Kolk et.al., 1999: 144). These drafts have further on been used as examples for individual and voluntary company codes.

The boldest initiative has been the UNCTC's draft code. But it is abandoned altogether in 1992, due to the differences in interests between Northern and Southern countries (Kolk et.al., 1999: 145)

Due to failing to define the global code of conduct in the 1980s, the debate about them weakened. Nevertheless, some particular issues related to them had a public attention. For example:

In the USA the discussion on corporate codes of conduct is confined largely to 'business ethics'. The international dimension of the debate, however, remain limited and attention to business ethics in other than United States firms is rather modest (Langlois and Schlegelmilch, 1990, cited in Kolk et.al., 1999: 145)

Since the late 1980s, public awareness of global environmental problems such as the destruction of the ozone layer, global warming, the destruction of tropical rainforests, have highlighted environmental issues and the responsibility of MNCs regarding society. (Kolk, 1999).

Beside a growing attention to environmental issues, the discussion on outsourcing of production facilities to low-wage countries with bad labour conditions and support to oppressive regimes gained attention in the 1990s. Particularly apparel and shoes industries were criticized because of child labour, inappropriate working conditions, extremely low wages and abundance of collective bargaining. In 1992, Levi Strauss & Company was the first to develop a corporate code of conduct for suppliers placing the management of ethics and labour rights in the context of international supplier relations (CEP, 1998 cited in Kolk et.al., 1999: 145). The topic of companies' relations with military regimes was highlighted in the context of Royal Dutch/Shell relations with the Nigerian military regime. In 1997, Shell was the first MNC to fully adhere in its code to the principles set out in the 1948 Universal Declaration of Human Rights. (Kolk et.al., 1999: 146).

In the 1990s, efforts to formulate (global) standards for MNEs' conduct re-emerge. Besides international organizations, governments and NGOs, firms themselves start to draw up codes in which they voluntarily commit themselves to a particular set of norms and values. They do this either individually, or under the coordination of particular business support groups, such as the International Chamber of Commerce or sectoral organizations (Kolk et.al., 1999: 145).

As consequences to such tendencies, many codes have been developed at the end of 1990s. Until now, a global standard for the code of conduct has not been developed. The voluntary initiatives show a private sector's good intention to be ethical and good. However, there is a sound debate about the quality of codes and their impact.

Before we discuss the problems regarding codes of conduct, it is further necessary to make distinction between codes of conduct as we already in this section touched upon various codes.

3.4.2. Typology of codes

Tulder and Welters (1999: 147) distinguish three types of codes of conduct: macro level, micro level and meso level. Codes of conduct developed by non -profit actors and governments, international organizations in trying to improve corporate social responsibility practice are of macro level ones. OECD's Guidelines for Multinational Enterprises and the ILO's Tripartite Declaration of Principles Concerning Multinational Enterprises are some examples of such codes. The second type are codes that are developed by business support groups (meso level), such as industry and trade associations, chambers of commerce, think tanks and business leaders forums. In these cases, codes of conduct serve to influence other actors and/or to carry out voluntary or anticipatory self-regulation. The third type is codes developed for and by a particular organization. In this thesis, we focus on the third type of codes due to limitation of this thesis to MNCs practice (ibid, 152).

Business support groups or meso level codes correspond with multi-stakeholders initiatives (MSIs) named by Mamic (2004). Each MSI focuses on some specific industry, country "with the express purpose of bringing the factories, subcontractors and related business partners into compliance with the performance standards of the code" (Mamic, 2004: 61). Mamic (2004: 61) claims that "usually MSI standards are stricter than those of company codes".

The code of conduct of a company or a micro level code is a set of written principles, guidelines or standards, which are intended to improve the company's social and environmental performance (Pedersen and Andersen, 2006: 229). It focuses on internal operations such as human resources management, marketing and public relations, supply chain management etc. Despite specific focus on some codes of conduct, they have meaning

if they are an integral part of how the corporation thinks about its existence, goes about its business and communicates with its stakeholders (Painter-Morland, 2006: 353). Three crucial stages (formulation, implementation and monitoring) of the code of conduct are necessary to ensure integration of the code in daily business practices.

3.4.3. Formulation of the code

In this part three main aspects that influence formulation of the code of conduct are considered. These are: language of the code, various stakeholders involved in the process, and the scope of the code of conduct.

Mamic (2004: 40) emphasizes the role of the language within the development of codes of conduct and states:

it provides useful insight into the attitudes and motivations underlying it. The substantive content of a code has two primary linguistic parts. The first is the expression of the standard to be complied with. The second is the expression of how strictly the MNC holds itself or its supplier to that standard.

The statements could be strict and mandatory or with promotional and suggestive nature. Terms and statements should be clearly defined to avoid the various and even contradictory interpretations. The language of the code shows the seriousness of the organization regarding its responsibility.

The content of the code depends on the organization. It defines standards of responsibility, the applicable stakeholders, and implementation and monitoring mechanisms. According to Mamic (2004: 46), the substance of the code must be broad enough to be applicable to myriad of different situations and precise enough to be useful in judging and individual cases. Nowadays, experts claim that codes should be broad and proactive in the content (Nieves cited in Quinn (2004); Mamic (2004)). Usually codes of conduct involve issues related to corporate governance, environment, social issues (labour, human rights), ethics and philanthropy. The scope depends on the perception of social responsibility of the company.

It is common that organizations adapt some basic standards from international conventions or national laws in main areas of public interest and avoid individualization of the code. This

topic is one of the major debates regarding codes of conduct. Mamic (2004: 47) supports adoption of standards of international conventions because of their widely recognized legitimacy and experience of interpreting and implementation. On the other hand, the privatization of legal provisions has been criticized as hiding from corporate responsibility and diminishing voluntary nature of the code (Blowfield, 2000). According to our perception of CSR, demonstrating only the legal compliance in the code of conduct is not enough. This is because in the best case scenario, the company follows three of four elements mentioned by Carroll. They are economic, legal and ethical. However, philanthropic responsibility is forgotten. In some countries where national law or local regulations have lower standards than international conventions, codes of conduct could prevent companies from mandatory government regulations if firms convincingly show that they can regulate themselves. Self-regulation encompasses voluntary standards adopted by firms or their business support groups in the absence of regulatory requirements, or those which are taken to help compliance or exceed pre-existing regulations (Hemphill, 1992, cited in Kolk et. al. 1999: 152).

Diversity of participants involved to widen participation of stakeholders in the formulation process of the code “*demonstrates strong commitment to a company’s social obligation*” (Mamic, 2004: 37). While MNEs are arguably free to establish their own internal governance and are primarily responsible to employees and shareholders, it is highly beneficial to consult them widely in making policy decisions directed towards the larger community (Mamic, 2004: 37). Cramer (2008: 398) adds also that the credibility of decisions about borders of responsibility vis-à-vis society increases when companies communicate in a transparent way about them. The wide representation of the stakeholders ensures transparency and legitimization of the process. At the same time, the stakeholders should be cautious not to fall in the traps of just formal participation that later will limit ability to scrutinize the implementation and monitoring process.

3.4.4. Implementation

Some leading firms’ have tried to operationalise codes of conduct across multinational enterprises production chains rather than merely regarding them as a statement of broad corporate principles (Mamic, 2004: 26). Bendixen, Abratt and Jones (2007: 3) claim that “*behaviour is more important than words*”. We argue that behaviour and written codes are both necessary and that there should be a code to set principles and to serve as a scale to

assess the compliance. Written codes are just empty words if appropriate action is not taken to explain the code to all involved parties and to integrate them in all daily activities. Codes of conduct that reflect no insight into contextual challenges are indicative of lack of integrity in the organization's operations. According to Painter-Morland (2006: 352), only when business organizations will begin to appreciate that ethical concerns are intimately interwoven with all business decisions and actions, their codes of conduct become 'living documents'. This statement relates to our perception of corporate social responsiveness (CSR2) that highlights an action approach.

According to Sinclair (1993, cited in Bendixen et. al., 2007: 6-7), ethical business stems from an ethical corporate culture.

There are two approaches leading an organization's culture towards ethical ends. The first is to create a unitary corporate culture around ethical values. The second approach fosters the coexistence and diversity within the organization of underlying national and racial cultures as well as professional and occupational subcultures. (ibid)

His assumption shows how the intra-organizational and inter-organizational activities are related. Mamic (2004:27) claims that implementation is an integrated approach that touches on many areas, including communication, training, reward system, reporting, purchasing and logistics, and monitoring.

The training or education ensures the understanding of the code, makes it context-specific. Without sensitivity for the significance of contextual conditions in moral deliberation, codes of conduct become no more than the empty recitation of supposedly universal, but ultimately hollow abstract principles (Painter-Morland, 2006: 353). Global codes that attempt to smooth over differences and discourage dissent cannot expect to secure the loyalty and consent of a diverse international constituency (ibid, 354). It is the challenge for code of conduct compliance staff to find the middle way between local context and international and universal standards.

The challenge could be eased by a bottom up voice approach, where both the buyer and supplier are involved in all processes. According to Kotter and Schlesinger (1997), participation in the decision making that is a part of bottom up approach can increase the

quality of the decision for change, obtain commitment, and reduce resistance. A top-down approach could have negative effect on the suppliers' commitment to the project (Pedersen and Andersen, 2006: 233). Bendixen, Abratt and Jones (2007: 3) take a somewhat different stance and state that suppliers and buyers need to be viewed as a partnership. The benefits of cooperation rather than conflict in buyer-supplier relationship include on-going cost reduction, quality improvements, increased flexibility, and more powerful competitive strategies (Peck, Payne, Christopher & Clark, 2000, cited in Bendixen et.al., 2007: 7). In an ideal situation, partnership is based upon commitment, trust and continuous improvement. To have a mutual trust between a customer and supplier, both parties should be open for discussion and keep disclosed information in confidence. The customer should be fair enough, objective, and fulfil the promises they have had to their suppliers (Cunningham, J. and J. MacGregor, 2000).

The potential benefits mentioned above might be unevenly distributed among the companies in the supply chain. For instance,

Goodwill from being socially responsible is often associated with a brand, which only one of the companies in the chain holds. This company will receive the full benefits from introducing a Code of Conduct. The rest of the companies in the chain will have to share the indirect benefits. If the last ones have to bear the costs of implementing ethical sourcing initiatives, there is a potential conflict of interests between companies in the supply chain. (Pedersen and Andersen, 2006: 230)

We claim that diverse stakeholder participation and a bottom up approach could even up unfairness regarding benefits within the supply chain.

Trustworthiness and transparency should be considered during the implementation process as well. An active and independent governing body and strong and sound monitoring and auditing criteria for compliance ensure trustworthiness of the code (Painter-Morland, 2006: 354).

3.4.5. Monitoring and follow up activities

Monitoring and auditing is a process where the stakeholders' compliance with the code is assessed. The challenge for firms is the establishment of monitoring mechanisms based on sound criteria to ensure compliance. Internal audit might be enough for shareholders but usually it is not enough for public due to the lack of trustworthiness of auditors. Lately, stakeholder support for monitoring has become an objective of many firms (Mamic, 2004:27). External watchdogs ensure the trustworthiness for public, but their activities are not enough for internal use because sometimes they have a surface and one-sided approach. Therefore, monitoring becomes complex, long and costly activity.

Pedersen and Andersen (2006) offer safeguards or protective mechanisms to 'safeguard' an initiator of the code from non-compliance. Safeguards are means to ensure that an agent fulfils his or her obligations according to the agreement (Koch, 1995 cited in Pedersen and Andersen, 2006: 231). They discuss direct sanctions, goal congruence, third – party intervention, trust and reputation effects.

The fastest and most decisive sanction is to breach the contract with the supplier in the case of non-compliance. This is an exit strategy that has certain limitations. The most important is the bargaining power of each party in the relations. If the supplier's products or services have a crucial role in the supply chain, then a buyer is dependent on a particular supplier. On the other hand, the supplier has a strong incentive to comply with a code of conduct if strategically the company depends on continuous co-operation with the buyer. (Pedersen and Andersen, 2006: 232)

Goal congruence should be established via the implementation process and focuses on commitment and common understanding of the code and its purpose. Third party intervention could be applicable if there is a well developed legal system to judge suppliers failing to comply with the law. Because the codes of conduct include issues that are beyond the legal requirement and because sometimes the language of the code is not accurate enough, both the buyer and the third party might be unable to prove the non-compliance (Milgrom and Roberts, cited in Pedersen and Andersen, 2006).

Trust is an efficient and proactive safeguard which

can reduce the costs from monitoring and performance evaluations. Trust is a base for network theory and it appears between parties over time with a moral obligation towards cooperation. The cooperation is as an ongoing screening process, where the buyer and supplier learn each about other (Pedersen and Andersen, 2006: 236).

This process is similar to philosophy of World Class Supply Management that talks about long term win-win relations within the supply chain.

The application of reputation effects depends on the supplier's overall interest in keeping a good relationship with the buyer. Reputation is a highly relevant safeguard, when supplier can benefit from the future co-operation with the buyer, and/or the buyer can harm the supplier by communicating non-compliance to other relevant actors.

Painter-Morland (2006: 353) claims that codes of conduct will not be successful if they mirror some foundational truth about reality. According to us and many social scientists, the reality is context dependent and socially constructed. The codes are in a constant development process as they are based on involved parties understanding. How should codes be constructed to escape foundational approach? How does continuous and ambiguous social reality affect operationalization of codes and the boundaries of responsibility in the supply chain? And actually, what affects what?

3.5. Action model for implementation of CSR

We will adapt the Centre for Human Ecology model described by Lancaster and Brand (2006: 222 – 229) to discover development of the code of conduct within the context of socially and environmentally responsible sourcing. We will combine the model with the three stage-process of the code of conduct discussed above.

Originally, the Centre for Human Ecology model describes a process for implementing environmentally and socially responsible procurement within an organisation (Lancaster & Brand, 2006: 222). Central features of the model are the three dimensions of responsible purchasing:

- Scope: the range of issues that will be addressed by the organisation's responsible purchasing policies and procedures;

- Breadth: the extent to which each of these issues will be addressed, along a spectrum from legislative compliance to the expectations of society that are still emerging and perhaps contested;
- Depth: the distance down the supply chain that the issues will be pursued.

Time is the dimension that introduces to continuum in the ethical consideration and ethical purchasing.

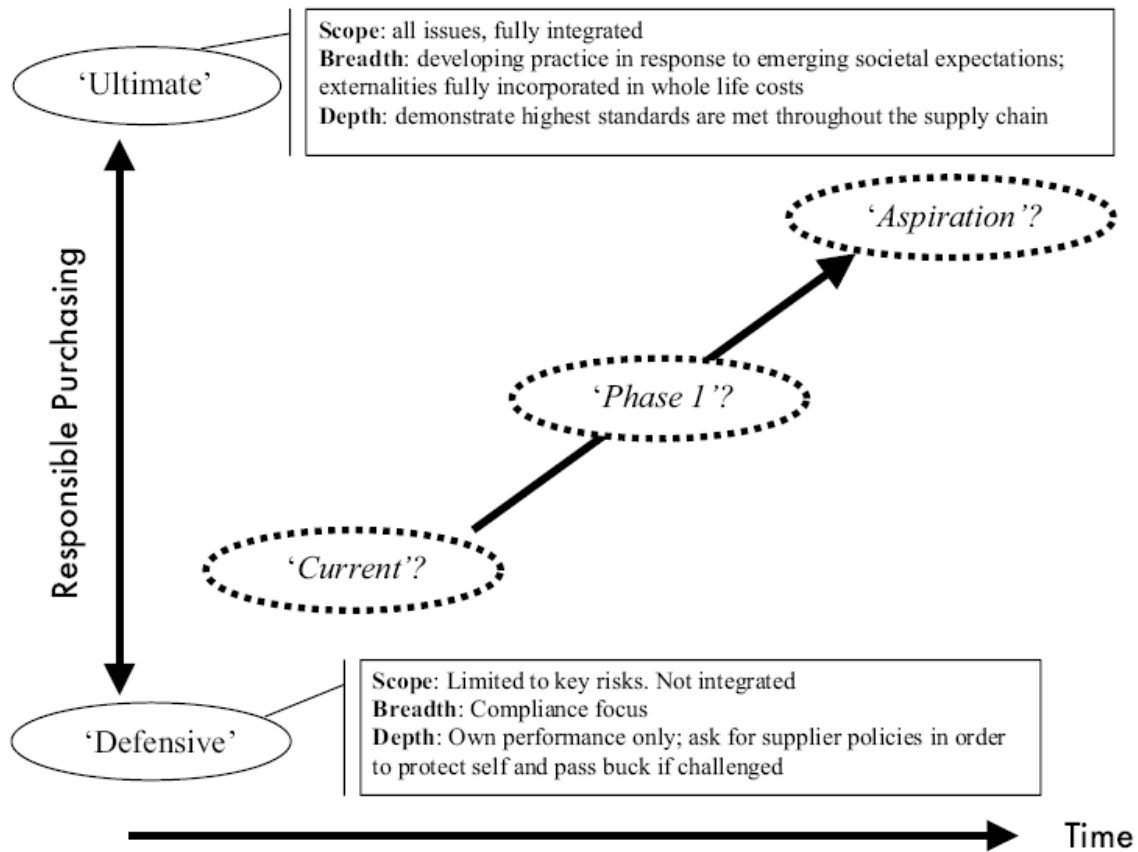


Figure 1. Four dimensional or the Centre for Human Ecology model (Lancaster & Brand, 2006: 223)

Before describing the model in details, it is necessary to upgrade it according to the process oriented approach we follow in this thesis. Three dimensions of responsible purchasing seem like dimensions of the formal paper based approach in Lancaster and Brand's version that lacks action. The perception often exists that what is put on a paper is far removed from the actual organizational ethos and the concrete realities of everyday business interaction (Painter-Morland, 2006: 354). Our understanding of CSR highlights that it should be a

process system that emphasize an action perspective of the code of conduct. We consider that the three dimensions (i.e. scope, breadth and depth) set standards and relate to the code formulation process. We add implementation and monitoring as features that should be considered during ethical sourcing due to various reasons discussed above. Moreover, we replace the term “responsible purchasing” with “ethical sourcing” being coherent with the usage the same concept through all the paper.

In figure 2, we constructed the model as having three dimensions: the code formulation, implementation and monitoring. We call it an action model for implementing CSR. Ethical sourcing is presented as a spectrum from ‘defensive’ to ‘ultimate’ responsible purchasing. The defensive – ultimate line corresponds with the hierarchy of ethical behaviour presented by Raiborn and Payne (1990) to give a wider spectrum for analysis. According to Raiborn and Payne (1990: 883), a hierarchy of ethical behaviour begins with the most moral behaviour and ends with the behaviour that is legally acceptable.

The utmost moral behaviour is seen as a theoretical level that is ideal and virtually impossible to reach. It represents the highest potential towards what society strives (Raiborn and Payne, 1990: 884). This corresponds to ultimate level of the action model. This level adds to the model an academic discourse of codes of conduct where our discussion fits in.

The defensive or basic level relates to just legally acceptable behaviour that shows the compliance with the letter of the law. It is important to note that defensive/basic level ethical sourcing is not laissez-faire purchasing. There are clear policies and procedures in place. However, the content of the code is a very narrowly defined, and mainly the organisation is taking the minimum amount of responsibility consistent with legality (Lancaster & Brand, 2006: 223). Formulation, implementation and monitoring activities are focused on very limited variety of stakeholders.

Raiborn and Payne (1990: 884) define two more levels between a theoretical/ultimate and a basic/defensive level, i.e. practical and a currently attainable behaviour. We combine both of them in a practical level as authors’ distinction is appropriate for detailed judgements in field of law which is out of scope of our thesis. The practical level represents completely integrated responsible principles into all its procedures and practice of the company, the development of

the code of conduct should be proactive and long – term oriented and involves wide variety of stakeholders. It should be transparent.

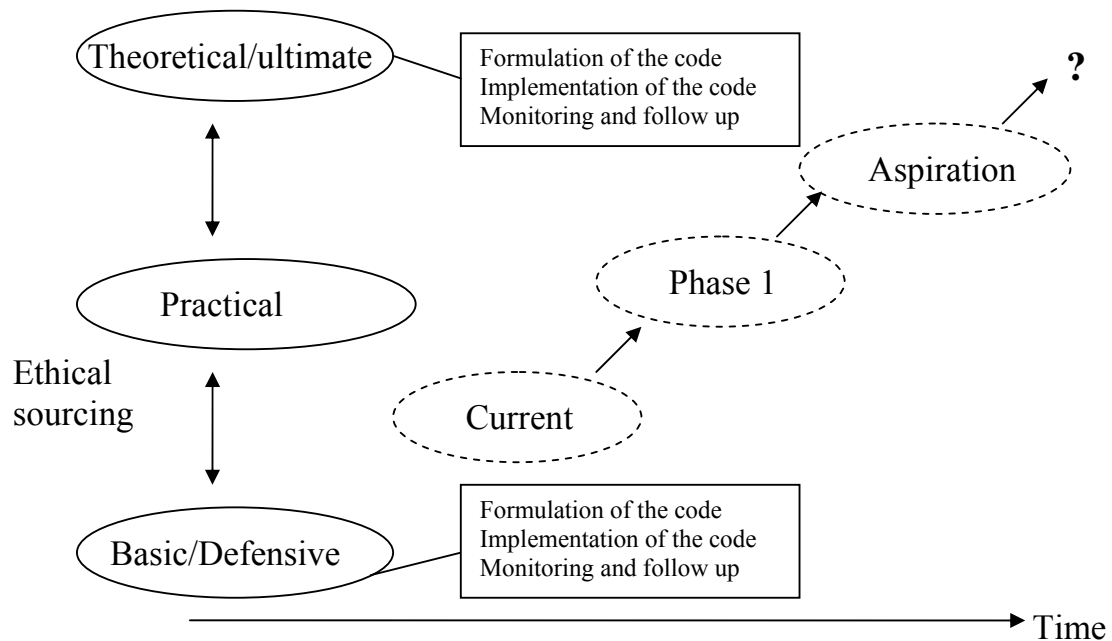


Figure 2. – the action model of implementation of CSR

The model strives to move the socially responsible performance of an organization from a current to expected stage. The question mark symbolizes that there is always possibility to do more to reach the ultimate stage and to set new expectations. The development of CSR does not finish with aspiration of the company. There are different perceptions that could be higher than the aspirations set by the company.

The field between axes of ethical sourcing and time is the context where codes of conduct operate. The model sets external borders: defensive and ultimate. The organization sets its internal borders for social responsibility. We do not claim that ‘defensive’ and ‘ultimate’ stages should be precisely defined. They are constantly redefined by stakeholders, including academics, watchdogs etc. Aspiration is a vision of the ethical sourcing that the company sets itself according to the overall business strategy, resources allocated, current and expected problems/ risks in the supply chain.

3.6. Conclusions

CSR is integrated system of socio-economic, legal, ethical and philanthropic responsibilities that are based on managers and stakeholders' interaction. If companies take CSR seriously, they should integrate it in all business operations. This thesis focuses on the integration of CSR into the supply chain management. The last is a complex and integrated system of movement of goods and services from a raw material to end customer. Ethical sourcing is a way how to manage supply chain in socially responsible manner. The most common initiative of ethical sourcing is the practice of codes of conduct. In this thesis, we focus on the codes of conduct of a company or micro level codes. Such codes are set of written principles, guidelines, or standards, whose function is to improve the company's social and environmental performance.

Since we perceive CSR as an integrated process system, we emphasize three action stages of the code of conduct: the formulation, implementation and monitoring of the code. However, there are various contextual aspects that should be considered in each stage. In the formulation stage, they are language of the code, various stakeholders involved in the process and the scope of the code of conduct. In the implementation stage, the principles of the code should be integrated in organizational settings taking in consideration cultural and legal context of a company. Monitoring should be done by clear and sound criteria and should be intended to benefit both sides. At the end we put the three action stages into the platform of ethical sourcing that is presented as a spectrum from 'defensive (basic level of ethical behaviour)' to 'ultimate (theoretical level)' responsible purchasing. Accordingly, this platform we call the action model of implementation CSR. The model strives to move the socially responsible performance of an organization from a current defensive approach to CSR with more proactive one.

Chapter 4

The case of Sony Ericsson

4.1. Introduction

In the case study we will present the ethical sourcing activities and particularly the development of the code of conduct within the mobile phone company Sony Ericsson Mobile Communications (further Sony Ericsson). The case study covers the historical line starting from the merger of Sony and Ericson to the current situation. Some future plans will be described at the end as well. We will describe three stages in the development of the code of conduct within Sony Ericsson based on the action model developed in the previous chapter. In the first stage, we will briefly write about Sony and Ericsson as both of them are parent companies of Sony Ericsson. Moreover, we will write about how Sony and Ericsson perceptions of CSR within a supply chain have influenced Sony Ericsson's perception and CSR activities particularly during the first year of operation. The second stage describes new developments within the code of conduct and its implementation and monitoring activities during the last three years. The third stage describes future challenges for the code of conduct within the company.

4.2. The first stage: Start up with a CSR heritage of parent companies

Sony Ericsson was established in 2001 as a 50/50 percent joint venture of Swedish telecommunication company Ericsson and Japanese producer of consumer electronic compliances Sony (Sony Ericsson website, 2008). The former one provides the expertise in the mobile communications and the later has the consumer electronics and content expertise. Sony Ericsson provides a range of mobile devices, including those supporting multimedia applications and other personal communication services. Sony Ericsson combined the technical and business experience of parent companies, and also inherited the perception of CSR and actions regarding implementation in the supply chain. Sony Ericsson adopted CSR perception and implementation activities from Ericsson and upgraded them by stricter environmental compliance of Sony.

4.2.1. Ericsson

Ericsson was established in 1876 in Stockholm as a repair shop for telegraph equipment and now it is a world-leading provider of telecommunications equipment and related services to mobile and fixed network operators globally. Its network equipment is utilized in 140 countries and 40 percent of all mobile calls globally are made through its systems (Ericsson website, 2008).

Ericsson's approach to corporate responsibility corresponds with the approach of triple bottom line discussed in the theory and it is that their core technology can deliver economic, social and environmental benefits to societies around the globe (Carl-Henric Svanberg, CEO of Ericsson, 2007).

In the beginning of the 1990s, various textile and shoe manufacturers experienced sound public criticism about working conditions at their or their supplier factories in Asia. During that time, Ericsson's factories were in Sweden and the USA. When Ericsson started its considerations about a supplier base in Asia, the company decided that they need to be sure that they have "*ok conditions from the beginning*" (The head of Corporate Sustainability department, Mats Pellbäck-Scharp). The company started its manufacturing in China and Malaysia in 1997 and at the same time they wrote the supplier code of conduct to support the decision.

It was not easy to realize the decision "*to do right from the beginning*". They started the code of conduct with sending a questionnaire with 15 questions to determine the situation regarding topics such as working conditions, health and safety, and environment at suppliers' company. Though electronic companies had been working in Asia for long time, the suppliers had never seen such questions and they did not understand them. Ericsson realized that they were the first in the electronic industry to ask compliance with social responsibility standards recognized in Western countries. Then Ericsson found partners in their home country. IKEA and H&M had developed their social responsibility programmes just a year before and they shared their experience on the development and implementation of the suppliers' code of conduct. Telecommunication companies British Telecom and Vodafone started their ethical sourcing initiatives at the same time as Ericsson and the companies had discussions on how to find the best way to organize CSR work in the supply chain.

In the year 2000, Ericsson joined Global Compact, which is a United Nations initiative to promote good and fair business practice and was based on nine principles in the areas of human rights, labour and environment (in 2004, the 10th principle was included that focused on anti-corruption issues), and Ericsson revised its code in accordance to the Global Compact. Sony Ericsson thereafter adopted and used this code for its suppliers during the first year of existence.

4.2.2. Sony

Sony is a leading manufacturer of audio, video, communications, and information technology products for the consumer and professional markets. It was established in 1946 as Tokyo Telecommunications Engineering Corporation in Japan, Tokyo.

Sony introduced Sony Supplier Code of Conduct in 2005. However, before this date the company focused more on an environmental perspective. In July 2001, Sony established the Sony Green Partner Standards with the aim of encouraging suppliers to introduce Green Partner environmental management systems (Sony official website, 2008). In March 2002, Sony established a set of "*Management regulations for environment-related substances to be controlled which are included in parts and materials*" (Sony official website, 2008). Environment-related substances to be immediately banned or reduced were identified. These activities supported Sony's view that global environmental conservation is one of the most critical issues for mankind in the 21st century (The official homepage of Sony Group). "Green partners program" took place during the same time as Sony Ericsson was established. Sony Ericsson adopted similar environment standards and practices.

Sony has recognized CSR as a key priority just during last three years (The official homepage of Sony Group). It has not influenced Sony Ericsson's CSR understanding and activities much.

4.2.3. Sony Ericsson

In the start up stage, Sony Ericsson adopted the supplier code of conduct of Ericsson. The code of conduct is a standardized document that is a part of the contract and therefore constitutes a part of the legal relationships between the buyer and its supplier. The code requires that the first tier suppliers compliance with the code and they should ask the same

requirements for their suppliers, thus ensuring a secure supply chain. Mats Pellbäck-Scharp sees that the legal framework or the contract sets the borders for their influence in the supply chain. The actors that influence the CSR perspective are suppliers and customers, i.e. the ones with whom Sony Ericsson has contract relations.

Sony Ericsson's managers make a distinction between sustainability, corporate responsibility (CR) and corporate social responsibility. Mats Pellbäck-Scharp explains it:

CSR is just about the social side. Corporate responsibility also includes environment and activities related to it. Sustainability is looking on through the business development and taking good CSR, protecting environment, doing it in business terms.

From a supply chain management perspective, CSR is included in the basic requirements of Master purchasing agreement. There are three basic requirements: quality, environment and CSR. A representative of a supplier of Sony Ericsson, Jan Pin, states:

Business to business customers have asked the quality requirement for a long time already, then environment appeared and now during the last 2 – 3 years CSR has become an important issue. Now there are clear standards (ISO 9001 for quality and ISO 14000 for environment) set for the first two requirements, but there are no clear global standards for CSR so it is difficult to ensure that the company is socially responsible.

The code of conduct is a standardized document within a particular company. However, it has external functions regarding suppliers. Implementation and monitoring have a significant role to adopt internal requirements for external functions.

The same requirements and the code of conduct is used for Sony Ericsson's own factories and supplier factories, thus Sony Ericsson tries to ensure the same conditions throughout the whole supply chain. In the beginning of operation, Sony Ericsson's main task is to audit suppliers against the code of conduct. Sony Ericsson responsibility is to audit the suppliers before the contract. The purpose from that is to assess the starting conditions, to set a standard and to add it to the contract and then monitor the suppliers' compliance with the code. The supplier is responsible for the implementation of the code of conduct in its factory and as well

to require the same standards to its suppliers. Currently, audit is mostly like a questionnaire and the auditor fills boxes: comply or do not comply.

Mats Pellbäck-Scharp from Sony Ericsson describes the audit like this:

When we are out doing an audit, we are a police. You sit on each side of the table and you are checking them to find problems. (..) You are sort of digging in their dirt. They are prepared for an audit; they clean enough and try to hide their problems.

The non-compliance attempts are a very common practice at suppliers' sites. For example, consultancy companies in South East Asia tell how to organize the double - record keeping in order to have the "right" documents to show the auditor. Such non-compliance attempts relate to local rules as well. In many countries, such as China and India, the work regulations are quit strict. They are stricter than Sweden. But the problem is that the employers tend to overcome the regulations. Employees in these countries often do not get paid for overtime, sometimes the minimum wage is paid but then the company deducts if there are some problems (Mats Pellbäck-Scharp). CSR staff at Sony Ericsson realized that good auditing can be done just in the local language and auditors should know the local conditions in the areas covered by the code. Tommy Lundström states that "*there are white and black areas in CSR, but then there are some grey areas such as culture where it is hard to make strict judgement.*"

He adds and example:

In some countries employers do pregnancy tests. But the fairness of it depends on a purpose of the test. If they use it for not hiring her or firing her then it is not acceptable. But if it is done to protect the baby, not to allow her to work with chemicals or heavy materials, then it could be accepted. What is the problem? The pregnancy test or the way how they use information? The understanding is differs from country to country, so it should be taken into account while doing audit.

Ericsson developed the network of trained export auditors for those areas in China, Malaysia, India and Brazil.

The non-compliance with the code could lead to termination of the contract. Strategically the evaluation of CSR is based on potential business instead of current business. Sony Ericsson

does not stop the ongoing business, but in a case on a non-compliance with standards it does not offer a particular supplier new projects. The reasoning behind this approach is that:

Then the supplier will not have money to solve problems, it will be in a sort of a lack of cash situation where it has not anything, and it cannot do anything. (Mats Pellbäck-Scharp)

At the same time, both Sony Ericsson managers admitted that Sony Ericsson has not experienced the supplier – dependent situation and there is always possibility to choose somebody else. They remember one situation when they broke the contract immediately. But in most areas where Sony Ericsson suppliers work, and especially in very unique things, normally suppliers are quit advanced in CSR issues and, when it comes to cameras and new technology, there is a good understanding of the issues.

Having all the challenges described above, Sony Ericsson decided that they should work differently and revised its code of conduct and activities related to implementation and monitoring.

4.3. The second stage: The change

The second stage involves activities related to transformation of CSR activities within Sony Ericsson making it a stronger part of the company's identity. The company revised its suppliers' code of conduct and as well an implementation mechanism.

4.3.1. Revision of the code of conduct

It took approximately a year for Sony Ericsson to develop its own suppliers' code of conduct. The new code was developed due to two reasons. First, Ericsson's experience indicated to the new staff (many of them worked at Ericsson before) that the code should be more comprehensive and explanatory. Second, it should mirror Sony Ericsson's identity. The purpose of the code is to place expectations upon suppliers to respect fundamental human rights and to treat their workforce fairly and with respect. Suppliers are required to behave in socially and ethically exemplary way and to conduct business in compliance with all national laws and regulations (SEMC Supplier Social Responsibility Code, 2006: 2). Such stakeholders as customers, investors, and employees are mentioned in the code as well. The

new code covers the following areas: supplier business ethics requirements involving compliance with law and regulations, basic human rights, safety requirements, fair and honourable business practices, and proper document and information management. Moreover, it covers implementation requirements and references to external regulations. Nevertheless, in the beginning of the interview Mats Pellbäck-Scharp argued that the code of conduct mirrors the company's identity. However, later on he acknowledged that:

We have almost the same code of conduct as other companies and it is very general from this perspective. But activities can focus on different parts of the code depending where we see potential problems and risks.

Even though each company tries to distinguish its code from the others, the content is standardised among various companies and industries. However, the implementation and monitoring activities can make a difference from company to company.

4.3.2. The shift from audit to self-assessment

During the last two years, Sony Ericsson has changed its implementation and monitoring approach from auditing to self assessment (or open dialogue). The last one means that the supplier does assessment of its practices compliance with the code by itself and then the results are discussed in an open dialogue with the buyer and a follow up action plan is developed. The idea behind the self-assessment is to reduce the number of audits increasing the time spent for supplier development and cooperation to adapt to a local context. Sony Ericsson wants to be a part of the process of implementation of CSR at their supplier sites instead of just setting the standard and monitoring the compliance. Mats Pellbäck – Scharp characterizes it as “taking seriously a supplier base”. This approach calls for a significant change in the understanding of importance of CSR from both sides.

In the case of Sony Ericsson, self-assessment is based on trustful relations between the buyer and the supplier. Sony Ericsson focuses on changing the mindset of suppliers and building the long term supplier – buyer relationships. First, changing mindset of suppliers means to understand that the compliance with requirements of the code of conduct is good for the supplier. “Good” in sense of quality, employees' turnover, number of customers and profit.

If you change your employees every half of a year then you should train them every half of the year. Is that a cheap activity? But if you have satisfied employees with a reasonable pay and reasonable working hours that they stay at the job for long term and are happy and proud to work for a place ... Then they have a high quality. There is less waste of materials. It means that maybe for companies it turns out cheaper than to change employees and to find new ones all the time. (Mats Pellbäck-Scharp)

The costs of implementation are therefore viewed as an investment in the future.

Second, the compliance with the requirements is perceived by Mats Pellbäck – Scharp as a win-win situation that is based on long term supplier and buyer relations. The supplier is interested in having a stable and long term customer and Sony Ericsson in having a trustworthy supplier. If there is a common understanding of CSR at both sides, then there are no non-compliance attempts and monitoring is based on trust and sharing of information and knowledge.

From a managerial perspective, Sony Ericsson's supply chain CSR risk management is practiced through open dialogue working on the high risk areas for individual supplier. They have a commodity approach, i.e. choose one commodity and go through all supply chain of that commodity and work with all first tear suppliers. There are two steps within monitoring the suppliers. The first step is the audit of three areas: working conditions, health and safety and the security of supply chain. This audit is not checking in boxes in a questionnaire, but more a conversation about the situation. The second step is the process where the buyer and the supplier together identify risk areas and decide where the practice should be improved. Mats Pellbäck – Scharp states that:

We say that this area is more problematic and risky for this industry or this type of products and then we focus our activities around it. But of course you have to meet all requirements in all areas.

In this way, the standardized code of conduct is made more individual. Every supplier should meet all requirements, but each supplier has its specific conditions that make some areas more risky than others. Usually before meeting with the supplier, an auditor together with a specialist in the specific process that the supplier is doing identify the high risk areas from

Sony Ericsson's perspective. Then in the meeting the auditor and some purchasing specialists talk through the potential risk zones and develop a plan to prevent an accident or a problem.

Nowadays, the audit lasts approximately two days and usually suppliers are surprised that it requires so long time. Sony Ericsson's manager Tommy Lundström often hears that "you are the first one that takes it so seriously". Tommy Lundström explains the need for sufficient time:

Normally, in some areas of CRS, suppliers are quite distinguished and in some areas they are blocked. If they should report, the conclusion is just to take away the blocked part and the report is finished. But Sony Ericsson would like to see the system. How it comes that something was blocked. Because here one can see the symptom but it is not a root cause.

The time is therefore considered necessary in order to go deeper into the symptoms, to find the cause and to develop the plan for improvements. Sony Ericsson's managers perceive themselves as first movers implementing this method in the electronic industry. Sony Ericsson does not focus only on audit, but it has self-assessment, trainings and seminars and different kinds of CSR related activities in the supply chain.

As this approach is based on trust, non-compliance attempts and hiding of information is not considered. In an open dialogue, both sides share the confidential information in order to improve the performance and to have a long term win-win situation. Sony Ericsson does not punish the supplier for disclosure, but instead helps with the training or some other follow up activities. Tommy Lundström states that "*suppliers do not see Sony Ericsson representatives as a big risk, but as an opportunity to review their systems*". This leads partly to sharing the responsibility of implementation of CSR and as well the costs of implementation. Suppliers can take external consultants and pay them or ask Sony Ericsson representatives and get free consultancy.

However, the supplier's representative Jan Pin's opinion about its suppliers' attitude to the code of conduct is different: "The code of conduct is perceived more as a threat among suppliers". This leads to an assumption that the understanding of the code of conduct differs among a buyer and a supplier and among various levels of a supply chain. Buyer-supplier

relations are based on dependency. The one with higher dependency level perceive any requirements as threat for future business. Jan Pin should ensure that Alfa's suppliers (the second tier of Sony Ericsson) comply with Sony Ericsson's requirements. According to him, the relations in this level are different than characterized by managers of Sony Ericsson.

Sony Ericsson approach in "*taking seriously supplier base*" aims at making their supply chain ethically secured. Tommy Lundström explains the aim:

We feel responsible for a supplier chain that we choose. We should have a system where our first tier supplier secures the system further. If the first tier has a real understanding of CSR, then they can take the next step and go on their supply chain.

4.4. The third stage: Future plans

Looking towards future steps, managers suggest that the code of conduct shall be revised. Tommy Lundström admits that "*current Sony Ericsson's code has some overall very high requirements, but there are some detailed requirements and the question for revision would be "Do they correspond?"*"

One more step to continue "to take CSR seriously" attitude is through more involvement of stakeholders. Until now Sony Ericsson has implemented various activities in a supply chain thus fulfilling the responsibility set but the contract. However, at the same time its managers that work with CSR issues acknowledge that the broader cooperation with other companies, NGOs and so forth is necessary in the future.

The electronics industry or at least the concrete supply chain actors' cooperation is necessary to secure all supply chain from a CSR perspective. Mats Pellbäck – Scharp states that

Sony Ericsson cannot influence the raw material suppliers, because the company is too small for such kind of action. The industry cooperation is necessary.

Currently the cooperation with NGOs has been limited to philanthropic activities to support communities. Sony Ericsson has not used NGOs as the third party auditor or in the form of some other involvement to safeguard or develop CSR within the supply chain.

They are not even, what their interests are and what their drivers are. As well, there are not many NGOs in Chin, but in India there are thousands of NGOs and just half of them are good. (Mats Pellbäck – Scharp)

Nevertheless, Sony Ericsson representatives have had discussions and meetings with NGOs but concrete actions have not yet been taken.

4.5. Conclusions

In this chapter we presented the ethical sourcing activities and particularly the development of the code of conduct within the mobile phone company Sony Ericsson. The case study highlighted on the historical background for the company starting from the merger of Sony and Ericson to the current situation. Moreover, we underlined the three stages in the development of the code of conduct within Sony Ericsson based on the action model presented in chapter 2.

In the first stage, we note that Sony's and Ericsson's perceptions of CSR within a supply chain have influenced Sony Ericsson's perception. This section presented the CSR activities during the first year of operation. In the second stage the new developments within the code of conduct and its implementation and monitoring activities are described during last three years period. The third stage highlights on the future challenges for the code of conduct within the company.

The analytical approach introduced in this chapter is our gateway towards more analytical details in chapter 5. It was important to understand where the code of conducts stands according to the perception of Sony Ericsson in order to pave our way into more analytical details.

Chapter 5

Analysis

5.1. Introduction

In this chapter, we answer our research question discussing how a standardized form of the codes of conduct operates within a diverse cultural and legal context of supply chain. First of all, we will emphasize challenges that we have noticed regarding the form and the context in empirical material and how these challenges are discussed in an academic debate. Then we will discuss cultural and legal matters and integrate them in the action model presented in Chapter 3 (Figure 2). Afterwards, we will analyse the shift from audit to open dialogue approach in implementation and monitoring activities. This discussion relates to the first sub-question, i.e. how to ensure the compliance with the code of conduct. Then we move further to the second sub-question of this research discussing ends of responsibility within a diverse context of supply chain and the role of codes of conduct in setting the ends for responsibility. In the final section, we talk about opportunities of codes of conduct in the future.

5.2. Discrepancies between the form and the context

During our navigation in different codes of conducts in the field of telecommunications and mobile phone industries, we found that each MNE has its own suppliers' codes of conduct. Analysing the content, we realized that the major differences mainly refer to the national legislations depending on the country of origin, the organizational structure and size, the number of articulated items, the language used, and structure. At the end, all of them refer to the same globally recognized problems (like child labour, safety requirements, intellectual property and environmental issues, etc.) since MNEs have to be compatible with international conventions. Therefore, it seems that there is a common understanding about the content of the code among the global actors in the industry despite the differences in the corporate size or the country of origin.

The same standardization approach companies try to apply to implement and monitor activities of suppliers' codes of conduct are found regardless of where these suppliers operate. In our research, we realized that there are various challenges that companies meet while

implementing the standardized codes. For example, for Sony-Ericsson such challenges are changing the mindset of the suppliers (as mentioned by the managers responsible for CSR in the company) and the ambiguity in understanding the general terms of the code caused by cultural differences. Moreover, the supplier stated that there is a challenge regarding the understanding language of the code of conduct and possible meanings behind the words due to the cultural and the national legislation. These challenges can be seen as factors that a company should consider while implementing the code of conduct. Summing up these challenges, we see that they all underline the context dependency of codes of conduct in the supply chain.

From a case study perspective, we see that the implementation of a standardized code of conduct clashes with context dependency of the code of conduct. The situation becomes even more challenging when one supplier has various standardized codes of conduct to comply with. Regardless that our interviewees strongly emphasized this issue, the academic literature does not offer an explicit discussion about these challenges. That's why we attempt to fill this gap. We will analyse the contradictory discourse of codes of conduct focusing on discrepancies between the standardized form of the code of conduct and the context dependent nature.

5.3. Applicability of the code of conduct and cultural context

The cultural aspects and differences from one country to another in addition to the accountability of the standardized code of conduct during implementation within the supply chain are foreseen challenging by the managers. One of managers state "*Of course, there is a lot of difference in culture and that is clearly shown*". The reason behind seeing it challenging refers to the factors of cultural relativism (Arnold et al. 2007). The cultural relativism may influence the understanding of the code of conduct in how it could be perceived by the suppliers. The code is written within a certain cultural context, but in the supply chain it circulates within different cultural contexts. Therefore, CSR staff is challenged by the lack of understanding of the meaning of terms and different ways of implementation of the new concepts. For example, in countries like China, India, and Bangladesh, the subordinates have the culture of obedience to their leadership in the company. They have particular respect to the seniors and to people with titles. This is not usually similar to the Western culture. The corporate governance of companies and how decision making in practice is done in the

Western world differs from that in the south or in the east. If a western company wants to introduce a novel way of communicating the CSR, they have to consider this particular issue additional to all the above mentioned ones.

5.3.1. Implementation of the code through common understanding

The CSR managers state that a common understanding of the code is necessary to implement it. Many scholars find this a problematic issue due to the cultural perceptions; the understanding and the belief in judging where exactly the separating boundaries between what is ethical and what is not could vary between cultures (Ferrell et al. 2002, and Jackson 2000). The standardized form of Sony-Ericsson's *Suppliers Social Responsibility Code* that are used regardless of the nationality or culture may cause ambiguity in understanding due to the generalized and wide terms used there. Such ambiguity notion could be a source of uncertainty due to variation in understanding where exactly the separation boundaries or the ending point of the responsibility lays. Here comes the assumption that the judgment towards where the responsibility ends on the decision-making level could be perceived differently depending on the cultural norms and the ethical perceptions from one country to another and across-cultures (Cohen et al. 1992 and Arnold et al. 2007).

One more assumption that might be a reason for the ambiguity of standardized codes is that this is a way to find a compromise between different cultures and contexts. The challenges the customer faces is mainly related to the 'understanding' issue of the code of conduct due to the cultural, language, and national legislation differences from country to country within a network of the supply chain. The code is a part of the contract and it tends to be as neutral as possible to escape problems before signing the contract. The general terms in the code calls for interpretation afterwards. Then practitioners can take into account a cultural and local context adding a meaning to the code and avoiding any collateral damage or misinterpretations in perceiving the content of the code of conduct. Such a process was briefly described by the managers of CSR at Sony Ericsson as the work on changing the mind-set to comply and respect the code of conduct. We will discuss this issue more detailed later on in this chapter.

5.3.2. Implementation of the code as a cultural change process

The work on the issue of changing the '*mind-sets*' of the suppliers to comply with the code of conducts require the implementation of a cultural change process in order to allow suppliers meet standards and requirements desired by the company seeking out-sourcing. The challenge foreseen here is directly linked to how they perceive the value of the code of conduct and how far they weight its importance in their work. The process of changing the '*mind-sets*' of the suppliers which is underlined by the mangers of CSR has its importance on the managerial endeavours towards building sustainable and long term strategic relation with their stakeholders and suppliers in particular.

One question might be raised here: how smooth is the process of changing the '*mind-sets*'? We claim that such process needs to consider the organizational culture and the cultural dynamics where the company of the supplier operates. Moreover, there is a need for clarity on the required goals for both the executants and the recipients. Clarification of the goals and cultural engagement in any change process are crucial facilitators for the 'culture carriers' in implementing new culture (Alvesson & Sveningsson, 2008, p. 99). Furthermore, the same authors note that the engagement in the cultural change endeavours may collapse partially and some deviations may occur if the vocabulary accompanying the change process is vague and/or if the executants and managers do not function as positive role models. We claim that the usage of the standardized the code to facilitate the process of changing the '*mind-sets*' is problematic due to the cultural and the national characteristics which vary from country to another. Moreover, the standardized code could include more guiding tips in order to legitimize the boundaries or to approximate slight variations in judging where the responsibility ends within different cultures. This has the purpose to avoid the ambiguity around where the boundaries are.

In the discussion above, we have emphasized cultural context of the supply chain. This discussion depicts the general context of the action model. As culture is very ambiguous, we did not try to put in categories of the defensive - ultimate line. Instead, we stress that cultural matters should be considered seriously while doing implementation and monitoring activities. In the next section, we look at the interrelatedness between legal matters and the codes of conduct. As a legal approach usually puts issues in frameworks to make them applicable, we make a similar stance look close to the defensive – ultimate line.

5.4. Applicability of the code of conduct and legal context

The legal system and its enforcement are closely linked with the success of the implementation of codes of conduct. The code of conduct is a part of legal agreement between suppliers and customers and thus sets requirements that the supplier should comply to make the deal. Mats Pellback – Scharp explains:

We have an agreement structure with all of partners. Part of it is a reference to the code which means that from a contract point of view suppliers need to follow our code.

The code has standard requirements similar to technical requirements in the agreement. The technical part of agreement requires, among others, concrete amount and size which are tangible and measurable requirements. The requirements of the code of conduct have socially constructed nature and each person may interpret them according to his/ her understanding of the context. The discussion about the legal context will be based on the horizontal line presenting defensive – ultimate levels of ethical sourcing (hierarchy of ethical behaviour) in the action model (chapter 3, figure 2).

The main challenge for supply chain practitioners is that the interpretation of the ethical behaviour and legal requirements is different within different countries. For example, Sweden calls for stricter environmental standards while in China the law does not ask for so strict standards. In this case, the language and the scope of the code of conduct are very important to define which standards should be followed within the agreement. The code of conduct is as a departure point for interpretation. Within the discourse of codes of conduct, the biggest discussion regarding legal matters is how high requirements should be in the code. Is it enough to comply with the law and to interpret the code as the letter of law? Or should the code of conduct have higher requirements?

5.4.1. Code as the compilation of laws

Sony Ericsson's code of conduct states that

Each Sony Ericsson Mobile Communication's Supplier shall, in all areas of the organization, comply with all applicable laws and directives of the countries and regions in which it operates including but not limited to local, national, regional and

international laws, regulations and directives. (SEMC Supplier Social Responsibility Code, 2006: 3)

The code does not require compliance with some higher standards thus just legal compliance is acceptable. This approach relates mainly to a basic level of ethical behaviour (see the action model, Chapter 3, Figure 2). Thus the interpretation of the regulation is that the company takes a defensive approach to CSR, i.e. to do only so much not to look bad. This approach could be risky for safeguarding the supply chain because a basic level behaviour differs among countries. The breaches of a basic level ethical behaviour could cause serious damages to the company not only because of the public scandals but also due to legal liability as the company does not even comply with the law. Even if the suppliers comply with the code of conduct, the company has a high risk to be targeted by its customers or other stakeholders due to compliance only with the laws.

The diversity of legal and governing systems is one more aspect that should be considered while looking on the basic level ethical behaviour. If the MNE asks just the national legal compliance, then there will be various levels of compliance within one supply chain. In this case, one supply chain does not strive for the same overall standard among the suppliers.

The assumption that the suppliers should comply with the law has received a lot of criticism from stakeholders and academics. Showing only social responsibility in compliance to the codes of conduct looks only like “window dressing”. Though, the supporters of the assumption those practitioners of CSR are more pragmatic highlight that in developing countries understanding of the letter of the law is different than it is in the developed countries. According to Mamic (2004: 47), the infrastructure for the enforcement of laws and the resources devoted to the monitoring of factories in many supplier countries are often extremely limited. This leads to creating the possibility for local manufacturers to operate largely without regulations. In this case, companies from the developed countries safeguarding their supply chains partly take duties of governing bodies of the state.

We argued that the context of the supply chain redefine the role of MNEs in the local market. Our argument refers to the theories which mention that in developing countries, MNEs are self-regulating entities. We can now even go further and claim that MNEs strengthen the public governance in developing countries while demand the compliance with the codes of

conduct. The local society gives rights for MNE to operate in the country. However, nowadays it is not enough for MNEs to ensure employment and tax payments. MNEs fill all possible gaps within a law by internal instructions to ensure the compliance with the rule of law.

5.4.2. Code with the higher requirements than law

There are companies that ask for higher standards in their codes of conduct than the law. For example, the supplier that we interviewed stated that in its code:

We emphasize that complying with laws is only the minimum level of ethical conduct and create internal policies and detailed standard operational procedures to ensure that the highest standards of responsible conduct and good governance practices are met throughout the organization. (The suppliers' code of conduct of Alfa, 2008: 1)

This perception relates to the practical level of ethical behaviour and meets not only with the legal requirements but also considers stakeholders expectations. However, this approach is not ultimate. This approach has received criticism from academics and NGOs as forcing developing countries to follow the Western standards. MNEs usually come from developed countries and have the Western approach and understanding of business environment. Their biggest markets are in developed countries and they feel obliged to follow their customers' requirements and expectations. Therefore, MNEs force its suppliers to comply with those requirements and expectations. It leads to situation that global codes of conduct often ignore context-specific conditions and concerns (Painter-Morland, 2006: 353). Due to inconsistency between written code of conduct and local practice, the lack of understanding may happen and the successful implementation of the codes could be questioned.

On the other hand, there are codes of conduct stating that cultural or context specific issues are considered while implementing the code. For example, the code of conduct of Alfa which representative we have interviewed states:

As a group we are committed to full compliance with international and national laws as well as locally established good practices taking into account local cultural practices. (The suppliers' code of conduct of Alfa, 2008: 1)

From the discourse of codes of conduct, this formulation is pretty new development in the history of codes of conduct. Additional to that, there is not much of academic and practitioners' discussion about the impact of this practice. Considering local context of suppliers in the terms of the code, the company accepts the bottom up approach in the supply chain management thus engaging the supplier in the interpretation of the code. For instance, the supplier Alfa who has this provision in the suppliers' code mentioned that sometimes its employees or suppliers in developing countries asked why they should follow Western world requirements. According to our theoretical framework, this practice could be motivating for the supplier and its employees to meet a counteraction to Western requirements. It gives some expression of freedom to suppliers and involvement in decision making according to the local interpretation. However, at the same time the MNE should be cautious that suppliers do not take advantage of this to explain misconduct as a local practice.

From the perspective of economic and socio-political development, intended resistance to understand or implement codes of conduct is not so significant. In the developing countries, employees still mainly think about securing basic needs for them and their families while employers are concerned mainly about profit than anything else. The implementation of Western standards for the company of a developing country means the access to Western markets. Thus it could be common that the supplier is not aware or is not interested to care about the contextual differences.

5.4.3. The role of the code in a legal context

From a legal context of the supply chain, the code of conduct is just a set of high requirements that get their meaning via the interpretation according to the local context. Raiborn and Payne (1990: 880) claim that a code of conduct should be based on the highest possible moral level in order to have an ultimate standard towards which to strive. We agree with the critics of the assumption that it is enough that the codes of conduct ensure the compliance with the law. With "high requirements" we understand that codes relate at least to a practical level of ethical behaviour where the company acknowledges the responsibility to wider society not only to national government and to its supplier. Moreover, we argue that Raiborn and Payne's approach most probably will lead to failure of implementation of the code of conduct in a supply chain due to the difficulties to ensure the understanding about ultimate requirements

among suppliers. Nevertheless, while local legal and governance situation should be considered, the role of code still serves as a good practice model to strive for. It is not just a compromise document to satisfy the needs of all sides.

We claim that CSR should include economic, ethical and philanthropic responsibilities in the line with legal responsibility. Integrating the discussion above into the action model, we claim that our perception serves as a theoretical or ultimate level of ethical behaviour within a supply chain. However, the practitioners usually act on the basic or practical level of ethical behaviour. Furthermore, we argue that the code of conduct serves not only as a legal document but also should always be thought of more than just pure text during implementation and monitoring activities. Thus if we depict it in the model, the ellipses symbolizing various phases should be replaced by comets where the top of the comet is the code and it pull all the activities ahead.

In our discussion, we have explored the context of ethical sourcing and outlined how it relates to three levels of ethical behaviour of the action model. In the next section, we will look on the development of the code of conduct within the context explored in this part, and mainly will focus on the implementation and monitoring activities.

5.5. How to ensure the compliance with the code of conduct within the diverse context of supply chain?

In this section, we will discuss how the strategy in business relationship between customers and supplier has shifted from a police approach in the audit practices to rather a dialogue one. We also investigate the reasons behind the shift in the approach. Here we focus more on the case of Sony Ericsson as the code of conduct development and the reasons behind such development are very context dependent.

5.5.1. Customers- suppliers' business relationship in implementing CSR practice

We claim that the corporations should pay attention to geographical areas or areas of interest where they use the CSR practice. It is a kind of investment that might not only be of short-term one, but also strategic medium or long term ones. Our case study shows that Sony Ericsson pays attention to this context when it comes to implementation of CSR within their supply chain management. They have suppliers in many countries in the world and some of

these countries have fewer regulations than the European ones when it comes to child labour, labours rights, environmental protection and so on.

Many of Sony Ericsson's customers and other stakeholders especially in the developed countries expect from the company to have high social and environmental awareness. Many customer surveys claim that the customers, additional to expecting a good quality, attractive design, and reasonable prices of the mobile they purchase, also look at the reputation of the company's social responsibility. A 2004 European survey has found that while 75% of consumers indicated that they are ready to modify their purchasing decisions because of social or environmental criteria, only 3% actually have done so (Capron and Quairel-Lanoizelee, 2004, cited in Vogel, 2006:48). Nevertheless, a positively notable exception to actual behaviour of customers is in northern Europe, where the Nordic Swan label attracts consumers who prefer to use household products, such as toilet paper and detergents that do not harm the environment (Bjorner et.al., 2004, cited in Vogel 2006:48). Sony Ericsson reflects the CSR awareness of Nordic countries in its operations. Sony Ericsson's managers claim that they are taking seriously into account CSR demands of the customers.

However, it is not an easy process for any company to find suppliers that can both provide supplies with highest quality standards with reasonable prices, while simultaneously demanding from their suppliers to comply with all the requirements the codes of conducts especially when it is even stricter than the national law. If the company is having a very demanding code of conduct from their customers that other companies with similar business do not demand, this might increase the risk that suppliers will not be willing to do business with such customers. It might lead to risk that the suppliers put higher prices on their supplies to be able to reach all the demands by the company's code of conduct. This urges the company to find better strategies than only demanding approach to deal with their suppliers. Sony Ericsson practice is to have an open dialogue with its suppliers about CSR instead of just demanding and then assessing the compliance as a CSR police. The dialogue functions to convince the suppliers and get them involved (Prieto, 1994). This is one more way besides formulating legally binding provisions about local context in the code on how to practice bottom up approach that we discussed above. The involvement of suppliers and their employees in creating ideas on how to improve CSR practices is a step forward. However, the possibility of implementing this strategy of dialogue and its effectiveness differ from one country to another. Customers need to adapt their strategies to make the dialogue more

productive according to the situation or the country they deal with. If the customer chooses to influence their suppliers and try to change its mindset convincing about the importance of open dialogue, this practice might have the possibility to be transferred to the subordinates of customer. This is way on how to change the mindset by having a mutual trust is discussed by Cunningham and MacGregor (2000).

When we asked Mats Pellback – Scharp whether it is easier for the suppliers to deal with customers that do not demand very high requirements in their codes of conduct, he replied:

It is very short term thinking. Some companies are like that. But that's why we said that in audits you become like a police and appear in a situation that is hostile with different side around the table.

Having a practice of building trust and dialogue is a better practice in audit than being like a police. However, the trust should not be misused by the suppliers and that is why audits are still necessary. An example that shows how suppliers may misuse trust is a recently shown video on Swedish TV which was taken recently filmed and reveals that four of the suppliers of Ericsson in Bangladesh were involved in child labour practice and dangerous working conditions (The Local, 14 May 2008). The journalists who visited the suppliers were surprised to see employees working without protective equipment near Zinc baths; others revealed that the employees only put helmets when the TV crew filmed them and take it off immediately after cameras were turned off. The Ericsson head of communication said (The Local, 14 May 2008) that Ericsson “*deeply regret that we haven't had better internal inspection*” and that “*they will increase awareness internally of the demands we place on our suppliers*”.

5.5.2. Shift from being CSR police to dialogue with suppliers

A dialogue between the customer and supplier about the importance of the codes of conduct and the reasons behind them is one of the innovative ways to manage codes of conduct. Through dialogue, many misunderstanding or misinterpretations regarding the code of conduct might be resolved. Also, the dialogue provides the suppliers the reasons behind their customers' demands in the code of conduct. Additional to that, it might also provide the supplier the understanding that by fully complying with their customer's code of conduct,

they might get a business opportunity. This means rewarding them for the good deeds in practicing CSR. According to (Sinclair, 1992), rewarding is an effective method for encouraging the people to perform well. This goes the same to the suppliers. Rewarding the suppliers who perform well and show significant progress in implementing innovative CSR practices is one of the tools.

Sony Ericsson has recently been practicing this method with their suppliers to be aware that their supply chain is well managed regarding CSR risks from the customer to the material producer. They have discovered that acting like a police way in auditing does not make certain the compliance. It is necessary to let suppliers understand why Sony Ericsson has particular CSR demands and what it means for them instead of only demanding ethical behaviour and then judging about non-compliance as a police. Sony Ericsson is changing the practice to convincing and building trust and being as a trainer about CSR. Academic debate acknowledges that trust as one of safeguards of compliance with the code of conduct. We discussed this in more details in Chapter 3.

Mats Pellback – Scharp commented about this practice:

If you work together and try to teach, convince and get understanding then we get better examples and better suppliers that are satisfied and we can stick to them. So it becomes a part of a long term relationship.

If suppliers have reasonable price and they are good at compliance with the codes of conduct, this might be of competitive advantage attract new customers and suppliers to make deals with them.

5.5.3. Implementation of the code through changing the mindset

The CSR managers of Sony Ericsson highlight changing the '*mind-set*' as the core activity of implementation work in order to safeguard the common understanding towards the code of conducts with their suppliers. However, it is not easy thing to do. Sony Ericsson managers' experiences show that involving their suppliers in discussion, giving them the adequate time and showing trust are among the best ways for changing the mind set. According to Kotter and Schlesinger (1997:108-109), participation in the decision making may increase the quality

of the decision for change, obtain commitment and reduce resistance. Additional to that, Cotton (1993) claims that participation to be efficient there are certain conditions to be met. Such issues are, for example, giving the suppliers adequate time and involving them in the decision making process.

Mats Pellback - Sharp explains its perspective regarding of time:

We aim at reducing the number of audits, increasing the time spent of supplier development and cooperation rather than audits.

Here the managers regard this as just reallocating the time from one kind of activities to another. However, later in the discussion they mention an example that how the dialogue approach works.

We have one supplier that supplies a lot of companies in the industry. When we started implementing it instead of doing audit and the auditor of Sony Ericsson said that we wanted to have a meeting and they responded “Oh, you are coming for audit!”. The auditor told that we just want to talk about your activities. They responded once again that you were coming to do the audit. The auditor stressed once again “No we will not do audit, we just want to have a meeting and discuss the activities!” “Oh but then you are not going to do an audit!” (Mats Pellback – Scharp)

This shows that the dialogue approach is very time and energy consuming. First, the company needs a lot of time to be persuaded about the change of the approach because usually they have not had experienced this approach before. Additional to that, the real work starts which involve so many context specific issues regarding making change happens as we have discussed above.

It is better to make people do things with satisfaction rather than do things just because they are forced to do so. The dialogue and educational approach promote trust and the disclosure of confidential information. Thus both sides gain in this process. We see this as economically beneficial trust relations.

On one hand, this is also a risk management of the supply chain because the customer is aware of context specific risks and can do prevention activities thus securing the permanent supplier base. Having a long-term relation with suppliers is in its way a method of risk management especially if there is an expansion in the business and thus the demands of supplies. By building long term relation and trust, companies develop “psychological contracts”. These kinds of contracts are lately practised in employee employer relations and are rich and nuanced collection of shared understanding built over time between employee and employer (Clark, 2005). Doing this, employers fight for the best talents and keep low employee turnover. In similar ways, the business customers secure its supply chain. The business is dynamic and so are the changes in the suppliers’ leadership that might change their strategies as well. They might demand higher prices for their products or provide fewer supplies than required and so on. This in turn negatively impacts the production and so the product supplies consequently the business performance and profitability of the corporate. Thus a “psychological contract” could ensure loyalty.

During this practice, the supplier gets free consultancy about compliance with CSR. We think that this free of charge business to business training and support is a relatively new tendency. Why do companies do this? May one call it philanthropy in business relations? Philanthropy in business relation here means giving free advices services for the sake of the society that is based on belief that the buyer should be socially responsible, raises corporate business standards, and educate the supply chain below it. Could it be viewed as MNEs misuse of their bargaining power to “friendly” force suppliers from developing countries to accept developed world’s rules? Is it about profitability or a competitive advantage?

Mats Pellback – Scharp said that it is better that everybody has high standards and high requirements because then it would be easier for suppliers to meet them and develop further. At the same time, he mentions that while explaining CSR to its suppliers they try to persuade them that CSR and the compliance with the code of conduct is good for supplier’s business as well. Can we claim that high standards generate more money? There has been much discussion about this topic and the latest conclusion is that there is no evidence that CSR makes companies more profitable. However, there are no results that either shows that CSR makes companies less profitable (Vogel, 2006). We believe that the “*Why do companies practice business to business support for implementing codes of conduct?*” question should be raised in the academic discussion.

If the suppliers make good progress in practicing CSR, they might feel good and would want to do more. So, it is a long term process though in the right direction. When the customer does the audit as a police rather than convincing its supplier, the supplier might use ways to cheat the auditors. Through dialogue one may minimise such events. Instead of hiding their wrongs, suppliers will try to make things work for the better by being honest and afterwards they will be proud of themselves because they have progressed. Mats also confirmed that when he said:

The suppliers come back in few months and say “Look we have done that! We have implemented this and we have started with the environment there!” When they have improved they want you to come and look on what can be done in other areas. Then it becomes a totally different situation. That experience is really good instead of doing audit and to find what some people are trying to hide”.

This individual practice improves the whole picture of the supply chain. The suppliers that have had longer business relation with Sony Ericsson are having higher level of understanding about the CSR concept and practice than the new supplier. Mats told his experience regarding this:

What we realized that when we come to new suppliers we realize that conditions here are much worse than at the supplier that we are using. It means that we have taken the level up for the suppliers that we are using in general. I think that in general when we come to our supplier and other supplier in the region or area we see that we have taken the supplier base to another level when it comes to work environment and conditions in general. (Mats Pellback – Scharp)

Our interviewees also claim that it is hard to foresee the results. Sony Ericsson has been practicing this approach for approximately two years and they expect results in some two years period. However, we have noticed that the dialogue approach has made a difference through comparing answers of Sony Ericsson’s two managers and the representative of one of its suppliers. Sony Ericsson uses the code of conduct for its supply chain for about seven years and it has had contracts with this particular supplier for about five years. However, the supplier has noticed that Sony Ericsson is being more demanding regarding strict compliance

with CSR just for the last two years. Thus we may conclude that with the dialogue approach, suppliers have noticed that CSR requirements are important.

We agree with Prieto (1994) who claims that changing the mind set is a long term and challenging task. A dialogue approach might be effective for a long term buyer-supplier relations. This might be beneficial for both sides. However, we are not so sure that there is an even win-win situation.

5.5.4. Is it really a win-win situation?

The academic debate claims that long term supply relations are a win – win situation. Our interviewees state that buyer – supplier trust relations are beneficial for both. We already raised the question about who really benefits from business to business training and support before in this chapter. But a buyer – supplier dependency notion (see more about this issue in Chapter 3) and one sided developed- developing countries CSR enforcement also raises doubts about a win – win situation.

Mats Pellback – Sharp confirmed that Sony Ericsson has never been in a situation where it was dependent on the supplier and that it was forced to reconsider its strict CSR requirements to comply with such situation. Sony Ericsson is a global actor that has never experienced direct supplier – dependency relations and sets CSR requirements for around 500 suppliers. Buyer dependency relations are more common in supply chain. Sony Ericsson managers characterize audit with police activities and say that the audit situation is hostile. From a dependency perspective, we interpret that the supplier is afraid of the buyer because its business depends on the buyer. The dependency does not change even if there is open dialogue and trust between buyer-supplier. From dependency perspective, a win-win perception should be questioned.

In the section 5.3.2., we discussed how the higher requirements of CSR set in MNEs coming from developed countries affect suppliers in developing countries. Additional to that those suppliers are obliged to follow the requirements due to dependency; they are also forced to accept the requirements that do not fit with local culture and traditions. Is this a win-win situation? We suggest that this debate should be developed more in the academic discussion.

5.6. Does the responsibility of company end with the scope of the code of conduct?

The action model perceives the code of conduct as a tool or guideline that defines higher standards that pull the corporate action to more ethical behaviour. Looking from the context of ethical sourcing, the end of responsibility is ambiguous and in constant development process within the theoretical level of ethical behaviour. However, each company can define its own standards within the context of ethical sourcing and set them in the company's code of conduct.

The managers responsible for CSR in Sony Ericsson confirmed that the code of conduct is an effective guideline towards sustainability. They consider the work on raising awareness among suppliers about CSR as a strategic and a long term investment. However, they also claimed that their responsibility ends with the code of conduct. Later on, one of the Sony Ericsson two managers noted that the work on CSR cannot be perceived as one company's initiative but there should be collective endeavours by the global actors to reinforce the concept of responsibility. From purchaser point of view, the code of conducts should be applied also by their suppliers within their own business networks.

Sony-Ericsson's suppliers commented on that saying that "*the code of conduct is more as a guideline than a tool ... the code in itself is not making a change*". Therefore, according to the suppliers' comments, the code in itself without being accompanied by best practices in implementations additional to follow-up and monitoring will not make a change. Moreover, he highlighted the need for a globally standardised code of conduct to be adopted and implemented by all the actors within the industry. Such international standardization for the code will assist in benchmarking the standards and will facilitate the information sharing among the suppliers. Moreover, it will avoid the overlap and the differentiation from one CSR standard to another.

The supplier claimed that the responsibility never ends. Thus, here we see very different opinions about the role of the code within the same supply chain. One company perceives its code of conducts as the beginning and the end of its responsibility. Other sees it as a guideline of beautiful statements that are composed of empty words without implementation and that there is always possibility to do more. However, both companies consider the code as the right way to sustainability. How can these different approaches operate in the same network?

We have taken a broader perspective and applied an action model to this situation. The code of conduct is as a higher standardized guideline and companies strive to reach the standard. In the supply chain context, the buyer sets the minimal standard for supply chain actors. Suppliers must comply with the minimal standard, but it can always strive for higher standards. In our particular case, Sony Ericsson is demanding but it also takes more defensive strategy to the implementation of CSR than its supplier that we interviewed.

With the help of action model, we explained the role of code of conduct within the supply chain context. However, the general question is about where the responsibility ends still need an answer. According to Blowfield (1999b, cited in Blowfield, 2000, p. 145), in the longer term codes may come to be seen not as an end in themselves but rather as a starting point for increasing business awareness of social and environmental issues. According to the same author, codes of conduct will also function as bringing together stakeholders to co-operate on addressing these issues. His statement combined with contradictory views of practitioners lead us to assumption that the responsibility does not end with the code. We think that in the general terms, the end of responsibility in a supply chain is an ambiguous concept and relates to the theoretical level of perception of ethical behaviour. It is not necessary to make a strict line because academic discussion about the concepts of ethical sourcing and CSR is in the development process. In the supply chain context in particular, each company defines its own end of responsibility but it cannot be less than the customer company's level of responsibility.

The codes of conducts should be based on coherence where the ethical standards of the codes should consider the social cohesion beyond the terms of the codes. In other words, the strategic vision of the codes towards responsibility should include the operational context where the suppliers and other stakeholders are operating. It should not be limited to those who are directly benefiting from the business (Blowfield, 2000).

Chapter 6

Conclusions

6.1. Introduction

This study aimed to understand how the code of conduct functions within the context of the supply chain of the electronic industry. In the beginning of this chapter we shortly highlight our theoretical implications, and thereafter follows the findings that are based on the integration of our theoretical framework and empirical material. We finish with our recommendations for further academic studies and for practitioners within the field.

6.2. Theoretical implications

We have defined CSR as an integrated process system of socio-economic, legal, ethical and philanthropic responsibilities that are based on managers and stakeholders interaction. Thus we emphasize that implementation of CSR should be a process approach.

We see ethical sourcing as the most appropriate form of managing CSR within a context of supply chains. According to this finding, we develop the action model for implementation of CSR where the development of the code of conduct is seen as a base for moving organization from current socially responsible behaviour to some expected stage. The model scales socially responsible behaviour from defensive and just legally binding behaviour to ultimate behaviour that represents theoretical potential behaviour that society expects. As our understanding of CSR is as a process then these levels are also constantly redefined by various stakeholders.

According to us, this model is our addition to current academic debate of ethical sourcing due to two reasons. Firstly, it emphasizes that the development of code of conduct should be viewed within a broader perspective of ethical sourcing taking in consideration the context and time. Secondly, it links daily practice of CSR staff with concerns of academics about theoretically ultimate stage of ethical sourcing. In relation to our model, we answer our main research question and the sub-questions. According to this, our discussion is a part of the

ultimate level of ethical behaviour and our findings (see below) specify the defensive-ultimate scale of the ethical sourcing and the context of supply chain in general.

6.3. Reflection and findings

Our study is based on a case study of Sony Ericsson. We tried to track the role of the code of conduct as a guiding tool towards ethical sourcing considering the contextual operation of the supply chain. It is viewing the functionality of Sony Ericsson's Code of Conduct from two perspectives: the first perspective is Sony Ericsson's perspective towards their code of conduct. The second is the perspective of one of its suppliers operating in Asia, Europe, and Latin America. Our interpretive analysis aimed at exploring how the code of conduct is perceived in different contexts in order to understand its functionality as a CSR guideline. Our findings show that the codes of conducts could be perceived differently within different contexts.

Our analysis included a screening of the codes of conducts of Sony Ericsson and one of its suppliers as a business partner and its stakeholder. We compared Sony Ericsson's codes of conducts with the code of conduct of other multinationals in the same industry. Our findings show that there are different forms of codes. Some are very general and short, some are comprehensive with explanatory requirements. Nevertheless there are different forms; we found many similarities within the content of terms, especially related to labour conditions, workplace safety and environmental issues. Therefore, we claim that codes of conduct are standardized guidelines for ethical behaviour in a supply chain.

Moreover, it also indicates that the CSR concept has developed both theoretically and in practice. With the help of codes of conduct, there has been a progress in defining the obligations and responsibility the company has. The code of conduct has recently been recognised as an even more important part of the contract between the customer and the supplier than it was before. This is due to many factors, such as the pressure from the society on the business world to be good and the fact that business nowadays sees an opportunity and competitive advantage in the CSR concept. Furthermore, the stakeholders' awareness is increasing and thus the influence of stakeholders on business decision making increase.

The way Sony Ericsson and their supplier have been practicing CSR has also developed. Our study shows that CSR was previously mainly philanthropic. However it has recently become a risk management and a longer term investment in issues related to the well-being of the society. We can see that such an investment is not any more just locally or nationally based, but moves over the boundaries due to globalized supply chains. They invest in their CSR practices in areas of interest for the company that may in the long-term provide them with potential business opportunity or to avoid potential risks.

One of the focus areas in this study is how to ensure the compliance with codes of conduct. Our study shows that the codes of conduct are generally standardized. However, each business sector and industry tends to add some specific requirements to tackle context specific issues with a higher risk level. A standardized content of codes of conduct is often a challenge to practitioners that apply it within diverse contexts of a supply chain. Our data indicates that the most serious challenges are cultural factors and the country's specific legal matters thus practitioners call them a grey zone. Our study shows that taking this grey zone into account is crucial in order to ensure a compliance with the codes of conduct. Therefore, there is a tendency that CSR managers of a buyer and a supplier work together to implement the requirements of CSR at a supplier's company. In this case both sides exchange the confidential information, define high risk areas and develop an improvements' plan.

Besides the change in the approach how the codes of conduct are implemented, the ways audit is done have also been changing in order to secure the compliance of the code of conducts. Until recently, the audit has been done only through inspection and the customer inspectors were behaving like the police. Nowadays, the trend is to have a dialogue between the customers and suppliers on how to reach the best ways of compliance with the customers' codes of conduct. This is considered by the managers of Sony Ericsson as a better way to build long-term business relations. Such business relationship is based on trust and understanding rather than only inspection and pressuring. However, our data shows that the supplier still consider the role of inspection important to regulate the frame of the business relation. From the supplier's perspective, there should be a combination of both the "policeman" auditing approach and the trust one.

Practitioners and as well various academics state that long term and trust based relations is a win – win situation in a supply chain. We question this assumption from a perspective of

power relations among a buyer and a supplier and a tendency to force developed world's perceptions to the developing world.

Furthermore, we analysed where the responsibility of the code of conduct ends. Our data shows that there are distinctly different opinions within the same supply chain. From the supplier's perspective, the responsibility of both the company and their suppliers ideally has no end. Sony Ericsson, however, claims that the end of responsibility in the supply chain is when suppliers comply with its code of conduct. According to our theoretical framework, this is a defensive approach to CSR where just the legal compliance in their supply network is satisfactory. This approach is still common in ethical sourcing. With increasing awareness about the risks the business might potentially face, such attitude can possibly shift from the defensive approach to a proactive and stakeholders engaging approach towards sustainability. From the perspective of the stakeholder theory, we think that companies such as Sony Ericsson might broaden their horizon and think about the CSR concept in a wider perspective due to raising pressure from stakeholders. According to our study, CSR is an integrated process system of socio-economic, legal, ethical and philanthropic responsibilities that are based on managers and stakeholders interaction.

The code may be seen as an immunizing tool towards any unforeseen risks that may damage the reputation of the company. Many companies use codes of conduct to flourish the companies' images, and to improve their reputations. On the other hand, it might be seen as a way to promote best practices and better implementation. It may also be perceived as a competitive advantage giving a space for improvement. However, CSR staff should acknowledge that some companies perceive the code of conduct as a burden and thread. Whether the suppliers perceive the code of conduct as a risk or advantage depends on the approach in how CSR is understood and how codes of conduct communicate this understanding and implement it. Two approaches might be considered. A top-bottom approach is practiced from the company seeking just outsourcing without building trust relations with its supplier. This reflects a "policeman" auditing. A bottom-up approach is used where the suppliers are involved in order to find common understanding and not to leave undefined space for interpretation that leads to context dependent deviations and non-compliance. Our data can therefore be seen as a support for scholars who claim that the bottom up approach may add more value in building a coherent and sustainable vision within the supply chain.

Despite the standardized form of codes of conduct, our study perceives their role in implementing CSR within the supply chain of the electronic industry as a strategic and crucial issue. It is a step in the right direction towards CSR.

6.4. Recommendations for academia

From an academic perspective our research has added a new model on how to view the development of CSR within the diverse context of the supply chains. In order to enhance deeper contextual understanding of this relatively new and complex field, it is absolutely necessary to undertake further research. This limited explorative study brings-up several questions about the role of codes of conduct within the context of supply chains. Firstly, researchers could apply our model in different companies, industries and cultural contexts and offer a comparative analysis. Secondly, we already shortly raised the question whether the long term and trust based supplier and customer relations are really a win – win situation. (more explicit explanation in Chapter 5, Section 5.5.4.)

6.5. Recommendations for practitioners

Based on our findings, we claim that considering the following points may enhance and strengthen the role of code of conducts into the context of supply chains:

- Codes of conduct should state higher requirements than just the compliance with the legal regulations. Otherwise, they express legal liability, not social responsibility. In this case companies place themselves in a higher risk situation as the legal non-compliance could raise not just public condemnation but also lawsuits.
- Codes should state that cultural and local legal matters are considered during implementation and assessment. One more option is to engage with suppliers in the code implementation process and work commonly on CSR risk management within specific context dependent issues.
- A collective agreement on the code of conduct among the global actors within the same supply chain or even industry would make it easier for suppliers to understand codes of conduct and implement them since they will not have various codes to comply with.

- Implementation and assessment processes cannot be viewed as complementary activities, but should be clearly agreed upon and integrated within compliance activities while formulating the code or adding to the contract.
- Involvement of NGOs and other stakeholders into the formulation, implementation and assessment process is necessary to ensure the trustworthiness of them and to be aware about local reality.

Governments have also an important role to play. We do not agree with the academics and practitioners that claim that CSR should become a mandatory activity regulated by a law. However we acknowledge that government incentives could be promotional for CSR practice. The governments should encourage companies to pay more attention to CSR. They could reward socially and environmentally responsible behaviour of the companies through tax reduction or via some other means.

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